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Comprehensive Statement on Postal Operations

Introduction

This is the twenty-first annual *Comprehensive Statement on Postal Operations* transmitted to the Congress in accordance with section 2401(e) of title 39, United States Code. This law requires the Postal Service to submit to its appropriations and oversight committees, in the House and Senate, an annual statement discussing in detail its current and planned operations, policies, financial expenditures, and obligations. This statement is organized in a format to comply with the literal requirements of the statute. Chapter 1 discusses the Postal Service's compliance with policy directives set forth in 39 U.S.C. 101. Chapters 2 and 3 cover postal operations in general and the current financial status of the postal system.

The information in the *Comprehensive Statement on Postal Operations* and in the *Annual Report of the United States Postal Service* is intended to assist the appropriations and oversight committees that have jurisdiction over the Postal Service with their annual oversight and budget review process. The Postal Service welcomes the opportunity to furnish any additional information that may be required by the Congress to carry out its oversight responsibilities.

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Comprehensive Statement on Postal Operations

Chapter One: Compliance with Statutory Policies

A. Fundamental Service to the People (39 U.S.C. 101 (a))

1. General

In 1996, considerable resources were devoted to Classification Reform.

Between March 4 and July 1, 1996, there was a massive effort to train both Postal Service employees and customers. Approximately 3,600 training sessions were conducted for Postal Service employees and 9,700 for customers. In addition, training sessions were held at the Anaheim, CA, and the Washington, DC, National Postal Forums. Also, brochures, posters, and other printed materials were distributed to Postal Service employees and customers during that period, disseminating a variety of technical information and helping to ensure a smooth implementation of Classification Reform. A speaker's bureau consisting of trained Postal Service employees was established to help spread the message of Classification Reform at postal customer council meetings and other mailers' events. A Classification Reform call center was established, with a toll-free telephone number, to answer customers' questions about Classification Reform.

Classification Reform standardizes the way bulk mailings are prepared, regardless of the class of mail or the rate claimed. In the months immediately after the July 1 implementation of Classification Reform I, customer-barcoded volume increased by over 30 percent compared with the previous year.

On March 13, 1996, the Postal Rate Commission recommended approval of the Postal Service's request to allow mailers to mail barcoded First-Class Mail and Priority Mail parcels at a reduced rate on an experimental basis. The test is under way at three locations.

In January, Marketing Systems introduced *Mailroom Companion*, a monthly newsletter that responds to the increasing need to provide field personnel and business mailers with a comprehensive, timely publication that addresses their technical questions and concerns and offers them the latest Postal Service information essential to effective mailings. The demand for this publication has steadily increased, with an average of 5,000 new subscribers each month. By the end of Fiscal Year 1996, *Mailroom Companion* had 117,000 subscribers.

During the year more types of polywrap materials were approved for mailing matter at automation postage rates. By the end of Fiscal Year 1996, over 78 mailers--representing over 2,000 publications--had been certified to claim automation rates for flats. The goal is to enter 50 to 60 percent of all polywrapped flats into the automation mailstream.

On July 1, 1996, we initiated a test to allow mailers to claim the automation rate for flat-size pieces measuring at least 5-3/8 inches long and less than 12 inches high. Recent reviews of postal mail-processing operations demonstrated that some of these smaller digest-size pieces can be processed on postal flat-sorting machines. This represents a savings in processing time and costs to the Postal Service and increases the volume of barcoded mail in the automated mailstream. The test will run until June 1997.

Through the efforts of its conscientious employees, the Postal Service achieved approximately

\$70 million in revenue retention by ensuring that the correct postage was paid for the matter mailed.

In late 1996, automated barcode evaluators were deployed to selected sites; these will be used to evaluate the quality of barcodes on letter-size pieces mailed at automation rates.

2. Quality

*CustomerPerfect!*SM continued to provide the management system framework for significant change and progress in 1996. Senior management set targets in three goal areas: Customer, Business, and Employee. This approach is recognized in the business community as a "balanced scorecard." The organization responded with another service performance record (External First-Class of 91 percent, overnight, for the fourth quarter) and another strong financial performance (exceeding \$1.5 billion in net income). These results exceeded the corporate targets. Performance in the employee goal area failed to meet the target in a few areas, most notably safety.

The construction and operation of the entire *CustomerPerfect!* system remains grounded in the Malcolm Baldrige Award Criteria model. The Deputy Postmaster General, Mike Coughlin, manages the Implementation Team for *CustomerPerfect!* Vice presidents who "own" the individual elements of the system serve as team members. This team meets approximately twice every month to review progress and plan next steps. The plans themselves, along with area plans for contributing to *CustomerPerfect!*, are displayed in the executive conference room at headquarters so that the Implementation Team and the Management Committee can readily review progress. The Management Committee will soon begin formal business reviews, based on a process for review developed through *CustomerPerfect!*

The accomplishments of *CustomerPerfect!* are sometimes difficult to see directly. They often reside in the integration and alignment of activities that are occurring within or across functions. For example, the measurement of customer satisfaction in the Postal Service has undergone some major changes during this year to make the measures more responsive to Postal Service managers' needs. They now provide more timely information, along with "diagnostic" survey items that reflect things managers can take action on. At least in part, these changes were the work of the *CustomerPerfect!* team on customer satisfaction, which designed changes to the measurement systems in accordance with the criteria from the Baldrige Award.

Another accomplishment that can be traced to its *CustomerPerfect!* origins is the development of new revenue indicators that drive the Economic Value Added (EVA) measure. Working on indicators for the Postal Service, the *CustomerPerfect!* team sponsored an activity to improve our tracking of revenue. As a result of this work, the Postal Service will now have better understanding of who our customers are, where the mailing decisions of our customers are being made, and how to direct our sales force toward both serving and selling to those customers. These revenue indicators provide a powerful new tool for our managers and sales force to affect the revenue side of the EVA equation.

One of the most critical transformations the Postal Service must undergo to become more businesslike is to improve its focus on the customer. The new customer satisfaction measurement tools and the identification of customers (from the revenue indicators project) are two critical pieces of the puzzle. A third critical piece is a much more robust customer needs process. The Postal Service has been doing market research in a number of ways, and various departments have collected information on our customers. But this information has not been aggregated and summarized in ways that are useful for decision making by management. As a result of *CustomerPerfect!* there is much more emphasis on the aggregation of these data and the alignment of our data collection systems. This information is now directly fed into the strategic planning process and used to identify long-term and short-term goals through the management cycle (Establish, Deploy, Implement, Review).

During 1996, the management cycle itself continued to mature, as follows:

a. Establish. Leadership established goals, subgoals, indicators, and targets for Fiscal Year

1997. This process involves considering input from three areas that we call "voices"--the Voice of the Customer, the Voice of the Employee, and the Voice of the Business. Information from each of the voices is collected and analyzed, then presented to leadership for final decisions on the specific achievements needed for the next fiscal year. Leadership also sets the performance targets to be met.

These goals and targets are set well ahead of the beginning of the fiscal year, so that all plans, activities, and budgets can be aligned accordingly by the beginning of the year. We are not yet as good at this as we need to be. An officer-level team has been assigned to review the Establish process. They have made a number of recommendations to the Management Committee, and they have improved this process for Fiscal Year 1998 planning, now under way.

b. Deploy. For the first time, we used a new process to deploy the Fiscal Year 1997 goals, subgoals, indicators, and targets. The process was guided by a National Deployment Team headed by an area vice president. The team reviewed over 600 national programs, evaluated their expected contribution to corporate goals, and made recommendations to senior management. The result was that over half of the national programs were "plowed," meaning that they were not recommended for funding. Aligning the national programs to the corporate goals is a significant step forward. Future efforts in the Deploy process will improve the process for setting field contributions to the corporate goals.

c. Implement. Process management, a disciplined, data-based approach to process improvement was introduced at demonstration sites in each of the ten areas, following pilot implementation in Washington, DC, and Nashville, TN, in Fiscal Year 1995. The ten demonstration sites were as follows:

Area	Demonstration Site
Allegheny	Harrisburg
Great Lakes	Indianapolis
Mid-Atlantic	Southern Maryland
Midwest	Omaha
New York Metro	Manhattan
Northeast	Hartford
Pacific	Sacramento
Southeast	Memphis
Southwest	New Orleans
Western	Seattle

The *CustomerPerfect!* methodology for implementing process management is based on three essential components: leadership involvement, process documentation and indicators, and problem solving. In the demonstration sites, local leadership directed the work of process management teams to document (using flowcharts) how work actually gets done in the core processes. Using this understanding of their processes, leaders in the demonstration sites installed process and results indicators, which they used to assess results and determine where the processes most needed attention. After specific needs were identified at the local sites, teams were created to solve the problems. They were given training in a standard methodology for solving problems and in documenting their progress and results.

Teams from the demonstration sites have successfully demonstrated the effectiveness of this approach. Seasoned postal managers have endorsed process management as an effective, data-based way to improve core process capability. Each area is developing aggressive expansion plans for Fiscal Year 1997.

Having successfully introduced process management into the core processes of the Postal Service, senior management has initiated efforts to introduce the same approach to our enabling processes. Enabling processes are defined as the systematic actions and operations that support the core processes in the delivery of products and services, or that support the Postal Service in

meeting the requirements of our customers and other stakeholders. In June, senior management designated team leaders, a vice president from headquarters and an area vice president, to lead the effort to begin process management in the enabling processes. This team has made its final recommendations. These include a list of key processes in which to begin, plans for implementing the enabling processes, staffing and support requirements, etc.

d. Review. This step in the management cycle provides the feedback management needs to assess progress toward corporate goals and to make necessary adjustments. In addition, in a mature form, it becomes the vehicle for management to continuously improve the system. One of the *CustomerPerfect!* teams has developed a structured methodology for carrying out constructive reviews. Formal training in this methodology was completed and piloted in the area demonstration sites. This sets the stage for the formal review process to be implemented organization-wide, starting with the Management Committee in November 1996.

The Postal Service made considerable progress in 1996 toward its *CustomerPerfect!* objectives. Management has identified a number of areas requiring further improvement in Fiscal Year 1997. These include strategic planning and product development processes, indicators with which to manage the business, incorporating process management into the selling/marketing core process, and defining our strategic human resource issues.

3. Board of Governors

As the governing body of the United States Postal Service, the eleven-member Board of Governors' responsibilities are comparable to those of a board of directors of a publicly owned corporation. The Board comprises nine "Governors" who are appointed by the President of the United States, with the advice and consent of the Senate, the Postmaster General, and the Deputy Postmaster General. Governors' appointments are for nine-year terms or the remainder of an unexpired term that may be vacated by the death or resignation of a sitting Governor. The terms are staggered so that one Governor's term expires every December 8; however, a Governor whose term has expired may continue to sit on the Board with full authority until a successor has been appointed, for a period not to exceed one year. The Governors appoint the Postmaster General, who serves at their pleasure without a specific term of office. The Governors, together with the Postmaster General, appoint the Deputy Postmaster General. (39 U.S.C. 202)

The Governors represent the public generally, and no more than five members may be members of the same political party. The Governors' annual salary was increased, by legislation on September 30, 1996, from \$10,000 to \$30,000. They also receive \$300 per meeting day (for not more than 42 days each year) and travel expenses. The Board meets monthly; at the January meeting, the "annual meeting," the Chairman is elected by the Governors from among all members of the Board, and the Vice Chairman is elected by the full Board. In 1996, the January meeting was canceled due to inclement weather, and the Chairman was elected at the February meeting and the Vice Chairman at the March meeting.

The Board 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 redelegation, as it deems desirable. (39 U.S.C. 402) The Governors are authorized to establish reasonable and equitable classes of mail and reasonable and equitable rates of postage and fees for postal services. (39 U.S.C. 3621) A specific power reserved by statute for the Governors alone is to approve, allow under protest, reject, or, by unanimous written decision, modify recommended decisions of the Postal Rate Commission on postal rate and mail classification changes. (39 U.S.C. 3625)

During Fiscal Year 1996, with the exception of the January meeting, the Board held regular monthly meetings and two special meetings for a total of 28 days. Seven of the regular monthly meetings were held in Washington, DC, and four were held in cities across the country to give the Board members an opportunity to meet mailers and hear their concerns and, where possible, visit postal operations. Additionally, the Board held two special meetings to do strategic planning and consider personnel matters.

The Board has four standing committees: Audit, Capital Projects, Compensation, and Strategic Planning, each having a number of meetings during the year to consider matters within their area of responsibility. An ad hoc committee of the Governors was also appointed immediately following the enactment of the legislation on September 30, 1996, establishing an independent Inspector General for the Postal Service.

In October 1995, the Board approved the EVA performance award program for 1996. They also approved a five-year vehicle plan and a five-year capital investment plan for Fiscal Years 1996 to 2000.

In November, the external audit firm of Ernst and Young LLP was selected as the Board's auditors to provide outside audit services for a five-year period with additional option years.

In December, the Board approved Resolution No. 95-14, establishing a Capital Projects Committee of the Board.

In March 1996, the Governors adopted in part and rejected in part the Postal Rate Commission's Recommendation on Classification Reform in Docket No. pMC95-1, The Board approved Resolution No. 96-2 on the effective date for the rate changes resulting from Classification Reform. The Board also approved proposed process changes to international rate setting.

In April, the Governors approved the Postal Rate Commission's recommended decision in Docket No. MC96-1, Experimental First-Class and Priority Mail Small Parcel Automation rate category. The Governors also approved a filing on Nonprofit Classification Reform.

In June, the Governors approved a filing with the Postal Rate Commission on Special Services Classification Reform.

In August, the Governors approved the Postal Rate Commission's recommended decision in Docket No. MC96-2, Nonprofit Classification Reform.

In September, the Board approved the Fiscal Year 1997 Operating Budget.

During the year the Board considered and approved a number of capital investment proposals costing \$10 million or more. Funding was approved for additional Remote Barcode Systems (RBCSs); low-cost optical character readers; the multiline optical character reader codirectory; delivery and collection and carrier route vehicles; phase I-associate office infrastructure and point-of-service equipment; phase I of the robotics tray-handling system; and a number of new major postal facilities.

There was one change in membership of the Governors during Fiscal Year 1996. On October 2, 1995, Governor Ned R. McWherter was appointed to the one remaining vacancy. His term expires in December 2002.

4. Strategic Planning

In June 1996, strategic planning was elevated to a corporate-level function, headed by a vice president who reports directly to the Deputy Postmaster General.

A key element of the strategic planning initiative was the creation of a Strategic Planning Council, overseen by the Deputy Postmaster General and chaired by the Vice President of Strategic Planning. The Strategic Planning Council, composed of Postal Service vice presidents from various core processes and enabling functions, will provide advice to the Management Committee to assist in shaping the strategic direction of the Postal Service. Key concerns to be addressed by the Strategic Planning Council will be integrating strategies from the operations and marketing sides of the business; integrating the Voice of the Customer, the Voice of the Business, and the Voice of the Employee; and providing advice to the Management Committee to accelerate the achievement of Postal Service goals.

The strategic planning process will be integrated down into the organization to include management and employees of the Postal Service in formulating plans and to accelerate the process of creating a competitive enterprise for the 21st century.

The *CustomerPerfect!* process comprises four phases: Establish, Deploy, Implement, and Review. The Establish phase is the first part of planning for the future. Strategic planning plays a key role in supporting the Management Committee as it makes decisions to establish goals and to deploy resources.

Strategic planning is a key part of *CustomerPerfect!*, the basic system through which the U.S. Postal Service manages itself and seeks to transform business as usual. There is a clear need for strategy to establish priorities among investments in business initiatives, programs to reduce costs, and programs to improve customer service. Strategic planning is also the process through which the voices that guide the company are integrated.

The strategic planning process establishes a method for top management to obtain input from the three voices by developing an environmental analysis and a systematic analysis of strengths, problems, opportunities, and threats. The Management Committee, guided by the advice of the Strategic Planning Council, adopts a strategic framework for establishing goals and operating targets. By setting priorities and deploying resources accordingly, the Management Committee implements action plans for accomplishing its strategic objectives. Similarly, the articulation of strategic plans provides a systematic process for reviewing the achievement of goals for which management is accountable.

In this sense, the strategic planning process is a means for integrating the key functions in the *CustomerPerfect!* management system.

B. Service to Small or Rural Communities (39 U.S.C. 101 (b))

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

At the end of Fiscal Year 1996, 28,189 post offices, 5,521 classified stations and branches, 1,605 community post offices, and 2,897 contract stations and branches were in operation. In addition, 57,654 rural delivery routes served 25.5 million mail receptacles. During 1996, 3,212 new routes were added to the rural delivery network.

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

During Fiscal Year 1996, the Postal Service closed or consolidated 161 post offices, 17 community post offices, and 2 classified branches. There were twenty-two appeals to the Postal Rate Commission. Fourteen decisions to close or consolidate a facility were affirmed, one was dismissed on procedural grounds, and three were remanded to the Postal Service for further consideration. In two of the appeals, the Postal Service withdrew its determination to close or consolidate. Two appeals are still pending before the Postal Rate Commission.

C. Employee Compensation and Career Advancement (39 U.S.C. 101 (c))

1. Collective Bargaining

The 1994 USPS-National Postal Mail Handler Union (NPMHU) collective bargaining agreement expired in November 1994, with the parties failing to reach agreement on a successor national agreement. Discussions between the parties to resolve outstanding issues were unsuccessful and the parties agreed to proceed directly to interest arbitration, consistent with the dispute resolution procedure provided for in the Postal Reorganization Act. After a full evidentiary hearing, a three-member Arbitration Board chaired by neutral member M. David Vaughn issued an award setting the terms of a new USPS-NPMHU National Agreement on April 24, 1996. The four-year agreement covers approximately 58,000 employees and expires on November 20, 1998. The award provides for a freeze in basic wages for the first year, 1.2 percent general increases in the second and fourth years, lump-sum payments of 2.78 percent of the employee's base annual salary in the first year and \$400 in the third year, and cost-of-living allowances (COLAs) beginning in the second year of the contract and continuing through its term. COLAs earned during the term of the prior agreement were rolled into basic pay in May 1996, and all COLA payments during the new agreement will be rolled in immediately. Night shift differential rates were converted to fixed amounts and frozen until November 22, 1997, when the fixed amounts will be reduced by 7.5 percent. A one-time lump-sum cash payment was to be made to NPMHU on behalf of employees who worked night shift differential hours during Fiscal Year 1995. NPMHU's request for parity wage adjustments was rejected by the Board. The economic terms of the Vaughn Award essentially mirror the Stark and Clarke Interest Awards issued in 1995 covering the National Association of Letter Carriers (NALC) and the American Postal Workers Union (APWU), respectively.

During the course of the 1995 USPS-APWU interest arbitration proceedings, the parties agreed to defer the resolution of certain matters concerning the noncareer transitional employee (TE) category to a subsequent supplemental arbitration at a later date. On June 7, 1996, a three-member Arbitration Board chaired by neutral member Jack Clarke issued an award applicable to approximately 34,000 TEs represented by the APWU, most employed at Remote Encoding Centers (RECs). The award covers the four-year period since the expiration of the 1994 National Agreement and runs through November 20, 1998. The award freezes TE wage levels for four years and reduces wage levels for new TEs hired on or after July 6, 1996. Night shift differential rates were converted to fixed amounts and frozen until November 22, 1997, when the fixed amount will be reduced by 7.5 percent. TEs who have completed one 360-day appointment and are reappointed may elect health insurance coverage under the Federal Employees Health Benefits Program (FEHB). The TEs must pay 100 percent of the health benefit premium cost; at their option, the premium may be paid out of pretax earnings. The decision also provides for two-hour guaranteed reporting pay; higher-level pay for TEs working higher-level positions; and rights to career employment opportunities that will permit TEs to take in-service exams for career postal jobs.

The 1994 USPS-Fraternal Order of Police (FOP), National Labor Council, USPS No. 2, collective bargaining agreement contains a wage reopener provision. This provision allowed the FOP to request to reopen negotiations over years two and three of the economic package contained in its agreement, if it felt the economic package in any one of the three USPS National Agreements with the APWU, NALC, or NPMHU was more favorable than that contained in its own agreement with the USPS. The FOP chose not to exercise its reopener and instead retained its formula for calculating wage improvements for postal police officers (Employment Cost Index minus 1 percent). In a voluntarily negotiated agreement in July 1996, the USPS and the FOP agreed to an early extension of the existing agreement for two additional years until April 1999, retaining the contractual wage formula. The agreement was overwhelmingly ratified by the FOP membership. The parties are working on improving the labor-management relationship during the remaining period of their agreement.

In September 1996 a secret ballot representation election was held by the National Labor Relations Board at the Mail Equipment Shops in Washington, DC. The election was to determine whether or not eight tool-and-die employees in the machine shop wished to be represented for purposes of collective bargaining by the International Association of Machinists and Aerospace Workers, AFL-CIO (IAM). Employees voted for IAM representation by a one-vote majority. Negotiations are in progress.

2. Personnel

a. Postal Career Executive Service. There were 928 individuals in the ranks of the Postal Career Executive Service (PCES) at the close of Fiscal Year 1996. Of this total, 665 individuals held PCES I positions and the remainder (other than officers) served in Executive and Administrative (EAS) positions. There were 37 PCES II officers in the Postal Service at the end of the fiscal year. Minorities and women held 205 of the PCES I positions and 8 of the PCES II officer positions. These figures represent 31 percent of the PCES I executives and 22 percent of the PCES II officers. Of the officers, there were 4 white females, 3 black males, and 1 Hispanic male. In the PCES I ranks, there were 2 Asian females, 31 black females, 3 Hispanic females, 64 white females, 1 Native American male, 7 Asian males, 65 black males, and 32 Hispanic males.

b. Consultation with Management Associations. In accordance with Title 39, United States Code, Section 1004, regular consultative sessions were held with the National Association of Postal Supervisors (NAPS), National Association of Postmasters of the United States, and the National League of Postmasters of the United States. The sessions were concerned with such matters as performance evaluations, placement procedures, staffing, and training.

For the first time in the history of the pay consultation process, the Postal Service engaged in separate consultations with its supervisory and postmaster representatives. This year's pay consultations were the most protracted, beginning in November 1995 and culminating nearly one year later. The discussions leading to the EAS compensation package were the most deliberate and comprehensive since Postal Reorganization.

While the supervisory association (NAPS) endorsed the new pay package, the two postmaster associations have rejected the package on the basis that it fails to treat all postmasters alike.

The Fiscal Year 1995-1998 compensation package for EAS employees was designed utilizing the principle of moderate restraint to achieve performance- and market-based objectives. The pay practices for EAS employees are competitive and more closely aligned with private sector practices and the *CustomerPerfect!* goals of the Postal Service. The compensation package introduces a performance-based pay system that eliminates outmoded pay practices (such as automatic general increases and COLAs), modifies the eligibility requirements for premium pay (such as overtime and higher level), and better aligns the postmasters' leave criteria with that of all Postal Service employee organizations. The EAS merit program is based on each individual's performance. The merit increase is provided within a salary range that is constructed around a market-based midpoint.

c. Equal Employment Opportunity

(1) Affirmative Action. The Affirmative Action unit has nationwide responsibility for providing program guidance on Postal Service affirmative action activities. During Fiscal Year 1996, the staff focused its efforts on the Voice of the Employee issues identified in the *CustomerPerfect!* process. Specifically, Affirmative Action targeted the subgoal of enhancing the workplace environment with the express purpose of providing an environment free from sexual harassment and discrimination. In this regard, the Affirmative Action staff helped postal managers complete multiyear affirmative employment plans and accomplishment reports that addressed the prevention of sexual harassment and discrimination in the workplace. These plans and accomplishment reports are submitted annually to the Equal Employment Opportunity Commission. In addition, Affirmative Action implemented a new tracking system to monitor the hiring and internal movement of employees throughout the organization for affirmative action compliance. This unit also developed and distributed Publication 18, "Manager's Guide to Understanding Affirmative Action," to all postal managers.

The Postal Service reactivated the Hispanic Program with the approval of positions for a national program specialist and thirty field program specialists. This program is an integral part of the Postal Service's Diversity Development, Affirmative Action, and Equal Employment Opportunity policies and planning programs. The purpose of this program is to ensure that Hispanics are provided equal opportunity to compete in every aspect of employment.

The Postal Service also reactivated the Women's Program to continue to improve the status of women in the Postal Service through recruitment, hiring, development, and promotion. This program is also an integral part of the Postal Service's Diversity Development, Affirmative Action, and Equal Employment Opportunity policies and planning programs. Its primary focus is to ensure the equality of opportunities for all women throughout the Postal Service in order to (a) increase the proportion of women among new hires; (b) increase the proportion of women at all levels in nontraditional occupations (e.g., maintenance, mail handler, and carrier crafts); and (c) improve the representation of women in postal management, especially in senior management positions. Future initiatives include selecting a national program specialist and field program specialist to implement and monitor the program.

Some of the ongoing affirmative action activities include coordinating special-emphasis observances, providing assistance on diversity-related issues, and responding to requests for workforce profiles from internal and external customers. Field Diversity Development specialists conducted training sessions in a variety of areas including deaf awareness, cultural differences, managing diversity, sexual harassment prevention, and preparing for postal examinations. Headquarters and field specialists also coordinated career awareness conferences to provide employees with information on career development and personal growth.

Affirmative Action has updated and distributed the management instruction for career awareness conferences; finalized the revision of Publication 294, "Career Employee Retention Guide" (formerly called "Guide to Retaining Hispanic Employees"); and is revising Handbook P-5, "Conducting On-Site Equal Employment Opportunity Evaluations."

(2) Equal Employment Opportunity (EEO) Complaints. The number of precomplaint counselings and formal complaints in the Postal Service declined in Fiscal Year 1996. There were 26,556 precomplaint counselings conducted in Fiscal Year 1996, compared with 30,001 the previous year, a reduction of 11 percent. There were 13,252 formal complaints filed, compared with 13,322 the previous year, a reduction of 0.5 percent. The Postal Service continued to focus on the early resolution of disputes in this process, as the 51 percent resolution rate in Fiscal Year 1996 demonstrates.

To further improve the resolution of disputes at the earliest opportunity, the Postal Service continued to build on its efforts to expand Alternate Dispute Resolution (ADR). Additional pilot sites were identified, and extensive training in ADR program development and implementation was conducted. Part of this extensive training included intensive sessions on mediation, which is the primary dispute resolution technique adopted for this program. Systems were also introduced to carefully monitor and evaluate success in this program.

Another important initiative for Fiscal Year 1996 was the establishment of a Business Process Reengineering (BPR) team to identify current practices in EEO complaint processing and to recommend improvements to the system used by the Postal Service. This was an extensive study, with recommendations touching on work flow, staffing and structure, and information systems. This study will be used to develop enhancements to the process so that the volume of cases can be handled efficiently and consistently.

d. Employment of Individuals with Disabilities. In most cases, the Postal Service uses regular competitive procedures in selecting individuals with disabilities for employment. Nonetheless, individuals with severe disabilities receive noncompetitive employment consideration through referrals from individual State Departments of Vocational Rehabilitation or the Department of Veterans Affairs. In Fiscal Year 1996, the Postal Service's career workforce included 43,146 employees with reported disabilities and 7,707 employees with targeted disabilities.

Each year, the Postal Service submits an Affirmative Employment Plan and an Accomplishment Report for Individuals with Disabilities to the Equal Employment Opportunity Commission. The affirmative employment plan is disseminated to Postal Service field installations, and each installation head is responsible for implementing the plan.

e. Veterans' Employment. The Postal Service is one of the largest employers of veterans and disabled veterans in the nation. At the end of Fiscal Year 1996, the Postal Service employed 256,884 veterans, including 81,238 veterans with disabilities. Of that number, 18,873 have

disabilities of 30 percent or more. The Postal Service prepares an annual Accomplishment Report and Plan Certification for Disabled Veterans Affirmative Action Program. The plan is submitted to the Office of Personnel Management.

f. Employee Assistance Program. Employee and Organizational Assistance Services oversees the Employee Assistance Program (EAP), as well as workplace violence prevention and child dependent care initiatives. The Postal Service EAP is one of the most effective in any sector, public or private. The EAP includes free, voluntary, confidential, in-person counseling services to employees and family members by master's- and doctorate-level counselors housed in or near local USPS facilities. Counselors assist employees and family members with a variety of problems that affect their lives, including financial, legal, chemical dependency, emotional, and family problems.

Counselors are available 24 hours a day, seven days a week, located conveniently within 50 miles or a one-hour drive from even a remote work site. In addition to the full-time counseling staff of approximately 250, the EAP has a network of more than 10,000 professional affiliate counselors nationwide. Through this network of full-time and affiliate counselors, by the end of Fiscal Year 1996, 123,804 employees and family members had contacted the EAP for assistance since the new, expanded EAP began in March 1993. In Fiscal Year 1996 alone, 32,393 employees and their family members received counseling from the EAP. This is an increase of 9 percent over the prior year, and a 343-percent increase over the last year of data under the "old" EAP, which focused on substance abuse problems. In particular, family members and supervisors increased their use of the EAP (by 30 percent and 96 percent, respectively), indicating an enhanced trust in the professionalism of the services. Fully 43 percent of the USPS employees seeking counseling reported that their problems negatively affected their job performance. Ninety-four percent of those responding to a satisfaction survey stated that the counseling helped resolve their problems.

The EAP also provides consultation to managers and supervisors regarding not only individual workers, but also the work setting within which they function. EAP coordinators and counselors provided approximately 12,000 consultations to management about such topics as supervision strategies and management skills; they also worked with union members more than 1,200 times to help resolve issues and prevent workplace disruption. The EAP intervenes when appropriate through preventive efforts, such as educational seminars on communication and stress management; ameliorative efforts, such as actual conflict resolution sessions; and restorative actions, such as debriefings after a critical incident (e.g., suicide, domestic violence at work, armed robbery, accidental death).

Violence prevention efforts center on developing awareness and skills in managers, supervisors, and union officials to reduce the risk of violence; creating a model Crisis Management Plan for use across the nation; and instituting a Threat Assessment Team guide for local leadership to use in reacting to potentially violent situations. Largely through the efforts of the EAP coordinators, Employee and Organizational Assistance Services conducted 2,773 eight-hour training classes in the Workplace Violence Awareness Program for over 61,000 postmasters, managers, supervisors, and local union officials. This surpassed Postmaster General Runyon's commitment in April 1995 to train 40,000 employees. EAP coordinators and counselors are typically an initial contact when a situation is threatening in nature. In Fiscal Year 1996, they responded to approximately 800 critical incidents and provided assistance to more than 7,570 employees after these incidents.

The child dependent care initiatives focus on evaluating several pilot projects across the United States.

g. Injury Compensation. In Fiscal Year 1996, the Postal Service held the growth of workers' compensation containment to 3.0 percent over the previous year. This rate continued the substantial improvement over the five-year average annual increase of 5.9 percent. Total paid compensation claims increased by 526 (2.0 percent), and total medical claims increased by 3,469 (3.2 percent) over the prior year. New compensation claims increased by 6.2 percent in Fiscal Year 1996 compared with the previous year's totals; new medical claims increased by 5.9 percent. There were 1,885 new claims in Fiscal Year 1996, compared with 1,774 new compensation claims in 1995; new medical claims totaled 41,909 during Fiscal Year 1996,

compared with 39,561 in 1995. Workers' compensation costs are listed in chapter 3.

During Fiscal Year 1996, the Postal Service cost control strategy was again directed through the efforts of the Workers' Compensation Task Force. The task force is responsible for identifying ways to reduce injury compensation costs and for assisting in the rehabilitation and return to work of injured employees. Since its inception, the task force has realized almost \$84 million of annual savings associated with the return to work of injured employees, either through the termination or reduction of Office of Workers' Compensation Programs (OWCP) compensation payments.

Since Fiscal Year 1994, the Western Area has reviewed medical charges arising out of injury compensation claims. A private contractor conducted comprehensive reviews of large workers' compensation bills for inpatient hospital services. Through this process, 1,861 hospital refunds were received, totaling more than \$3.9 million.

The Postal Inspection Service continued its efforts in Fiscal Year 1996 to investigate fraud, waste, and abuse associated with employees' injury compensation claims submitted to the Postal Service. Postal inspectors identified 334 individuals suspected of workers' compensation violations, and criminal investigations led to 52 arrests and 40 convictions. Specific abuses uncovered by postal inspectors include fraudulent claims for Federal Employees Compensation Act (FECA) benefits, forgery and falsification of documents pertaining to outside income earned by FECA beneficiaries, and conspiracy and fraud by treating physicians and other medical providers. As a result of their efforts, postal inspectors were responsible for long-term cost avoidance of \$66.8 million in the workers' compensation program.

h. National Medical Health Program. During 1996, a special program was implemented, focusing on healthy living both in and outside the work environment. Awareness programs on AIDS/HIV, working with AIDS, and breast cancer were presented throughout the nation. District health professionals continue to be proactive in health education, with a yearly health fair and brown-bag seminars. In support of *CustomerPerfect!*, a focus team recommended three core process changes to ensure better quality in hiring, management of contracts, and case management of nonoccupational and occupational illnesses and injuries. Three focus teams will be developing the process, and pilot initiatives will be presented for approval and implementation.

Project PR 1000 encompasses a team effort to facilitate the return of injured employees who have been receiving OWCP benefits to the workplace. The goal is to achieve a smooth transition for the employee returning to work. The team is composed of injury compensation staff, medical staff, and the employee's supervisor. Through this team effort, the employee's and supervisor's concerns are addressed, and solutions are provided. Successful return-to-work placements could reduce our expenses by at least \$250 million.

i. Succession Planning. The Postal Service introduced a corporate succession planning process in Fiscal Year 1995. Succession planning is the deliberate and systematic effort by the Postal Service to ensure leadership continuity and to build talent from within. The objectives are to identify people who can move into executive positions, develop people for corporate needs, and foster diversity among the leadership ranks. People are identified as potential successors based on their leadership skills, functional and general management expertise, and track record. After completing the second full year of succession planning, 69 percent of executive vacancies are filled by successors (EAS and PCES), 24 percent by the assignment of current executives, and 7 percent by other actions (EAS promotion for newly created positions; outside hires; positions for which there were no executive pools; etc.)

j. Combined Federal Campaign. Each fall the U.S. Postal Service joins other federal agencies in the Combined Federal Campaign drive. Our nationwide Campaign goal for past year was \$28,120,000. We achieved 102 percent of that, contributing \$28,515,000. Ninety-three percent of our contributions were through payroll deductions, with 37 percent participation. The average gift was \$138.30. This drive benefits local, national, and international voluntary organizations.

3. Compensation and Benefits

a. Pay Comparability

(1) Bargaining Unit Employees' Pay and Benefits. The Postal Service continues to apply the principle of moderate restraint, set forth in past interest arbitration awards, to attempt to achieve compensation rates comparable with private industry. During Fiscal Year 1996, the average salary, benefits, and premium pay for career bargaining unit employees (excluding corporate-wide expenses) was \$44,613 per work year. This average is a 0.9-percent decrease from Fiscal Year 1995 figures.

(2) Nonbargaining Unit Employees' Pay and Benefits. Pay for supervisors, postmasters, and nonbargaining unit staff employees generally meets or exceeds private sector levels. It also provides an adequate and reasonable differential between first-line supervisors and bargaining unit clerks and carriers.

Substantial changes were made in the nonbargaining unit pay package in 1996, after consultations with the management associations. While there are a number of changes, the key elements to this pay package are the migration to a more market-based pay structure and pay practices that link all future pay adjustments and bonuses to performance (no automatic increases). The introduction of the EVA variable pay program to EAS employees exempt from the Fair Labor Standards Act aligns their pay practices with PCES executives and the corporate success measures as established under the *CustomerPerfect!* process. This pay package is in effect through November 1998 and provides management with the framework to drive the necessary behavioral changes to make the Postal Service competitive in the marketplace.

(3) Executive Pay and Benefits. Due to the limit imposed on Executive Schedule I salaries by the Postal Reorganization Act, pay and benefits for Postal Service officers and some key executives fail to meet private sector comparability standards. During Fiscal Year 1996, the average salary for Postal Service officers was \$133,723. The average executive salary was \$92,014.

The Postal Service continued to provide a focus on corporate objectives through the Fiscal Year 1996 EVA Variable Pay Program. This program recognizes the significant role that postal executives and other exempt employees played in achieving another year of exceptional on-time service and financial performance. The new EVA Variable Pay Program provided a considerably greater potential award payout for achieving breakthrough financial performance. Furthermore, by using the same performance measures for officers, executives, and exempt employees, participants are common stakeholders in the success of the Postal Service in achieving its *CustomerPerfect!* goals. Finally, to help focus on continuous improvement and long-term results, a new concept of a Reserve Account was introduced. In Fiscal Year 1996, award payouts averaged \$3,900 for employees who have been exempt all along, \$12,500 for executives, and \$1,600 for employees who recently converted from nonexempt to exempt. No employee was paid salary and bonus of more than \$148,400. While the program was designed to recognize team performance, provisions were made to exclude individual employees who did not contribute to the performance of the organization.

b. Leave Programs. Postal Service employees are provided both sick and annual leave at the same rate as other federal sector employees. However, postal employees have a higher annual leave carryover limit than their federal sector counterparts. Postal employees used an average of 9.1 days of sick leave per employee during Fiscal Year 1996. Annual leave may be donated to other career postal employees who have exhausted their own leave and have a serious health problem. Under the Family and Medical Leave Act, eligible employees may take up to 12 weeks of annual leave, sick leave, or leave without pay for covered conditions in accordance with applicable collective bargaining agreements and current leave policies. Postal Service career nonbargaining unit employees can participate in a leave exchange program, through which a portion of annual leave that would otherwise be advanced to the new leave year can be exchanged for cash. The Postal Service now allows the use of 80 hours of sick leave for dependent care under a new policy available to all career employees.

c. Health Insurance. Health care contributions totaled \$3.0 billion, or 7.0 percent of the Postal Service's total compensation and benefits during Fiscal Year 1996. Under the Omnibus Budget Reconciliation Act of 1990, the Postal Service is required to fund the annuitants' share of the

FEHB premiums. During Fiscal Year 1996, the cost of funding the health care benefits for postal annuitants and their survivors was \$497 million.

Pursuant to a 1993 interest arbitration award, the Postal Service continued to reduce its share of health benefit premium contributions, from a target average of 89 percent in 1994 to 86 percent in 1996. These reductions will continue through 1997, when they are projected to reach an average of 85 percent. Employees are automatically enrolled to pay health benefit premium contributions with pretax payroll deductions.

d. Life Insurance. The Federal Employees Group Life Insurance program provides life insurance coverage for Postal Service employees. The Postal Service assumes the full cost of basic life insurance for all eligible employees. During Fiscal Year 1996, Postal Service costs for employee life insurance were \$182 million.

e. Retirement Systems. At the end of Fiscal Year 1996, there were 760,966 career Postal Service employees. Of this total, 417,948 (54.9 percent) were covered by the Federal Employees Retirement System (FERS) and 328,270 employees (43.1 percent) were covered by the Civil Service Retirement System (CSRS). The remaining 2 percent of career postal employees have dual coverage. By the end of Fiscal Year 1996, 317,475 postal employees under FERS contributed to the Thrift Savings Plan (TSP), which provides a minimum agency contribution of 1 percent and matching contributions of up to 4 percent. Maximum agency contribution is limited to 5 percent of basic pay. Although there is no agency contribution for CSRS participants, 150,445 postal employees covered by CSRS made voluntary contributions to TSP.

f. Flexible Spending Accounts. Employees continue to take advantage of Flexible Spending Accounts (FSAs) to pay for certain health care and dependent care expenses, with contributions made through pretax payroll deductions. FSAs were first offered in 1992 to certain nonbargaining unit employees and have since been expanded to include all employees. In 1996, 33,604 employees were enrolled in health care FSAs (a 28 percent increase from 1995), with an average contribution of \$1,126. In 1996, 4,914 were employees enrolled in dependent care FSAs (an 18 percent increase from 1995), with an average contribution of \$2,767. The projected Fiscal Year 1996 savings for the Postal Service resulting from the FSA program is approximately \$950,000 (net of administrative expenses). Employees experience tax savings as well, which vary according to the individual's contribution amounts and marginal tax rates.

4. Training and Development

a. General. During 1996, Corporate Training and Development (CTD; formally Management and Employee Development) moved its function from Chicago, IL, to Washington, DC, and chartered a BPR team to examine the future direction, staffing, and business processes of the training function. Objectives were aligned with *CustomerPerfect!* initiatives, and the BPR recommendations were implemented.

A major initiative for CTD was developing and delivering Voice of the Employee training, "Training Focus '96." It offered a minimum of 20 hours of training to all EAS employees level 15 and above. The curriculum provided skills development in three areas: process management, interpersonal and intrapersonal skills, and job-related training. CTD surpassed its projected 1996 goal and trained over 97 percent of the targeted audience.

The New Directions Program continued to provide hands-on training in team building and leadership skills for postal managers and their staffs. New Directions delivery expanded, with program offerings at the W. F. Bolger Center for Leadership Development in Potomac, MD, and the Technical Training Center in Norman, OK. This year New Directions provided training for over 2,800 employees.

In August, the first forty-seven EAS and craft employees graduated from the Associate Supervisor Program (ASP), a 16-week training program for first-line supervisors. ASP was created to replace the current supervisor training and selection process. The program's goals are to improve the level of work floor supervision, to improve productivity, and to improve the quality of work life for craft employees. The program will begin its nationwide implementation

in 1997 and is endorsed by the NAPS.

INSIGHTS, the newly revised systematic development and feedback process, was implemented this year. The process identifies strengths and areas for improvement for PCES managers and individuals identified as successors to executive positions. The primary purpose is to provide feedback to individuals on how they are perceived in the workplace by their managers and peers and to direct reports relative to management skills critical for executive success.

The Local Employee Training System was implemented this year. This Access-based application tracks training activities and generates reports for local analysis. It includes specific information on employee training history and course utilization.

The New Employee Training Orientation was revised to introduce new employees to the Postal Service through such topics as postal heritage, culture, quality, and corporate goals. Its vital topics include ethics, diversity, environmental responsibility, and the sanctity of the mails. New Employee Training Orientation for new hires for the Remote Encoding Centers (RECs) was also completed. While this training includes many of the basic topics for new employees, it requires a significantly different approach and is more reflective of the unique REC environment.

During Fiscal Year 1996, the CTD Media Unit broadcast over 500 hours of programming on the Postal Satellite Training Network (PSTN). Over 40 hours of this training were devoted to Classification Reform, reaching a nationwide audience of over 8,000 postal and business managers, including major mailers.

The William F. Bolger Management Academy in Potomac, MD, was renamed this year by the Board of Governors. The new name, the William F. Bolger Center for Leadership Development, reflects its new mission as a national training and conference center for the Postal Service. Use of the Center increased steadily over the year, reaching the highest overall monthly utilization rate in over four years. Technological upgrades were made in the conference and training facilities; improved financial procedures were put in place; and a new contract for the operation and maintenance of the Center was awarded.

b. Technical Training. Technical training provides essential support for the efficient operation of mail-processing equipment, data communications, building systems, and postal vehicles. In Fiscal Year 1996 the Technical Training Center (TTC) in Norman, OK, achieved its fourth year of continuous improvement since the 1992 postal restructuring, exceeding the number of employees trained in Fiscal Year 1992 by nearly 100 percent. The Center offered 190 courses on major postal systems and equipment. TTC conducted 2,362 class offerings for 39,475 employees, totaling over 210,707 training days. Over 60 percent of national technical training was delivered to employees in local offices, primarily through distance-learning networks, at significant travel savings to field offices. TTC's cost-effectiveness also continued to improve, as Fiscal Year 1996 technical training was delivered with a TTC operating expense that was \$6.52 less per training day than in Fiscal Year 1995, and over \$11 per training day less than in Fiscal Year 1980, in 1980 dollars.

This year marked the tenth anniversary of postal distance learning, since TTC piloted audio teletraining in September 1986. Since then, TTC has documented national postal savings of over \$40 million from distance training, primarily in reduced travel costs. Efforts continue to expand and enhance the postal-owned networks.

- A contract to expand and upgrade the Postal Audiographics Training Network (PATN) to multimedia capability was awarded in September 1996. PATN uses teleconferencing and interactive computers to link TTC instructors to employees in their home offices. About 500 new audiographics systems will be deployed, expanding the network to over 800 systems and reaching every maintenance-capable mail-processing office. The systems will also support stand-alone, computer-based interactive courses.
- Contracts were also awarded to convert the PSTN to compressed digital transmission. Digital transmission of satellite broadcasts will reduce national costs to rent satellite time and will simplify offering multiple, simultaneous broadcasts. Over 300 new digital downlink systems will be installed, and the three PSTN uplink sites will be converted for

digital transmission. TTC will serve as the national hub.

Major training initiatives included the following:

- National-level Environmental Protection Agency and Occupational Safety and Health Administration compliance training expanded from sixteen topics to twenty-five and was conducted for over 8,200 managers and technicians. Over 3,400 people were trained using distance learning (PSTN/PATN), and 3,000 received training on site, drastically reducing travel and per diem costs for this training.
- Training support for the RBCS at 104 new Processing and Distribution Centers (P&DCs) and the supporting RECs was nearly double the amount reported for 1995. TTC provided eight weeks of RBCS training for each of 1,242 employees from 147 earlier-deployed RBCS facilities, 57 RECs, and the 104 new RBCS deployment sites. The curriculum included telecommunications networking technology, remote computer readers, and the input, output, and image-processing subsystems.
- TTC completed construction of a 30,000-square-foot multipurpose conference complex attached to the existing housing facility. The central room can seat 1,000 people theater style or 650 banquet style. The complex hosted the National Executive Conference in October 1996.

c. Postal Career Executive Service Training. During Fiscal Year 1996, the Postal Service sponsored two individuals as Sloan Fellows at the Massachusetts Institute of Technology and at Stanford University. Two individuals were also sponsored at American University.

d. National Prevention of Sexual Harassment and Diversity Education Programs. The Manager of Diversity Programs in Diversity Development heads a National Prevention of Sexual Harassment and Diversity Education Program Task Team. This team comprises members representing various operational units throughout the Postal Service and field diversity development specialists throughout the nation. This year the team concentrated its efforts on developing communication and training programs to address the problem of sexual harassment in the workplace.

To communicate the reality and severity of this problem, the team developed and distributed to employees, on a periodic basis, a series of talks to explain how employees can recognize and take action to prevent sexual harassment. The team also developed and published Publication 552, "Manager's Guide to Understanding Sexual Harassment"; the publication will soon be made available in Spanish. A companion guide is also being developed for postal employees.

In addition, as part of the team's continuing awareness campaign, it contributed to the September/October issue of *Postal Life* magazine a seven-page article entitled "It's About Abuse of Power, Not Sex." Public service advertisements initiated and developed by the team have also appeared in *Fortune*, *Ebony*, *New Woman*, *Hispanic*, *Pan Pacific*, *Entrepreneur*, and other national magazines.

Although the team's awareness program has begun, it is far from complete. In the near future, all employees will receive a postcard from Postmaster General and Chief Executive Officer Marvin Runyon that will include a tear-off wallet card describing steps they should take if they feel they are being sexually harassed. The team will also be publishing a revised policy statement on sexual harassment to be posted in every postal facility, and is completing a management instruction to guide supervisors through the process of investigating complaints and circumstances that may constitute sexual harassment.

In October, the team piloted an eight-hour course in Charlotte, NC, to train managers and employees in the prevention of sexual harassment. In Fiscal Year 1997, the team will premier both the managers' training course (in English and Spanish) and the new computer interactive version for employees (currently under development in both languages).

The team also has many other goals on the agenda for the coming year, including the development of diversity education training programs in such important subject areas as cross-cultural communications, race relations, gender communications, and sexual orientation.

5. Employment and Placement

a. Individual Performance Assessment. Individual Performance Assessment is a formal process designed to improve managerial competency through a process of continuous development. This process aids in the development of effective management behaviors through manager-to-subordinate-manager teamwork to achieve specific objectives. A comprehensive implementation package was developed, including instructional pamphlets and a three-part video training series.

b. Merit Pay Performance Evaluation. The Merit Pay Performance Evaluation program was developed and implemented to evaluate and reward each EAS employee's contribution to the success of the work unit. This program is closely aligned with *CustomerPerfect!* philosophy and emphasizes each employee's link to overall corporate goals.

c. National Test Administration Center Activity. During Fiscal Year 1996, the Postal Service administered and processed more than 500,000 entrance examinations, including over 100,000 computer-administered examinations. We continued our efforts to streamline examination administration by adding the Mail Classification examination to the list of computer-administered examinations.

D. Postal Cost Apportionment and Postal Ratemaking Developments (39 U.S.C. 101 (d))

1. Classification Reform

The Postal Service revised outdated business practices and strengthened its relationship with customers by implementing the first major postal Classification Reform in over a century. Classification Reform began in early 1995 with the filing of a request with the Postal Rate Commission (Docket No. MC95-1) for changes in the Domestic Mail Classification Schedule (DMCS) and associated rates. In its filing, the Postal Service proposed that domestic mail classifications be modernized by redefining and repricing products to better match customer capabilities and Postal Service operational needs. The Postal Service proposed changes in class terminology, so that Express Mail would be renamed Expedited Mail; Third and Fourth Class Mail would be merged into a single Standard Class; and Second Class Mail would be renamed Periodicals. Within each of the new classes, the Postal Service proposed the creation of new subclasses to better align prices with market and demand characteristics. Specifically, the Postal Service proposed that the First-Class Letters and Sealed Parcels and Postcard subclasses be reorganized into Retail and Automation subclasses; that the Second Class Regular Rate be divided to create a separate subclass for low-cost publications; and that the Bulk Rate Regular subclass be split into Regular, Automation, and Enhanced Carrier Route subclasses. Unlike the 1994 omnibus rate case, this proceeding was not designed to raise additional revenue in total; rather, the net revenue forecast was kept constant for the categories in the Classification Reform filing.

The proposals received widespread support from mailers, and the proceeding culminated in a generally favorable opinion and recommended decision of the Postal Rate Commission. Although the Commission did not recommend all of the subclass changes the Postal Service sought, the Commission did recommend the service-based class terminology the Postal Service sought, along with the creation of an Enhanced Carrier Route subclass in Standard Mail, more favorable work-sharing discounts for automation compatible letter and flat mail, and higher rates for nonbarcoded, noncarrier route letter and flat mail.

In March 1996, the Governors announced, with two exceptions, approval of all of the Commission's recommended mail classification changes and related rates. The Board set July 1, 1996, as the implementation date for the changes. The Governors voted to reject the Commission's recommended decision to establish a shell classification for Courtesy Envelope Mail and to designate bulk parcel post as a rate category in Standard Mail. The Governors' decisions better position the Postal Service to meet the challenges of the next century by holding the line on costs, matching product offerings to customers' needs, simplifying

administration, and reducing complexity.

a. American Mail-Order Manufacturers Association Litigation. In the weeks preceding the implementation of Classification Reform, advertising mail trade associations attempted to block implementation of a mailing requirement promulgated pursuant to the classification schedule approved by the Governors. The requirement at issue specified that in order to qualify for discounts for automation-compatible mail presorted to five-digit destinations, mailers must present mail in full trays with a minimum 150 pieces per tray.

The trade associations filed a complaint with the Postal Rate Commission, challenging the Postal Service's authority to promulgate the 150-piece per tray minimum. Simultaneous with the filing of their complaint, the trade associations brought suit in district court to enjoin the Postal Service from implementing the requirement pending resolution of the complaint proceeding at the Commission. The Postal Service succeeded in defending the challenge by moving to dismiss in both venues. The Postal Service maintained that the mailing requirement was authorized by the underlying provision in the classification schedule. Indeed, mailers were given notice of the intended change throughout the Classification Reform process, and they had ample opportunity to cross-examine postal witnesses on that topic during the Classification Reform proceeding. The Commission promptly dismissed the complaint, thereby rendering the court action moot.

b. Dow Jones Litigation. Dow Jones & Co. filed a petition to review the Governors' acceptance of the Classification Reform recommendations of the Postal Rate Commission regarding what was previously Second Class Mail. In Docket No. MC95-1, the Postal Service had proposed to change the name of the mail class to Periodicals and, much more important, to divide the Regular Rate subclass into two new subclasses--C Regular and Publication Service. Eligibility for the Publication Service subclass would have been contingent upon a mailer's ability to perform a high level of work-sharing, which would have resulted in lower costs for the subclass and, consequently, lower rates. Rates for those mailers who could not qualify for the Publication Service subclass would have increased.

The Commission recommended the proposed change in the name of the mail class, which is now known as Periodicals, but rejected the creation of the two new subclasses. Instead, based directly on the existing classification structure, the Commission increased the proportion of the work-sharing cost savings passed through in the form of discounts. As with the Postal Service's proposal, the result was rate increases for some mailers and rate decreases for others, but the magnitude of such rate swings was substantially mitigated. Dow Jones' rates would have decreased under the Postal Service's proposal, but they actually increased under the Commission's recommendations. Broadly speaking, Dow Jones challenges two aspects of the proceedings: the Commission's rejection of the Postal Service's proposal on the merits and, given that rejection, the legality of the Governors' approval of the Commission's alternative recommendations.

c. Alliance of Nonprofit Mailers Litigation. This suit was filed in the DC Circuit Court following Docket No. R94-1 by the Alliance of Nonprofit Mailers. The substance of the challenge was that, in their view, the new nonprofit rates established in that case continued to fail to grant discounts sufficiently deep to properly recognize mailer work-sharing activity. As the Classification Reform process progressed, however, it was mutually recognized that the rate relief sought by the Alliance might be forthcoming during nonprofit Classification Reform. Once the Postal Service filed its nonprofit reform proposal in Docket No. MC96-2, court proceedings were held in abeyance. Now, the successful resolution of the nonprofit phase of Docket No. MC96-2, described below, appears to have eliminated any need for further court proceedings, and the appeal will likely be withdrawn by mutual consent.

2. Nonprofit Classification Reform

Following approval by the Governors of the Commission's recommendations in the first phase of Classification Reform, the Postal Service moved quickly to extend the same benefits of Classification Reform to nonprofit mailers. Docket No. MC96-2 was filed in April, seeking new rate and classification structures for nonprofit mailers that would parallel those established for commercial mailers in Docket No. MC95-1. By basing its proposals closely on the methodologies and findings already made by the Commission in that earlier case, the Postal

Service was able to minimize controversy and gain substantial mailer support. A proposed settlement was submitted, and the record was completed on an expedited basis, without any need for oral cross-examination or rebuttal testimony. After briefing, the Commission issued its recommended decision on July 19, less than four months after the request was filed. The Governors approved the Commission's recommendations in August, and the Board set the implementation date for the rate and classification changes to coincide with implementation of the next step in the phasing schedule in early October.

The Commission recommended all of the proposals advanced by the Postal Service, except those relating to Classroom Mail. The Commission noted that the rates for Classroom Mail had failed to generate sufficient revenues to cover its costs in Fiscal Year 1994 and Fiscal Year 1995 and that the changes proposed in Docket No. MC96-2 would not be expected to alter that situation in Fiscal Year 1996. Under the Commission's interpretation of the statute, changes for Classroom Mail could therefore not be recommended as proposed. Instead, the Commission ordered the record to be reopened for the purpose of receiving more evidence about costs and revenue trends for Classroom Mail and for entertaining additional proposals to resolve the situation. In October, the Postal Service filed two pieces of testimony specifically addressing cost and volume issues relating to Classroom Mail. Further proceedings are anticipated if the Commission is to issue any recommended decision on Classroom Mail.

3. Special Services Reform

On June 7, 1996, the Postal Service filed at the Postal Rate Commission a case to reform several special services, including post office box and caller services, certified mail, return receipts, insured mail, and registered mail. The Postal Service also proposed eliminating special delivery service and adding a new special service fee to directly recover manufacturing costs for postal cards. The case seeks to better reflect market conditions, realign fees to reflect costs, and streamline product offerings. Especially noteworthy is that the proposed reforms, if accepted, would contribute over \$300 million per year to Postal Service revenues. The case is in the middle of the hearing process, and a Recommended Decision from the Commission is expected early in 1997.

4. Parcel Barcode Experiment

On December 19, 1995, the Postal Service filed a Request with the Postal Rate Commission for an Experimental First-Class and Priority Mail Small Parcel Automation Rate Category, requesting a 4-cent discount for certain bulk prebarcoded First-Class Mail and Priority Mail small parcels entered for processing at three test sites on a two-year experimental basis. The 4-cent discount was based on an estimate of the cost difference between keying a nonbarcoded parcel and scanning a barcoded parcel. This was only the second case ever filed under the Commission's experimental rules. On March 13, 1996, the Commission recommended everything the Postal Service requested, with the exception of a few minor changes in DMCS language, making this the first experiment ever recommended by the Commission. The Governors and the Board ordered the changes into effect on April 1, 1996. The Postal Service is now engaged in ongoing monitoring and data collection.

5. Changes in Procedural Rules

On April 13, 1995, the Postal Service had petitioned the Commission to adopt procedural rules designed primarily to facilitate expedited consideration of Postal Service requests and to allow more flexible pricing by the Postal Service. The rules were to implement seven initiatives. On May 7, 1996, the Commission adopted rules to implement four of these initiatives and deferred consideration of the other three, stating that those three areas merited further study in subsequent proceedings. The Commission adopted rules in these four areas:

- Allowing the Postal Service to conduct market tests of new postal services in order to develop information necessary to support a permanent classification change and allow expedited consideration of the Postal Service's request;
- Allowing expedited consideration of provisional classification and associated rate changes that supplement, but do not alter, existing rates and classifications;
- Facilitating expedited consideration of requests to adopt permanent, but narrowly

focused, mail classification changes; and

- Allowing the use of multiyear test periods to demonstrate the financial viability of new services.

The Commission deferred consideration of rules in these three areas:

- Providing rules for rate cases of limited scope;
- Allowing the creation of rate bands for competitive services; and
- Allowing negotiated service agreements.

All of the rules adopted are supplemental to the Commission's existing rules. That is, all the existing data provision requirements will apply to requests filed under the new rules. To the extent that information responsive to the applicable, existing rules is not available, the Postal Service must still seek a specific waiver of those rules.

E. Transportation Policies (39 U.S.C. 101 (f))

1. General

The Postal Service spent \$3.73 billion in Fiscal Year 1996 for the contractual transportation of mail. This figure represents a 7.8 percent increase over 1995 transportation expenses. Mail transportation expenses accounted for 6.80 percent of total postal costs in Fiscal Year 1996.

2. Domestic Transportation

a. Air Transportation. Air transportation costs in Fiscal Year 1996 totaled \$1.26 billion. The Postal Service contracts with seventy-four commercial airlines to move more than 2.5 billion pounds of domestic mail each year. Ten of these airlines handle 80 percent of the volume. The Postal Service uses approximately 15,000 flights of the 56,000 that the airlines make available daily for the air transportation of mail. To supplement the movement of mail by air, the Postal Service operates its Eagle Hub in Indianapolis, IN. The Hub operates with twenty-nine aircraft and serves forty-six cities directly. The Eagle Hub transports more than 750,000 pounds of mail each night and about 90 percent of all Express Mail that moves by air. In addition, during the Christmas rush period, the network expands to encompass a daytime service that transports more than 1 million pounds of Priority Mail each day for a 13-day period.

b. Rail Transportation. Postal Service expenses for rail transportation were \$254 million in Fiscal Year 1996. This represents a 3.3-percent increase over Fiscal Year 1995. A new, two-year contract with freight rail carriers went into effect in September 1995. The Postal Service holds contracts with eleven railroads, which perform service on approximately 1,700 rail segments.

In Fiscal Year 1996, the Postal Service paid Amtrak \$63 million for rail transportation services. Expanded service accounted for the 5-percent increase over Fiscal Year 1995 payments. Amtrak provides service for the majority of the periodicals transportation network.

c. Highway Transportation. The Postal Service expended approximately \$1.54 billion for highway mail transportation in Fiscal Year 1996, an 8-percent increase over Fiscal Year 1995. There were approximately 15,500 highway contract routes operating during Fiscal Year 1996. Roadside receptacles were served by nearly 40 percent of these routes, which also transport mail between postal facilities.

d. Domestic Water Transportation. In Fiscal Year 1996, the cost of transporting mail to domestic offshore destinations was \$24 million, a 4-percent increase over Fiscal Year 1995. During the same period, the Postal Service paid \$20 million to U.S. flag carriers for this service.

3. International Transportation

a. International Air Transportation. In Fiscal Year 1996, the Postal Service spent \$331 million for international air transportation. Of the total cost, \$160.5 million was for military mail and \$170.5 million for Express Mail International Service, Airmail, and International Surface Airlift. U.S. flag carriers were paid \$261 million, and foreign flag carriers received \$70.5 million. Foreign flag carriers are used for service to destinations where no U.S. carrier provides the required service.

b. International Surface Transportation. During Fiscal Year 1996, international surface transportation costs were \$11.0 million. This covers all surface mail sent by sea. U.S. flag carriers were paid \$1.9 million and foreign flag carriers \$9.1 million. The selection of carriers is based on price and service to the required destinations.

4. Postal-Owned Transportation

The Postal Service's active vehicle fleet consists of 202,224 postal-owned vehicles and 6,555 leased vehicles. These vehicles provide transportation primarily for the carrier delivery network. Approximately 9,600 vehicles are used to haul mail between facilities, airports, and private mailers' plants. In Fiscal Year 1996, total expenses were \$773 million, an 11.4-percent increase over Fiscal Year 1995.

Due to the expanding delivery network, the number of miles traveled in Fiscal Year 1996 increased 1.7 percent. Vehicle Operating Trends are shown in Table 1.1. Vehicle Type/Vehicle Inventory is displayed in Table 1.2.

Table 1.1
Vehicle Operating Trends

	FY 1996	FY 1995	FY 1994	FY 1993
Number of vehicles	202,224	203,695	201,841	188,979
Percent change	-0.70	+0.9	+6.8	+5.6
Miles traveled	1,104,854,773	1,086,061,112	1,009,944,798	956,183,622
Percent change	+1.7	+7.5	+5.6	+3.9
Miles per gallon	9.7	9.8	9.6	9.7
Percent change	-1.0	+1.6	-1.0	+1.0
Cost per vehicle	\$3,765	\$3,282	\$2,906	2,706
Percent change	+14.7	+12.9	+7.4	+4.7
Cost per mile	\$0.69	\$0.64	\$0.615	\$0.585
Percent change	+7.7	+4.1	+5.1	+0.3

Table 1.2
Vehicle Type/Vehicle Inventory

Vehicle Type	FY 1995
1/4-ton	27,321
1/2-ton	144,934
1-ton	1,613
2- and 2 1/2-ton	6,502
5-ton	35
7-ton	914
9-ton	1,674
Tractors	1,757
Tractors, spotter	406
Trailers	4,816
Plant maintenance vehicles	2,864

VMF service vehicles	1,528
Administrative vehicles	7,383
Mobile post offices	201
Miscellaneous vehicles	276
Total postal-owned	202,224
Leased vehicles	6,555
Total active vehicles	208,779

5. Mail Transport Equipment

Mail Transport Equipment (MTE) "moves the mail." MTE comprises the sacks, trays, pallets, and wheeled containers that virtually every piece of mail is contained in and moves on, from collection through processing to delivery. Our customers, processing facilities, and post offices depend on the continuous availability of MTE and we have made a commitment to never run out of MTE. In Fiscal Year 1996, we spent \$190.5 million for new equipment and \$30 million for warehousing to ensure its uninterrupted supply.

The peak mailing season was extraordinarily smooth in Fiscal Year 1996, due to planning with the top 220 mailers and close inventory control. The implementation of Classification Reform this summer provided a special challenge in meeting our customers' changing and uncertain demands for trays and pallets. Through careful management and rapid resupply response, no major mailers experienced shortages of equipment and the commitment to never run out of MTE was again fulfilled.

F. Postal Facilities, Equipment, and Employee Working Conditions (39 U.S.C. 101 (g))

1. Safety and Health

During 1996, a special safety management program was implemented that focused on reducing accidents and ensuring prompt identification and correction of safety deficiencies at major postal facilities. This program was continued during 1996. Safety Advisory Teams were established at the national and area levels to monitor abatement actions and to assist management on accident prevention.

The Postal Service utilized the National Safety Council to provide a series of professional safety and health courses to full-time Postal Service safety professionals. Safety is also incorporated into craft, supervisory, and management training programs.

In accordance with the collective bargaining agreements with the national unions, joint labor/management safety and health committees function throughout the Postal Service. During 1996, the Postal Service continued its safety policy of scheduling annual inspections of all occupied postal facilities, with accelerated inspections conducted at mechanized or automated sites. Consistent with collective bargaining agreements, union representatives may participate in these inspections.

The "no smoking" policy, first implemented in 1993, remained in effect during the year. This policy bans smoking in all buildings and office space occupied by the Postal Service, whether owned or leased. In 1996, Postal Service safety officials continued to focus their attention on environmental programs. Subjects included asbestos, lead, radon, hazardous materials, waste management, and underground storage tanks.

The Postal Service recognized more than 100,000 employees for operating motor vehicles throughout the year without experiencing a preventable accident. This safe-driver award program is sponsored by the National Safety Council. In 1996, the Postal Service presented the Million-Mile Club Award to those employees who completed 30 years or one million miles of

safe driving performance. According to the National Safety Council, more than 3,000 postal drivers have earned the Million-Mile Club Award since its inception.

2. Environmental Program

Environmental issues affect our core business. Collecting, transporting, processing, and delivering more than 180 billion pieces of mail annually in an efficient yet environmentally friendly manner is a challenge to every postal employee. Adapting existing industrial technologies to postal use, such as the Tray Management System and robotic cells, helps us be more competitive while creating a safe and healthy work environment. In the maintenance area, we are using chemicals that are less toxic and less hazardous. Recycling is becoming a way of life within the Postal Service.

To address environmental issues in an integrated manner, the Postal Service has developed an Environmental Strategic Plan, which is built on a two-pronged strategy of leadership and compliance. To ensure compliance with this goal, we are conducting Quality Assurance Reviews throughout the organization. Environmental professionals review postal facilities and identify activities that need improvement to comply with applicable laws, regulations, and postal policy.

Our alternative fuel vehicle fleet is the most visible contribution of the Postal Service to clean air. The Postal Service has converted about 7,000 vehicles--nearly 5 percent of our delivery fleet--to natural gas. We continue to test ethanol-powered passenger vehicles. We have also converted six Long-Life Vehicles to electricity and plan to convert an additional twenty-five vehicles.

In addition to alternative fuels, the Energy Act of 1992 requires the Postal Service to reduce energy use by 20 percent by the year 2000. Our major strategy toward accomplishing this reduction is to adapt new technologies in lighting and to use high-efficiency motors.

We foster the use of sustainable resources by promoting pollution prevention, reducing waste, and recycling and reusing materials. We use "green" products to maintain our equipment and linerless labels for address correction; we purchased more than 100,000 retread tires for the vehicle fleet and use re-refined oil in about 50 percent of postal vehicles; and we created postal products with recycled content.

A "Greening of the Mail" Task Force--which includes representatives from the U.S. Conference of Mayors, ADVO, the Direct Marketing Association, the Environmental Protection Agency, and the Texas General Land Office--was created in 1996 to identify new business opportunities, to increase recycling, and to promote the perception of mail as an environmentally friendly product.

We need to focus on consistent implementation at all postal facilities in all functional areas. Our latest effort is the online Environmental Management Information System, which is now being deployed. This system will provide real-time data to environmental professionals and other postal managers.

Another measurement is how others view your work. In addition to Energy Management and Shared Energy Awards, the Postal Service also received numerous national, state, and local environmental awards in Fiscal Year 1996--including seven White House "Closing the Circle" awards and five of Vice President Al Gore's "Hammer" awards. We were also recognized by our customers, with the Direct Marketing Association's Robert Rodale Environmental award for making mail more recyclable.

As part of its environmental program, the Postal Service continued its Underground Storage Tank (UST) program to remediate and upgrade existing underground fuel tanks. The Postal Service maintains an inventory of USTs to store and dispense petroleum products in support of heating and vehicle-fueling requirements. Since the start of this program in 1988, 5,566 projects for testing, repair, replacement, improvement, and contamination cleanup have been initiated. The Postal Service has committed over \$210 million to this program in our efforts to meet

federal, state, and local environmental regulations for storage tanks.

3. Energy Management

During Fiscal Year 1996, the Postal Service continued its efforts to reduce energy consumption by 20 percent by the year 2000, as mandated by the Energy Policy Act of 1992. Engineering provides policy, technical, and program guidance to postal field units regarding conservation initiatives.

Computerized energy audits have been completed at over 600 major facilities. Efforts to implement the audit findings are presently under way. In addition, in Fiscal Year 1997 the energy program is scheduled to perform energy conservation surveys that are developed as a means of auditing all facilities between 5,000 square feet and 50,000 square feet in size. With this additional coverage, the energy program will be able to expand projects into the medium-sized facilities.

The Postal Service has partnered with the Department of Energy (DOE) in the "Showcase for Energy" program by identifying three postal facilities for inclusion in this worthwhile initiative: Portland, OR; St. Paul, MN; and Fort Lauderdale, FL. These facilities will assist the DOE in testing new technologies and designs for energy-conservation systems and devices. The results of these tests will be transferred to other federal and private organizations.

The Shared Energy Savings (SES) Program is an integral part of the overall Postal Service energy program. The SES Program allows the Postal Service to improve its energy infrastructure and to reduce energy consumption without using postal funds. Due to financial restrictions, energy companies provide the financing for energy-related projects and the Postal Service uses actual energy savings derived from the projects to pay for the improvements over time. The net payments made by the Postal Service are less than the former energy payments.

The Postal Service has recently been awarded five energy awards by the DOE. Individual Energy Efficiency/Management awards were given to David Bowden, Baltimore P&DC, and Leslie Fish, Portland District Environmental Compliance Coordinator; an Individual Energy Savings Performance Contracting award was given to David Scherer, USPS Headquarters; a Small Group Energy Efficiency/Management award was given to Portland District Project; and an Organization Energy Savings Performance Contracting award was given to Church Street, P&DC.

For example, the Church Street P&DC has received several million dollars in rebates from Con Edison as a direct result of the energy program. Additionally, the facility enjoys an annual savings of over \$700,000 from the energy conservation elements installed. The Midwest Area has surveyed over 850 facilities for energy conservation initiatives. The results of this survey include the identification of over \$1.2 million in energy improvement projects with a return on investment of 30 percent or greater.

4. Real Estate Inventory

The Postal Service's real estate holdings are outlined below.

Total owned facilities	6,947
Total owned interior square feet	168,097,506
Total owned land in square feet	772,182,487
Total leased facilities	28,823
Total leased interior square feet	97,631,577
Total GSA/other government facilities	469
Total GSA/other government interior square feet	4,190,280
Annual rent paid to lessors	\$571,015,696
Annual rent received from tenants	\$72,700,000

5. Purchasing and Materials

a. Purchasing and Materials' Strategic Plan. One of the highlights of Fiscal Year 1996 was the development of a far-reaching Purchasing and Materials' Strategic Plan. Constructed upon the basic framework of the Postal Service's *CustomerPerfect!* initiative, the plan is intended to transform Purchasing and Materials from a transaction-oriented organization into a business partner of choice for internal customers and Postal Service suppliers.

For each of the three Voices of *CustomerPerfect!* (Voice of the Business, Voice of the Customer, and Voice of the Employee), the strategic plan identified areas in which Purchasing and Materials could make the greatest improvement and contribution in our purchasing, inventory, and distribution management functions. Adapting and improving policies, procedures, and information systems to focus more effectively on the business and competitive needs of the Postal Service is a central tenet of the plan, as are strengthening supplier relationships and supplier diversity, providing more avenues for employee recognition and empowerment, and forging the strongest business partnerships possible with our internal customers. The plan will be officially launched in Fiscal Year 1997.

b. Policies. Fiscal Year 1996 saw the first complete revamping of purchasing policies since 1987. The new policies, which will be contained in a new Purchasing Manual (replacing the old Procurement Manual), are the result of a year-long review and redrafting effort by representatives of the Postal Service's Purchasing and Materials, Diversity Development, and General Counsel organizations. They contain several breakthrough concepts and purchasing approaches designed to make all purchasing actions reinforce the Postal Service's business and competitive objectives and to positively affect its bottom line.

Among the more significant concepts and approaches is a heightened focus on teamwork among the contracting officer, internal customers, and others involved in the purchase. These purchase teams will result in more customer involvement in the purchasing process and in better overall coordination and increased customer satisfaction. A policy of prequalification, which has long been used in Postal Service purchasing, will continue as before, but it will be carefully reviewed to ensure its appropriate use in each instance. At the same time, supplier diversity has received heightened attention as a major strategic initiative of the Postal Service, and the new policy mandates that contracting officers ensure that the Postal Service's supplier base reflects the diversity of the American supplier community and that they publicize purchase and prequalification opportunities throughout the marketplace so that all interested suppliers can take part. Commercial purchasing practices are also being adopted for those supplies and services available in the commercial marketplace. Finally, the new policies represent the culmination of the Postal Service's efforts to consolidate buying organizations and practices, an effort begun in Fiscal Year 1994.

c. Process Simplification. One of the central tenets of the new purchasing policy is a streamlined purchasing process applicable to all Postal Service purchases. The new process eliminates several steps whose value was outweighed by the time and effort required. This also allows much better communication between purchasing teams and potential suppliers. The new process will lead to better purchasing decisions and uniform treatment of internal customers and suppliers.

Electronic commerce was also highlighted in Fiscal Year 1996. The new purchasing policy highlights this contracting method as offering high potential for improving cost savings, supplier communications (especially during contract administration), and overall efficiency. During Fiscal Year 1996, electronic commerce began with eighteen suppliers, and it is estimated that more than \$15 million worth of business is currently being conducted in this manner. Along this line, Major Facilities Purchasing is now transmitting design and construction solicitations via the Internet, an initiative that has proven cost-effective.

Simplification in design and construction contracting has also resulted from two initiatives begun in Fiscal Year 1996. The first involved a complete review of all relevant contract clauses to determine their relevance and utility. The clauses will be updated and deleted as necessary to ensure the clarity and effectiveness of these types of contracts. The second initiative was the

development of partnering agreements modeled on construction industry standards. The results are contractual formats closely resembling those of the American Institute of Architects and other construction industry organizations.

A pilot program designed to simplify the contract box delivery process began in the San Antonio and New Orleans districts during Fiscal Year 1996. The Box Delivery Improvement Process (BDIP) provides expedited start-up and delivery service, reduces cycle times for new deliveries, and reduces the per-delivery cost to the Postal Service. During Fiscal Year 1997, the BDIP will be implemented throughout the country.

d. Professional Development. Purchasing and Materials manages one of the federal government's most extensive purchasing and materials management professional development programs. All courses offered (within both disciplines) receive college credit recommendations from the American Council on Education, and during the past fiscal year more than 1,200 purchasing and materials professionals attended sixty-seven courses. In addition, a newly developed Local Buying with the IMPAC Credit Card course was broadcast over the PSTN to more than 9,000 participants during a four-day span. The course was designed to educate or update credit card holders, approval officials, and agency program officials and to provide them with policy information and guidance in the credit card purchasing program.

In light of the significant overhaul of the Postal Service's purchasing policies, a number of current courses were revised and redesigned to reflect the changes and to stress purchasing's role in furthering the Postal Service's business and competitive objectives. Three new courses have been added: Fundamentals of Purchasing--Theory and Practice, Commercial Purchasing, and Advanced Purchasing. Also, the entire curriculum has been updated to emphasize *CustomerPerfect!* and Purchasing and Materials' strategic direction.

Under Office of Government Ethics guidelines, the Postal Service must provide certain employees with a minimum of one hour of Annual Ethics Update Training. In Fiscal Year 1996, the Postal Service, in conjunction with several federal agencies, developed a computer-based Ethics Training program. This program will meet the annual requirements more efficiently than in years past.

e. Materials. A major highlight of Fiscal Year 1996 was the opening of the new South River, NJ, Materials Distribution Center (MDC) in August. For 53 years, the Postal Service had leased from the Veterans Administration 571,000 square feet of inventory space in five separate buildings in Somerville, NJ. Operations now take place in one modern 312,000-square-foot facility, housing more than 3,000 supply items; this will greatly enhance inventory management and customer service. A new materials management system will also improve services. During Fiscal Year 1996, the initial phases of the Materials Distribution Inventory Management System (MDIMS) were deployed at the South River (NJ) and Topeka (KS) MDCs. MDIMS uses barcodes, radio frequencies, pick-to-light carousels, and state-of-the-art materials-handling equipment to perform material management functions more efficiently and effectively.

Located at the Topeka MDC, the Label Printing Center (LPC) played a significant role in Fiscal Year 1996 Classification Reform. The LPC prepares, prints, and distributes the Postal Service's tray, sack, and pouch labels, as well as other material used in mail processing. As part of the Classification Reform, the LPC completely revised the required labels, producing more than two billion in one month (annual production is usually three billion), thereby advancing this important strategic initiative. Another Materials organization also met the challenge of increased workload. The Critical Parts Center (CPC) in Indianapolis supplies operations throughout the country with spare parts. During the past fiscal year, demand and workload were up 27 percent; delivery accuracy was 99.9 percent for the 115,000 shipments from the CPC.

f. Quality Improvement. In June, Purchasing and Materials' Quality Improvement organization oversaw the Postal Service's 1996 Quality Suppliers Awards. This program recognizes suppliers who demonstrate outstanding ability and commitment to providing quality goods and services. Thirteen suppliers were so recognized (out of seventy-nine applicants), representing the full spectrum of Postal Service suppliers and requirements (supplies, services and equipment, facilities design and construction, and mail transportation).

A Supplier Quality Council, established in 1995 to provide a forum for the exchange of ideas and viewpoints between the Postal Service and its suppliers, was expanded to include eight suppliers and eight Postal Service representatives. The Supplier Measurement and Tracking System, which captures supplier performance data, was also expanded. As a supplier's past performance becomes an increasingly important means of contract award selection, the role and value of this system is growing.

g. Energy and Environmental Purchasing. In Fiscal Year 1996, Purchasing and Materials continued to support the Postal Service's corporate goals in reducing energy use and strengthening environmental support. In recognition of efforts to reduce energy use and expenses, the DOE Management Program cited the Postal Service with the Federal Energy and Water Management Award. In the environmental area, the Vice President awarded the Hammer Award to the Postal Service for its Affirmative Procurement Program for paper and paper products. This program also received the Federal Environmental Executive's Closing the Circle Award. Model solicitations and contracts developed by Purchasing and Materials helped the Postal Service realize more than \$6.6 million in recycling revenue and \$20 million in projected savings due to reduced energy use.

h. Major Purchases. During Fiscal Year 1996, the Postal Service made more than 45,000 contractual actions, totaling approximately \$7 billion. Among the major purchases made during Fiscal Year 1996 are the award to Ford Motor Co. of a \$162 million contract for more than 8,800 minivans and four-wheel drive cargo vans and awards to IBM and NCR for \$216 million in point-of-sale retail equipment. This equipment will replace the integrated retail terminals currently used throughout the country. Two design and construction purchases are of particular note: design/build contracts were awarded for processing and distribution plants in El Paso, TX, and the Quad Cities, IL/IA. The El Paso purchase was valued at \$15.6 million and the Quad Cities at \$13.7 million.

For mail transportation, more than \$1.5 billion was spent on highway transportation. More than \$1.2 billion was spent for air transportation, including more than \$101 million dedicated to moving Priority Mail during the Christmas season. Rail transportation expenditures added up to \$254 million during Fiscal Year 1996, and \$15.5 million was spent to expand the Indianapolis hub to include a regional hub-and-spoke sorting and trucking operation.

i. Supplier Diversity. The Postal Service has long been a leader in providing opportunities to small and minority- and women-owned businesses. During Fiscal Year 1996, Purchasing and Materials worked with Diversity Development to take important steps to continue this record of success and strengthen its commitment to these segments of the American supplier community.

As stated above, the new purchasing policy makes contracting officers specifically responsible for managing supplier diversity as a strategic business initiative vital to the success of the Postal Service. Purchasing and Material's Strategic Plan similarly highlights promoting supplier diversity as one of the organization's major objectives. A Postal Service "Supplier Support" Internet page was also established, containing valuable information (including information sources and selected purchasing opportunities) for suppliers. The Supplier Support page provides better access and instantaneous information to the supplier community.

The Postal Service's commitment to diverse suppliers continues to get results. In Fiscal Year 1996, 65.6 percent of contractual actions (representing more than \$2.7 billion) went to small businesses. More than \$266 million (representing 8.9 percent of actions) went to minority-owned businesses, and more than \$324 million (12.8 percent of actions) went to women-owned businesses.

During Fiscal Year 1996, as part of their continuous effort to build relationships with suppliers and customers, the Diversity Development, Purchasing and Materials, and Facilities organizational units developed and provided informative forums to educate suppliers and exchange ideas to further improve the supplier diversity program. To assist suppliers in their efforts to obtain funding, Diversity Development produced and placed on the Internet Publication 37, "How to Find Financing for Your Business." This publication, developed from a popular and successful workshop, assists start-up businesses and expanding companies by providing valuable information and references on how to obtain financing.

The "Supplier Support" web page, mentioned above, is available in both English and Spanish versions. It features such helpful information as electronic versions of Publication 5, "Let's Do Business," a guide to suppliers on how to conduct business with the Postal Service; Publication 41, "Procurement Manual," the USPS publication that contains purchasing policies and procedures; a partial listing of purchasing opportunities; and the Quality Supplier Awards Program, a program that provides contractors with incentives to improve their work quality and efficiency. This Internet page is a state-of-the-art tool that allows the Postal Service to expand its outreach to a broader audience, to leverage resources, and to provide prospective contractors instantaneous access to information.

As part of the outreach efforts to the business community to provide information on postal products and on conducting business with the Postal Service, the Marketing, Diversity Development, and Purchasing and Materials organizational units designed a significantly upgraded one-stop informational exhibit display.

j. National Diversity Awards Program. The business environment has become increasingly competitive and diverse, as evident in rapidly changing demographics, attitudes, and economics. By the year 2000, the only competitive businesses will be those with products and services designed for globally diverse markets. To meet these challenges, it is imperative that the Postal Service work as a team to increase the market share and deliver services across an array of cultures. To that end, Diversity Development is continuing to conduct strategic activities to adapt the Postal Service's internal business environment to the diverse needs of its external environment.

This year Diversity Development, with input from the Headquarters Diversity staff, field specialists, and diversity advisory councils, developed a Headquarters-administered program to reward employees and managers who have taken a lead role through their demonstration, support, and excellence in diversity initiatives. On August 30, at the close of its annual Skills Building Conference in Dallas, TX, Diversity Development held the first Annual National Diversity Awards Ceremony to honor those individuals who worked diligently in Fiscal Year 1996 and throughout their postal careers to support and advance diversity programs and initiatives.

This awards program enabled Diversity Development to recognize outstanding diversity initiatives among three groups of employees. As a criterion for the published nominations, the awards program was modeled after the Human Resources design and was coordinated with Human Resources personnel on the process and procedures used for the program.

Recognizing and valuing diversity is a business requirement and key to enabling our core processes to attain *CustomerPerfect!* goals. Rewarding postal employees and managers for their support of and accountability to diversity initiatives will help the Postal Service become a more inclusive, versatile, and productive organization.

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Comprehensive Statement on Postal Operations

Chapter Two: Postal Operations

A. Public Perceptions, Customer Outreach, and Mailer Liaison

1. Customer Feedback Analysis

The Consumer Service Card Program provides customers an opportunity to register complaints or compliments about services, policies, and personnel. It also allows the Postal Service to identify problem areas and significant trends for management action.

The Postal Service logged 540,111 customer contacts during Fiscal Year 1996, a 12-percent decrease from the previous year. Of these, 87 percent were complaints, 7 percent were compliments, 4 percent were information requests, and 2 percent were suggestions from customers.

The decrease in customer contacts occurred across all ten Postal Service areas at a time when on-time overnight delivery and customer satisfaction scores were on the increase.

2. Customer Outreach and Mailer Liaison

a. Consumer Programs. The Postal Answer Line's (PAL) eighty-one nationally fielded systems were disconnected between July and September 1996. Customer calls that were previously handled by PAL are now being processed by National Learning Center technology and agents in Tampa, FL, and Phoenix, AZ.

In the service improvement area, the number of Customer Advisory Councils continues to grow. These councils provide an open forum for individual customers to regularly discuss issues with postal managers and suggest ways to improve service. Currently, there are 1,922 active councils nationwide, an increase of 144 over same period last year (SPLY).

b. Customer Outreach. The Postal Service continued its strong cooperation with customer groups in 1996. The Mailers' Technical Advisory Committee (MTAC) meetings provided technical information, advice, and recommendations to the Postal Service concerning various aspects of the mail and the mailing industry. Through MTAC, the Postal Service provided timely, comprehensive communications on postal matters; used the mailing industry as a resource on postal-related issues; and developed action plans that respond to mailing industry issues and concerns. Several major issues and events affecting the Postal Service were supported by MTAC, including planning for the fall and holiday mailing seasons and implementing Classification Reform.

National Postal Forums (NPFs) were held in Anaheim, CA, and Washington, DC, in 1996, attracting more than 14,000 customers and exhibitors. The world's most powerful and effective means of communication, the mail, was the focus of these forums. Attendees were given the opportunity to learn new business strategies and communication techniques that can have significant impact on the competitiveness and financial success of their companies. Several sessions were held on the implementation of Classification Reform. Other specific topics included management and productivity; expedited mail services; federal, state, and local government; international mail services; and postal policy.

A National Postal Customer Council (PCC) Day, sponsored by the NPF, was held March 22 in Dallas, TX. The event was broadcast live via satellite to PCCs across the country with 900 people in attendance at the Dallas site and approximately 18,000 PCC members and Postal Service employees in attendance across the country. Classification implementation was discussed. The 1997 National PCC Day is scheduled for March 20.

There are approximately 330 PCCs nationwide, with a total membership of approximately 300,000 people. PCCs typically meet every other month to educate members about using the mails more effectively. It is estimated that PCCs hold over 2,300 customer meetings each year.

The Postal Service, in a concerted effort to tap into new sources of revenue, brought a sales presence to mailing industry trade shows and to the NPFs in Anaheim, CA, and Washington, DC. The Partnering for Profits/Smart Solutions Sales Team, a small group of the best account representatives in the country, was assembled to develop a trade show sales plan. This plan included making top-notch sales presentations, conducting private consultation sessions, and providing customers with professionally prepared sales proposals. The Partnering for Profits/Smart Solutions Sales Team wrote qualified proposals amounting to over \$100 million and closed approximately \$4 million in new business on site.

The Postal Service's business partnership with state and local government agencies has enjoyed tremendous success this past year, generating significant new revenues. Account representatives have used a multifunctional team approach focusing on creative uses of mail to help agencies achieve their respective missions through better service and less cost.

During 1996 the Postal Service identified and used testimonial success stories of government agencies that have shown innovation themselves and that are willing to provide a model for others to follow. Focus during the year has been on voting by mail and tourism. The first area is driven by the National Voter Registration Act (the "Motor Voter" law) that requires states to register voters at agency offices and through the mail, and the second area is driven by the need to build revenues for schools and other services without raising the burden on taxpayers. New opportunities arose during the year in the areas of mailroom consolidation and constituency communication, and it has become apparent that the Postal Service can provide significant benefit here as well.

It is evident that the Postal Service program to serve state and local government agencies is working well. During this past year various sales support materials in the form of case histories, brochures, videos, educational kits, etc., have all been provided, along with sales training to enable our Account Representative Team to perform at the high professional level which is expected. Efforts to expand this initiative in the coming year will be made to further serve this important customer group.

An effort is under way to strengthen our business relationship with the college/university industry. Their presence has been increased at the MTAC meetings and on various task forces and Classification Reform Implementation Readiness Teams. A barcoding/automation/sales study is being finalized; a mail-flow/return-on-investment diskette is being developed; a sales guide is being created; and their NPF presence is being enhanced.

The Dialogue Marketing Program is a relationship marketing program that uses and promotes the mail as a strategic vehicle for communication with customers. In Fiscal Year 1996 we focused on building relationships with accounts that do not have Account Representatives. Each mailing provided the customer a vehicle to respond to the USPS, allowing a dialogue to take place. We had an overall response rate of 10.6 percent. Building upon this success, we have extended this strategy to our National accounts. Although the specific details vary according to customer revenue level, the Dialogue Marketing programs share one common goal: to reinforce the unique value of mail as a form of business communication.

To develop customer-focused business plans and to position the Postal Service as a responsive communications supplier, we established a new sales group in 1996: Industry Management. The objective was to build the business growth plans around key market segments. We selected the Financial Service, Retail, Mail Order, and Consumer Manufacturing industries as the initial industries. We developed an in-depth understanding of the business processes of our customers

in these industries, the corporate and functional needs of our customers, and the communication and distribution objectives of the customers. We then identified how our services can be used to meet their needs. This has led to the development of business growth plans designed to increase the performance of the Postal Service in meeting our customers' needs and to increase the revenues earned from the customers in these targeted industries.

In February 1996, National Account Managers (NAMs) improved their sales decision-making skills through the use of a sales computer simulation program. The NAMs were presented with simulated case histories, pertinent company data, and a dossier on all of the company contacts. They were faced with situations and problems to solve using a team approach.

New PowerSell software, formerly known as Partnering for Profits, is currently being released to the field sales force. The program was designed for the field sales force by the field sales force. This new software will improve the quality of proposals that are given to our customers and will provide them with complete financial analysis. All of the field account representatives, NAMs, sales support managers, district sales managers, and international sales specialists will be trained on this process through a nationwide implementation program. This training will include three seminars devoted to sales, including proposal writing skills, opportunity analysis, and software classes. Follow-up on the success of this program will be coordinated by Premier accounts through the area offices.

Sales teamed with Operations Support to manage the Postal Operations Center, which was instrumental in the Postal Service's success during the fall and holiday mailing season. Sales acquired volume and distribution plans from major customers and maintained daily contact with these customers to ensure that the Postal Service was meeting their mailing needs.

The Managed Account Plan, a Business Customer Service Process based on quality principles, uses cross-functional customer support teams to address the service needs of premier and major customers. This process enables the Postal Service to track, analyze, and measure performance through customer feedback to be more effective at meeting and exceeding customer's expectations. The Managed Account Plan--currently known as the Business Service Network (BSN), but to be renamed at a later date--will enable account representatives to better understand the business needs of the largest customers and to find new ways to help them grow their business using postal products and services. Additionally, this process will keep postal operations informed of customer concerns and issues in order to identify and resolve operational processes that hinder world-class service to our business customers.

Initiatives designed to enhance customer service for major mailers in Washington, DC, Baltimore, MD, and Northern Virginia have been implemented to improve performance of customer service and sales personnel. Implementation of these initiatives is part of an ongoing pilot test. The initiatives integrate implementation of the BSN, use of the Postal Operations Center with Sales organization account segmentation, account analysis, account planning, and consultative sales training initiatives. By approaching account management systematically, information to enable solution of routine service issues will be available to management. Standards of performance for sales and customer service personnel have been established to improve account coverage.

A market-test Conference Mailback Service was initiated. If it proves successful, attendees at many conferences will be given a special box at registration in which they can mail materials home. The containers, clearly marked Priority Mail for mailing purposes, would be sent for a flat rate.

Plans are under way to sell bulk packs of both Priority Mail and Express Mail flat-rate envelopes through telephone credit card purchases as a standard item through our fulfillment center. Priority Mail would be sold in ten-packs and Express Mail in five-packs for the price of postage. Also, three new standard packages for Priority Mail were introduced to customers in 1996. The packages are a video box, a medium box, and a tube. Shippers with more than \$1 million in revenue can customize their Priority Mail packages (i.e., they can have their company logo and design on the packages).

The Postal Service has begun testing an exciting new service: Priority Mail Delivery

Confirmation. Initial test customers are large-volume Priority Mail users. These shippers will identify each Priority Mail package or flat with a special barcoded Priority Mail Delivery Confirmation Label. The shippers can electronically access a database file that shows the date of delivery of each of their tracked mailpieces. By late 1997, the service will be available to business and residential customers who mail at our retail counters.

In April 1995, a team of call-management industry experts was assembled to advise the Postal Service on how to create national call centers to provide the American public with a single corporate point of contact for conducting business by phone with the Postal Service. The key components of this initiative include establishing (1) a network of National Service Centers (NSCs)(call centers) that will be available 24 hours a day, seven days a week and (2) linkages to the field, particularly post offices, to provide services requested. Two Learning Centers have already been established in Phoenix, AZ, and Tampa, FL. These learning sites have allowed us to fine-tune the call center concept for the Postal Service. These Learning Centers are currently serving the following metropolitan areas: Phoenix, AZ; Tucson, AZ; Portland, OR; Las Vegas, NV; Tampa, FL; and Atlanta, GA.

The Postal Service plans to have six NSCs in place to serve the entire nation. Denver, CO, has been selected and approved by the Board of Governors as the first of six additional NSCs planned and is scheduled to open in December. The Denver site will serve a number of areas including all or part of the following states: Alaska, California, Hawaii, Nevada, Oregon, and Washington. The Postal Service will seek funding approval for the next five NSCs from the Board of Governors. When implemented nationally, Corporate Call Management will offer customers a single point of contact for all services. It enables customers to speak with trained customer service personnel to obtain telephone assistance on such routine questions as ZIP Code information, postage rates, post office locations, and window service hours; customers can also use the NSC to report a service problem.

An OPEX Magnetic Detection Sorter has been installed in Mail Recovery Centers (MRCs) located in Atlanta, St. Paul, and San Francisco. This system automates the process of recovering, identifying, and returning undeliverable or damaged mail to customers. It has increased productivity at the MRCs and has improved customer service by finding valuable contents of otherwise dead mail.

c. Sponsorships

(1) Tournament of Roses Parade. The Postal Service entered a float in the 1996 Tournament of Roses Parade. Research indicated that the primary objectives were largely met: enhancing USPS image, building employee pride, and bringing in new revenue. More than 400 million viewers worldwide watched as our float won the "Fantasy Trophy." In addition to the float entry, the Postal Service operated the anchor booth at Family Fest, a three-day event at which Tournament licensees and ethnic food vendors merchandised their wares to approximately 75,000 visitors. We also partnered with a Kodak franchisee in an on-site computerized operation that produced instant personalized photos on replicas of the float on a 32-cent stamp, postcards, and calendars. An estimated 1,600 employees participated in the float-decorating and sales activities.

On January 1, 1997, the Postal Service will again be represented by a magnificent float entitled, "The Eagle Has Landed: We Deliver Moments." This is in keeping with this year's theme of "Life's Shining Moments." In addition, a rose stamp will be reissued in late October, and we will produce special philatelic items for sale at Family Fest. A nationwide contest for employees will be conducted to increase awareness and employee participation.

(2) Cycling. Professional cycling enjoys tremendous popularity worldwide, with over 100 hours of live television coverage and 50 million spectators annually. The Tour de France, cycling's greatest event, is the world's third-largest sporting event, with over 20 million spectators and television coverage in 120 countries. In the United States, professional cycling has seen a tremendous growth in popularity over the past 10 years, with significant corporate involvement and over 4 million spectators annually. American Greg LeMond's three Tour de France victories have contributed to the dramatic increase in the awareness and appreciation of the sport in the United States.

Professional cycling has a clear, synergistic fit with the U.S. Postal Service. Both are associated with speed, teamwork, and point-to-point delivery. Furthermore, USPS can leverage cycling's image of being high-tech and global.

USPS' specific objectives for the cycling sponsorship program include the following:

- Increase revenue and sales of USPS products on a global basis and increase the business throughout the world (especially Global Delivery Services and stamp collectibles).
- Receive significant exposure as an innovative global marketer.
- Enhance the USPS image in local communities and among employees.

d. Market Research and Analysis. Market Research and Analysis is a full-service internal consulting resource for the Postal Service, providing research and analytical services to postal management. The Market Research and Analysis unit is organized to provide internal clients specialized expertise in each of the Postal Service's key markets: Bills, Statements, and Payments; Communications; Publications; Advertising; Package Delivery; and Retail. The staff is assigned to work with specific business areas on a long-term basis, building expertise in market trends, competitive analysis, and customer needs.

In Fiscal Year 1996, the Postal Service implemented the *CustomerPerfect!* Process, which increased the importance of competitor, customer, and market information to the Postal Service. As a result, strategic research was increased. The focus has been on improving the integration, analysis, and dissemination of this information throughout the organization. Much of the information has been summarized in the Business Environment Assessment and has been used to support the strategic planning process of the Postal Service.

This has resulted in increased coordination among the various "owners" of relevant information systems, such as Finance, Marketing Systems, Sales, Consumer Affairs, and Operations in establishing a more coherent description of the Voice of the Customer in each of the major markets. Market Research has also supported the development of new products and services and has developed systems that track the effectiveness of various marketing programs.

e. Customer Service/Support for Bulk Mail Entry

(1) Centralized Automated Payment System (CAPS). The centralized system was expanded to accommodate all national mailers wanting to pay centrally for mailings entered at multiple entry sites. In addition, centralized debiting was introduced, eliminating the need for customers to position postage funds with the Postal Service in advance of entering a mailing. Through this payment option, an Automated Clearinghouse debit is sent by the Postal Service to our customer's bank account to effect a deduction from that account the day after the mailing. The combined centralized trust and centralized debit options are now referred to as CAPS.

(2) Electronic Interfaces with Business Customers. Significant progress was made on our comprehensive Direct Link project, aimed at building interactive exchanges of information and payment with our business customers. We collaborated with representative members of the mailing industry to develop and implement electronic standards for submitting detailed mailing information and new business processes that capitalize on this electronic data to streamline mail verification and acceptance. This new capability will allow us to eliminate large quantities of hard-copy reports and provide electronic updates on the status of mailings entering the mailstream to both postal facilities and our customers. The Internet is a key component of our Direct Link effort, supporting the transfer of electronic files to and from customers, access to information about their mailings and their postage accounts, and access to software that supports their preparation of postage statements. By the close of Fiscal Year 1997, we will be in full production with our Direct Link program for all classes of mail.

(3) Customer One System. Customer One System (COS) is a common customer database that includes over 12 million businesses that either use the Postal Service presently or are potential Postal Service customers. Through COS, the sales force has instant online access to complete customer account profile information. COS can be used as a database marketing tool to target existing or potential customers by industry or by product. During 1996 COS deployment to all

district offices, including Headquarters and area offices, was completed. COS is the automated tool that supports the Sales organization in its mission to increase revenue and provide our customers with quality services.

Each district database contains all customers located within that district and allows access to all customers nationwide through queries to the national database. Volume and revenue updates to the Corporate Business Customer Information System have been downloaded to the national database and distributed to each of the district databases. Local updates--including business contacts, sales, and service activity--are transferred to the host server to facilitate the sharing of information and to enable true team selling. COS is available to field users through a local area network workstation or through the sales force laptops. New development is currently under way to improve the sales tracking and planning functions in COS.

f. New Programs

(1) Tracking System Development. To meet customer needs for information about their time-definite shipments, the Board of Governors approved a tracking testing program. Through this effort, the Postal Service successfully migrated the core tracking infrastructure from contractor to postal management. This included the tracking database, communications infrastructure, call center, and systems integration activities. A passive en route tracking system for parcels was installed in the Bulk Mail Centers. At test locations, carriers used scanners to transmit near-real-time tracking information from their routes. New customer communications options, the Internet and electronic file transfer, have been implemented. Board of Governors approval for funding of scanning devices that allow carriers to capture delivery confirmation information on the route will be sought.

(2) Corporate Call Management. The Corporate Call Management initiative is a comprehensive program that will centralize and integrate customer service telephone capability across the nation. This past year, two pilot sites called Learning Centers have been established in Tampa and Phoenix. These sites provide national support for customer inquiries about the delivery status of their Express Mail packages and regional support for other information and services. Experience in these Learning Centers has reaffirmed the initial decision to embark upon this program and to refine the initial designs and supporting business processes for Postal Services available to the American public by telephone. These will be incorporated into the new Denver NSC, scheduled to open in late 1996. The Denver NSC will support customer-initiated telephone contact for California, Alaska, Hawaii, Washington, Oregon, and Nevada. It is the first of six such centers necessary to provide national coverage. The Denver NSC will service 17 percent of the nation and will take a projected 39 million calls annually.

3. Advertising

In Fiscal Year 1996, the Postal Service expanded its broad communications with customers through a variety of advertising media. The Postal Service continued use of four advertising agencies in 1996--Young and Rubicam, FCB, Frankel and Co., and Lee Hill, Inc.--to diversify and strengthen creative executions for a wider variety of product and service advertising. Each of these agencies brings a unique set of capabilities to meet an increasingly diverse marketing plan that includes established products, retail services, and new products.

Several major programs highlighted the 1996 advertising and promotion activity. One of the most visible and successful programs is the Priority Mail program, which used a clever touch of light humor in comparing Priority Mail to our competitor's 2-day products. The spots, referred to as the "\$8, \$6, \$3" campaign, resulted in a 16-percent increase of the Priority Mail business over the prior year, when the product was at an all-time low growth level.

The FY 1996 Holiday Program was also successful, with an increased focus on various ethnic market segments. Philatelic marketing and licensing continued to expand. The advertising to create new awareness and traffic in the test markets for the new Postal Store concept was launched in 1996. Additional advertising support was also provided for other established products, such as Global Services and Advertising Mail.

a. Ethnic Marketing Opportunities

Multicultural Marketing. Recognizing the growing diversity of the United States and the large economic buying power of ethnic market segments, the Marketing Department initiated a multicultural marketing program to study how the Postal Service could better meet its corporate goals by developing customized marketing programs to businesses and households in high-density ethnic communities.

The program was formally started in May with a national Multicultural Marketing Conference, cosponsored by Diversity Development and Marketing. This event brought together experts from a wide range of disciplines in the area of ethnic marketing. Speakers addressed the topics of business strategy, research, product development, and advertising. In-depth case studies from the private sector and Postal Service were presented to provide relevant and recent examples of successful efforts to target products and services to one or more ethnic market segments.

The Marketing Department then conducted an aggressive market research effort, gathering data on the demographics of ethnic households and businesses, exploring their perceptions of the USPS, and identifying specific product opportunities.

Based on these initial research efforts, some specific product opportunities were identified and targeted by Marketing product managers. These activities included the following:

- Introducing--on a trial basis--a new money-by-wire product, Dinero Seguro, for transferring money to Mexico from eighty U.S. post offices in Texas and California;
- Testing Postal Money Order advertising in high-density ethnic markets; and
- Advertising stamps and Priority Mail products in ethnic periodicals.

Research findings also indicated that recent immigrants sometimes encounter language barriers when doing business with the Postal Service. In Fiscal Year 1996, efforts to overcome these language difficulties included creating information posters and counter cards in Spanish and placing them in post offices that serve large numbers of Hispanic customers.

Finally, advertising agencies specializing in ethnic markets were instrumental in assisting with research and in identifying strategic opportunities with the various ethnic markets. These agencies also supported product advertising campaigns and organizational sponsorships that were sought specifically to communicate more directly and effectively with ethnic consumers and minority-owned businesses.

4. Stamp Services

a. Stamp Program. In Fiscal Year 1996, the Postal Service continued its development of a more diverse and balanced stamp program. Major stamp subject and design initiatives included the launch of a minisheet of stamps based on photographs of endangered species, which served as a cornerstone for beginning a new appeal to the youth market. Other trend-setting stamps include a commemoration of Hanukkah, which kicked off our Holiday Celebrations collection. The stamp program is creating awareness in many markets as it becomes more relevant and reflective of the interests of our customers.

b. Self-Adhesive Stamps. Throughout Fiscal Year 1996 and continuing into Fiscal Year 1997, the volume, number of issues and designs, and format of self-adhesive stamps were increased. By the end of Fiscal Year 1996, over 60 percent of our stamp program was self-adhesive. With increased production capacity, we now have the ability to produce 100 percent of the stamp program in self-adhesive form. As we continue listening to our customers and monitoring the stamps' use, we will become better equipped to determine where additional self-adhesive production is needed and respond accordingly. We will maintain a production mix of gummed and self-adhesive formats to meet the needs of our customers and to provide an attractive assortment of stamps. By developing new and innovative product lines, consistently monitoring performance standards, and calling for lower prices, we are increasing supplier competition. We are also continuing to enhance quality control at all supplier plants.

c. National Postal Museum. The Postal Service supports the National Postal Museum's

mission of increasing the awareness and understanding of America's postal history and international philately. We continue acting as liaison, coordinating and overseeing activities and financial processes associated with the agreement consummated between the Smithsonian/National Postal Museum and the USPS. In response to a recent Inspection Service audit, a contracting officer has been designated to augment financial administration. The possibility of a one-time endowment to replace the USPS annual contribution is also being studied. This method of continued support will ensure long-range financial stability for the museum while reducing the Postal Service's total financial contribution.

d. Direct Marketing. In Fiscal Year 1996, the direct marketing of stamps and stamp products began an evolutionary process that will continue through Fiscal Year 1997. It includes more catalogs, more direct mail promotional pieces, more relationship-building communications, better market segmentation, and improved database marketing. A new catalog, "USA Philatelic," was introduced to serve as the basic mail-order catalog for stamps and products for the majority of our philatelic customers. The other catalog, "Stamps. Etc.," has been modified to serve as an outreach device for new and potential customers. The contents now focus on products, with an emphasis on collectibles and gifts.

e. Youth Program. Following extensive focus group studies and pilot testing in select markets, the Stampers Youth Program was rolled out nationally in mid-October. The Stampers Program is aimed at children 8 to 12 years of age and is designed to make the hobby of stamp collecting fun and interesting for both young people and their parents. Print advertising, direct mail, posters for display in 40,000 post offices, and television advertising were the primary vehicles used to introduce the program to the public. As part of the program, the Postal Service, through its partnership with Warner Bros., has appointed Bugs Bunny as our official "ambassador" for the Stampers Program. By broadening the appeal of stamp collecting through the Stampers Youth Program, we believe we can rekindle the interest of all generations in this exciting and educational hobby. In the first two weeks of the roll-out, the Postal Service received approximately 221,000 new requests.

f. Celebrate the Century. In September 1997, the Postal Service will issue a sheet of fifteen stamps commemorating the first decade of the 20th century. As part of this program, the USPS will issue a sheet of fifteen stamps commemorating each decade through 1999. Stamp subjects for the first 50 years will be selected by the Citizen's Stamp Advisory Committee. Stamps representing the second half of the century, up to and including the 1990s, will be selected by the American people through a nationwide balloting process. By involving the American people in selecting images of their era to commemorate the century we hope to enhance the hobby of stamp collecting and to increase the retention of commemorative stamps.

g. Looney Tunes. Beginning with the issuance of our Bugs Bunny stamp, currently scheduled for release in April 1997, the Postal Service and Warner Bros. are embarking on a relationship that, over the next four years, allows us the exclusive royalty-free rights to issue stamps representing Looney Tunes characters. We view the characters as the catalyst that will re-engage kids in the hobby of stamp collecting.

h. International Sales Program and Stamp Exhibitions. The U.S. Postal Service has created markets for U.S. stamps and philatelic products in foreign countries through an International Marketing and Sales program that strives to expand the base of collectors of U.S. stamps. The program consists of contractually established Postal Service sales representatives in foreign countries who market stamps, stationery, and philatelic products to customers within established sales territories.

In the past few years, stamp dealers have closed many of their retail stores and now depend on stamp shows to reach customers. As a result, stamp shows have become a primary method of reaching customers. Collectors have become attuned to such exhibitions as a method of obtaining items for their collections. The Postal Service must be actively involved in stamp shows to reach customers directly and to introduce the hobby to potential new collectors.

Through our international program and participation in international and domestic stamp exhibitions, we generated approximately \$6 million dollars of revenue in Fiscal Year 1996.

B. Mail Volume and Service Performance

1. Mail Volume

In 1996, total mail volume increased by 1.9 billion pieces, or 1.1 percent, to 182.7 billion pieces in the fiscal year. First-Class Mail was responsible for most of this increase; it grew by 980 million pieces, or 1.0 percent.

In Fiscal Year 1996, Priority Mail accounted for more than 6 percent of Postal Service revenue from mail services. Priority Mail volume increased 10.4 percent to 959.4 million pieces. Domestic Express Mail volume increased 1.5 percent to 57.6 million pieces in Fiscal Year 1996; revenue increased 3.6 percent to \$737 million.

Periodical Mail (formerly second class) decreased by 0.7 percent, to a volume of 10.1 billion pieces; Periodical Mail revenue increased slightly to \$2.0 billion.

Total Standard A Mail (formerly third class) grew by 1.1 percent. Standard A Enhanced Carrier Mail decreased by 1.8 percent, and Standard A Nonprofit Mail decreased by 10 million pieces.

Standard B Mail (formerly fourth class) showed a 2.5-percent increase in volume. Mail volume for Standard B Parcel Post stayed approximately the same as last year. Revenue for Standard B Mail was approximately \$1.5 billion.

Total First-Class Mail is projected to grow by about 2.5 percent in Fiscal Year 1997, to just under 100 billion pieces. A new subclass of First-Class Mail, Automation and Retail Presort, is expected to grow by over 9 percent in Fiscal Year 1997, as compared with similar mail types in Fiscal Year 1996. Growth in the Priority Mail category is also expected to remain strong, growing to over a billion pieces in Fiscal Year 1997--more than a 6-percent increase over Fiscal Year 1996.

Standard Mail (formerly third and fourth class mail) is also expected to grow in Fiscal Year 1997. Standard A is expected to grow by 4.9 percent, and Standard B is expected to grow by 8.6 percent. This strong growth should continue into Fiscal Year 1998, with projected growth rates of 4.6 and 6.0 percent, respectively. (See Table 2.1.)

Table 2.1
Historical and Projected Mail Volume by Fiscal Year
(thousands of pieces)

	1995*	1996*	Projected 1997	Projected 1998
First-Class Mail, total	96,295,900	97,275,954	99,664,808	102,003,706
% change	1.0	1.0	2.5	2.3
Automation and Retail Presort	38,348,091	38,766,002	42,289,696	43,708,650
% change	2.9	1.1	9.1	3.4
Priority	868,979	959,424	1,019,870	1,073,621
% change	12.9	10.4	6.3	5.3
Express Mail	56,690	57,573	61,876	65,970
% change	0.9	1.6	7.5	6.6
Mailgrams	4,493	4,204	3,100	2,723
% change	(15.7)	(6.4)	(26.3)	(12.2)
Periodical Mail, total	10,194,235	10,126,194	10,351,471	10,520,352
% change	(0.3)	(0.7)	2.2	1.6
Nonprofit Periodical Mail	2,282,541	2,205,180	2,256,941	2,301,613
% change	0.6	(3.4)	2.3	2.0
Standard A, total	71,112,094	71,859,250	75,377,395	78,822,189
% change	2.4	1.1	4.9	4.6

Standard A Enhanced Carrier Route	29,725,688	29,204,513	31,452,062	33,110,195
% change	(0.3)	(1.8)	7.7	5.3
Standard A Nonprofit	12,265,675	12,255,065	12,569,237	12,939,066
% change	3.1	(0.1)	2.6	2.9
Standard B, total	936,192	959,689	1,042,194	1,104,400
% change	7.4	2.5	8.6	6.0
Standard B Parcel Post	218,060	217,727	227,542	229,343
% change	(2.8)	(0.2)	4.5	0.8
Standard B Bound Printed Matter	470,872	516,970	571,658	623,930
% change	12.1	9.8	10.6	9.1
Standard B Special Rate	217,761	194,113	209,126	214,349
% change	13.9	(10.9)	7.7	2.5
Standard B Library Rate	29,500	30,880	33,867	36,779
% change	(17.7)	4.7	9.7	8.6
Postal Penalty Mail	412,281	368,579	332,789	315,714
% change	(8.2)	(10.6)	(9.7)	(5.1)

* The mail categories indicated are the categories which resulted from reclassification (MC-95-1 which became effective July 1, 1996).

2. Service Performance Measurement

First-Class Mail service performance results are measured through the External First-Class measurement system (EXFC). This system measures service performance from the time mail is entered into the system at a collection box or office building mail chute until the time it is received in the home or small business. The EXFC measurement system, independently run by the accounting firm of Price Waterhouse, provides quarterly estimates of First-Class Mail destination service performance for ninety-six cities from their overnight, two-day, and three-day service commitment areas. The independent EXFC measurement system showed an average national overnight performance of 89 percent for Fiscal Year 1996. National service performance for two-day service commitment areas averaged 79 percent, while three-day performance averaged 80 percent. Table 2.2 shows the performance for each quarter of Fiscal Year 1996.

Table 2.2
National Service Performance: Fiscal Year 1996

	1st Quarter Performance (%)	2nd Quarter Performance (%)	3rd Quarter Performance (%)	4th Quarter Performance (%)	Fiscal Year Performance (%)
Overnight	87.76	87.31	90.41	91.21	89.25
2-day	79.49	75.54	80.04	80.25	78.82
3-day	82.24	70.93	82.44	82.82	79.52

Measuring customer satisfaction is an ever-evolving process. In the past year, we have made significant enhancements to the process, making it more reliable and less subject to reacting to media events. Similar changes are planned for measuring business customer satisfaction. Customer satisfaction measurement (CSM) is composed of two distinct processes, one that measures residential satisfaction (CSM-R, formerly CSI) and one that measures business customer satisfaction (CSM-B, formerly BCSI).

CSM-R is significantly different from the original system. There is now a weekly mailing of surveys, rather than only a quarterly mailing. Instead of asking respondents to rate their service over a 90-day period, we now ask for a 30-day evaluation. Thus, reports are provided for an accounting period, not on a quarterly basis. Other changes involve the rating scale, the positioning of the overall satisfaction question (no longer at the beginning of the survey), and the addition of more detailed diagnostic questions.

The CSM-R results showed that 92 percent of the nation's households rated their overall satisfaction with the Postal Service as "excellent," "very good," or "good" at the end of the fiscal year. For the same period, 70 percent of households rated the Postal Service as "excellent" or "very good."

The Business Customer Satisfaction Index is now known as the Customer Satisfaction Measurement-Business (CSM-B) system. It is still a quarterly measurement system and measures satisfaction of business customers, including National, Premier, and Business accounts.

National accounts reported an overall satisfaction rating of 92 percent, an increase of 1 percent over the same period last year. These business customers have been identified as our largest customers. Collectively, they contribute an estimated \$12.5 billion toward the total annual USPS revenue. Approximately 200 accounts are designated as National accounts.

The overall satisfaction rating of Premier accounts declined 5 percent from last year, to 85 percent. These are the second-largest business customers. Collectively, Premier accounts contribute an estimated \$14 billion toward the total annual USPS revenue. There are about 2,600 Premier accounts. Business accounts reported an overall satisfaction rating of 88 percent, an increase of 5 percent over last year. Business accounts are all other business customers not identified as National or Premier accounts. Collectively, this category contributes an estimated \$17.5 billion toward the total annual USPS revenue. There are over 8 million Business accounts.

Priority Mail consists of First-Class Mail weighing more than 11 ounces and, at the option of the mailer, weighing 11 or fewer ounces. Priority Mail is intended to provide delivery within two days between major markets and three days everywhere else. For Fiscal Year 1996, 81 percent of Priority Mail was delivered within two days and 94 percent was delivered within three days.

For Fiscal Year 1996, Express Mail morning performance was 95 percent, afternoon on-time service performance was 92 percent, and total network on-time performance was 94 percent.

3. Programs and Trends

Increasing emphasis is being placed on customer focus, service improvement, product cost containment, and profitability. Merchandise services redesign gained momentum this year and involved all aspects of Postal Service parcel services. This included emphasis on service improvement, the feasibility of parcel delivery confirmation, electronic shipper-paid forwarding through Address Change Service, and increased emphasis on such delivery service options as the carrier release program. Due to the Drop Ship Appointment System (DSAS), communications between the Postal Service and all drop ship users have continued to improve. DSAS provides more effective transmission of arrival and unload profiles and information to and from Bulk Mail Centers (BMCs). This includes the close-out feature, which provides necessary mailing information to customers 24 hours after they have deposited mail at a BMC or Processing and Distribution Center (P&DC).

a. Hub-and-Spoke Project Networks. A review was performed of our surface and air transportation networks to identify areas needing improvement in service standard performance, transportation efficiency, and overall cost-effectiveness. Our analysis indicated that highway contract route vehicle capacity was often underused; conversely, mail was being flown that could be moved via surface transportation and still arrive at destination facilities hours before the Critical Entry Time. Available mail volumes did not always support implementation of truck service from point to point, but by consolidating volumes from several origins, it was possible to create solid loads directed to the destination.

This was the premise behind the Indianapolis hub-and-spoke project (HASP), which was implemented in Indianapolis, IN, on August 17. Although the HASP concept itself has been in existence for several years at the local level, this was the first national effort to be implemented. The Indianapolis HASP is a "break bulk" facility for handling of two- and three-day First-Class

Mail, as well as Priority Mail if service commitments can be met. Mail arrives at the hub from thirty-three "spokes" (P&DCs and other facilities participating in the HASP network) in mixed destination containers. The mail is sorted in manual "bull pen" operations, by type and shape (First-Class letters, First-Class flats and pouches, and Priority Mail) and reloaded onto direct destination transportation. When fully operational, the Indianapolis HASP will handle 3.4 million pounds of mail each week (567,000 pounds per day) that formerly moved via air transportation between the spokes on the network. Currently, 400,000 pounds of First-Class and Priority Mail are traversing the HASP on a daily basis.

Expected results from the Indianapolis HASP include improved service performance between origins and destinations participating in the network; reduced costs resulting from the reduction of long-haul, underused trips and from converting large-volume dispatches from air to surface transportation; and reduced piece handling in the affected plants. Since many of our Airport Mail Centers and Facilities are experiencing problems with insufficient airlift, the HASP provides an additional outlet for managing volume growth. The Indianapolis HASP has created an opportunity to use the Expedited Hub Facility to its optimum level, while increasing economic value potential for the Postal Service.

The Capital Beltway HASP was opened in September, and we are considering additional hubs in Knoxville, TN; Omaha, NE; Dallas, TX; and Orlando, FL. When the network is complete, more than 1 million pounds of mail daily will have been diverted from air to surface transportation. More important, we will have a highly reliable, integrated network that can be used as a marketing tool to generate new revenue. We are creating information systems that will allow us to manage the entire HASP network from Indianapolis.

4. International Mail

The International Business Unit (IBU) was started in 1995 with the vision of becoming during the next few years--and no later than the year 2005--the leading global supplier of direct marketing and package delivery services and related business transactions to business customers worldwide. All standard services for households and small businesses were continued as well. During 1996, strategic, business, and organization plans have been developed, and staffing was completed. The field sales force in the United States was established. Global Package Link (GPL), previously known as International Package Consignment Service, was established and significantly expanded, with service now available to eight countries. GPL processing sites were added at Dallas, San Francisco, Seattle, Chicago, and Miami. Global Priority Mail (GPM), previously WORLDPOST Letter, was restaged and launched on a nationwide basis to twenty-seven countries. In addition, processes were initiated to provide customer-desired features such as merchandise return and volume pricing. These actions were launched under the Postal Service's *CustomerPerfect!* campaign, a systematic program to achieve business excellence.

Efforts to consolidate international mail exchange offices have been completed and designs for International Service Centers are now being developed to improve overall service and help control future costs. The IBU is also seeking registration and certification under the international quality standard, "ISO 9000."

a. Volume and Revenue. In Fiscal Year 1996, international mail of all types totaled 999 million pieces and generated \$1.61 billion in revenue. Revenue increased from the previous year by 10.2 percent, while volume increased by 8.3 percent. International revenue is primarily derived from airmail, surface mail, Express Mail International Service (EMS), International Surface Airlift (ISAL), and such foreign transactions as terminal dues and fees.

With the formation of the IBU, several new products have been introduced. Two relatively new products have generated good revenue levels: GPL has generated \$28 million (with a volume of 1.727 million pieces), and GPM has generated \$6 million (with a volume of 835,000 pieces). Airmail constituted 71.4 percent of the total international mail volume and represented 53.4 percent of international revenues. Airmail volume (713 million pieces) increased 9.8 percent over 1995 and airmail revenue (\$858 million) increased 8.9 percent over 1995.

In Fiscal Year 1996 surface Letter Class ceased to exist as a separate category of international mail. International surface mail, therefore, fell from 17.4 percent of all international mail in

Fiscal Year 1995 to 10.4 percent in Fiscal Year 1996; it generated \$196.5 million in revenue in Fiscal Year 1996, down 4.3 percent from 1995.

International Priority Airmail (IPA) and ISAL grew at healthy rates in Fiscal Year 1996. IPA revenue was \$35.1 million, up 11.5 percent over 1995; ISAL revenue was \$96.8 million, up 25.9 percent.

b. Information Technology. Most of the major postal administrations are involved in the application of electronic data interchange (EDI) to facilitate the movement of international mail and collect the required data on mail flows. The Postal Service now has a production system exchanging tracking data on EMS with twenty-four other administrations and is testing EDI exchanges covering other mail types in a program involving seventeen other administrations, which represent about half of all international mail volume.

c. Terminal Dues. Terminal dues are the payments made between national postal administrations to cover the costs of handling and delivering international letter mail, printed matter, and small packets. Rates are established by the Universal Postal Union (UPU) and through bilateral agreements. The 21st Universal Postal Congress in Seoul, Korea, adopted a more equitable and market-sensitive terminal dues system that took effect in 1996. This system has a new rate structure based on total mail flows, with a provision to adjust rates according to actual items sent for volumes above 150 metric tons. It further offers a bulk mail option, giving the receiving postal administration the option of charging item-based rates for mail posted in bulk by the same customer. The bulk mail system has a link to domestic rates in the country of destination. The revision mechanism also allows item-based accounting. The new system is expected to reduce the economic incentive for remail.

d. International Postal Agreements and Conferences. In March of 1996, the Postal Union of the Americas, Spain, and Portugal (PUASP) held its annual Consultative and Executive Council (CEC) meeting in Montevideo, Uruguay. The PUASP is a regional postal organization of twenty-seven postal administrations of the Western Hemisphere and Iberian Peninsula. During the CEC, the USPS led working groups on new products and transportation, restructuring and reform of the PUASP, and postal development.

The Postal Operations Council (POC) of the UPU held its annual meeting in Bern, Switzerland, in April 1996. The USPS continued to play a leading role, chairing important working groups dealing with international direct mail and marketing, EMS, EDI, and terminal dues. The POC adopted several decisions in these technical fields, decisions aimed at making postal administrations more competitive in rapidly evolving international mail markets. At the conclusion of the POC, the USPS chaired a major two-day Conference on Postal Development and Reform, attended by over 100 postal administrations, international banks, and international development organizations.

In October 1996, the UPU's Council of Administration, which focuses on the legal environment in which postal administrations operate, advanced its work in such fields as the concept of the single postal territory, which defines the scope of postal services (and has vast implications for the presence of public and private postal operators in postal markets); postal security; and cooperation between postal administrations and customs authorities.

The UPU also signed an agreement with World Bank officials that created closer cooperation in fostering postal reform and postal development through public and private investment projects. During 1996 the UPU and the World Bank published a major study on worldwide postal reform, "Redirecting Mail: Postal Sector Reform." As part of its management of the UPU's Postal Development Action Group, the USPS played a major role in coordinating the research necessary to complete the study.

e. New Services. Global Direct is a new service for large-volume commercial publication mailers. It offers a utility to enter large volumes into the United States and foreign destinations with domestic postage indicia at reduced rates but improved service. This service is being established to selected foreign countries and should be implemented during 1997. Other new services are under development for release during the 1997-1998 time frame.

C. Mail Distribution

In keeping with our established goal to complete the letter mail automation program by the end of Fiscal Year 1997, the Postal Service made significant strides in accelerating deployment of equipment. Over 40 percent of the Postal Service's automation equipment was deployed in 1996. Approximately 3,500 pieces of major automation and mechanization equipment were deployed during the year, representing more than a 120-percent increase in equipment deployments over the previous four-year period from 1992 to 1995.

1. Letter Mail Automation

a. General. Automation deployments during 1996 included continued deployment and enhancement of our Remote Barcoding System (RBCS) and expansion of the RBCS network, along with a substantial deployment of barcode sorters. These systems, along with other automation equipment, not only significantly increased the number of barcodes produced, but also allowed barcoded processing of mail to carrier-walk sequence, reducing carrier-in-office time and resulting in improved service in many locations.

Enhancements to the RBCS network included a number of equipment modifications and new deployments. A total of 155 Remote Computer Readers (RCRs) were deployed during 1996. RCR, which allows for off-line computer processing of handwritten addresses and mail not able to be processed through the optical character reader (OCR), was enhanced through the integration of two development changes that had reached production maturity. The first change allowed for RCR partial results to be forwarded to Remote Encoding Centers (RECs), thus reducing the number of keystrokes required to finalize an image or letter. The second modification was the integration of Handwriting Analysis Interpretation software into RCR, a change that began late in Fiscal Year 1996. This modification is expected to further reduce the number of mailpieces requiring remote keying and to reduce the number of keystrokes required to finalize a mailpiece image.

In October 1995 the Postal Service Board of Governors approved capital expenditures for an additional 104 RBCSs; upon completion, the RBCS network will consist of 55 RECs servicing approximately 250 P&DCs. At the end of Fiscal Year 1996, the RBCS network included 53 RECs and 165 P&DCs and produced over 20 billion barcodes on letter mail. Base system RBCS deployments are scheduled to be completed in July 1997.

At the end of Fiscal Year 1996 approximately one half of our fleet of multiline OCRs (MLOCRs) had been modified to increase the number of barcodes in the letter mailstream. These modifications included updating equipment recognition modules, adding a gray scale camera, and incorporating a wide-area barcode reader (WABCR) on the MLOCRs. The first modification involved hardware and software changes to the MLOCR address and interpretation modules, allowing expanded capabilities to identify special characters, to distinguish between upper and lower case letters, and to process characters produced by dot-matrix printers. Improvements in the MLOCR's ability to read addresses on patterned and dark-colored envelopes were accomplished through the addition of a gray-scale scanner. Both the gray-scale camera and recognition module equipment modifications result in improved MLOCR performance (measured by the generation of more barcodes), thereby reducing the keying requirements for RBCS. Also, the addition of the WABCR allows greater flexibility in the preparation of mail by our customers. Rather than being limited to a single read zone on the lower portion of the envelope, modified MLOCRs can now read the bar code at any location in the address area of the mailpiece. Deployment of these MLOCR enhancements will be complete in the spring of 1997.

Additional barcodes will be generated through the implementation of other MLOCR improvements currently in development. These programs, which have been piloted during Fiscal Year 1996, will increase the MLOCR's capability to barcode mailpieces by providing parallel recognition systems to work in concert with existing multiline technology. Testing of prototype systems has shown increased barcode generation, which will further reduce the number of mailpiece images forwarded to remote keying operations.

During Fiscal Year 1996 the Postal Service Board of Governors approved capital expenditures of over \$700 million for automation equipment. Included in these approval levels are the additional RBCS systems previously mentioned, a low-cost MLOCR that will phase out the remaining single-line OCR equipment, a codirectory improvement to the existing multiline recognition equipment, and additional barcode sorters to process mail to delivery-walk sequence. With the exception of RBCS, which began deployment in Fiscal Year 1996, all these programs that aim to increase the volume and improve the processing of barcoded letter mail will be deployed in Fiscal Year 1997.

At the conclusion of Fiscal Year 1996, USPS-applied barcodes had increased by 20 percent and customer-applied barcodes had increased by approximately 12 percent. The current mix of customer-applied (50.9 percent) and USPS-applied (49.1 percent) barcodes represents 70.1 percent of the total letter mailstream of 129 billion pieces annually.

Deployment of automation equipment contributed to the increase in barcoded volumes, which resulted in record Postal Service performance during the past year.

b. Remote Encoding Centers. In May 1993, an arbitration decision was issued that the Postal Service must first offer the keying jobs for RBCS to its employees, before contracting out such work. In November 1993, the Postal Service and the American Postal Workers Union signed a memorandum of understanding, bringing the RBCS keying and maintenance jobs in-house. Twenty-four of the twenty-seven P&DCs that were initially supported by contract keying units are now supported by postal keying operations. The remaining contractor keying sites will be converted by November 1996. All RECs are to be staffed by postal employees, with a national ratio of 30 percent of the work hours being performed by postal career employees and the remaining 70 percent by transitional employees.

The RECs are supporting production of barcoded letters at an annual rate of about 20 billion pieces.

c. Automation/Mechanization--Flat Mail. A number of both development and production activities to mechanize and eventually automate the processing of flat mail were accomplished during Fiscal Year 1996. These activities included various improvements to the deployed fleet of FSM-881 flats sorters; deployment of a new flats-sorting machine to virtually eliminate manual operations; development of flats OCR capability; development of a high-speed flats feeder; and a contract awarded to deploy equipment to mechanize the forwarding of approximately half a billion flat mailpieces per year.

Fiscal Year 1996 saw the initial deployment of a new FSM-1000 sorting machine. This piece of equipment virtually eliminates the manual operation, resulting in increased productivity. Deployment of the first 100 FSM-1000 machines will be complete in the summer of 1997. Requirements for an additional 240 machines have been identified and economically justified.

In addition to mechanizing the existing manual flats operation, we have initiated a flats OCR development program. The OCR will be utilized to process those flats that have not been barcoded by our customers. The OCR technology could provide a cost-effective method of processing our increasing flats volumes by eliminating manual keying of ZIP Codes. Flats OCR development activities during Fiscal Year 1996 demonstrated promising results. We will test competing flats OCR technology next year and make a decision to deploy based on cost and performance of the equipment.

In June 1996, \$27.5 million in capital funding was approved for the purchase of mechanized flats-forwarding terminals (MFFT). A contract was awarded for this equipment in September and deployment will begin in November 1996. This equipment will allow for more efficient processing of the almost one-half billion pieces of flats mail which are forwarded each year. In addition to reducing the number of handlings, the new MFFT uses an environmentally sound linerless label, which is half the cost of today's lined label. The new label alone will save \$1.2 million and 300 tons of paper sent to landfills.

d. Parcel Automation. In order to automate the sorting of packages, the deployment of the Postal Service-designed package barcode sorting system was completed in 1996. The system

not only processes prebarcoded parcels, but also applies barcoded labels to nonbarcoded pieces entered into the bulk mail network, ensuring that all packages have a barcoded ZIP Code. Under this concept, all subsequent downstream handling can be sorted using the barcoded ZIP Code.

e. Enhanced Drop Shipment Appointment System. The Enhanced Drop Shipment Appointment System allows mailers and consolidators to make appointments electronically and to obtain arrival and unloading information within 24 hours. Enhancements provide new planning and tracking reports for internal (Postal Service) users, greatly reduce the number of phone calls being made for appointments, expand the available time for making appointments, and provide owners, mailers, truckers, and consolidators with information on late-arriving time-sensitive mail and damaged mail, without placing the onus of notification on the Postal Service. "Speedline" appointments, for the prompt unloading of drop shipments containing six or fewer pallet positions, have been established.

A mechanism is built into the process to suspend access to electronic appointments for mailers who do not adhere to appointment schedules. The system also provides on-screen and hard-copy reports for mailers and for postal customers to track appointments made, canceled, and changed; the number of no-shows; average unload times by type of load; and condition of load upon arrival. Each load is closed out within 24 hours to provide customers with the status of their mailings.

f. Postal Operations Centers. In the fall of 1994, the Postal Service introduced its National Operations Center at Headquarters. The center was designed to monitor customer mailing activity, to assess the ability of the postal system network to efficiently and effectively handle the mail volume, and to redirect resources, when necessary, to ensure that service commitments are met. The Operations Center concept has now been expanded to the Postal Service's Area Offices. The Centers continue to update and expand their information and communications systems in order to improve their ability to expedite the resolution of customer issues and information needs.

g. Small Parcel Automation Rate. In April 1996, the Postal Service requested and received approval from the Postal Rate Commission to establish an automation rate for certain nonpresorted bulk barcoded First-Class and Priority Mail small parcels. Qualifying mail is entered for outgoing primary distribution at three test sites on a two-year experimental basis and receives a 4-cent-per-piece discount. These parcels are processed on a small parcel and bundle sorter (SPBS) equipped with a barcode scanner. Postal Service goals in requesting this test are (1) to determine whether it is feasible to offer an automation discount for nonpresorted First-Class and Priority Mail small parcels; (2) to gauge mailer interest and acceptance of this type of discount; and (3) to confirm that the use of a barcode scanner with an SPBS provides significant sorting quality and productivity enhancements when compared with the traditional SPBS keying operation. The Postal Service will also use the data collected in this test to develop future distribution concepts for small parcels. These concepts will serve as the vehicle to drive development of the technology required to improve sorting quality and productivity.

2. Material Handling

Major progress has been made within the past decade toward automating and mechanizing the processing of our various product lines. However, the actual physical movement of mail within a facility has been a very manual operation, requiring personnel to feed, sweep, load, and move the mail from one operation to the next. The area of material handling has been identified as the next major investment target area for applying new technologies to constrain work-hour growth.

This year the Postal Service Board of Governors approved the first two phases of the tray-management system (TMS), as well as a robotic material-handling project. These programs will make significant contributions toward work-hour containment as they provide a more controlled processing environment.

The TMS is a state-of-the-art intelligent material-handling system to support flat and letter mail operations in P&DCs. One of our most important strategic programs, TMS is designed to be standardized, flexible, and modular. It will improve plant efficiency by providing an even flow of trayed mail from operation to operation. With its modular, open control system architecture,

TMS will add new capabilities in real-time decision support. Optimized operating schedules, reduced cycle times, and improved employee productivity are expected from the deployment of this equipment, which provides mail at the right place at the right time. Deployment of these production systems is scheduled to begin in the spring of 1997.

In addition to TMS, deployment of 100 robotic tray-handling systems for installation into P&DCs, BMCs, and Air Mail Centers was approved by the Board of Governors in August 1996. This program, scheduled for completion in 1997, automates (through the use of a pedestal-type robot) the loading, sorting, and unloading of mail trays. A second deployment phase for robotic equipment, to include both pedestal and gantry robots, is scheduled for capital approval in 1997 and is intended for wider applications. Development of unloading sleeved and strapped letter trays is nearing completion, as is the capability to handle multiple trays. Further development through 1997 will focus on Opening Unit operations, including the automation of removing straps and sleeves and of presenting letter trays for processing. In addition, a parallel project to develop robotic handling of covered and strapped flats tubs is planned for next year. By the end of 1998, it is anticipated that the robotic or automatic handling of open letter trays and flats tubs will be developed. When all aspects of this program are completed, many labor-intensive manual operations will be eliminated.

To improve the efficiency of handling and processing bulk mail, the Postal Service developed the Integrated Mail Handling System (IMHS). This program directly supports Classification Reform. The objective of IMHS is to streamline and reduce the handling of mail by placing it in containers. Over the past year, BMCs continued to install new container-loading and unloading systems. This year, the remaining BMCs and P&DCs will begin to install new container-loading and -unloading systems and to expand facilities to handle cross-docking. BMCs and P&DCs continue to receive new material-handling equipment to support these changes. Fiscal Year 1996 saw the installation of 640 IMHS Pack Loaders/Unloaders. This equipment is used to unload and load containers of sack and parcel mail on trailers and vans at USPS facilities. When completed in Fiscal Year 1997, over 1,000 pieces of IMHS equipment will have been deployed to processing facilities.

Anticipated improvements range from enhanced customer participation through better mail preparation and packaging, to refined mail processing, transportation, and delivery. Emphasis is placed on using trays for mail rather than sacks, using pallet loads to support the rapid loading and unloading of trucks, and employing cross-dock mail-transfer methods. The Board of Governors approved funding for the IMHS project in Fiscal Year 1992, and deployment of associated IMHS equipment began in Fiscal Year 1994.

Other material-handling initiatives during Fiscal Year 1996 include the mail cartridge system and the integrated buffer system. The mail cartridge system (MCS) is a crucial development area for automating the feeding and sweeping of delivery barcode sorters (DBCSs). It provides an automated feed system that will recirculate local mail for two-pass sorting and, by replacing the DBCS sort pockets with a lightweight barcoded cartridge, allows robotic sweepside equipment to remove full cartridges and sort them onto racks according to their destination. MCS is designed to eliminate work hours associated with feeding and sweeping the DBCS and to reduce sweepside errors. Development and testing of this equipment will continue during Fiscal Year 1997.

In the spring of 1996 an engineering prototype integrated buffer system (IBS) was installed in Merrifield, VA. This machine represents one of the first steps toward achieving a continuous, automated environment, eliminating the need for many manual operations, including sweeping, traying, moving, staging, and feeding mail to current automation equipment. Development of the IBS will continue during 1997.

The eventual deployment of material-handling equipment currently scheduled or in production, as well as that still in development, will provide us with ergonomically efficient, modernized "robotic" processing centers before the year 2000.

3. Other Mechanization

In Fiscal Year 1996, \$163.7 million was approved for the purchase of mechanization for the

small parcel and package mail product lines. These investments will result in the deployment of forty-seven SPBS machines by November 1997. The entire fleet of SPBS equipment of 230 machines will be further enhanced through the addition of a high-performance feed system. This feed system enhances the efficiency of the existing SPBS operations by reducing staffing, centralizing the induction area, providing mechanized container unloading, increasing mail-surge capacity, and providing a culling and bundle repair workstation.

4. Address Management

a. Forwarding. The Postal Service uses the computerized forwarding system (CFS) to forward mail to the 17 percent of the nation's population that moves each year. Approximately 2.6 billion pieces of forwarded mail and 42 million change-of-address cards were processed in 1996. CFS sites are located in 219 postal facilities nationwide. Each CFS site presently consists of a centralized computer, mechanized terminals for processing letters, and nonmechanized terminals for processing flats and magazines. The CFS database provides the data for the national change-of-address process.

b. 100 Percent Database Quality. In Fiscal Year 1996, Address Management continued to implement the 100 Percent Quality Database process, designed to ensure the highest quality information in all systems used to sort mail. This process has produced demonstrable improvement in the quality of the database. Several areas that have implemented this process continue to show improvements in the quality of barcodes applied to mailpieces. In addition, several other areas are at various steps in implementing the quality process.

c. Address-Quality Improvement. Improving address quality reduces the amount of undeliverable-as-addressed mail and improves the effectiveness of automated mail-processing operations. Products and services are made available to assist mailers in attaining and maintaining 100 percent deliverable address lists. Mailers who use these services produce more deliverable mailpieces and also gain access to work-sharing discounts. Mailers use products to access five- and nine-digit ZIP Codes, carrier route identifications, city-state designations, and street-level address information to verify the addresses to which they are mailing. Mailers can attain 100 percent deliverability through use of the following systems and products.

(1) Address Element Correction Service. The Address Element Correction (AEC) service was designed to correct addresses that could not be matched to the national ZIP+4 file using certified address-matching software. AEC corrects deficient addresses and identifies those that do not exist. Already, millions of addresses in mailers' files have been examined and corrected, leading to improved customer satisfaction. AEC uses a variety of computer logic resolution processes to correct as many addresses as possible, and it produces a diagnostic report about the mailer's list-management practices. Current electronic success rates average 60 to 65 percent of the previously unmatched addresses. More than 13 million addresses were successfully corrected in Fiscal Year 1996.

(2) Correct Address Notification. Responding to requests from the mailing industry and the need for consumers to use complete and correct addresses, the Postal Service developed a system of customer address notification. The notification effort seeks to influence the American public to use all the elements of a complete and correct address. Notification mailpieces were delivered to approximately 1.5 million customers during 1996.

(3) National Change-of-Address. The National Change-of-Address (NCOA) process provides business mailers with change-of-address information for customers on their mailing lists, thus ensuring that subsequent communications are directed to the current address. This process reduces the amount of undeliverable mail and promotes the use of automation-compatible address formats by ensuring that all addresses submitted are standardized with complete and accurate information, including ZIP+4 Codes. More than 2.9 billion address corrections were provided to business mailers through the NCOA service during Fiscal Year 1996.

(4) Address Change Service. The Address Change Service (ACS) offers mailers automated address-correction service following the issuance of their mailings. By rapidly updating their address list, mailers improve the deliverability of their mail. The number of corrections processed through ACS increased to 112.5 million changes. These changes were accessed by

2,160 mailers.

(5) Delivery Sequence File. The Delivery Sequence File (DSF) is a comprehensive address data system that expands the level of information beyond the ZIP+4 Code. The system contains a complete address register with carrier delivery sequence information. Mailers who match their address records to DSF can validate the existence of the address and identify and correct deficient elements. Consistent with other address quality systems, DSF standardizes the addresses submitted by mailers to ensure automation compatibility. Mailers in 1996 matched 4.9 billion addresses.

(6) Locatable Address Conversion System. The Locatable Address Conversion System process enables business mailers to electronically update their rural-style addresses with new, locatable city-style addresses in areas that are experiencing 911 emergency response address conversions. Improved address quality increases mailer access to work-sharing discounts and improves deliverability. The Postal Service licensed twelve firms to assist mailers in updating their address records or to perform the matching service for business mailers.

(7) Barcode Certification. To ensure the accuracy of the barcodes applied by mailers, the Postal Service evaluates the ability of customers' hardware and software to produce properly assigned barcodes that meet Postal Service automation requirements. During the year, 120 vendors participated in the certification program, and 479 printers, 102 software packages, and 70 systems were certified as producing barcodes that meet required physical characteristics.

(8) Rapid Information Bulletin Board System. The Rapid Information Bulletin Board System (RIBBS) was introduced as a method to provide members of the mailing industry rapid access to postal information. Users can view the information online or participate in discussions on postal-related issues. Some of the information in RIBBS includes customer support rulings, BMC condition reports, *Federal Register* notices, weather and natural disaster condition reports, Domestic Mail Manual labeling lists, and minutes of the Mailer's Technical Advisory Committee meetings. RIBBS has 6,000 registered users.

(9) Automated Barcode Evaluator (ABE). To provide mailers with diagnostic information to improve the quality and accuracy of POSTNET barcodes and to screen for faulty barcodes, the Postal Service developed a rapid, self-feeding barcode evaluator. Designed for use during business mail verification, it provides the Postal Service with the ability to quickly and accurately determine if customer-printed barcodes meet USPS specifications and can be used in Postal Service barcode sorting systems. Beginning January 1, 1997, ABE will begin to evaluate customer-applied barcodes on automated letter mail in over 250 sites. ABE will reduce processing and delivery costs as higher quality barcoded mail is accepted into our system.

(10) FASTforwardSM. During Fiscal Year 1996, Address Management used cutting-edge technology to develop effective means for mailers to update addresses on mailpieces. This technology, known as FASTforward, will direct mailpieces to the customer's new mailing address when a change-of-address order has been filed with the Postal Service. FASTforward provides a fast, accurate, safe, and secure method for users of MLOCRs to apply new address information and the barcode for the new address as the mailpieces are being processed. In the future, FASTforward will be applied to other operating systems, allowing greater flexibility in the choices mailers have to meet Postal Service requirements for mail preparation.

d. The Mover's Guide. The Mover's Guide is an all-in-one guide to moving designed to improve customer satisfaction, reduce costs, and generate new revenue. The booklet provides Postal Service change-of-address forms, mail-forwarding information, moving-related commercial advertising, advertiser discount coupons, and tips on moving. Consumer reaction continues to be positive and customers are provided with a greater understanding of the activities associated with forwarding mail. The Mover's Guide is a cooperative venture with a private company and is designed, printed, and produced at no cost to the Postal Service or its customers. A three-year strategic alliance has been signed with the company to continue the distribution of both the English and Spanish versions of the Mover's Guide.

e. MoversNet Web Site. In July, the U.S. Postal Service introduced just what a customer who uses a personal computer and is planning to move needs: a mover's Internet Website (<http://>

www.usps.gov/moversnet/). MoversNet, a more informative, feature-rich, online version of the Mover's Guide, is designed to generate new revenue while it offers time- and money-saving options to help the rapidly growing population of computer-equipped movers. Current features include the following:

- an interactive change-of-address form;
- before- and after-the-move checklists;
- packing tips;
- a link to the IRS Web site to obtain income tax forms on demand;
- answers to frequently asked mail-forwarding questions;
- a ZIP Code directory for all addresses;
- a phone number and address directory of the post office serving each address;
- commercial advertising and money-saving coupons; and
- a Hispanic translation of the entire site.

Providing at-home convenience and the correct address format with ZIP+4 Code for the mover's old and new addresses, the change-of-address form can be filled in on a consumer's personal computer, then printed, signed, and mailed in. Customer feedback and media reports were highly favorable. The number of public visitors to the site reached approximately 3,000 per week and weekly "hits" topped 10,000. During its initial market test, the Postal Service received \$50,000 in net advertising revenue. Additional revenue-generating enhancements are planned.

f. The Welcome Kit. The Welcome Kit is a new revenue-generating, value-added program for customers who have recently moved. It is designed to reduce Postal Service costs and improve service. In Fiscal Year 1996, the kits were test-marketed in Boston, MA; Buffalo, NY; Indianapolis, IN; San Antonio, TX; and Sacramento, CA. National implementation is planned for January 1997. The Welcome Kit contains the following:

- the customer's address change Confirmation Notification Letter;
- local phone numbers and addresses for the customer's new area; a Settling-In GuideTM, with helpful information and advice on getting settled;
- savings on products and services customers typically need after moving; and
- change-of-address forms for the Bureau of Motor Vehicles, the IRS, and voter registration offices.

5. Distribution Requirements System

Postal and mailer distribution and labeling changes require that updates be made to several systems and databases. These updates have historically been accomplished independent of one another by manual means.

The Distribution Requirements database is subdivided into two sections: Mailer Distribution Requirements System (MDRS), and Postal Distribution Requirements System (PDRS). The overall database is controlled by the Office of Distribution Networks, Logistics, at Headquarters.

a. Mailer Distribution Requirements System. The MDRS is an automated means to review, revise, approve, and disseminate changes to the labeling lists contained in Module L of the Domestic Mail Manual. This process established a central database for Module L labeling lists. The 186 change process is now computerized, with the 186 form and *Postal Bulletin* article transmitted electronically for edit and approval. Changes with complete revised lists are subsequently downloaded to users and are available immediately upon publication of each *Postal Bulletin*. This system has been deployed.

b. Postal Distribution Requirements System. The PDRS will replace the distribution labeling information currently contained in the National Air and Surface System (NASS) and in the National Distribution Labeling Lists. PDRS will provide customized labeling lists for each mail-processing plant and facility. This system will be accessible to users through the local area network in a user-friendly Windows environment. The data contained in PDRS will be used by NASS for Automatic Dispatch Generation, by the Sort Program Subsystem of NDSS, and by Passport to standardize label information.

PDRS is currently under development and is scheduled for national deployment in early 1997. The system is based on a three-tier hierarchical structure. The first tier consists of national labeling and distribution requirements for each class and shape of mail, maintained at the Headquarters level. This information defines the minimum distribution requirements for every mail-processing facility. The second tier consists of intra-area exceptions and interarea bilateral agreements requiring a greater depth of sort than national distribution requirements. The third tier defines interplant distribution agreements, which represent an even greater depth of sort than required at the area level.

6. Transportation Information Management Evaluation System

The Transportation Information Management Evaluation System (TIMES) is an information system designed to improve scheduling, planning, and cost tracking of highway transportation. It provides a platform to collect information on highway volume and content and provides a means to monitor performance.

In 1996, the system was deployed nationally to over 400 P&DC sites and to all Airport Mail Center/Airport Mail Facilities (AMC/AMFs). Deployment to the Indianapolis HASP began in August 1996. Radio frequency technology was also implemented in the handheld data collection devices in over 100 sites in 1996.

Plans for Fiscal Year 1997 are to interface TIMES with other logistics systems such as Railnet, Transportation Routing Information Panel System (TRIPS), and the planned Mail Reservation System.

7. Mail Reservation System

The Mail Reservation System is a comprehensive real-time information-based solution designed to control the assignment and movement of mail across the Logistics network. Mail Reservation will replace the current Automated Classified Document Control System with new software programs that will enable Logistics to automatically respond to dynamically changing conditions. By monitoring the mail buildup during the assignment process, Mail Reservation can use business rules to selectively shut off routings as capacities are reached. As mail moves toward its final destination, near-real-time electronic tracking data will be used to monitor operations and trigger alerts as problems are detected.

An important benefit of the Mail Reservation System will be the large amount of operational information that will be captured and correlated to support service assessment. By using system and ad hoc queries, Logistics staff will be able to pinpoint such persistent service problems as insufficient lift, late processed mail, or poorly performing contractors.

As part of this initiative, Logistics has embarked on an effort to communicate electronically with its air contractors in order to receive updates of flight information, including capacities available for mail. In Fiscal Year 1996, Logistics expanded its Air Electronic Data Interchange program to include American Airlines and United Airlines. Discussions with other air contractors are in progress. A prototype alert system for commercial air was enhanced to simultaneously display operational information from multiple carriers.

During Fiscal Year 1996, Logistics conducted sessions with field personnel, Headquarters staff, and air contractors to gather user requirements and informational needs. Working with an outside technology firm, Logistics developed functional specifications for the air portion of the Mail Reservation System called AirRes. Postal Information Systems, IBU, and Engineering staff joined the effort by providing valuable assistance with system interface issues, standards, and capacity planning. The results of this work are currently being used to finalize cost estimates and resource requirements. System development is expected to occur during Fiscal Year 1997, with deployment by the end of calendar year 1997.

D. Delivery Unit Operations

1. General

During Fiscal Year 1996, the implementation of Delivery Point Sequencing (DPS) continued at a rapid rate. More than 2,085 additional delivery zones began to receive mail in delivery point sequence order, bringing the year-end total of delivery routes receiving DPS processing to 113,000, an increase of nearly 36,000 routes during the year.

At the end of Fiscal Year 1996, the number of city delivery points was approximately 81.1 million, rural deliveries totaled approximately 25.5 million, post office box deliveries were 19.6 million, and highway contract routes served 1.6 million deliveries, for a total of 127.8 million delivery points.

2. Enhanced Street Performance

In Fiscal Year 1996, we initiated our enhanced street performance (ESP) program with the goal of improving delivery service by applying current technology on the street. This program will integrate data collection and communication technologies to provide delivery and collection confirmation and to assist in the overall management of street performance for consistency of delivery times and verification of carrier street times. ESP will provide the USPS with the capabilities for two-way messages and communications, carrier emergency alert notification, carrier and vehicle location, and delivery confirmation of tractable mail items. In Fiscal Year 1996, we began pilot testing the different ESP solutions in eleven sites. The results of the pilot tests will be used to specify the requirements for the national system. Funding approval and contract award for the national system is scheduled for Fiscal Year 1997 with deployment to start at the beginning of Fiscal Year 1998.

E. Retail Programs

1. Retailing and Merchandising

The Postal Service has 33,862 classified units and 5,567 contract postal units. Roughly 88 percent of all retail revenue and 96 percent of all retail operating expense accrue from these two full-service options. They are augmented by Stamps by Mail, by 40,000 vending machines, and by the distribution of stamps through consignment agreements at commercial retail outlets and automatic vending machines.

Ever-changing market trends and increasing competition created a challenging atmosphere in which the Postal Service looked for ways to optimize its core competencies at retail. Despite being the world's largest retailer in terms of number of "stores," when compared with private-sector retail, the Postal Service had only the most basic experience in merchandise sales and few of the tools or processes available to its peers in general retailing.

During 1996, two major categories for improvement included product development and merchandising and national promotion. In the former case, the development and operation of a Postmark America store provided the focus to gain experience quickly in a controlled, closely managed environment--a "laboratory" for learning about the technologies, systems, and management processes needed to manage a retail enterprise effectively. Postmark America opened September 1996 in the Mall of America, Bloomington, MN. The store features American history and culture through its branded merchandise, and highlights the role of communications and the Postal Service. As they are tested and proven in this prototype store, some of the merchandise lines will start to be sold in selected post office outlets as well.

The second target for improvement occurred in planning and executing retail promotions. On the national level, two campaigns--Holiday and the Spring Gift-Giving promotions--were developed and executed. Based on learning from leading national retailers, fine tuning and adjustments were made in the process; the lessons from these promotions will be leveraged in more refined campaigns in the years ahead. One key output was the creation of a national retail promotions calendar that will provide unprecedented structure and control to retail customer communications.

Promotional competencies were also built to support local priorities, such as support for the Retail Test Markets and for the thirty-three stores and nine post office upgrades in Atlanta as part of the Postal Service Olympics project.

2. Retail Site Locations

During 1996, Retail undertook a broad review of the retail location process to isolate opportunities for increasing customer satisfaction and net revenue performance through more efficient allocation of retail access points.

Beginning with Albuquerque, NM, and expanding to four additional markets (Austin, TX; Columbus, OH; Philadelphia, PA; and Miami, FL), Retail demonstrated the effect on revenue and customer satisfaction of reengineering the retail network to be more in line with customer convenience and access. The plan is based on demographics and a mean standard of postal facilities per capita, with strategies for adjusting the gap in cases where the ratio is significantly higher or lower.

Where feasible, strategies include incorporating key elements of the Postal Store concept (such as customer traffic management, open merchandising, and interior communications and signage) into existing post offices. Additional strategies include expanded hours and locations, awareness-building, and low-cost-high-convenience alternatives for quickly adding new sites where warranted.

3. Electronics at the Point of Sale

No retailer has prospered over the past several years, or will continue to survive, without using information technologies to improve service, grow revenue, increase margins, and reduce operational costs. Included among the many innovations developed and in wide use in commercial retail are computerized merchandising systems, point-of-sale workstations, scanners, and signature-capture devices. Each is being employed to revolutionize counter operations, add operating flexibility, and dramatically reduce operating cost structure.

Starting in 1997, the Postal Service will begin a rollout of a new POS system designed to take advantage of commercial technology. Known as POS (Point of Service) ONE, it is designed to replace current integrated retail terminals with commercial off-the-shelf hardware and software, along with support services and training. Postal customers will receive vastly improved and more timely information about available services and will have immediate access to all options and costs to make quick, informed decisions. Other key features will include automated, online check and debit/credit authorization and improved inventory management.

4. Postage Meters

Postage meters continued to be a viable method for the application of postage. In Fiscal Year 1996, the 1.5 million meters in service generated over \$21 billion in commercial revenues. This revenue accounted for approximately one-third of all postal revenue. During this year continued emphasis was placed on three major meter initiatives: decertification of mechanical postage meters, centralized meter licensing, and development of a new intelligent indicia.

Decertification involves the removal of more than 750,000 unsecured mechanical meters from the marketplace and replacing them with more secure electronic technology. This has involved stopping new placements while working with meter manufacturers to establish a schedule that initially concentrates on removing meters with the highest risk but ensures the removal of all mechanical meters within an acceptable time frame. Decertification is being accomplished with a view toward balancing our need to protect postal revenues with the impact on our customers. Since this effort began in December 1995, the mechanical meter population has been reduced by 99,000 meters while the total population has remained constant.

The Centralized Meter Licensing System (CMLS) provides for the issuance of licenses from a central location on behalf of all post offices. CMLS interfaces with the Meter Accounting and Tracking System, which accounts for all meter financial transactions. Eventually, CMLS will

also track all meter placements and withdrawals. CMLS pilot testing took place in three major metropolitan areas in preparation for national implementation in early 1997.

The Information-Based Indicia Program (IBIP) involves applying new technology to produce, by computers and digital postage meters, forms of postage evidencing that will result in each indicia being unique. Two-dimensional barcodes and cryptographic services are among the techniques being considered. Unique indicia will provide a basis for detecting counterfeiting and an opportunity for new, value-added services. During this reporting period, technical specifications were drafted and circulated in the *Federal Register* for comment. In addition, a series of public meetings was held to review the technical and regulatory aspects of this program. It is anticipated that the first of these new systems may be submitted for evaluation by the Postal Service in early 1997.

5. Retail Employees

The last in a three-part series of retail training programs was completed in Fiscal Year 1996. "EXCELLENT SERVICE, Reinforcing the Vision"--presented to over 20,000 supervisors, managers, and postmasters responsible for retail operations--emphasized skills building for managers in order to reinforce expectations for customer service at the retail counter. Approximately 105,000 retail clerks and managers participated in the world's largest customer service training initiative in 1994, and again in 1995. Both programs raised expectations for courtesy and service from the customer's perspective. Video series from all three programs are available for ongoing training and refresher needs.

F. Information and Research Programs

1. New Business Opportunities

a. Electronic Commerce. We developed the concept of postmarking emails to address the security, legal, and business needs of people trying to communicate through the Internet. Since more email than physical mail is sent on an annual basis, we conceived of simply extending the USPS' role into this huge market by creating an email and electronic document postmarking system--one that can inform the recipient of any tampering with the document while it was en route to the customer. We successfully tested and launched our first system in June 1996. Since then over twenty-five customers have signed contracts committing themselves to paying for each email they wish us to postmark. These customers include Citibank, Chemical Chase, Wells Fargo, Aetna Insurance, Motorola, Levi Strauss, Fujitsu, and a number of government agencies and postal organizations. Customer response to this offering has been nothing short of phenomenal!

We are preparing to accept a second system in January 1997 and plan to sign up many of these same customers for this enhanced service. Our limited market trials are set to begin in early 1997.

b. Hybrid Services. EPost and NetPost products offer business customers physical delivery of electronic messages. EPost provides large businesses overnight mail delivery at First-Class Mail rates by sending letter data electronically for local printing and next-day delivery. NetPost is a "desktop-to-mailbox" hybrid service offered to small businesses and home offices to make advertising through the mail more convenient and effective.

We will begin market trials for EPost and NetPost in early 1997.

c. Reply Card Scanning. The customer-initiated payment system is a hybrid bill-payment alternative that eliminates the need for consumers to use either a check or a stamp, allowing invoicers lower costs and faster receipt of remittances. Consumers agree with participating invoicers to have their checking accounts debited when they drop a barcoded business reply card in the mail, giving consumers control over the payment date. The Postal Service transmits the card's barcode information to the bank allowing the bank to complete payment to the invoicer.

We completed a successful operations test and will test market the product in the spring of 1997.

d. Kiosks

(1) Deliver America: Domestic. Deliver America is an electronic catalogue shopping service that is being pilot tested in Atlanta, GA. It offers the consumers an easy, quick, and convenient way to select, order, and arrange delivery of quality merchandise from their favorite retailers. It offers merchants a new low-cost marketing and sales channel to reach more customers more often. Our partners for this test include Service Merchandise, Microsoft, 1-800 Pro Team, Harry and David's, Paul Fredrick, Fannie Mae, and the U.S. Mint.

This program was successfully launched in Atlanta in time for the Summer Olympics. Plans are currently being made for a market test in several additional cities during 1997.

(2) Deliver America: International. The international pilot test for Deliver America is under way in Tokyo, Japan. The pilot features four American direct marketers: Neiman Marcus, Book-of-the-Month Club, Paul Fredrick, and International Golf Outlet. Kiosks are placed in three retail locations with research planned to measure consumer response to electronic shopping. Japan was selected for the pilot test based on consumer demand for U.S. merchandise and merchant demand for the Global Package Link service. Next steps include a market trial in 1997.

(3) Web Interactive Network of Government Services (WINGS). WINGS is a low-cost, broad-reaching, electronic delivery channel of national scope and local impact. This delivery channel enables government agencies--federal, state, and local--to electronically provide government information, services, and products to the American public in a streamlined, simplified, customer-friendly, confidential, and efficient manner. WINGS represents an opportunity for the Postal Service to capitalize on our national presence, traditional business capabilities, and profound technical expertise. WINGS enables the USPS to capture a new electronic market that is growing at an astonishing rate.

WINGS began as a White House Service to the Citizen initiative and is the U.S. representative on the G7 Government Online project. WINGS went live in July 1996 with a pilot test focused in the Charlotte/Mecklenberg County region of North Carolina. The service is being evaluated for customer satisfaction, agency participation, cost-effectiveness, technical robustness, and Internet connectivity through the use of twenty-five public access kiosks. WINGS will expand to a full market trial in September 1997, making the integrated services of over sixty local, state, and federal agency partners available to Americans.

e. Financial Services

(1) Money Mover. Money Mover is an umbrella program for our existing international and domestic money order business and a new money-by-wire service covering both domestic and international markets. This service allows moderate-income consumers to move funds safely and conveniently in both paper and electronic forms.

"Dinero Seguro" (Safe Money) is our first money-by-wire product, initially targeting Mexican immigrants, but designed for expansion to additional Latin American markets. We are currently in a market test involving eighty-nine post offices in thirteen markets in California and Texas.

(2) LibertyCash. LibertyCash is a stored value card, initially to be used for payment of postal products and services at retail units. We plan to expand the applications of this card to include other postal services and acceptance by other retailers. LibertyCash gives small businesses and consumers a safe and convenient method of paying for postal services.

We are currently in an operations test in thirteen post offices in Colorado and California, and began marketing collectible cards through a 888 number this fall.

(3) FirstClass PhoneCard. The FirstClass PhoneCard is a prepaid phone card that provides

customers with a convenient, cost-effective method of making long-distance telephone calls. In partnership with American Express, we successfully market tested the card last year and are now offering the FirstClass PhoneCard at 10,000 postal retail units.

(4) Remitco. Remitco will be a national network of payment-processing centers that minimize mail transit times for large businesses that receive regular and predictable payments. We will begin a pilot test in New York in the second quarter of 1997.

2. Information Systems

The focus of Information Systems in Fiscal Year 1996 was to support the technology architecture and application development of the major programs described elsewhere in this document (Call Centers, Track and Trace, Point of Service, etc.). Information Systems also continued expanding the postal information technology infrastructure. This infrastructure provides the foundation for connecting postal operating units, customers, and suppliers.

a. The Postal Information Technology Infrastructure. The continuing focus of this program is to enable key USPS business initiatives and business process improvements by building a standard information technology base infrastructure upon which systems can be deployed in postal facilities in a fast and cost-effective manner. This infrastructure provides these facilities basic technology, such as electronic messaging, communications connectivity, office automation, and a platform for business-specific tools and applications. In Fiscal Year 1996, we extended this infrastructure to reach more than 5,000 additional postal facilities by providing them with a communicating computing platform. We expect to extend this to an additional 3,000 postal sites and 100 external partners in 1997. In Fiscal Year 1996, we also received Board of Governors approval for the first phase of the Associate Office Infrastructure (AOI), which begins deployment in 1997. AOI will provide a shared computing and communication infrastructure for more than 4,000 offices on new POS terminals. AOI will also provide electronic distribution of functional and informational updates, as well as administrative and operational support to the POS terminals and to other computerized systems at the same location.

b. Internet/World Wide Web (www.usps.gov). The functions, capabilities, and usage of the Postal World Wide Web services grew considerably in Fiscal Year 1996, with the addition of several significant features. MoversNet, the online version of the printed "Mover's Guide," brought an interactive online version of the change-of-address form. An online package-tracking system allows customers to look up the status of their Express Mail package on the Internet. Customers can also look up the post office that delivers their mail and obtain information on stations and branches within a given five-digit ZIP Code area.

c. Postal Explorer. This product was developed as an easy-to-use electronic information tool that provides postal employees with fast access to critical business information, so that they can serve customers better. The initial offerings through this package include the Domestic Mail Manual, International Mail Manual, and Procurement Manual. Explorer contains a powerful search capability, which can rapidly retrieve information from any or all of the manuals it contains; the text is displayed exactly as it appears in the printed version. Explorer also offers sophisticated domestic and international rate calculators to compute postage and associated fees and discounts for any size and type of mailing.

G. Workforce Planning and Service Management

Workforce Planning and Service Management directs strategic initiatives to control work-hour cost, develop long-term labor strategies to minimize the economic impact of seasonal mailing patterns, and analyze employee mix and workforce flexibility to help the field achieve its service and budget objectives.

a. The ADVANCE Notification and Monitoring System continues into its second year of operation with over eighty mailers actively participating. The system currently monitors the delivery performance of non-automation compatible Standard A mail with requested in-home delivery dates. ADVANCE electronically transmits a tracking notice and an image of the

mailpiece to over 6,500 delivery units nationwide; delivery unit supervisors record the date the mail arrived, the date delivery began, and the date delivery ended, transmitting the information back to postal managers and external customers. In the first nine months of Fiscal Year 1996, ADVANCE monitored over 500 mailings. In Fiscal Year 1997, ADVANCE will be updated to respond to an identified customer need and begin to monitor the delivery performance of periodicals.

b. The second phase of Barcode Accuracy testing is currently under way and will provide additional diagnostic information to assist Postal Service management in identifying inconsistencies in the nine-digit ZIP Codes given for addresses in the Address Management System and the National Directory Support System. This will enable the organization to focus on eliminating the root causes of incorrect barcoding and to improve performance in our automated environment. Reducing the number of incorrectly barcoded mailpieces in our system will result in improved service performance and increased customer satisfaction.

c. The Collection Management System was designed to improve the collections process in EXFC city zones. Data collection devices have been deployed to the districts to support their efforts to improve the timely collection of mail by our delivery workforce. Delivery personnel are equipped with a scanning wand that is used to record the time a collection box has been picked up. This information allows delivery managers and supervisors to monitor collection activities. Planned enhancements to data management and reporting systems will contribute to the tools available to field management for continued improvement of First-Class Mail service performance.

d. We are continuing to provide field training sessions and individually tailored presentations to enhance our employees' understanding of, and ability to use, available tools for performance improvement. Currently scheduled initiatives include the following:

- four Postal Satellite Training Network broadcasts
- EXFC contract changes (September 1996)
- Process Management (October 1996)
- EXFC Updates (March and July 1997)
- EXFC Training Video (September 1996)
- Revised EXFC User's/Reports Guide (November 1996)

e. Technological developments have provided the opportunity for investigation of new analytical tools and products that can provide service diagnostics online, without the aid of overhead personnel. These include exploring both optical and radio technologies as solutions for passive collection of diagnostic data. Additionally, Workforce Planning and Service Management is working with the Marketing group to specify new measurements that will drive performance improvements against customer specifications in targeted product lines. Initial targets for this work are merchandise delivery, advertising mail, and transaction correspondence.

f. Our future success as an organization will be significantly influenced by our ability to use work hours efficiently and to maintain stability in our total complement relative to work load. New administrative staffing criteria projects will be launched this year, along with the development of staffing and scheduling modeling tools to assist postal managers in this important area.

g. Administrative staffing criteria reviews will follow a three-step process. First, we will determine the role and range of responsibilities to be carried out by these jobs by analyzing the work content currently being performed and the expectations of functional area managers, and then making hard decisions on what we specifically expect from these jobs. Second, we will identify (1) the factors that determine work load and (2) how the duties assigned to these positions can be linked to specific factors that predict work load. Finally, we will establish a method for measuring the work load and linking that to the process of allocating positions nationwide without increasing the overall employee complement. Workforce Planning and Service Management staff, as well as knowledgeable personnel from the area offices and Performance Clusters, will perform these analyses. This type of systematic staffing review provides us the opportunity to explore the use of new and more effective methods of

determining work load-based staffing levels.

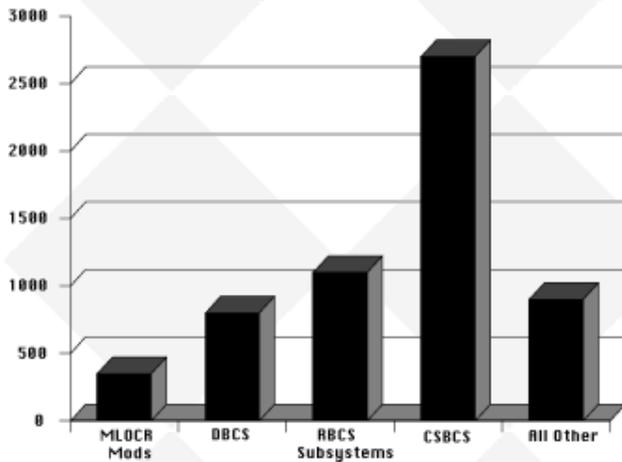
h. The Organization Management Staffing System (OMSS) is in the process of being redesigned. OMSS is a human resources application that tracks the formal organization structure of the Postal Service and is the vehicle for authorizing nonbargaining unit staffing in all organizations. This redesign effort, which was started in Fiscal Year 1996, is assessing the use of OMSS for tracking authorized staffing beyond the relatively small number of nonbargaining unit positions now carried in the system. We are looking at using OMSS to track the staffing recommendations that come from currently deployed computer modeling tools as well as those under development.

i. To support managers in making staffing changes that are consistent with operational changes, we are in the process of developing a simplified staffing system that will provide, in a single database, the information frequently used in the field for making staffing decisions. We plan to roll the data elements into a single straightforward report and centralized database.

j. Several computer modeling and analysis efforts are under way to help field managers develop staffing and scheduling plans that reflect work load. Along with these modeling projects, we will provide refresher training for modeling tools now being used in the field.

k. Work load requirements have changed since reorganization in 1992. Criteria used to address staffing issues at that time were too often based on the work load that existed in the former organization. Our focus for the future is to encourage uniformity and consistency in the way positions are filled, while maintaining flexibility to adjust as work load shifts.

Figure 2.1
FY 1996 Equipment Deployment



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Comprehensive Statement on Postal Operations

Chapter Three: Financial Highlights

A. Financial Status

1. General

The Postal Service recorded \$56.4 billion in operating revenues in Fiscal Year 1996. Operating expenses for the year totaled \$53.1 billion, resulting in an income from operations of \$3.3 billion. With investment income of \$142 million, debt interest expenses of \$368 million, and a \$1.5 billion interest expense on the deferred retirement liability, the net income in Fiscal Year 1996 was \$1.567 billion. This is the second most profitable year in the history of the Postal Service.

Application of Funds Fiscal Year 1996 (dollars in millions)

Activities	Expense	Percent
Mail processing and window services	\$16,476	30.0
Delivery services	15,964	29.0
Post office supervision and administration	4,751	8.6
Building and equipment maintenance and support	2,357	4.3
Transportation of mail	3,736	6.8
Building occupancy; supplies and services	3,615	6.6
Servicewide expenses	5,541	10.1
Headquarters, area administration, and Inspection Service	1,194	2.2
Depreciation	1,342	2.4
Total	\$54,976	100.0

As of September 30, 1996, the net capital deficiency of the Postal Service was \$2.624 billion. (See Table 3.8.)

Table 3.1
Income and Expense Statement
(dollars in millions)

	FY 1995	FY 1996	Difference	Net Change %
Income:				
Mail revenues	\$52,490	\$54,524	\$2,034	3.9
Special services	1,686	1,785	99	5.9
Revenue foregone appropriation*	117	93	(24)	-20.5
Operating revenue	54,293	56,402	2,109	3.9

Expense				
Compensation and benefits	41,931	42,676	745	1.8
Other costs	8,799	10,437	1,638	18.6
Operating expense	50,730	53,113	2,383	4.7
Income from operations	3,563	3,289	(274)	7.7
Interest income	216	142	(74)	34.3
Interest expense on deferred retirement liabilities	(1,364)	(1,449)	(85)	6.2
Interest expense on borrowings	(566)	(368)	198	35.0
Imputed interest on OBRA of 1990	(79)	(47)	32	40.5
Net income	\$1,770	\$1,567	(\$203)	-11.5

* Includes \$54 million in Fiscal Year 1995 and \$37 million in Fiscal Year 1996 to accrue net financial impact of the Revenue Forgone Reform Act of 1993.

In addition to direct competition in the marketplace and the widespread use of technology that replaces hard-copy messages, the Postal Service also faces financial challenges due to actions taken by the federal government. In recent years, an important component of Postal Service financial performance has been cost transfers from the government. Table 3.2 shows the magnitude of these transfers, which totaled \$5.501 billion in Fiscal Year 1996.

Table 3.2
Selected Costs Transferred
From U.S. Government to U.S. Postal Service
(dollars in millions)

	(Fiscal Years)							Total
	FY 1990 and Prior	1991	1992	1993	1994	1995	1996	
CSRS deferred liability	\$15,406*	\$1,775	\$1,896	\$1,938	\$1,996	\$2,134	\$2,362	\$27,507
Public service costs**	5,114	460	460	460	460	460	460	7,874
Excess of FERS over CSRS	2,943	1,011	1,049	1,108	1,198	1,363	1,385	10,057
CSRS retirement (OBRA of 1987)	350	--	--	--	--	--	--	350
FEHB fund (OBRA of 1987)	430	--	--	--	--	--	--	430
Post-86 annuitant health benefits (OBRA of 1985)***	329	--	--	--	--	--	--	329
Post-86 CSRS annuitant COLA (OBRA of 1989)***	74	--	--	--	--	--	--	74
Post-71 annuitant health benefits (OBRA of 1990)	--	328	380	510	519	523	497	2,757
Post-71 CSRS annuitant COLAs (OBRA of 1990)	--	421	491	551	620	689	750	3,522

Prior year annuitant COLA and health benefits costs (OBRA of 1990)	--	1,901	81	70	54	34	--	2,140
OBRA 1993	--	--	--	857	43	45	47	992
Total	\$24,646	\$5,896	\$4,357	\$5,494	\$4,890	\$5,248	\$5,501	\$56,032

* Excludes \$285 million relating to Fiscal Years 1972-1974 which was reimbursed by special appropriation.

** Reimbursement amounts authorized by Postal Reorganization Act, but not received.

*** OBRA 1985 and OBRA 1989 were superseded by OBRA of 1990.

Note: The cumulative impact of all OBRAs since 1985 through Fiscal Year 1996 was \$10.6 billion.

The transfer to the Postal Service of responsibility for postal annuitant costs began with enactment of the 1985 Omnibus Budget Reconciliation Act (OBRA), which required the Postal Service to fund health benefit costs for all postal annuitants who retired after September 30, 1986.

Subsequent OBRAs expanded the Postal Service's responsibility for annuitant health benefit costs and included annuitant cost-of-living adjustments (COLAs). Currently, the Postal Service is responsible for health benefit costs and COLAs of postal annuitants who retired after June 30, 1971, and their survivors. The cumulative impact of postal annuitant COLA and health benefit costs transferred to the Postal Service as a result of all OBRAs since 1985 was \$10.6 billion through Fiscal Year 1996, as noted in Table 3.2. This table also details the \$56.0 billion in cost transfers from the taxpayer to the Postal Service since the early 1970s. The most recently transferred costs of Civil Service Retirement System annuitants' COLAs and annuitants' health benefits will grow rapidly over the next few years, creating upward pressure on postal rates.

2. Income

a. Mail and Special Services Income. Revenues from mail, services, and appropriations in Fiscal Year 1996 totaled \$56.4 billion (see Table 3.3). Revenues from mail were up 3.9 percent and services revenue increased by 5.9 percent.

Table 3.3
Source of Income
(dollars in millions)

Mail revenue	\$54,524
Special services	1,785
Government appropriations for free and reduced rate mail	93
Total operating revenue	56,402
Total operating expenses	53,113
Income from operations	3,289
Interest and investment income	142
Interest expense-borrowing	(368)
Interest expense-deferred retirement liability	(1,449)
Imputed interest on retroactive assessment of employee benefits	(47)
Net income	\$ 1,567

b. Interest and Investment Income. The Postal Service's interest and investment income for Fiscal Year 1996 was \$141.7 million (see Table 3.3).

c. Appropriations. The Postal Service is authorized to receive three types of appropriations:

public service, transitional costs, and revenue forgone (see Table 3.4).

Table 3.4
Historical and Present-Year Impact of Congressional Appropriations on Mail Revenues,
Fiscal Years 1971, 1976, 1986, 1996
(dollars in millions)

Year	Total Mail Revenue	Mail Revenue without Appropriations	Appropriation Category	Income From Appropriation	Appropriation as a Percentage of Mail Revenue
FY 1971*	\$9,595.2	\$6,664.9	Deficiency in rates and fees Public Service Other reimbursements	\$2,573.3 1,402.1 844.5 326.7	26.8%
FY 1976	\$12,936.8	\$11,292.3	Free and Reduced Rate Mail Reconciliation for Prior Years Public Service P.O.D. Transitional Costs	\$1,644.5** 724.5 none 920.0 58.9	12.7%
FY 1986	\$29,839.2	\$29,123.4	Free and Reduced Rate Mail Reconciliation for Prior Years Public Service P.O.D. Transitional Costs	\$715.8** 750.3 -34.5 none 39.1	2.4%
FY 1996	\$54,616.8	\$54,523.8	Free Mail for the Blind and Overseas Voting Material Reconciliation for Prior Years Net Impact of Revenue Forgone Reform Act of 1993 Public Service P.O.D. Transitional Costs	\$93.1** 56.1 none 37.0 none 36.8	0.2%

* The figures for FY 1971 are from the old Post Office Department prior to the creation of the Postal Service on June 30, 1971.

** This figure does not include the appropriation for Post Office Department Transitional Costs, which are remitted directly to the Department of Labor.

The public service appropriation reimburses the Postal Service for providing uniform, nationwide mail service. By law, the Postal Service is authorized to request \$460 million for public service. However, the Postal Service neither requested nor received any public service appropriation for Fiscal Year 1996, even though it continued to provide service throughout the country. This marked the 14th consecutive year that no public service subsidy was provided. Appropriations accounted for only 0.2 percent of the total revenue of the Postal Service in

Fiscal Year 1996 compared to 26.8 percent prior to the Postal Reorganization Act in 1971 and 2.4 percent in Fiscal Year 1986.

The transitional cost appropriation reimburses the Postal Service for workers' compensation payments for injuries to employees of the former Post Office Department so that current rate payers are not burdened by debts incurred over 25 years ago. The Postal Service requested and received \$36.8 million for this purpose for Fiscal Year 1996, which was transmitted to the Department of Labor.

As revised by the Revenue Forgone Reform Act of 1993, the Postal Service received a revenue forgone appropriation of \$56.1 million in Fiscal Year 1996 to fund free rates for the blind and overseas voting. An additional \$37 million was accrued in 1996 to reimburse the Postal Service for certain past revenue forgone amounts due as well as prospective amounts to be earned through 1998.

3. Costs

a. General Analysis. Operating expenses increased from \$50.7 billion in Fiscal Year 1995 to \$53.1 billion in Fiscal Year 1996 (see Table 3.1).

Personnel and related costs grew 1.8 percent to \$42.7 billion in Fiscal Year 1996. Nonpersonnel expenses--including transportation, supplies, and services--increased by 18.6 percent over Fiscal Year 1995.

Table 3.5
Analysis of Expenses
(in percent)

Personnel compensation	59.24
Personnel benefits	18.39
Transportation	6.80
Supplies and services	4.53
Interest on deferred liabilities	2.64
Depreciation and write-offs	2.45
Other	2.14
Rent and communications	1.47
Vehicle/building maintenance	0.92
Utilities	0.75
Interest	0.67
Total	100.00

b. Salary and Benefit Costs.

(1) Increases. Personnel compensation and benefits grew 1.8 percent over 1995. The combination of moderate work-hour growth, labor contracts that shifted 1996 costs to 1995 in the form of lump-sum payments, and reductions in workers' compensation expense led to the smallest growth in compensation and benefits since postal reorganization. Increases in retirement and life insurance expenses were driven by COLAs that were earned in prior years but just now rolled into base salary, thus increasing the base upon which these expenses are calculated.

Most employees covered by collective bargaining agreements received a 1.2 percent general increase in base salary, as well as longevity increases for eligible employees and semiannual COLAs of \$104 and \$416. In addition to merit pay salary adjustments or lump-sum payments for individual performance, most professional and managerial staff participated in the Economic Value Added (EVA) variable pay program.

Overall, the average annual base salary for a postal employee was \$33,952. Adding benefits, overtime, premiums and lump-sum payments, the average annual salary and benefits per total work year increased to \$44,314. Together, personnel compensation and benefits accounted for 77.6 percent of the Postal Service's total expenses.

(2) Retirement Costs. The majority of Postal Service career employees hired before January 1, 1984, are covered by the Civil Service Retirement System (CSRS) and contribute 7 percent of their basic annual salary to the Civil Service Retirement and Disability Fund. The Postal Service provides a matching contribution for each employee.

The Postal Service is liable for that portion of any estimated increase in the deferred liability of the CSRS Fund attributable to Postal Service employee-management agreements that authorize increases in employees' basic pay on which benefits payable from the CSRS Fund are computed.

The estimated increase in the deferred retirement liability for active CSRS employees is determined by the Office of Personnel Management, amortized over 30 years, and paid by the Postal Service in 30 equal annual installments, including interest computed at 5 percent per year. The total increase in the annual expense layer resulting from increases in basic annual salary was approximately \$229.1 million in Fiscal Year 1996.

The Fiscal Year 1989 OBRA transferred to the Postal Service responsibility for COLAs of postal annuitants who retired after September 30, 1986, and their survivors. The OBRA of 1990 superseded the OBRA of 1989 and expanded the Postal Service's responsibility for the cost of COLAs to include all its annuitants who retired after June 30, 1971, and their survivors, apportioned for federal civilian service performed after June 30, 1971. This liability and future liability layers will be amortized and paid over 15 years, beginning in the year the liability was created. The annual expense related to annuitant COLAs was \$749.9 million for Fiscal Year 1996. (See Table 3.6.)

Table 3.6
Retirement Costs
(dollars in millions)

	FY 1995	FY 1996
Retirement (CSRS)	\$ 842.9	\$ 877.1
Deferred liability (CSRS)	2,133.8	2,362.1
CSRS annuitant COLAs	688.7	749.9
Retirement (CSRS/dual)	34.4	36.3
Retirement (FERS)	1,270.0	1,472.9
Thrift savings (FERS)	400.1	489.1
Subtotal	<u>5,369.9</u>	<u>5,987.4</u>
Old age survivors disability insurance (OASDI)		
OASDI (dual)	34.5	34.5
OASDI (FERS)	838.7	906.5
OASDI (other)	<u>135.0</u>	<u>141.4</u>
Subtotal	<u>1,008.2</u>	<u>1,082.4</u>
Total	<u>\$6,378.1</u>	<u>\$7,069.8</u>

COLA = cost-of-living adjustment

CSRS = Civil Service Retirement System

FERS = Federal Employees' Retirement System

In addition, the OBRA of 1990 created a retroactive liability for the Postal Service to reimburse the federal government for COLA payments for which the Postal Service would have been liable had the provisions of the OBRA of 1990 been in effect as of July 1, 1971. Total retroactive payments for these COLAs will be \$1.7 billion. The present value of the payments

was accrued and expensed in Fiscal Year 1991. The fifth and last payment of this liability, made on September 30, 1995, was \$471 million.

The OBRA of 1993 obliged the Postal Service to pay interest on the retroactive assessments due under the OBRA of 1990. The interest assessment, totaling \$1.041 billion, will be paid in three annual installments, beginning in Fiscal Year 1996. The assessment represents 5 percent interest on the employer's portion of annuitant COLAs and health benefits, previously paid by the U.S. government, that the Postal Service would have paid had the provisions of the OBRA of 1990 been in effect from July 1, 1971, through September 30, 1986.

(3) Workers' Compensation Costs. Workers' compensation costs are self-insured by the Postal Service and administered by the Office of Workers' Compensation Programs (OWCP) of the Department of Labor (DOL). The Postal Service annually reimburses DOL for payments made on behalf of active Postal Service workers' compensation claims during the previous DOL fiscal year. In Fiscal Year 1996, the Postal Service reimbursement payment was \$512.1 million, comprising \$166.4 million in medical claim reimbursements (net of credits) and \$345.7 million in compensation claim reimbursements for the period of July 1, 1995, through June 30, 1996--the DOL chargeback year.

The Fiscal Year 1996 payment increased \$11.0 million over the Fiscal Year 1995 payment of \$501.1 million, reflecting an increase of \$6.6 million for medical claims and \$4.4 million for compensation claims. The average payment per compensation claimant was \$13,795--a decrease of \$107 from the Fiscal Year 1995 average. The average medical claim was \$1,519, a \$10 increase over the prior fiscal year.

The Postal Service adheres to generally accepted accounting principles. Accordingly, the Postal Service practices accrual accounting and recognizes estimated future year payments associated with currently active claims. Changes in the discounted present value of the total estimated future payments are shown as an increase or decrease in the long-term workers' compensation liability on the Postal Service financial statements.

Thus, the annual Postal Service workers' compensation expense consists of three components: (1) the discounted present value of the estimated long-term liability for those cases that became active during the current fiscal year; (2) adjustments to the estimate of the future liability for cases that became active in years prior to the current fiscal year; and (3) a prorated share of the DOL workers' compensation program administrative expenses. The annual cash payment in reimbursement for active claims is the portion currently payable of the increases described in the first two components and is a reduction in the amount of the overall increase in the long-term liability.

Please refer to Table 3.7 for a history of accrued workers' compensation expenses and annual cash payments.

Table 3.7
Postal Service Workers' Compensation Expense and Cash Payments
(dollars in millions)

Fiscal Year	Estimated Annual Increase/Decrease in Active Claims*	Administrative Charge (DOL)	Total Annual Expense*	Payments to DOL for USPS Active Claims and Admin. Charges**
1972	\$ 86.2	\$ --	\$ 86.2	\$ --
1973	78.6	--	78.6	--
1974	93.7	--	93.7	28.5***
1975	237.9	3.0	240.9	34.7
1976	349.5	4.1	353.6	58.0
TQ	81.1	--	81.1	--
1977	624.4	4.7	629.1	82.9

1978	505.3	6.0	511.3	130.5
1979	746.1	9.0	755.1	147.9
1980	489.7	8.4	498.1	161.0
1981	465.7	8.7	474.4	174.4
1982	278.4	7.6	286.0	189.9
1983	-31.3	7.4	-23.9	188.4
1984	157.7	10.4	168.1	187.3
1985	313.1	10.5	323.6	194.0
1986	495.4	8.8	504.2	211.0
1987	307.0	8.7	315.7	235.5
1988	509.3	10.2	519.5	245.0
1989	680.1	10.8	690.9	270.6
1990	753.1	14.6	767.7	670.6****
1991	173.6	9.1	182.7	397.0
1992	1,070.7	14.4	1,085.1	453.5
1993	927.9	17.4	945.3	487.3
1994	310.7	16.1	326.8	501.4
1995	860.5	16.8	877.3	520.3
1996	\$ 717.3	\$ 19.2	\$ 736.5	\$ 531.3

* All years prior to FY 1993 include nominal expenses for OWCP health benefits.

** Payments in this table are on cash basis by fiscal year in which the payments were made.

Listed payments include payments for active USPS claims and for associated DOL administrative charges. Payments exclude all payments for Post Office Department claimants.

*** Payment was for FY 1973 and FY 1974 active claims.

**** Payment comprises FY 1989 and FY 1990 active claims and FY 1990 administrative charge.

Separate payments were made in October of 1989 (FY 1989 active claims and FY 1990 administrative charge) and September of 1990 (FY 1990 active claims and FY 1991 administrative charge).

B. Banking

Postal Service Corporate Treasury manages one of the world's largest cash collection and concentration systems through four channels: field bank accounts for 39,000 retail locations; credit and debit cards through a single processor; an integrated lockbox bank network; and direct electronic payments from major customers. In addition to having banks as customers, the Postal Service is one of the largest customers for commercial banks. Daily receipts of \$300 million to \$500 million are deposited into bank accounts at more than 5,000 commercial banks. Commercial bank account deposits that exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$100,000 are collateralized by government securities, which are held in safekeeping at Federal Reserve District Banks and branches. At the end of Fiscal Year 1996, \$614 million in collateral was pledged by 410 banks.

During Fiscal Year 1996, Corporate Treasury approved four field banking service contracts, totaling \$2.0 million, under the authority delegated by the Postal Service's Vice President of Purchasing to the Postal Service Treasurer. Area and District finance managers who were delegated authority by the postal Treasurer to contract for banking services in the field were recertified upon completion of required ethics training courses. Field finance managers thereupon awarded nine competitively bid contracts under this authority. One of these competitive actions was awarded to United National Bank in Fayetteville, NC, a minority-owned bank. Competitive bidding of field bank accounts will be expanded in Fiscal Year 1997 through Corporate Treasury's relationship bank program (see below). Early requests for proposals will include all district bank accounts in the Pacific Area and all but one of the district bank accounts in the New York Metro Area.

During the year, Corporate Treasury continued developing its relationship banking strategy. Relationship banks include those banks with which the Postal Service maintains depository accounts in three or more districts; those in which the Postal Service maintains a corporate account; or those in which daily postal deposits exceed \$1 million. Currently, 47 commercial banks meet these requirements. These banks, which constitute less than 1 percent of the Postal Service's banking contracts and represent more than 60 percent of its banking business, can offer the full range of sophisticated cash management products and services required by large companies like the Postal Service. In July 1996, Corporate Treasury held its first scheduled bank review meeting with its largest relationship bank, Citibank. Bank of America's review meeting was held in October, and the NationsBank review meeting is scheduled for January 1997. The goal of such meetings is to share information and strengthen the partnership between the Postal Service and the relationship bank. Meetings will be scheduled for all relationship banks at least annually.

In Fiscal Year 1995, the Postal Service awarded a three-year \$45.8 million contract to NationsBank Corporation and its subcontractor, First Data Merchant Services (FDMS), formerly NaBANCO, to establish a massive credit and debit card processing system in post offices nationwide. The national rollout of the program began in June 1995. When the implementation is completed in 1997, the Postal Service will be the largest acceptor of credit and debit cards in the United States. By the end of the fiscal year, the USPS had shipped 44,067 terminals to 18,647 locations. FDMS had also assisted in implementing card acceptance for the Philatelic Fulfillment Service Center, on-line services, Postmark America, the kiosk pilot in Atlanta, and Stamps by Mail. Credit and debit card activity under the NationsBank contract grew to 15 million transactions, valued at \$800 million in Fiscal Year 1996. During this period, the average ticket value was \$54.00.

On August 4, 1995, the Postal Service announced a nationwide initiative with minority-owned banks enrolled in the U.S. Treasury Minority Bank Deposit Program. On April 1, 1996, the Postal Service invested an initial deposit of \$100,000 in 72 qualified minority-owned banks for the purchase of one-year FDIC-insured, interest-bearing Certificates of Deposit. These certificates will be renewed at maturity. Corporate Treasury also will monitor eligibility standards to increase minority-owned bank enrollment in the program.

Nonpayroll checks issued by the Postal Service provide improved cash management and internal controls that result from the use of controlled disbursement accounts. Improvements include quick stop payment and check replacement, positive pay and fraud prevention, accounting period check reconciliation, and higher interest income on float. In Fiscal Year 1996, the Postal Service issued 2.5 million checks (valued at \$7.9 billion) and earned an estimated \$20 million on float. Payroll checks are scheduled to be converted to controlled disbursement accounts in the second quarter of 1997, providing better services to our employees and expanding cash management and internal controls for the Postal Service.

In Fiscal Year 1996, Corporate Treasury awarded a national lockbox banking services contract to Citibank. Currently, operational accounts include Stamps Licensing, Philatelic Fulfillment Service Center, Stamps on Consignment, and the four meter manufacturers currently operating under the Computerized Meter Resetting System. Approximately 20 percent of the \$80 billion annual postal cash flow will be processed through the lockbox network.

Corporate Treasury sponsored its 1996 National Treasury Conference from December 2-6, 1996, in San Francisco, CA. Attendees included the ten Area Treasury Coordinators (ATCs), District Treasury Coordinators, senior headquarters finance officers, and field finance managers. Speakers included senior postal officials--such as Chief Operating Officer William J. Henderson and Chief Financial Officer Michael J. Riley, postal relationship bank managers, and speakers representing academia and the private sector. The meeting focused on contributing to the Postal Service's bottom line through improved treasury management processes. At the conclusion of the conference, ATCs formalized 1997 action plans for relationship bank solicitations in their areas.

In February 1996, the Postal Service was awarded gold Alexander Hamilton awards for cash management practices and overall excellence in treasury management. The awards were presented by the National Association of Corporate Treasurers and *Treasury & Risk*

Management magazine. Competition included fifty other national and multinational private sector companies. A panel of judges--including treasurers and chief financial officers from high-performing private sector corporations--based its selection of the Postal Service on its overall cash management initiatives, including the change in daily funds concentration of \$300 million from one to four channels. Added to the single cash-concentration channel with Global Payment Systems, Inc. (successor to National Data Corporation, Atlanta, GA), were channels involving a single national lockbox account with Citibank, national implementation of credit and debit card acceptance with NationsBank, and expanding business electronic payments to the Postal Service through Bank of America.

C. Financing and Investments

With the approval of the Board of Governors, the Postal Service continued to focus on minimizing debt and cash and on increasing its debt flexibility, in order to control interest expense and risk. The Fiscal Year 1996 results of this effort were a \$1.4 billion decline in debt outstanding to \$5.9 billion and a \$198.4 million decline in interest expense borrowings to \$368 million. In the past four fiscal years, Postal Service debt has been reduced by \$4.0 billion (40 percent), and interest expense by \$270.2 million (42 percent).

In December 1995, the Postal Service used available cash to call a \$1.5 billion note that was part of the \$4.5 billion debt refinancing of 1992. The early retirement of the \$1.5 billion note, with no prepayment penalty, reduced interest expense by \$73.6 million in Fiscal Year 1996.

On September 27, 1996, the Postal Service signed credit line agreements with the Treasury's Federal Financing Bank. Under the terms of the agreements, the Postal Service can borrow up to \$300 million overnight, on the same day it requests the funds. This is the first time in Postal Service history that access to same-day funds is available. In addition, the Postal Service can borrow up to \$700 million with two days' advance notice and can set the maturity at anywhere from overnight to one year. The new credit line agreements have increased the Postal Service's ability to minimize cash and debt.

The Postal Service cash flow model continued to provide accurate short-term and long-term cash forecasting, allowing managers to further reduce debt and cash in Fiscal Year 1996. The average balance in the Postal Service Fund declined by \$1.1 billion in Fiscal Year 1996, to \$2.1 billion. Also, the fiscal year ended with cash and cash equivalents at a new year-end low of \$310 million. The low level of cash represents extremely efficient cash management for a corporation that processed more than \$80 billion in cash during Fiscal Year 1996.

All available cash was invested during the fiscal year, and it helped produce interest and investment income of \$141.7 million.

D. Analysis of Balance Sheet

On September 30, 1996, the balance sheet of the Postal Service (see Table 3.8) reflected total assets of \$51.6 billion, comprising \$1.4 billion in current assets, \$17.9 billion in property and equipment, \$31.9 billion in deferred retirement costs, and \$0.4 billion in other assets. Total liabilities at the end of the period were \$54.2 billion, with retirement benefits payable (\$30.5 billion) composing 56 percent of this total. On September 30, 1996, the Postal Service had a net capital deficiency of \$2.6 billion.

Table 3.8
Highlights of Financial Condition
(dollars in millions)

Current assets	\$ 1,447.1
Property and equipment	17,857.9
Deferred retirement and other	<u>32,298.5</u>
Total assets	<u>51,603.5</u>
Current liabilities	12,572.6

Long-term debt, less current portion	3,909.2
Retirement benefits payable	30,459.4
Other liabilities	7,285.8
Total liabilities	54,227.0
Capital deficiency	(2,623.5)
Total liabilities and net capital deficiency	\$51,603.5
Total borrowing authority	\$15,000.0
Debt outstanding	\$ 5,918.7
Undrawn borrowing authority	\$ 9.081.3

Table 3.9
Fiscal Year 1996 Capital Commitments

Line Item	Plan (dollars in millions)	Actual (dollars in millions)	% Change
Facilities	\$1,281	\$1,197	-6.6
Automation and mechanization equipment	1,218	1,220	0.2
Vehicles	375	330	-12.0
Retail equipment	80	220	175.0
Postal support equipment	377	340	-9.8
Total	\$3,331	\$3,307	-0.7

E. Capital Investments

1. Fiscal Year 1996 Developments

a. General. In October 1995, the Board of Governors approved a \$9.5 billion five-year Capital Investment Plan for Fiscal Years 1996 to 2000. It represented a new five-year plan guided by the preliminary Strategic Growth Plan objectives and the *CustomerPerfect!* priorities to improve customer satisfaction, strengthen employee/USPS effectiveness, and improve financial performance. The Plan supported our basic mission of providing universal mail service to all of our customers. It included investments to increase organizational efficiency, maximize assets, provide operational capacity for changing workload, improve service, create a better working environment, comply with legal requirements, and optimize information technology for an infrastructure that is universal, flexible, and user friendly. The \$3.3 billion actually committed in Fiscal Year 1996 was the highest level of commitment activity since we began keeping records in the 1970s.

b. Financing. Capital assets were financed internally, through cash flow from operating activities as debt outstanding declined by \$1.7 billion. The net cash provided by operating activities for the fiscal year was \$3.6 billion and the net purchases of property and equipment were \$1.8 billion.

2. Facilities

a. Smaller Projects Completed and Active Construction Projects. Smaller projects are defined as projects costing less than \$10 million. During Fiscal Year 1996, 40 new construction, major renovation, and expansion projects were completed, as were 297 building-purchase projects. The cost of these projects exceeded \$191 million.

Ninety-one projects (88 construction and 3 building purchase) are currently under way. The estimated cost of these projects is \$296 million.

b. Major Facility Projects Completed. The following major facilities, costing more than \$614 million, were completed in Fiscal Year 1996:

Project	Gross Sq. Ft. (thousands)	Completion Date
Real Properties MLP Limited Partnership Portfolio Acquisition (RRP)	4,027.0	Oct. 1995
St. Louis, MO (ISC renovations)	65.4	Jan. 1996
Louisville, KY (AMF)	80.6	Oct. 1995
Westchester, NY (Processing and Distribution Center (P&DC)/VMF)	489.0	Oct. 1995
Chicago, IL (P&DC)	987.5	April 1996
National Airport, Washington, DC (AMC)	124.5	May 1996
South River, NJ (Material Distribution Center)	315.0	April 1996
Santa Barbara, CA (P&DC)	238.0	June 1996
Waltham, MA (Northwest Boston P&DC)	374.0	July 1996

c. Major Projects Under Way. At the end of Fiscal Year 1996, the following major projects were in progress:

Project	Estimated Facility Cost (dollars in millions)	Scheduled Completion Date
New York, NY (Church Street renovations)	\$45.9	Nov. 1997
Anchorage, AK (P&DC Expansion)	17.5	Feb. 1997
Atlanta, GA (AMC)	36.4	March 1998
Chicago, IL (Sugarhouse Terminal)	16.0	April 1997
El Paso, TX (P&DC, VMF, and Washington Park Station)	32.6	May 1997
Issaquah, WA (Main Post Office)	10.1	Dec. 1996
Jacksonville, FL (Bulk Mail Center (BMC) Expansion)	\$81.6	Dec. 1998
Las Vegas, NV (P&DC Expansion)	\$10.9	July 1997
Quad Cities, IL (P&DC)	17.1	Aug. 1997
Seattle, WA (P&DC)	85.4	Nov. 1996

Terre Haute, IN (P&DC)	\$14.6	July 1997
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3. Equipment Purchases

Contracts were awarded during Fiscal Year 1996 for the following major equipment and vehicle programs:

Type	Amount (dollars in millions)
Additional Delivery Point Sequencing Bar Code Sorters	\$362.0
Associate Office Infrastructure	16.2
Carrier Sequence Bar Code Sorters	35.9
CFS Flats Forwarding Terminals	15.9
Corporate Call Management	15.4
Delivery Bar Code Sorters	43.8
Delivery Unit Computer Systems	23.5
Integrated Mail Handling System	32.8
Low-Cost Optical Character Reader	42.5
Multi-Line OCR & Enhancements	29.9
Multi-Line OCR Co-Directories	10.3
Philatelic Fulfillment Automation	22.3
Point of Service Terminals	218.2
120 Remote Bar Coding Systems	59.0
104 Remote Bar Coding Systems	150.5
Replacement of 19 BMC Process Control Systems	8.4
Robotics Tray Handling Systems Phase I	28.9
Small Parcel & Bundle Sorters	43.4
Track & Trace Development & Testing Program	2.3
Tray Management System Phase II	38.2
Carrier Route Vans	111.4
Mixed Delivery & Collection Vehicles	122.0
Truck and Spotter Tractors	\$ 73.1

4. Future Developments

The \$14.3 billion Capital Investment Plan for Fiscal Years 1997 to 2001, approved in October 1996, is set to provide a positive effect on the financial results predicted for Fiscal Years 1997 and 1998 and a "jump start" on a long-run improvement strategy. Investments scheduled in Fiscal Year 1997, to influence both Fiscal Years 1997 and 1998 operating results, emphasize customer service/revenue-generating projects and technologies that produce labor savings or cost avoidances. These two strategies, as well as maintaining the Postal Service's information technology and asset infrastructure, are evident throughout the \$14.3 billion five-year plan. Of the \$4.8 billion increase over the \$9.5 billion Fiscal Years 1996-2000 Plan, almost 80 percent is attributable to technology and customer service/revenue strategy investments.

Table 3.10 summarizes the capital commitments detailed in the Fiscal Year 1997-2001 five-year Capital Investment Plan.

Table 3.10
Capital Investment Plan FY 1997-2001
Commitments by Program Categories

(dollars in millions)

Category	1997	1998	1999	2000	2001	Total
Facilities	\$1,759	\$1,376	\$963	\$720	\$783	\$5,601
Automation and mechanization equipment	2,743	1,075	586	180	222	4,806
Vehicles	101	51	43	23	213	431
Retail equipment	103	441	348	21	20	933
Postal support equipment	1,318	703	191	158	165	2,535
Total capital commitments	\$6,024	\$3,646	\$2,131	\$1,102	\$1,403	\$14,306

F. Revenue Assurance

Since late 1994, when the Revenue Assurance unit was created, the group has undertaken a variety of activities designed to reduce the risk of revenue loss, improve controls, and create awareness of revenue assurance on all levels, while preserving the balance between customer focus and internal controls.

In April 1995, Revenue Assurance supported a benchmarking team to examine the Plant Verified Drop Shipment process. The team, commissioned by area finance managers, surveyed plants and districts across the country, visited postal sites in every area and visited mailer plants and outside businesses. The study was completed in February 1996, and the team's efforts resulted in several significant findings and recommendations. The final task force report was issued, and implementation of the recommendations is under way to ensure stronger internal controls and increased revenue for the Postal Service.

In November 1995, Revenue Assurance kicked off an internal national awareness campaign to focus attention on protecting postal revenue. Articles and a poster on revenue assurance appeared in internal communications media to reinforce the message that every employee shares responsibility for protecting revenue. In addition, Revenue Assurance created an employee recognition program to communicate success stories and reward employees who have provided outstanding service in preventing revenue loss for the Postal Service.

Revenue Assurance has coordinated with Business Mail Acceptance staff to develop an extensive training package for mail acceptance and operations personnel. This training is aimed at verifying mail to ensure that proper payment has been made. In addition to this partnership, Revenue Assurance is working with Business Mail Acceptance to pilot-test automated systems to assist clerks in verifying barcoded mail and in processing and collecting for Business Reply Mail.

In addition, the Revenue Assurance manager has been designated as the Bank Secrecy Act Compliance Officer for the Postal Service. Revenue Assurance developed a compliance program, instituted a "domestic-only" money order cashing policy, and developed an awareness campaign for international money order use. Other projects included working with Human Resources to establish full-time positions in field offices dedicated to revenue assurance activities and initiating a project to eliminate short-paid mail.

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