

Fiscal Year 2003

Annual Performance Plan

September 2002

September 30, 2002

To the President of the United States, the United States Congress, the members of the postal community, and the American people:

Mail is an important part of the infrastructure of American commerce. Most Americans still look forward to receiving their mail, and a healthy, vibrant postal system helps the U.S. economy to grow. Competition from electronic communication challenges us to generate sufficient revenues to support the increasing cost of our universal service mission. Our statutory structure precludes us from implementing some product pricing and cost reduction initiatives normally available to the private sector when business circumstances change.

Last year the General Accounting Office listed the Postal Service as “high risk” because of our outdated structure and cumbersome rules. As a result, Congress required the Postal Service to provide a transformation plan that would describe options for the future.

Since the publication of our *Transformation Plan* in April, we have worked with the stakeholders of the Postal Service to determine how we can respond to the changing needs of our customers in a more competitive environment. The *FY2003 Annual Performance Plan* continues the implementation of our *Transformation Plan* that began this year.

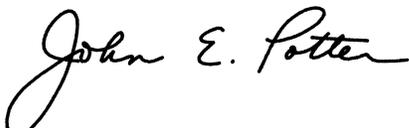
We have already begun to implement strategies that go beyond incremental improvements to make the nation’s Postal Service more innovative, flexible, and responsive to the changing needs of our different customers and other stakeholders.

The *FY2003 Annual Performance Plan* reflects our continuing commitment to universal service with prompt, reliable, and efficient delivery to every community and customer throughout the nation.

The Postal Service will continue to increase efficiency, improve productivity, and reduce costs. We are working to stabilize rates and provide mailers with opportunities to improve the effectiveness of their mailings. We will restore the financial stability of the Postal Service, and provide timely, relevant information to our stakeholders. We will continue to protect the safety, privacy, and security of the mail.

We will improve access, convenience, and customer service for residential and business customers. We will continue to provide a safe and fair working environment for our employees. Managers, supervisors, and employees will be accountable and committed to achieving goals based on customer requirements in a performance-based culture.

We can plan for the future by taking action now that makes the Postal Service better for the American people, the mailers and their customers, our business partners, and our employees.



John E. Potter
Postmaster General of the United States

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¹ See Appendix 1 for U. S. Postal Service Organizational Chart

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I. Executive Summary

Purpose

The Government Performance and Results Act (GPRA) of 1993 requires the Postal Service to provide an annual performance plan to assist Congress in its oversight responsibilities. The *FY2003 Annual Performance Plan* responds to the GPRA requirements by defining the mission of the Postal Service, as established by the Postal Reorganization Act (PRA) of 1970, and by describing changes in the postal operating environment and the resulting challenges faced by the Postal Service in accomplishing its mission.

The plan describes the long-term goals of the organization, the shorter-term objectives that support those goals, and the associated indicators that will be used to measure performance. The plan establishes specific, results-oriented performance targets; briefly describes how performance will be measured; and outlines the strategies, programs, and initiatives that will achieve those targets. The plan describes the revenue sources that are expected to fund the achievement of the mission and annual performance improvement targets.

Background

The PRA defined the mission and established general goals for the Postal Service. However, the PRA did not provide specific measures of performance. In 1982, the National Academy of Public Administration determined that the Postal Service had “accomplished an outstanding implementation of the Act.”² Today different stakeholders evaluate the Postal Service using a wide variety of indicators and may arrive at different conclusions about postal performance.

One of the primary goals of the PRA was to eliminate the need for regular public subsidies to the Postal Service. The Postal Service was to become self-sufficient while continuing to provide universal mail services at reasonable rates. The public subsidy, which once contributed about a quarter of the postal budget, was eliminated in 1982. Since 1970, postal prices have increased no more than the rate of inflation and remain among the lowest in the developed world.³ More recently (May 1996 to May 2002), according to the Bureau of Labor Statistics, postage has increased 7.7 percent, compared to local telephone price increases of 19.4 percent, air fare increases of 26.6 percent, and financial services increases of 27.3 percent.

Since the implementation of GPRA performance goals, the Postal Service has improved service for key mail categories, reduced employee illness and injury rates, increased employee satisfaction, and improved total factor productivity. The Postal Service has been evaluated as “one of the better run federal agencies” in a series of comparative studies by an independent research group.⁴

² *Evaluation of the U.S. Postal Service*, National Academy of Public Administration, July 1982

³ At current exchange rates, the basic rate of postage is about \$0.69 in Japan, \$0.53 in Germany, and \$0.40 in Great Britain, compared to \$0.37 in the U.S.

⁴ Government Executive Special Issue, *Federal Performance Report: Grading Government*, April 2001, page 55

Today about 750,000 career postal employees (only about 1.4 percent more than in 1970) maintain the commitment to provide universal service by processing and delivering more mail (41 percent more pieces in 2001 than in 1970) to more addresses (60 percent more households and businesses in 2001 than 1970). Customer satisfaction levels, even compared to the private sector, are high.⁵

The American public continues to benefit from a reasonably priced delivery service that connects everyone, everywhere, regardless of geographic location or socioeconomic status. The mailing industry, those firms that depend on an effective Postal Service for a significant portion of their sales, remains an important and growing part of the U.S. economy.

Postal Operating Environment and Management Challenges

The stable postal business environment that existed when the PRA was passed no longer exists. Competition is threatening the traditional revenue base and making volume forecasting increasingly difficult. It is not clear yet if the estimated volume decline of about 6 billion pieces in FY2002 from the previous year indicates a long-term change or is primarily a result of the poor economy and short-term effects of bioterrorism.

The Postal Service currently has little flexibility to adjust rapidly to market changes, but must add service to every new address. Despite a weak economy and the decline in mail volume, the Postal Service delivered to 1.7 million new addresses last year. In addition, a new challenge emerged in the last year as the Postal Service, along with other parts of the U.S. economic infrastructure, had to absorb some of the costs of coping with terrorism. Congress provided important financial support to cover the costs of the initial response and the Postal Service described how it would apply the funds provided by Congress in the *Emergency Preparedness Plan*, March 2002. These events have made it clear that the Postal Service and the mailing industry must operate in an environment different from the past.

As a result of these changes in the postal operating environment and the cost of increased deliveries, the Postal Service faced severe financial challenges. The Postal Service has responded with significant cost reductions, improved productivity, and increased postage rates. Based on recommendations from the General Accounting Office, Congress requested that the Postal Service develop a transformation plan that would provide options for the continuation of universal service with a sustainable financial plan. The Postal Service submitted its *Transformation Plan* to Congress in April 2002. The *FY2003 Annual Performance Plan* incorporates near-term initiatives from the Postal Service *Transformation Plan* that do not require legislative or regulatory changes.

⁵American Service Quality Index, American Society for Quality, Quarter 1, 2002 Report

FY2003 GPRA Goals, Objectives, Performance Indicators, and Targets

The Postal Service has long-term goals in three strategic areas of emphasis, known as “voices”:

- Grow the revenue base to maintain universal service (Voice of the Customer);
- Develop a motivated and productive workforce (Voice of the Employee); and
- Provide affordable service (Voice of the Business).

In each strategic area of emphasis, senior management has selected a limited number of shorter-term, nationwide objectives that are critical to the achievement of the strategic goals. Each objective has one or more associated, result-oriented performance indicator(s).

The annual performance planning process, which determines how performance for each objective will be measured and which sets specific levels of performance to be achieved (targets) for each objective, is described in the plan. The plan also describes postal performance measurement systems and how performance data is reviewed.

The plan summarizes the strategies that will be used to achieve the targets and refers the reader to other relevant postal documents for a more complete description of those strategies and recent performance results. The performance plan also describes the sources of funds and the resources that are expected to be available in the coming year, and summarizes the expected costs of major programs.

The following tables describe the FY2003 indicators and targets for each of the major service-wide objectives of the Postal Service in support of the long-term goals:

FY2003 Performance Goals, Objectives, Indicators, and Targets (Nationwide)		
Voice of the Customer (VOC) Goal: Grow Revenue Base to Maintain Universal Service		
OBJECTIVE	INDICATOR(S)	FY2003 TARGET
Service Performance: Timeliness and Consistency	Priority Mail® On Time (PETE) (Originating and Destinating Composite) Surface Network Within 2 Days	94% (PQ 1, 3 & 4)
	Priority Mail On Time (PETE) (Originating and Destinating Composite) Air Network Within 2 Days	86% (PQ 3 & 4)
	Express Mail® On Time (PTS) (Originating and Destinating Composite) Next Day	94% (PQ1, 3 & 4)
	First-Class Mail® On Time (EXFC) (Originating and Destinating Composite) Overnight	93% (PQ 1-4)
	First-Class Mail On Time (EXFC) (Originating and Destinating Composite) 2 Day	87% (PQ 1, 3, & 4)
	First-Class Mail On Time (EXFC) (Originating and Destinating Composite) 3 Day	87% (PQ 3 & 4)

Note: See Appendix 2 for detailed descriptions of the measurement systems (PETE, PTS, EXFC).
The Air and Surface Networks consist of those originating and destinating pairs that defined the Air and Surface Networks for FY2002.

FY2003 Performance Goals, Objectives, Indicators, and Targets (Nationwide) continued
Voice of the Employee (VOE) Goal: Develop Motivated and Productive Workforce

OBJECTIVE	INDICATOR(S)	FY2003 TARGET
Minimize Impact from Accidents and Absences	OSHA Illness/Injury Rate	Better or Equal to SPLY
Employees Committed to USPS Success	VOE Survey	Better than End of Year 2002

Note: See Appendix 2 for detailed descriptions of the measurement systems. The Occupational Safety and Health Administration (OSHA) target will be set at the same period last year (SPLY) nationally and for the Areas. The Areas will set targets for the performance clusters based on opportunities that will roll up to the SPLY target for the Area. Data for AP 1, FY2002 will be revisited.

Voice of the Business (VOB) Goal: Provide Affordable Service

OBJECTIVE	INDICATOR(S)	FY2003 TARGET
Improve Productivity, Control Costs, Improve Contribution Levels, and Grow the Business	National Total Revenue	Better or Equal to Plan
	Total Factor Productivity	Better or Equal to Plan

Note: See Appendix 2 for detailed descriptions of the measurement systems

Performance targets and measurement systems will be used throughout the Postal Service. The National Performance Assessment program will link individual merit performance reviews with unit or functional and national objectives. The program will emphasize objective, measurable results.

Validity and Verification of Postal Performance Indicators and Data

Wherever possible, the Postal Service uses independent evaluations to measure postal performance. Key examples are the External First-Class Measurement System (EXFC), the Customer Satisfaction Measurement System, the Voice of the Employee Survey, and the Total Factor Productivity analyses, which are operated by firms under contract to the Postal Service.

Postal management processes, control systems, and data are reviewed by the Board of Governors and their committees, through Congressional oversight, Postal Rate Commission proceedings, audits by the Office of the Inspector General and the General Accounting Office, and by independent financial auditors retained by the Board of Governors. Independent groups conduct comparative and special studies that compare postal performance to other government agencies or private sector services.

Finally, postal performance is tested daily by every citizen and business that sends and receives mail or visits a post office.

Postal Service Strategies and Transformation Initiatives

The Postal Service has developed specific strategies to achieve the GPRA objectives in each of the three strategic areas of emphasis. Long-term strategies have been described in the U. S. Postal Service *Five-Year Strategic Plan, FY2001–2005*. These strategies rely primarily on continuous improvement programs described in the *FY2002 Comprehensive Statement on Postal Operations* and the Management Discussion and Analysis section of the *FY2001 Annual Report*. Additionally, the Postal Service is implementing near-term initiatives described in the *Postal Service Transformation Plan*. These lay the foundation for future improvements that go beyond incremental change but do not depend upon significant legislative or regulatory reform.

Sources of Postal Funds and Expected Revenue Requirements

The Postal Service plans performance improvements and expects revenue from mail volume sufficient to breakeven over the FY2003 period. The major risks that jeopardize success are sharp declines in mail volume, prolonged economic weakness, and further unexpected expenses in responding to terrorist threats to the mail system.

Conclusion

The Postal Service will continue to fulfill its statutory mission of providing timely, reliable delivery services at reasonable rates to everyone in the nation, and will continue to provide retail access in communities throughout the country despite the environmental changes and financial challenges facing the Postal Service in FY2003. The Postal Service has achieved and will maintain high levels of performance in some categories of mail, and will incrementally improve other categories while focusing on cost reduction and productivity improvements. The Postal Service is implementing initiatives to restore break-even performance.

II. Introduction

This section defines the mission of the Postal Service, its strategic vision, and the fundamental challenge of postal policy. It describes how the Postal Service is meeting the requirements of the Government Performance and Results Act of 1993 and the relationship of the *FY2003 Annual Performance Plan* to other relevant postal performance related documents.

The Mission of the Postal Service

The basic requirements of the Postal Service are described in the Postal Reorganization Act (PRA) of 1970.⁶

“The Postal Service shall have as its basic function the obligation to provide postal services to bind the nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities.”

This mandate has resulted in the development and maintenance of a postal operating network designed to provide universal service. The Postal Service provides daily delivery to every address in the nation and convenient access to the postal network through post offices located in communities throughout the nation.

Strategic Vision (Five-Year Strategic Plan, FY2001-2005)

The need to provide universal service in a dynamic, competitive environment requires a strategic vision that embraces change. The vision outlined in the *Five-Year Strategic Plan, FY2001-2005* is that the Postal Service must become much more flexible, innovative, and responsive to customer needs, while dramatically improving its efficiency.

The Fundamental Challenge of Postal Policy

The people and the government of the United States, as a matter of fundamental public policy, have always required a government-sponsored organization to provide universal retail access and delivery services at uniform letter rates throughout the nation. Rates for First-Class Mail are uniform, but costs are not. Many post offices and routes are uneconomic, not only in the less densely populated areas, but also in small towns, suburbs, and cities that do not have the attractive demographics that drive mail volume growth.

Each year the Postal Service has to increase its infrastructure and cope with the associated costs of adding 1 million to 2 million new addresses annually.

⁶ [Title 39, U.S. Code, August 12, 1970, 39 U.S.C. 101(a)]

Accommodating new addresses requires more stops, letter carriers, vehicles, and facilities in response to the growth of the nation. Unlike most other utility networks such as telecommunication, energy, water, and sewer, the Postal Service does not charge a fee for connection. While the mission is a public service, the Postal Service is not supported by public appropriations. Instead, the Postal Service is required to finance that mission by providing businesslike services to customers in competitive markets.

Unless postal revenue growth exceeds expense growth, the Postal Service cannot continue to fund annual increases in universal service and will not be able to invest in future service or productivity improvements. The possible long-term decline in the growth rates of mail volume, due to increasing competition from new technology, and continually rising costs of labor, benefits and retirement programs, threaten the ability of the Postal Service to continue to provide traditional universal services at the affordable, uniform rates Americans have come to expect. Because price increases that exceed the rate of inflation are not acceptable to the Postal Service's customer base, the Postal Service must cut costs fundamentally to slow the rate of increase.

The ongoing public policy challenge is to find the appropriate definition of universal postal service —what services should be offered, how uniform access and delivery services should be, and how these services should be funded. The Postal Service management challenge is to realign costs and services to continue to create value for the American people and the business community.

Evaluating Postal Performance

The Postal Service is a large organization that provides a basic yet highly visible delivery service to every business and household in the nation. Different stakeholders can and do evaluate postal performance in a variety of ways using a number of reasonable criteria. Because the PRA included few specific performance measures or targets, different perspectives on postal performance are inevitable.

The annual performance plan is part of a disciplined process of performance evaluation and incremental improvement to increase the value the Postal Service provides to its customers and the nation. The plan establishes performance standards, based upon extensive consultation with stakeholders on what improvements are important to them, and considering the resources expected to be available to the Postal Service. These criteria, expressed as objectives, indicators, and targets, should provide a foundation for objective evaluation of postal performance.

Government Performance and Results Act (GPRA) Requirements

Congress created a statutory requirement for government agencies to identify, measure, and disclose outcome and performance data for public programs. The purpose of the law is to improve the accountability of agencies for delivering results. The law requires agencies to publish long-range strategic plans, annual performance plans, and annual performance reports.

The *FY2003 Annual Performance Plan* of the U.S. Postal Service meets the requirements of the Government Performance and Results Act of 1993 and subsequent recommendations from the General Accounting Office as outlined in the following chart:

Postal Service Compliance with Government Performance and Results Act Requirements	
GPRA Requirements	How the USPS Complies
Establish Performance Goals	<i>FY2003 Annual Performance Plan</i> , Section IV. Performance Goals, Objectives, Indicators, and Targets
Express Goals in Measurable Form	
Describe How Goals Will Be Achieved	<i>FY2003 Annual Performance Plan</i> , Section V. Postal Strategies and Transformation Initiatives <i>FY2003 Annual Performance Plan</i> , Section VI. Postal Revenue Sources and Expenses <i>FY2001 Comprehensive Statement on Postal Operations</i> , Chapter 2. Postal Operations <i>FY2001 Annual Report</i> , Management Discussion and Analysis See also <i>Postal Service Transformation Plan</i> , April 2002
Develop Performance Indicators and Measure Performance	<i>FY2003 Annual Performance Plan</i> , Section IV. Performance Goals, Objectives, Indicators, and Targets
Provide a Basis for Comparing Actual Performance with Targets	<i>FY2001 Comprehensive Statement on Postal Operations</i> , Chapter 3. Financial Highlights <i>FY2001 Comprehensive Statement on Postal Operations</i> , Chapter 5. Performance Report <i>FY2001 Annual Report</i> , Management Discussion and Analysis
Describe the Means Used to Verify and Validate Performance Measures	<i>FY2003 Annual Performance Plan</i> , Appendix 2. Performance Indicators and Measurement Systems See also <i>Office of the Inspector General Semi-Annual Report to Congress</i>
GAO Recommendations	
Provide Explanations when Goals are Changed	<i>FY2001 Comprehensive Statement on Postal Operations</i> , Chapter 5. Performance Report
Provide Clear Criteria for Measuring Progress	<i>FY2003 Annual Performance Plan</i> , Section IV. Performance Goals, Objectives, Indicators, and Targets
Include Complete Descriptions of Strategies for Achieving Goals	<i>FY2003 Annual Performance Plan</i> , Section V. Postal Strategies and Transformation Initiatives <i>FY2003 Annual Performance Plan</i> , Section VI. Postal Revenue Sources and Expenses <i>FY2001 Comprehensive Statement on Postal Operations</i> , Chapter 2. Postal Operations <i>FY2001 Annual Report</i> , Management Discussion and Analysis See also <i>Postal Service Transformation Plan</i> , April 2002
Update Information to Reflect Known or Anticipated Changes	<i>FY2003 Annual Performance Plan</i> , Section III. Business Environment and Management Challenges <i>FY2001 Annual Report</i> , Management Discussion and Analysis See also <i>U. S. Postal Service Five-Year Strategic Plan, FY2001–2005</i> <i>Outline for Discussion: Concepts for Postal Transformation</i> , 2001 <i>Postal Service Transformation Plan</i> , April 2002
New GPRA Requirements	
Agencies are to include Information Security and Privacy in Annual Performance Plans	<i>FY2003 Annual Performance Plan</i> , Appendix 5. Safety, Security, and Privacy See also <i>Postal Service Emergency Preparedness Plan</i> , 2002

The Relationship of the *FY2003 Annual Performance Plan* to Other Postal Documents

The *FY2003 Annual Performance Plan* results from the intensive planning process of the Postal Service. There are a number of other related documents that together present a complete description of postal initiatives and performance. They include the following:

Five-Year Strategic Plan

The *FY2003 Annual Performance Plan* is based on the strategic goals and objectives described in the *Five-Year Strategic Plan, FY2001–2005*. It reflects changes in the postal environment since the publication of the *Five-Year Strategic Plan* in September 2000. For 2003, these changes result from changes in U.S. economic growth rates and the impact of bioterrorism on postal employees and customers.

The *FY2003 Annual Performance Plan* focuses on the incremental year-to-year programs that support the basic mission of the Postal Service. The five-year plan will be updated again in 2003. The next update will incorporate work-to-date from the *Transformation Plan*.

Comprehensive Statement on Postal Operations

The Postal Reorganization Act of 1970, as amended, requires the Postal Service to file an annual *Comprehensive Statement on Postal Operations*. This document contains descriptions of postal programs and operations.

The *FY2001 Comprehensive Statement* contains a chapter that is the *Annual Performance Report* for the previous year, as required by the Government Performance and Results Act of 1993. The *Comprehensive Statement* also includes a preliminary annual performance plan for the next year, developed at the beginning of the Postal Service's annual planning cycle and focusing primarily on the establishment of annual targets. The *FY2003 Annual Performance Plan* is the final version, and contains an explanation of relevant management challenges, postal strategies, resources, and programs.

The Postal Service Annual Report

The Postal Service Annual Report is a separate detailed assessment of the financial position of the Postal Service.⁷ It is similar to private sector reports, and includes messages from the Board of Governors, the Postmaster General, and the Chief Financial Officer. It contains a management discussion and analysis of the financial performance and outlook for the Postal Service, and a review of operations, capital investment and financing, and a report from the Board's independent certified public accountants. *The Postal Service Annual Report* includes financial statements, balance sheets, statement of operations, changes in net capital, cash flows, and detailed notes to the financial statements as well as key operating statistics and a summary of the recent financial

⁷ The 2001 Annual Report of the United States Postal Service received awards from MerComm, Inc., an independent organization dedicated to defining standards of excellence in the communication field. The ARC awards, now in their 16th year, are recognized by the financial services industry as the standard for annual reports. The Postal Service was awarded gold for text, silver for financial data, and a bronze for the nonprofit category. The 1999 Annual Report received two golds (one of which was for financial data), one silver and a bronze.

history of the Postal Service. The *FY2003 Annual Performance Plan* is aligned with the postal budget. Data from the budget is incorporated in Section VI, Postal Revenue Sources and Expenses.

The Postal Service Transformation Plan

The Five-Year Strategic Plan, 2001–2005 pointed out that the business environment of the Postal Service has changed dramatically since the passage of the Postal Reorganization Act in 1970, and as a result, the ability of the Postal Service to achieve its mission is at risk in the future.

The General Accounting Office placed the current regulatory model of the Postal Service on its “High Risk” list,⁸ and Congress asked the Postal Service to develop a plan to define the requirements and options for change.

The Postal Service published the *Outline for Discussion: Concepts for Postal Transformation* on September 30, 2001, to provide the background for stakeholder response. The purpose of this document is as follows:

- To describe the current state of the Postal Service
- To discuss the drivers for change
- To outline the future market environment
- To list the challenges facing the Postal Service
- To present possible structural changes to deal with the problems
- To review stakeholder preliminary feedback and seek additional feedback
- To raise key policy questions and propose next steps

The Postal Service *Transformation Plan* was submitted to Congress in April 2002. The purpose of the Postal Service *Transformation Plan* is as follows:

- To document the need for transformation
- To describe near-term postal strategies to address current problems
- To describe opportunities for moderate regulatory and legislative reform
- To present options for future structural changes
- To provide detailed background data to support public policy discussion of issues such as universal service, competition, and recent developments with foreign postal administrations

While the *Transformation Plan* addressed the need for legislative and regulatory changes, it also outlined initiatives that the Postal Service could implement without legislative reform. The near-term initiatives will impact FY2003 programs and resources and have been incorporated into the *FY2003 Annual Performance Plan*.

⁸ *Major Management Challenges and Program Risks*, GAO 01-262, General Accounting Office

Emergency Preparedness Plan

Congress provided additional funds to the Postal Service to help pay for the unexpected cost of improving mail security and to reduce the risk for both employees and customers of the Postal Service as a result of the continuing threat of bioterrorism. The Postal Service was required to provide a separate detailed plan describing how the funds are proposed to be spent. The *Emergency Preparedness Plan* was published and presented to Congress in March 2002. The *FY2003 Annual Performance Plan* includes initiatives from that plan that will affect postal activities and resources in 2003.

III. Business Environment and Management Challenges

The purpose of this section is to describe changes in the postal business environment and how these changes affect performance planning. This section focuses primarily on external factors that affect the ability of the Postal Service to achieve its mission and to improve performance.

Competitive Alternatives and Technological Substitutes

Despite intense and detailed analysis, the ultimate effect and timing of technological substitutes on traditional mail volume continue to be uncertain.⁹ Many external predictions still maintain that a fundamental change in business processes and consumer behavior is inevitable. Some analysts have suggested that the risks associated with bioterrorism, combined with recent increases in postal prices, have been the tipping point that will shift customers from mail to electronic services. If so, the Postal Service will require statutory flexibility to reduce the costs of its infrastructure and perhaps to redefine elements of the universal service requirements.

Recent Forecasts for Technological Substitutes for Mail Services

The Tower Group reports that there are 10.4 million small businesses in 2002, and that 8 percent use the Internet to pay their bills.

Financial Insight, a leading source of information about e-transactions, predicts that online account management will grow from 5 percent of 2 billion consumer accounts to about 25 percent of 3 billion accounts over the next ten years. The number of bills viewed online will rocket from 3 percent of 15 billion consumer bills annually to more than 50 percent of 19 billion over the next 10 years.

Gartner Group found that 15 million consumers paid bills online in 2001. They predict that as a result of changed tactics, such as offering the service for free, the number of consumers paying bills online will increase to 26 million this year, and to 46 million by 2005.

Giga Information Group forecasts that digital subscriber and cable modem access growth rates will continue at double digit rates, and predicts that by 2005 there will be 42.5 million subscribers across the country. The improved access and speeds will encourage customers to conduct more business online.

Source: USPS Market Research

These predictions focus primarily on the market for financial transactions services, and suggest that use of First-Class Mail is likely to decline from historical growth rates. First-Class Mail is also at risk because of diversion to facsimile, e-mail, and other Internet communication services. Diversion is particularly prevalent in the business-to-business market. However, a Department of Commerce analysis submitted to Congress suggests that both electronic and traditional paper-based methods are essential to a fully developed economy for the foreseeable future.¹⁰

⁹ See *The Posts: A Decade of Challenge*, 2002 Report of the Future of Global Mail program, Institute for the Future.

¹⁰ *Electronic Signatures in Global and National Commerce Act*, Report to Congress, National Telecommunications and Information Administration, U.S. Department of Commerce, June 2001

The market for package and document delivery is now much more integrated, and traditional growth of expedited air delivery services is slowing as a result of the introduction of less expensive, time-definite ground based services. Growth in postal package volume and revenue is likely to be slow, based not only on the economy but on the initiatives of aggressive competitors, including foreign postal administrations that are now offering alternative services in both selected U.S. domestic markets and in key international markets. Furthermore, the National Transportation Safety Administration has identified package and freight security as a matter of critical national concern, and more scrutiny and controls are likely.

Management Challenge: Competition

Increased competition from integrated domestic and global delivery services and from technological substitutes creates greater uncertainty in planning postal volume and associated workload. Revenues from the traditional core mail delivery businesses, even those protected by the postal monopoly, are at risk, and it is much more difficult to generate revenues from high contribution products to support the infrastructure and to cover the costs of increased delivery service growth.

U.S. Economic Trends

The demand for postal services has traditionally been based on a number of economic factors, including the overall growth rate of the U.S. economy, the level of household income, the rate of business and household formation, the relative cost of postage compared to other costs in the economy, and the availability of alternatives or substitutes for postal services.

Several factors combined to make the recent economic past a less accurate basis for predicting the near future. The economic recession of 2001–2002, the impact of September 11, 2001, on business activity, and the effect of anthrax fears on direct mail volume in the fall quarter of 2001 acted together to reduce revenue.

The unpredictability of the economy can be illustrated by the changes in economic forecasts since the submission of the President's budget request to Congress. The President's budget request for FY2003 was based on forecasts made in January 2002. At that time the Office of Management and Budget was forecasting real gross national product (GNP) to grow at just 0.7 percent for 2002, and at 3.8 percent for 2003. Recent declines in the stock market and consumer confidence are causing most economic forecasters to be very guarded in their predictions.

Management Challenge: Economic Uncertainty

The decrease in mail volume in FY2002 coincided with the decline in expenditures on all forms of advertising, including direct mail. According to industry data, the advertising boom in the U.S. ended in 2001, with total advertising

spending falling 6.5 percent—the worst decline since 1938. The advertising industry also suffered massive losses after September 11, 2001, and was just beginning to show the early signs of recovery in the summer of 2002. The ultimate pace and path of this recovery will affect the ability of the Postal Service to grow revenues from Standard Mail Service. The economic environment remains a source of uncertainty in postal revenue planning.

Customer and Employee Safety, Security, and Privacy

The Postal Service employs 750,000 people and has long had a major emphasis on providing a safe and secure workplace.¹¹

The Postal Service's operating environment has been changed as a result of the need for increased security from the possible entry of hazardous material in the mail. While the mail is a safe, inexpensive, and effective way to communicate, the demand for improved security for the mail by the public, Congress, and employees has changed postal operating procedures and added costs.

The Postal Service will evaluate several technologies during the next two years. Other technologies or processes may be identified during this period which may modify the current plan. However, many of the technologies and processes are unproven or undeveloped, and the nature of the threat continues to evolve. In addition, customers and consumers are becoming more sensitive to issues of privacy and information security related to the mail and other forms of communication.

Management Challenge: Safety, Security and Privacy

The standards for safety and security are likely to change significantly in the next year, especially as the new Transportation Security Administration develops requirements that will affect the identification and handling of packages and other items. Similarly, the nation's standards and regulations on information privacy and security are also evolving, and may require adjustments to key postal policies such as database management and directory services.

Legislative and Regulatory Change

The current statutory and legislative framework restricts the ability of the Postal Service to manage effectively in response to these changes in the business environment. Legislative and regulatory restrictions on the Postal Service were described in the *U.S. Postal Service Five-Year Strategic Plan, FY2001–2005*. These constraints were further detailed in the *Outline for Discussion: Concepts for Postal Transformation* in response to Congressional direction and Government Accounting Office (GAO) analysis.¹² These reports set the stage for legislative and regulatory change outlined in the *Postal Service Transformation Plan*.

¹¹ The Postal Service continues to follow up on the recommendations of the *Commission on a Safe and Secure Workplace*, August 2000, which documented that postal employees were no more likely than those in the national workforce to physically assault, sexually harass, or verbally abuse their coworkers, and, in fact, were less angry, aggressive, and hostile than those in the national workforce.

¹² *Transformation Challenges Present Significant Risks*, GAO-01-598T, General Accounting Office

Management Challenge: The Need for Transformation

The economics of the current communications market are introducing new tradeoffs between “businesslike” financial self-sufficiency and affordability that make it difficult for the Postal Service to still cover the costs of supporting an ever-expanding universal service network. The Postal Service must respond by adjusting networks and services to modern conditions and by minimizing entrenched rules and expectations that carry with them costs and inefficiencies.

The continuing uncertainty in the postal business environment requires a much more innovative, flexible, and dynamic Postal Service. Postmaster General John E. Potter has stated:

“Our operationally-driven culture has to find new ways, under our existing regulatory structure, to add value to our existing products. It also means that this same operationally-driven culture must take on new ways of encouraging revenue growth...to develop the types of breakthrough performance I am convinced we can achieve, we are going to have to continue the business-like methods of the last ten years...we are going to have to take on internal and external issues where we previously said ‘Oh, we can’t do that.’”

Postal transformation has already begun with the implementation of the “Breakthrough Productivity Initiatives” outlined in the *USPS Five-Year Strategic Plan, FY2001–2005*. The *FY2003 Annual Performance Plan* includes initiatives from the *Transformation Plan* that will continue to improve postal performance in the future. However, some long-term changes are beyond the control of postal management.

Management Challenge: Legislative and Regulatory Change

The Postal Service has requested legislative and regulatory changes that will provide more flexibility in responding to the dynamic business environment. However, the ultimate results of the legislative process over the next year are uncertain.

The call for increased financial transparency for all institutions in society as a result of widespread private sector abuses suggest that the Postal Service may be affected by changes in generally accepted accounting principles and reporting requirements.

The *FY2003 Annual Performance Plan* focuses entirely on changes that can be made that are primarily under the control of postal management within the current regulatory and statutory framework. The *Transformation Plan* outlines the following two additional types of potential improvement initiatives:

- Those that require some relatively minor modification in the legislation or regulatory process.

- Those that require more extensive changes in legislation and would take a longer time to implement.

The following are some of the statutory or regulatory changes that appear to offer the best opportunity to achieve national postal policy goals in increasingly competitive markets:

Net Income and Retained Earnings: The current requirement to breakeven should be replaced. The production of net income and accumulated retained earnings are necessary to finance the infrastructure and the expanding delivery network, to decrease debt, and to fund investments in technology to support service improvement and cost reductions, and to provide an improved measure of financial performance.

Market Flexibility: The Postal Service must develop products and services with features and prices that are appropriate for a wide variety of customers in dynamic competitive markets. Increased flexibility in the product development and pricing process is necessary in order to provide innovation and responsiveness appropriate to a more competitive environment.

Purchasing: The current traditional purchasing process places a premium on accountability and oversight without balancing the need for flexibility, innovation, and speed. In order to be more effective without sacrificing accountability and oversight, more streamlined private sector supply chain management tools and processes must be adopted to provide a better balance.

Labor and Employment: Postal employees, from management to craft, need the incentives, tools, and processes that would support a more performance-oriented culture. Redundant and costly processes for workers' compensation, equal opportunity, dispute resolution and bargaining need to be aligned with best practices in the private sector.

The Postal Service Financial Challenge

The General Accounting Office has focused on a number of other critical challenges facing the Postal Service's ability to manage its finances. Many of these challenges are the result of basic tensions in the Postal Reorganization Act and changes in the postal business environment since the enactment of the Act. Additionally, the special circumstances resulting from the September 11, 2001, terrorist attacks, the anthrax service disruptions, and the U.S. economic recession make the near-term financial outlook even more uncertain.

Management Challenge: Borrowing Limitations

After reducing its total debt outstanding for several consecutive years, since 1997 the Postal Service outstanding debt has increased. Under current law, the Postal Service may increase net outstanding debt by up to \$3 billion annually. Of that amount, a maximum of \$2 billion may be used for capital investments

and \$1 billion may be used to defray operating expenses. The original total limit, established by the Postal Reorganization Act of 1970, was \$10 billion. That limit was increased to \$12.5 billion in 1991; the current limit of \$15 billion was established in 1992.

The Postal Service can affect debt-reduction, a long-term objective, only when cash flows from operating activities exceed capital expenditures, assuming no reduction of cash on hand. Assuming modest economic recovery in FY2003, and cash flows exceeding expenditures, postal management anticipates reducing outstanding debt and does not intend to request an increase in the statutory debt limit. The Postal Service must follow a rigorous plan for debt reduction and borrow in the future only to support projects that improve operating results.

Management Challenge: Capital Investment Restrictions

Cash flow from operations has typically been the source of capital investment funds for the Postal Service. Over the last several years, cash flow from operations has been insufficient to fund capital investments, resulting in increases in postal debt. One of the consequences of approaching the debt limit is a reduction in Postal Service capital investments. Therefore, the ability to fund infrastructure requirements, such as facilities and vehicles, and to invest in equipment that will allow for future productivity or service improvements will be reduced.

Management Challenge: Workers' Compensation

The Postal Service, as one of the largest agencies in government and also one of the few with a workforce engaged in production and delivery work, generates a substantial amount of the claims under the Office of Workers' Compensation Program. Even though claims are decreasing, the rapidly increasing cost of health care poses a challenge for labor-intensive organizations such as the Postal Service. Most recently, the Postal Service has been focusing on ways to reduce the costs of the workers' compensation system.

Management Challenge: Pension Liabilities

The problem of funding liabilities for pensions and related costs is a national and government-wide problem. The Postal Service's obligations for retirement and annuitant health costs are a major management challenge for the Postal Service for the foreseeable future.

Conclusion

The Postal Service faces a number of very serious management challenges in the years ahead. Not all of them are unique to the Postal Service, and several cannot be addressed by postal management alone. Others are long-term issues that will require structural change. Most of these issues are not addressed in the *FY2003 Annual Performance Plan*. The plan focuses on those issues that management and postal employees can influence in the coming year as they provide timely, reliable services to the American people, improve the postal workplace, and improve productivity.

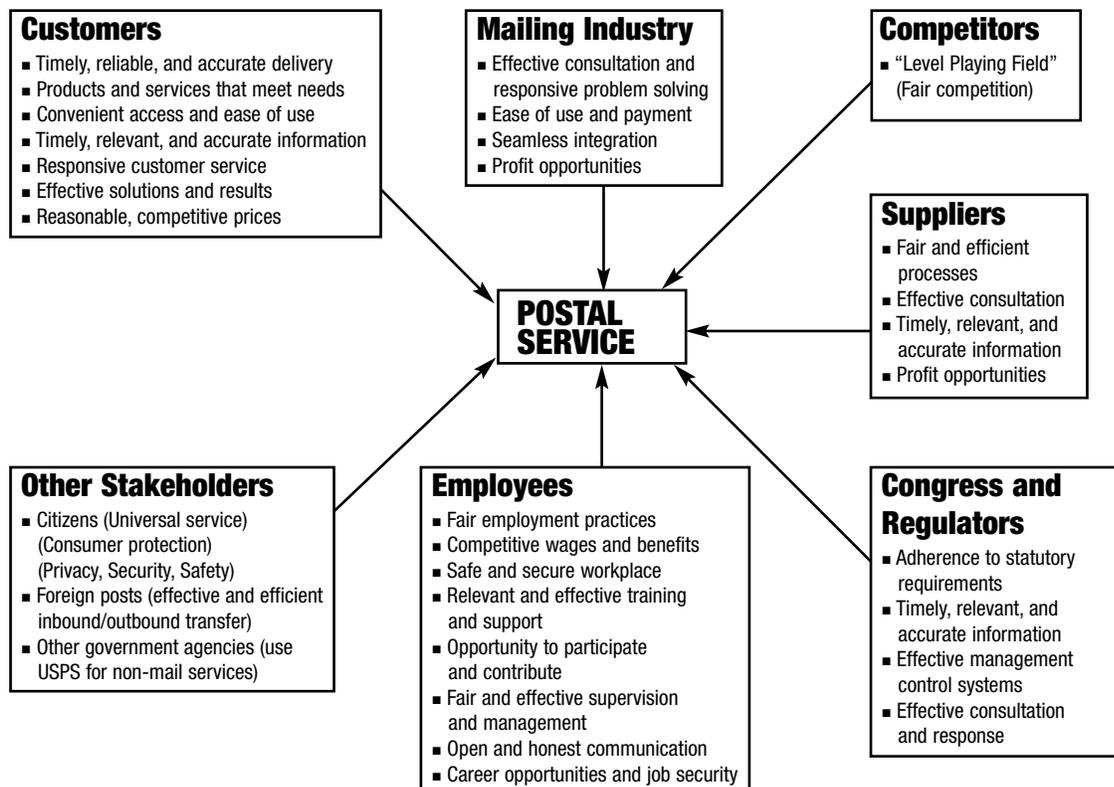
IV. FY2003 Performance Goals, Objectives, Indicators, and Targets

The purpose of this section is to describe how the Postal Service develops balanced overall performance targets based on stakeholder requirements and to outline the FY2003 targets. Changes from the previous year are described, and recent performance trends are provided as a basis for comparison. Finally, the performance assessment process, which integrates nationwide objectives, operational unit or functional department goals, and individual merits, is described.

Stakeholder Outreach Programs: How Requirements are Determined

Postal Service goals, objectives, indicators, targets, and associated measurement systems and programs are developed in a process that depends upon participation by postal stakeholders. Postal management attempts to balance the competing demands by effectively addressing the key requirements of each stakeholder.

Mapping Postal Service Stakeholder Requirements



It should be noted that the process is significantly more complex than represented by the summary described above. Each stakeholder represents a high-level aggregation of different groups. For example, customer requirements may vary depending on the intensity of their use of the mail (major mailers, large and small business mailers, and consumers) or whether customers are viewed as senders or recipients. Customers may be further segmented according to the use of different postal services (e.g., First-Class Mail, Periodicals, Standard Mail, and Package Services). Customers can also be further segmented by geography (urban, suburban, and rural). Each of these levels of detail adds further dimensions and complexity to customer requirements.

The Postal Service devotes a significant amount of resources to determine the requirements of each stakeholder group, to work out reasonable compromises among the various groups, and to assess the effectiveness of postal programs.

The methods employed include surveys; focus groups; market research studies; media analysis; customer, employee, and public meetings; working groups; industry task forces; oversight hearings; and participation in public policy conferences.

The Postal Service Management Process: How Decisions Are Made

The management process currently in use was developed as a result of a detailed assessment based on the criteria established for the Malcolm Baldrige National Quality Award in 1998. At the strategic level, programs and policies are reviewed by the Executive Committee and the Board of Governors.

Management Annual Planning Cycle													
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	
Establish	Set preliminary targets for next year							Set final targets for next year					
Deploy					Negotiate requirements (develop budgets) for next year with functional units								
Implement	Implement and manage current year's programs and budgets												
Review	Assess prior year's performance: Monitor current performance and adjust programs, budgets, and where necessary, targets												
GPRA and related documents	Business environment assessment for the next year (economic and workload forecasts, market projections, competitive analysis, etc.)	<i>Annual Report</i> for the previous year (includes audited financial statements and other relevant financial data)			<i>Comprehensive Statement on Postal Operations</i> for the previous year (includes the <i>Annual Performance Report</i> and the <i>Preliminary Annual Performance Plan</i>)				<i>Annual Performance Plan</i> for next year (aligned with Integrated Financial Plan)				

Postal goals, objectives, indicators, and targets are developed in an annual planning cycle that incorporates the development of future requirements, the implementation of current programs and budgets, and the review of recent performance.

In FY2001 Postal Service management paid particular attention to improving the deploy phase, which involved detailed discussions between headquarters and field operating units. In FY2002 management worked on improving the process of performance accountability for FY2003. In addition to the overall corporate performance measures, there will be more emphasis on unit or functional measures that contribute to achievement of organization-wide performance objectives, and increased emphasis on specific individual contributions.

FY2003 Performance Goals, Objectives, Indicators, and Targets

Resource scarcity and inherent conflicts among goals require organizations to make trade-offs and to develop priorities. There is a need to limit the number of organizational goals in order to provide clarity and focus. The following charts represent the system-wide performance objectives, indicators, and targets for FY2003:

FY2003 Performance Goals, Objectives, Indicators, and Targets (Nationwide)

Voice of the Customer (VOC) Goal: Grow Revenue Base to Maintain Universal Service

OBJECTIVE	INDICATOR	FY2003 TARGET
Service Performance:	Priority Mail On Time (PETE) (Originating and Destinating Composite) Surface Network Within 2 Days	94% (PQ 1, 3 & 4)
	Timeliness and Consistency	Priority Mail On Time (PETE) (Originating and Destinating Composite) Air Network Within 2 Days
	Express Mail On Time (PTS) (Originating and Destinating Composite) Next Day	94% (PQ 1, 3 & 4)
	First-Class Mail On Time (EXFC) (Originating and Destinating Composite) Overnight	93% (PQ 1 – 4)
	First-Class Mail On Time (EXFC) (Originating and Destinating Composite) 2 Day	87% (PQ 1, 3 & 4)
	First-Class Mail On Time (EXFC) (Originating and Destinating Composite) 3 Day	87% (PQ 3 & 4)

Source: VOC co-owners: Chief Operating Officer/Executive Vice President, and Senior Vice President/Chief Marketing Officer

Note: Most service performance targets exclude Quarter 2, when weather disruptions are unpredictable and when commercial airlines restrict cargo during peak travel periods. For FY2003, Quarter 1 baseline for Priority Mail was not available due to the implementation of the Federal Express program.

Note: See Appendix 2 for detailed descriptions of indicators (PETE, PTS, EXFC).

Note: The Air and Surface Networks consist of those same originating and destinating pairs that defined the Air and Surface Network for FY2002.

Voice of the Employee (VOE) Goal: Develop Motivated and Productive Work Force

OBJECTIVE	INDICATOR	FY2003 TARGET
Minimize Impact from Accidents and Illnesses	OSHA Illness/Injury Rate	Better or Equal to SPLY
Employees Committed to USPS Success	VOE Survey	Better than end of year 2002

Source: VOE co-owners: Chief Operating Officer/Executive Vice President, and Senior Vice President, Human Resources

Note: The Occupational Safety and Health Administration (OSHA) target will be set at the same period last year (SPLY) nationally and for the Areas. The Areas will set targets for the performance clusters based on opportunities that will roll up to the SPLY target for the Area. Data for AP1, FY2002 will be revisited.

Note: See Appendix 2 for detailed descriptions of indicators (OSHA Illness/Injury Rate, VOE Survey).

Note: When final FY2002 performance results are available, specific targets will be supplied.

Voice of the Business (VOB) Goal: Provide Affordable Service

OBJECTIVE	INDICATOR	FY2003 TARGET
Improve Productivity to Control Costs, Improve Contribution Levels, and Grow the Business	National Total Revenue	Better or Equal to Plan
	Total Factor Productivity (TFP)	Better or Equal to Plan

Source: VOB co-owners: Chief Financial Officer/Executive Vice President, and Chief Operating Officer/Executive Vice President,

Note: See Appendix 2 for detailed descriptions of indicators (National Total Revenue, Total Factor Productivity).

Changes in FY2003 Goals, Objectives, Indicators, and Targets Compared to FY2002

Whenever possible, management has attempted to maintain year-to-year consistency for goals, objectives, and indicators. However, priorities change over time in response to changes in customer demand, the environment, and organizational capability. Changes may also be made to provide additional detail and help drive organizational performance.

Voice of the Customer

- In FY2002 Priority Mail service performance was reported as a composite score; in FY2003 service performance will be reported separately by transportation mode (air and surface) to provide more detail. Quarter I service performance was added to the surface category.
- In FY2002 two- and three-day First-Class Mail service performance was reported as a composite score; in FY2003, two- and three-day performance will be reported separately to provide more detail. Quarter I service performance was added.

Voice of the Employee

- In FY2002 the Occupational Safety and Health Administration (OSHA) Illness/Injury (I/I) target rate was a reduction of 2 percent allocated to the areas by opportunity for improvement. In FY2003 the I/I rate is equal to or better than the same period last year (SPLY).
- In FY2002 the Voice of the Employee Survey target was equal to or better than the previous year. In FY2003 the target is better than the SPLY.

Voice of the Business

- National revenue has been added as an indicator.
- The total factor productivity (TFP) is expected to equal or improve over last year (positive productivity).
- Area and performance cluster productivity indicators have been removed from the nationwide objectives. They will continue to be used at the local level.

Recent Performance Trends

Recent performance data are provided in the *FY2001 Annual Performance Report*.¹³ Overall, the Postal Service has made significant progress in developing reliable, verifiable performance measurement systems that provide valid, reliable data.¹⁴ Performance trends on key measured objectives, such as overnight First-Class Mail service, safety, and productivity have generally been positive.

Voice of the Customer

Overnight First-Class Mail service performance is stable and has reached record levels. Other service categories (two- and three-day) are more dependent upon purchased transportation services. Service from scheduled airlines has been erratic, and the Postal Service has taken action to improve the reliability and consistency of transportation services. The Postal Service is achieving record levels of overall customer satisfaction.

¹³ See Chapter 5: *FY2001 Annual Performance Report*, in *FY2001 Comprehensive Statement on Postal Operations*

¹⁴ See Appendix 2: Performance Indicators and Measurement Systems

Voice of the Employee

The Postal Service has improved its safety performance over the last several years. However, the indicators used have changed as the organization switched from internal measures to meet the requirements of OSHA. The Postal Service compares well to other industrial government agencies and to its private sector counterparts in the delivery services sector.

The Postal Service has also made significant progress in improving the workplace environment and communications with employees.

Voice of the Business

Because the Postal Service is not a private sector business, many of the traditional measures of financial performance do not apply. For example, the Postal Service is designed to breakeven, so profit is not a relevant indicator.

The most relevant overall indicator has been total factor productivity, and in recent years the Postal Service has achieved record productivity performance.

Other Performance Measures

Over the last several years, the Postal Service has used several other indicators to measure performance. Many of these, such as Customer Satisfaction Measurement, Employee Training Hours, and Affirmative Action, are still in use at the functional unit and individual levels.¹⁵

National Performance Assessment

The Postal Service is revising its merit goals, indicators, and targets in FY2003 to provide focus and support better prioritization of resources. This process differs from previous years and is expected to result in more relevant unit and individual goals aligned with organizational strategic goals, and more effective accountability for specific results.

The Postal Service will focus initially on creating relevant scorecards for individual field operations and managers that link directly to the achievement of strategic organizational goals.¹⁶ However, headquarters and support functions will also be required to develop *line of sight* contributions to these goals, and will be linked to the success of field operating units.

Indicators will be based on reliable and relevant quantitative data from existing systems. Performance will be measured in terms of results (e.g., service performance and cost reduction) rather than processes or activities.

The new performance assessment system will be implemented in phases. In 2002 operations executives were evaluated under this system. In 2003 headquarters and field support executives will be under the system. By 2004 the system will be in place for all EAS employees pending consultation with the management associations.

¹⁵ For example, see *USPS Affirmative Action Plan and Quarterly Affirmative Action Reports*

¹⁶ For example, see *USPS Transformation Plan*, Appendix O, page 14

V. Postal Service Strategies and Transformation Initiatives

This section focuses on strategies and initiatives to achieve FY2003 targets. These basic postal strategies and programs will build on the successes of the recent past and are described in the *Comprehensive Statement on Postal Operations*. Additionally, strategies and programs developed in the *Transformation Plan* also begin to lay the foundation for future improvements and more significant changes. The Postal Service has created a cross-functional team within the Office of Strategic Planning to track the progress of transformation initiatives and to provide status reports to the Executive Committee.

Voice of the Customer Goal: Grow the Revenue Base to Maintain Universal Service

The basic strategy for growing the core mail business is to improve the value customers receive from the Postal Service. This includes improved service performance, product enhancements, new services, more relevant pricing, and improved customer service.

Voice of the Customer Transformation Initiatives

For the last several years management has been developing and implementing programs that focus on improving the experience that customers have with postal products, services, and people. Transformation initiatives extend this approach to provide ways to interact with the Postal Service which provide customers with more flexibility, convenience, and services that are more responsive to their needs. Technological enhancements to postal services and operating systems will make mail and mailing systems easier for business customers to use and will facilitate the development of new applications. The mailing industry has made extensive investments in the development of these improvements.

Voice of the Employee Goal: Develop a Motivated and Productive Workforce

The Postal Service will remain a labor-intensive organization for the foreseeable future, and success will depend on improving the postal culture to create a more highly skilled, motivated, and productive workforce.

The basic strategies have been and will continue to be to provide a safe, fair, and inclusive work-place for motivated employees who have been given the tools, training, and support to do their jobs effectively and efficiently.

Human Capital Transformation Initiatives

The Postal Service, like many government agencies and private sector organizations, is facing a major potential problem as many current experienced management, specialists, and skilled employees reach retirement age. For FY2003 the Postal Service is adding an increased emphasis on retention and recruitment of quality employees in critical positions.

At the same time the Postal Service is building upon recently improved safety performance and improved communications with postal unions to implement a major program to address one of the major problems in labor-management relations, i.e., contract interpretation and application.

Voice of the Business Goal: Provide Affordable Service

The primary focus of existing postal operations is to provide reliable, timely, and accurate delivery as efficiently as possible while maintaining universal service.

The basic strategy for the last several years has been to create and sustain breakthrough productivity improvements in postal operations while reducing administrative and overhead costs. Transformation programs, some already under way, are designed to improve service performance and productivity.

Operations Transformation Initiatives

The strategy is to extend breakthrough productivity improvements from automation and management information systems beyond letter mail processing to other categories of mail and to other operations. The Postal Service is also developing initiatives that will build upon current programs to create an information-rich mailstream that, combined with industry-created intelligent documents, uses modern technology to substantially increase the effectiveness and value of mail and the mailing system.¹⁷

At the same time the Postal Service must examine its infrastructure needs, adjust to current realities and projected requirements, and reduce unnecessary costs. An extensive modeling and in-depth analysis of the operating network is being undertaken as a key step for the future.

Support Services Transformation Initiatives

The Postal Service is developing a wide variety of technology-enabled solutions for problems related to data availability, cost reduction, security and privacy, and supply chain management. The careful application of technology in a shared services environment will help reduce administrative overhead and improve the effectiveness of key support processes.

¹⁷ See the *2001 Report of the Mailing Industry Task Force* and subsequent updates for further information.

VI. Postal Service Revenue Sources and Expenses

This section describes the sources of revenue that enable the Postal Service to fund its operations and how these resources are allocated to major program expenses. These programs are focused on supporting the universal service infrastructure and providing service to meet the needs of the American people for timely, reliable delivery.

Revenue

The Postal Service is funded from revenue derived from the sale of services to customers. The major source of increased revenue provided for by the Postal Reorganization Act (PRA) of 1970 is a rate increase.

Rate increases historically take at least a year from the time the request is filed with the Postal Rate Commission. However, the change that occurred on June 30, 2002, came through an unprecedented settlement between the Postal Service and the mailing industry that allowed the Postal Rate Commission to expedite the case. The settlement agreement provided for an overall increase in postage of 7.7 percent.

Even with the increase in rates, including approximately \$1 billion from early implementation, the Postal Service expects to complete the current year with a net loss of \$1.3 billion. Through aggressive cost reduction and productivity improvement efforts, the Postal Service expects to maintain the new rates until at least calendar year 2004.

FY2003 REVENUE PROJECTIONS, BY SOURCE*				
REVENUE SOURCE	FY2001 ACTUAL (\$ billion)	FY2002 ESTIMATED (\$ billion)	FY2003 PROJECTED (\$ billion)	
First-Class Mail	35.9	36.3	38.2	
Priority Mail	4.9	4.8	4.9	
Express Mail	1.0	0.9	0.9	
Periodicals Mail	2.2	2.2	2.3	
Standard Mail	15.7	15.9	17.4	
Package Services	2.0	2.1	2.1	
International	1.7	1.6	1.5	
Special Services	2.3	2.6	2.8	
Other	0.1	0.1	0.1	
TOTAL	65.8	66.4	70.3	

*Numbers may not add due to rounding.
Source: Postal Service Finance Department

Another major source of increased revenue is mail volume growth. Mail volume growth is highly related to the growth of the U.S. economy and is influenced by the actions of the Postal Service and its competitors.

First-Class Mail

First-Class Mail volume is not expected to grow during the next year, but revenue will increase as a result of the impact of the rate increases that went into effect on June 30, 2002. The ongoing diversion of First-Class Mail to technological substitutes, including electronic bill presentment and payment, e-mail, and facsimile may amount to 4 billion fewer mailpieces in FY2003. Also, in the Financial Services segment, consumers appear to be reaching saturation levels with declining responses to credit card offers and mounting consumer debt.

Priority Mail, Express Mail, and Parcel Post®

The mail order market is not likely to grow significantly during the next year, and competition from alternative package delivery firms will be intense. Priority Mail service still provides a good value for low volume customers in the light weight category, but increases in postal package volume are expected to be small.

Publications

The market for periodicals has been gradually declining for several years, and the trend of declining subscriptions is expected to continue during the next year. The industry is searching for a marketing strategy to replace the sweepstakes program of years past in order to improve subscription rates. There continues to be significant product development work which involves testing new formats with new audiences. No breakthroughs are expected this year. It does appear that advertising pages are beginning to increase, indicating that publication weights may increase and generate additional postal revenue.

Standard Mail

The advertising industry has been affected by dramatic reductions in the expenditures by advertisers over the last two years. Direct mail volume should increase next year. The continued application of new technologies that support one-to-one marketing strategies is expected to help Standard Mail service to hold onto its overall market position as an attractive and effective advertising medium.

International Mail

The international market is extremely competitive, with intense direct competition from global air express firms, deregulated transnational postal administrations, and technological substitutes. Continued uncertainty regarding terrorism, intractable disputes in Kashmir and the Middle East, and

severe economic distress in Argentina and other South American countries are affecting trade adversely. In this climate of uncertainty, many major international U.S. trade partners are not experiencing robust growth, and that will also limit the growth of international mail. The weakening U.S. dollar will stimulate demand for goods made in the United States and this in turn should spark a certain amount of growth for international mail. However, there is normally a significant lag time before the effects of a currency fluctuation are seen in trade volumes.

Special Services

Several key special services grow as the core businesses of First-Class Mail and Package Services grow. Neither of those businesses is expected to increase significantly, reducing the opportunity to grow revenue from this source. Other special services, such as money orders and post office boxes, face competition in most local markets. The development of new services, such as the CONFIRM® service, may offer opportunities for new growth.

Expenses

The Postal Service remains a labor-intensive organization, and most of its costs are due to employee salaries and benefits. Arbitration awards and settlements with the major postal unions were reached in FY2002.

FY2003 EXPENSE PROJECTIONS as of 9/5/02			
COST CATEGORY	FY2001 ACTUAL (\$ billion)	FY2002 ESTIMATED (\$ billion)	FY2003 PROJECTED (\$ billion)
Personnel	51.4	51.5	53.0
▪ Compensation	38.0	36.9	37.9
▪ Benefits	13.4	14.6	15.1
Non-Personnel	12.2	11.6	11.8
▪ Transportation	5.1	5.2	5.2
▪ Supplies and Services	3.3	2.5	2.5
▪ Building Occupancy	1.6	1.6	1.6
▪ Depreciation / Write-Offs	2.2	2.3	2.5
Interest Expense	1.9	2.0	2.0
▪ Deferred Retirement	1.6	1.6	1.6
▪ Borrowing	0.3	0.4	0.4
Other	2.0	2.6	3.0
TOTAL	67.5	67.7	69.8

Source: FY2003 Integrated Financial Plan, USPS Finance

Personnel (Compensation and Benefits)

Negotiations with postal unions over the past two years have covered a full range of topics involving wages, benefits, and conditions of employment. Employees represented by the largest four postal unions constitute over 90 percent of total bargaining unit employees. The results of these negotiations and settlements will influence the growth of postal expenses in FY2003.

The largest of postal unions is the American Postal Workers Union, AFL-CIO, and it has a three-year collective bargaining agreement. It covers 330,000 employees and is effective through November 20, 2003. The terms of the agreement were determined pursuant to a December 18, 2001 award issued by an interest arbitration panel. These terms provided for three general wage increases of 1.2 percent, effective November 18, 2000; 1.8 percent, effective November 17, 2001; and 1.4 percent, effective November 16, 2002. The award continued the cost-of-living adjustment (COLA) formula except that in lieu of COLA payments for the first year of the agreement, eligible career employees were to receive a one-time lump sum cash payment. In addition, selective one-pay level upgrades were also provided.

With respect to the National Rural Letter Carriers' Association (NRLCA), an interest arbitration award was issued on February 3, 2002, covering approximately 118,000 employees. It provides general wage increases of 1.2 percent, effective November 18, 2000; 1.8 percent, effective November 17, 2001; 1.4 percent, effective November 16, 2002; and 1.2 percent, effective November 15, 2003. If the parties reach a settlement on economic issues, the collective bargaining agreement may be extended for a fifth year. In addition to general wage increases, the award provided for continuation of the current COLA payments except that in lieu of COLA payments for the first year of the agreement, eligible career employees will receive a one-time lump sum cash payment. Also awarded were two pay adjustments which were funded by major productivity changes in rural carrier standards, including revisions to flat and letter mail casing rates as well as changes to the standards for the strapping out of mail and the definition of letter size mail.

Shortly after the issuance of the February 3, 2002, interest arbitration award involving the NRLCA, the Postal Service and the National Postal Mail Handlers Union (NPMHU), AFL-CIO which represents approximately 60,000 mail handlers reached a four-year agreement covering the period from November 21, 2000, through November 20, 2004. The agreement provides general wage increases of 1.3 percent, effective November 18, 2000; 1.9 percent, effective November 17, 2001; 1.5 percent, effective November 16, 2002; and 1.3 percent, effective November 15, 2003. The current COLA formula and payments were continued; however in lieu of any COLA payments during the first year of the agreement eligible employees will receive a one-time lump sum cash payment.

Negotiations with the National Association of Letter Carriers (NALC), AFL-CIO concluded with the parties reaching agreement on the terms of a five-year agreement covering the period from November 21, 2001, through November 20, 2006. This agreement covers approximately 236,000 employees and provides general wage increases of 1.8 percent, effective November 17, 2001; 1.5 percent, effective November 16, 2002; 1.2 percent, effective November 15, 2003; 1.3 percent, effective November 27, 2004; and 1.3 percent, effective November 26, 2005. The current COLA formula and payments were continued except that in lieu of any COLA payments during the first year of the agreement eligible employees will receive a one-time lump sum cash payment. The parties also negotiated a streamlined dispute resolution process that replaces the current grievance arbitration procedure. The new procedure will be more responsive to addressing employee and employer concerns and should improve the overall labor climate.

The agreements with the NPMHU and the NALC were ratified by significant majorities of the memberships of the respective unions.

Transportation

In FY2002 the Postal Service incurred unexpected transportation costs as a result of disruptions in the nation's transportation system following September 11, 2001, and subsequent airline safety requirements affecting package shipments. The Postal Service had to seek emergency transportation replacements for a significant portion of the mailstream. For FY2003 the Postal Service faces uncertainty in long-term fuel prices and may also be affected by disruptions in Amtrak service, but should be able to hold any increases in transportation costs to a minimum.

Supplies and Services

During FY2001 more than \$87 million in cost reductions resulted from improvements in supply chain management initiatives. The target for FY2002 was \$200 million. For FY2003 the Postal Service will seek further reductions.

Building Occupancy

Universal service generates a constant demand for new facilities in new communities across the nation. As noted elsewhere, U.S. household and business formation generates about 1.7 million new deliveries a year, or the equivalent of 3,400 new carrier routes.

At an average of 45 routes per facility, the equivalent of 80 new facilities is required at an average cost of \$5 million each. The resulting annual capital requirement needed to support growth in the network is approximately \$400 million annually. This is in addition to the cost of maintaining or replacing more than 38,000 existing facilities. This is a significant fixed cost that does not increase or decrease when volume or revenue changes.

For FY2003 the Postal Service will ensure that the disposition, by sale or lease, of excess or underutilized real estate assets is improved, and that funds derived from such actions are effectively redeployed to meet operational needs.

Interest Expense

The Postal Service's annual interest expense on its borrowed funds is determined by the interaction of a number of variables, including day-to-day cash flows, changes in interest rates, and debt management strategies. The Postal Service has been very successful in effectively managing its interest expense, employing a mixture of short-term and long-term debt, as well as fixed-rate and floating-rate debt, to lower its interest expense and risk over time.

Capital Investment

One of the key cost categories is the investment in plant, equipment, and information technology designed to improve service and reduce cost in the future. Due to the limited availability of funds in FY2002, the capital investment program was limited, and this situation will extend into FY2003.

However, funds will be made available for projects targeting safety issues for customers and employees, as well as for those capital programs with potential for significant savings or return on investment.

VII. Conclusion

As required by the Government Performance and Results Act (GPRA) of 1993, the *FY2003 Annual Performance Plan* is primarily designed as an external document for Congressional reference and oversight. However, other stakeholders will find it useful as a guide to postal performance goals, objectives, indicators, and short-term targets. They will also find information on sources of Postal Service revenue and expense, and the strategies and initiatives that will be implemented to achieve these targets.

The document is intended to provide an integrated overview of major programs, and as such may also be useful to internal stakeholders who might otherwise not be aware of what other functions are doing and the interdependencies among them. However, it is not intended to serve as a comprehensive and detailed review of all postal programs.¹⁸

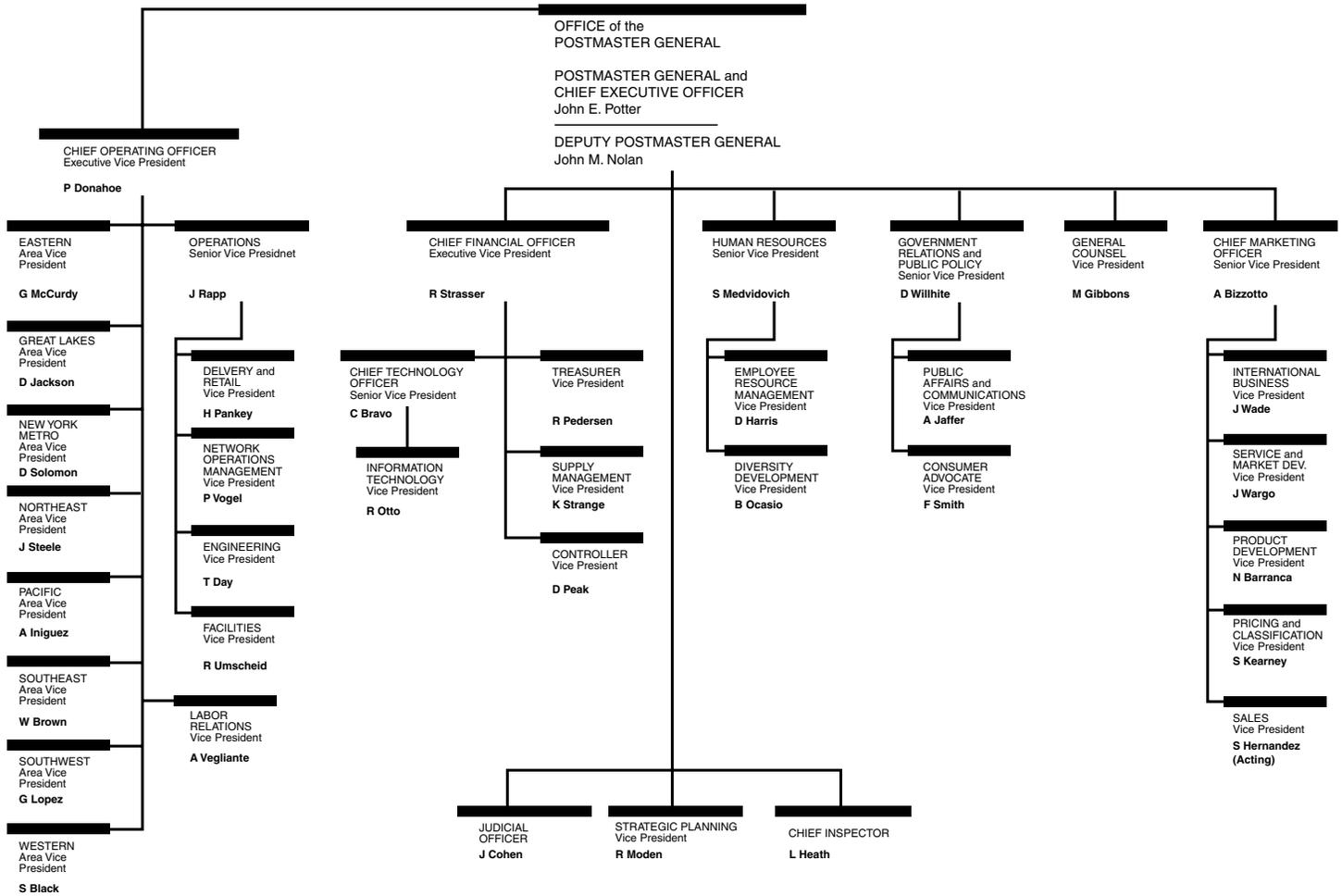
The *FY2003 Annual Performance Plan* must be considered as part of a series of reports intended to describe postal issues and programs, including the *Annual Report* and the *Comprehensive Statement on Postal Operations*, which includes the *Annual Performance Report*. The *Semi-Annual Report of the Office of the Inspector General* is also a useful reference, as are reports from the General Accounting Office. In 2002, the Postal Service also published three special studies that provide considerable information: the *Outline for Discussion: Concepts for Postal Transformation*, the *Emergency Preparedness Plan*, and the *Transformation Plan*.

The annual performance plan establishes specific performance goals, measurement systems and targets, and provides explanations for changes. It describes how the goals will be achieved, and provides a basis for comparing actual performance with targets. The means for verification and validation of performance measures are also described.

The annual performance plan is part of a disciplined management process to make incremental improvements in Postal Service performance and to make adjustments to ensure future performance improvement. The Postal Service will continue to explore improved ways of defining performance goals and measuring performance.

¹⁸ See Appendix 6 for the locations of relevant performance related documents and data on the USPS Website.

Appendix 1: Postal Service Organization Chart



Appendix 2: Performance Indicators and Measurement Systems

This appendix describes the indicators and measurement systems that the Postal Service uses to track performance. The indicators are supported by a variety of measurement systems that have been developed to provide timely, accurate, relevant, and reliable data.

External First-Class Mail Measurement System

First-Class Mail service performance is measured externally by an independent firm under contract to the Postal Service's Office of the Consumer Advocate. The External First-Class (EXFC) Mail measurement system measures First-Class Mail performance from the time mail enters the mailstream until it is delivered to a household, small business, or post office box. The EXFC measurement system continuously tests a panel of 463 ZIP Code areas selected on the basis of geographic and volume density from which 90 percent of First-Class Mail volume originates and to which 80 percent destinate. EXFC is not a systemwide measurement of all First-Class Mail performance. EXFC measures service performance from a customer perspective (matches typical customer experience) and produces accurate, independent, externally generated results.

The official results are presented to the Postal Service ten days after the end of each postal quarter. The USPS's Office of the Consumer Advocate monitors interim results and program information on a daily basis. The contractor conducts special analyses to verify that the information is accurate and fairly represents the actual service provided by our employees to postal customers. Detailed analysis is available online in the Executive Information System (EIS).

Priority Mail End-to-End (PETE) Measurement System

Priority Mail service is measured externally by an independent firm under contract to the Postal Service's Office of the Consumer Advocate. Modeled closely after the EXFC, the Priority Mail End-to-End (PETE) measurement system is an end-to-end service performance measurement system that measures Priority Mail service performance from the time the mail enters the mailstream until it is delivered to a household, small business, or post office box. The PETE system measures service performance from a customer perspective (matches typical customer experience) and produces accurate, independent, externally generated results.

The PETE system is designed to provide quarterly estimates of destinating Priority Mail service performance for the 85 postal performance clusters, encompassing 302 three-digit ZIP Codes, from their overnight and two-day service areas. These networks represent about 70 percent of the destinating identified Priority Mail volume.

The official quarterly results are presented to the Postal Service ten days after the end of each postal quarter. The Office of the Consumer Advocate monitors interim results and program information on a daily basis. The contractor conducts special analyses to verify that the information is accurate and fairly represents the actual service provided by our employees to postal customers. Detailed analysis is available online in the EIS.

Express Mail Product Tracking System

The Postal Service implemented the Product Tracking System (PTS) to provide information-based services and enhancements that make traditional postal products more valuable. Internal users and customers can obtain information about mailpieces from acceptance to delivery. These capabilities have been used to develop internal service measurements for Express Mail services and other mail categories. Suites of diagnostic reports have been developed to highlight areas where greater management attention is required to improve service performance. Information is provided to customers through a variety of channels, including telephone and Web-based systems.

OSHA Injury and Illness Rate

Since the passage of the Postal Employees' Safety Enhancement Act (PESEA) in 1998, the Postal Service has been changing its safety and health programs. The Postal Service began to measure not only accidents and injuries, but also the safety program itself, using the Occupational Safety and Health Administration (OSHA) recommendation for program evaluations contained in their proposed program standard. The Injury and Illness rate is calculated using a formula provided by OSHA: "Total number of injuries and illnesses divided by the number of hours worked by all employees multiplied by 200,000 hours. The 200,000 hours represents the number of hours 100 employees working 40 hours per week would work, and provides the standard base for calculating incidence rates." The Postal Service uses OSHA's record keeping forms and complies with OSHA reporting requirements.

Voice of the Employee Survey

The Voice of the Employee survey is conducted and analyzed by an independent firm under contract to the Postal Service. The survey is administered to one-fourth of all career postal employees every quarter, so that every employee is surveyed once a year. An index score is developed from key survey questions. Data is available at the national, area, and performance cluster level on a quarterly basis. Analysis can be conducted online using the EIS.

Total Factor Productivity

The Total Factor Productivity (TFP) indicator is a measure of efficiency based on measuring changes in the relationship between resources used (input) compared to changes in workload (output). Workload is adjusted by the work content and volume of different mail categories and changes in the number of pos-

sible postal deliveries are incorporated. Input is also adjusted to account for the different categories and costs of labor. This productivity calculation ignores changes in postal rates and resource prices (external factors).

Reports and accompanying analysis are provided to the Postal Service by an independent outside contractor.

National Revenue

Postal operating revenue is derived primarily from the sale of domestic and international mail services, supplemented by special service fees, money order sales, rents from post office boxes, and the sale of stamped envelopes and cards, mail-related supplies, merchandise, and philatelic items.

Financial data is collected by audited postal accounting systems that generate a number of reports such as the Revenue, Piece, and Weight Report.

Appendix 3: Data Verification and Systems Validation

This section describes some of the processes used to verify and validate postal management processes and control systems and the data used to track performance.

Board of Governors

The President of the United States appoints nine Governors to provide direction to postal management and approve postal policies. The Governors select the Postmaster General. The Governors and the Postmaster General select the Deputy Postmaster General. The nine presidentially appointed Governors, plus the Postmaster General and the Deputy Postmaster General, comprise the Board of Governors. The Board of Governors receives regular reports from management and other independent sources and meets monthly to evaluate the performance of the Postal Service and management.

General Accounting Office

The investigative arm of Congress has given a considerable amount of attention to the Postal Service in the last year, with an emphasis on postal finances. The General Accounting Office (GAO) has been calling attention to some of the key policy issues facing the Postal Service and has been an advocate for changing the legislative and regulatory framework.

Office of the Inspector General

Congress created the Office of the Inspector General (OIG) to serve as an independent organization to investigate and evaluate Postal Service processes, programs, operations, and management controls. Because management may not agree with every OIG finding or recommendation, the OIG and the Postal Service have developed a Report Response and Resolution Process to resolve differences of opinion. Disagreements are elevated through successively higher levels of management in an attempt to reach resolution. If agreement is not reached, the Inspector General may elect to submit the disagreement to the Board of Governors for final resolution. The OIG issues a separate performance report to Congress on a semiannual basis.

The Postal Service has established a dedicated unit that is responsible for coordinating the interaction between postal management, the OIG, and the GAO. The unit has developed an automated information system to track progress in implementing corrective actions for each agreed-to recommendation. The unit prepares status reports for senior management, and in order to close out a recommendation or finding, the management official to whom the recommendation was addressed is required to submit documentation to

demonstrate that the corrective action has been implemented. The OIG is supported by funds provided by the Postal Service.

Postal Rate Commission

The Postal Rate Commission is an independent establishment of the executive branch of the federal government, created by the Postal Reorganization Act of 1970 for the primary purpose of reviewing postal rate requests and mail classification changes. The President of the United States appoints the five commissioners and designates the chairman. No more than three may be members of the same political party. Members are confirmed by the U.S. Senate, and serve staggered six-year terms. The Commission manages the extensive rate review process, including public hearings, and issues recommended decisions to the Postal Service Board of Governors. The Commission also acts on appeals of post office closings and complaints concerning postal rates, regulations, fees, mail classifications, or services. The Commission and staff are located in Washington, D.C., and are supported by funds from the U.S. Postal Service.

The Commission reviews postal rate and mail classification issues which are also subject to public hearings. Through these proceedings, the Postal Service has provided extensive data for intensive public review on a variety of issues. Postal witnesses may be cross-examined on the data by interested parties, including mailers and competitors.

Audited Financial Statements

The financial statements of the Postal Service are audited independently each year by the Board of Governors' independent certified public accountants. The audits are conducted in accordance with standards generally accepted in the United States and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that the auditor plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In the opinion of the Board of Governors' independent certified public accountants, management's financial statements have, over the years presented fairly, in all material respects, the financial position of the United States Postal Service, and the results of its operations and its cash flows, in conformity with accounting principles generally accepted in the United States. The Postal Service is in compliance with relevant laws, regulations, and contracts.¹⁹

¹⁹ See FY2001 USPS Annual Report.

Appendix 4: Postal Service Management Structure

Introduction

This appendix provides stakeholders who are not already familiar with the management structure of the Postal Service with an understanding of the basic responsibilities and relationships of the major decision makers and influencers in the development of the Postal Service policy.

The U.S. Postal Service is an independent establishment of the executive branch of the federal government, which functions pursuant to the Constitution and laws of the United States. Until 1970 it was a cabinet department of the executive branch. The Postal Reorganization Act of 1970 changed that status and set up the current statutory framework. The Postal Service is expected to be “self-sufficient,” earning revenue to support its universal service mission from the sale of postal services to customers.

Board of Governors

The Postal Service Board of Governors is composed of eleven individuals, nine of whom are appointed by the President of the United States, with the advice and consent of the U.S. Senate. No more than five of the governors may be of any one political party, and the governors serve staggered terms of nine years. In turn, the governors select the Postmaster General, who also serves on the Board of Governors. The ten-member group then selects the Deputy Postmaster General, who also serves on the Board.

The Board of Governors is comparable to the Board of Directors of a publicly held corporation. The Board directs and controls the expenditures of the Postal Service, approves major capital projects, approves the number of officers of the Postal Service and their compensation, joins in the long-term planning, and reviews the policies and performance of the Postal Service. One of the major responsibilities of the nine Governors appointed by the President is to review and approve recommended decisions of the Postal Rate Commission. The Board meets monthly, and is supported by a small secretariat located at Postal Service Headquarters in Washington, D.C.

Executive Committee

The Executive Committee is the senior management decision-making committee of the Postal Service, currently including the following eight officers: the Postmaster General, Deputy Postmaster General, Vice President and General Counsel, Senior Vice President for Human Resources, Chief Financial Officer and Executive Vice President, Senior Vice President for Government Relations and Public Policy, Chief Marketing Officer and Senior Vice President, and Chief Operating Officer and Executive Vice President.

This group is responsible for setting long-term policies, approving major programs, and reviewing performance.

Establish and Deploy Committees

The Postal Service has developed a management planning process built around the principles of the Malcolm Baldrige National Quality program. The Establish Committee, chaired on a rotating basis by a member of the Executive Committee, reviews the previous year's performance and the changes in the business environment, and establishes the targets for next year. The Committee includes senior management owners for each of the Voices: the Voice of the Customer is owned by the Chief Marketing Officer, the Voice of the Employee is owned by the Senior Vice President for Human Resources, and the Voice of the Business is owned by the Executive Vice President and the Chief Financial Officer. Each voice owner is expected to provide data to justify changes in goals, measures, and targets.

During the Deploy process, recommended goals, measures, and targets are reviewed and discussed with those operating units that will have to implement them. This is an iterative process that usually results in changes, based on organizational capacities and available resources. The Committee is co-chaired by a headquarters officer and an Area Vice President.

The goals, measures, and targets agreed upon are then implemented and performance is reviewed throughout the year by the Executive Committee. During the year functional concerns are addressed in separate meetings and in quarterly Business Review Committee meetings.

Capital Investment Committee

The Capital Investment Committee (CIC) establishes Postal Service investment direction and procedures, ensures compliance with Decision Analysis Report (DAR) procedures, establishes resource allocation priorities, and approves and monitors key programs. The CIC is chaired by the Chief Financial Officer. Voting members are the Deputy Postmaster General, the General Counsel, the Chief Marketing Officer, the Chief Operating Officer, the Senior Vice President for Human Resources, and the Chief Technology Officer. Non-voting members are the Vice Presidents for Engineering, Finance/Controller, Supply Management, and Facilities.

The CIC meets at least monthly. Its specific responsibilities are (1) develop and recommend to the Postmaster General a capital investment strategy, (2) recommend to the Postmaster General a Five-Year Capital Investment Plan for presentation to, and approval by, the Board of Governors, (3) review and approve all major investment plans, programs, and projects over \$7.5 million, and (4) establish criteria and requirements for capital investments, including their approval, implementation, control, and review.

Headquarters Functional Departments

Headquarters functional departments focus on the development and improvement of plans, policies, and programs that are designed to accomplish the mission and achieve the goals and targets of the Postal Service. There are currently 29 functional departments.

Operational Units

Area Offices

Eight area offices, each led by an Area Vice President and one Major Metro Operation led by a Manager, Metro Operations, provide direction and administrative support for the subordinate districts, mail processing centers, and post offices within their geographic areas. Area Vice Presidents represent the operational units under their jurisdiction to headquarters, allocate resources and set local targets, and are responsible for the aggregate performance of units in their area.

Performance Clusters

Within the eight area offices and one Major Metro Operation there are a total of 85 performance clusters (PCs), each composed of a district office responsible for customer service, retail and delivery operations, and the mail processing facilities that handle the mail for their assigned geographic areas. The PCs are led by a District Manager. District Managers are responsible for achieving the service, budget, and human resource targets for their geographic area.

Postal Distribution Facilities

There are about 250 major postal distribution facilities and 21 bulk mail centers. These facilities range in size, but each typically handles at least 500,000 pieces daily and employs hundreds of postal workers. They are the transfer points for mail originating from and destinating to local post offices. Distribution centers often include other off-site facilities, such as annexes and air mail facilities. Plant Managers are responsible for achieving the service, budget, and human resource performance targets within their plants, and have the greatest control over mail processing performance metrics.

Post Offices, Stations, and Branches

Post Offices are the frontline units of the Postal Service, providing retail access, collection, and delivery services for the geographical areas they serve. There are over 38,000 retail units, ranging from very large city post offices with multiple stations and branches and hundreds of letter carriers to very small part-time offices with no delivery services. Postmasters are responsible for service, budget, and human resource targets and have the greatest control over retail and delivery services.

Other

In addition to the line management organizations highlighted here, there are numerous other support offices such as the National Technical Training Center in Norman, Oklahoma; the William F. Bolger Leadership Academy in Potomac, Maryland; mail equipment centers; and data processing centers which perform essential functions for the Postal Service. These are typically considered field support units managed by headquarters.

Postal Career Executives

Most of the leadership and senior staff specialist positions below the officer level in the Headquarters functional departments, area and district offices, and at the larger processing centers and post offices are held by members of the Postal Career Executive Service (PCES), similar to the Senior Executive Service (SES) in the federal government. There are currently about 800 PCES members, including officers.

Postal Inspection Service

The Postal Inspection Service is one of the unique contributions of the Postal Service to the public. Approximately 4,000 postal inspectors, evidence technicians, support staff, and uniformed postal police ensure the safety of postal employees, the postal system, and the public. The Inspection Service investigates and enforces over 200 laws covering crimes that may adversely affect the mail, and provides considerable protection against identity theft and consumer fraud. The Chief Postal Inspector is the head of the Postal Inspection Service and reports directly to the Postmaster General.

Appendix 5: Safety, Security, and Privacy

While there had been a government-wide emphasis on safety, security, and privacy issues which predates September 11, 2001, a particular urgency has developed since then. Agencies have been directed to specifically focus on these issues as part of the performance planning process.

Postal Service Response

The issue of mail safety was addressed in the Postal Service's *Emergency Preparedness Plan*. In addition to the efforts to improve the safety of postal operations, the Postal Inspection Service has been working with industry to develop a voluntary program for commercial mailers to strengthen the safety of their mail operations. The Trusted Mail Provider (TRUMP) initiative is based on a voluntary review of mailer operations in the following five general areas: (1) overall facility, (2) transportation, (3) personnel, (4) internal measures, and (5) mailpiece identification. Compliance with guidelines provided by the Inspection Service will address virtually all of the concerns raised by the Transportation Security Administration for mail from these sources.

Government agencies are expected to protect the privacy of citizens and the security of their information.²⁰ One of the core strengths of the U.S. Postal Service is the tradition of protecting personal information entrusted to it by its customers. The Postal Service has established a Privacy Officer and a Corporate Information Security Office to ensure that the Postal Service complies with federal requirements, as well as commercial best practices. These offices have established cross-functional teams to develop appropriate and effective policies and processes.

The Privacy Office seeks to ensure that the Postal Service stays at the forefront of developing technologies, customer expectations, and best practices of both the private and public sector. For 2003 the Privacy Office goals include additional efforts around the following: (1) policy development, (2) process design, (3) compliance support, (4) internal and external communication, (5) employee training requirements, and (6) customer education.

The privacy policy is posted on the postal Web site at www.usps.com. The policy meets both government standards set by Office of Management and Budget (OMB), and recommendations for commercial sites set by the Federal Trade Commission. It also includes a letter from the Postmaster General reaffirming the Postal Service's commitment to privacy and explaining the new Web tools used on the site. The privacy policy:

- Provides notice of collection policies and practices concerning customer data;
- Offers customers opt-in choice before data is shared; and
- Limits and explains types of automated tracking devices and other Web tools that are used.

²⁰ A GAO report, *U.S. Postal Service: Update on E-Commerce Activities and Privacy Protections*, GAO 02-79, December 21, 2001, stated "the Postal Service has established a focused and aggressive privacy program that exceeds those required by federal law..."

As more fully described in the Postal Service's *Transformation Plan*, the information security strategy aims to protect data entrusted to the Postal Service by contractors, business partners, and customers. The strategy is designed to (1) ensure the ability of core information processes to continue to support the business infrastructure of the Postal Service, even under adverse conditions or threats of disruption, and (2) leverage the vast investments the Postal Service has made in its technologies and information systems to create new value for customers and the public.

Recently updated information security policies that reflect current technology, business needs, current industry practices, and federal mandates have also been published and are available on the Postal Service's Intranet site. The information security strategy includes initiatives to educate and train employees and other stakeholders in security practices.

The Postal Service has instituted several processes for privacy and security, including the following: (1) a privacy/security assessment tool for new business activities, which ensures privacy compliance, designates system sensitivity and criticality, and develops an appropriate security plan, (2) ongoing reviews of *www.usps.com* for authorized automated tracking devices and other tools, and (3) insertion of a comprehensive privacy clause in appropriate contracts.

These policies and programs place the Postal Service on the leading edge of commercial and government organizations in safeguarding the privacy of our customers and in protecting our data systems.

Appendix 6: Postal Service Information References

The U.S. Postal Service has made a significant effort to make timely, relevant, and accurate information available on the Internet to stakeholders. Those interested in accessing this data should start at the Postal Service's Web site at www.usps.com, an award winning site. The page has a number of direct links to the following: (1) current news about the Postal Service, (2) planning documents, (3) financial information, (4) policies and procedures, (5) information for consumers, and (6) information for businesses. The site has a Spanish language option and also provides access for the visually impaired (Section 508 compliant). The site has links to various online postal tools and provides the ability to purchase stamps and other postal products. It includes a Frequently Asked Questions (FAQ) section and offers a way to contact the Postal Service online.

For those interested in using the Postal Service's online portal, the site map on the home page provides a comprehensive overview of the information and features. The table below focuses on relevant Government Performance and Results Act documents, postal policies, and information related to postal financial and operational performance.

CATEGORY	REFERENCE	LOCATION
Postal News and Policy Announcements	USPS Press Releases	http://www.usps.com/news/2002/press
	<i>Postal Bulletin</i>	http://www.usps.com/cpim/ftp/bulletin/pb.htm
	<i>Memo to Mailers</i>	http://www.usps.com/memotomailers/
	<i>Mailers Companion</i>	http://www.usps.com/mailerscompanion/
GPRA Documents	<i>USPS Five-Year Strategic Plan, FY2001-2005</i>	http://www.usps.com/strategicdirection/strategicplans.htm
	<i>Comprehensive Statement on Postal Operations, 2001 (includes Annual Performance Report)</i>	http://www.usps.com/common/category/comp_statement.htm
	<i>Annual Performance Plan, 2003</i>	http://www.usps.com/strategicdirection/
Financial Reports	Revenue, Piece and Weight Reports (RPW)	http://www.usps.com/financials/rpw
	Accounting Period Financial Reports	http://www.usps.com/financials/
	<i>Annual Financial Report, FY2001</i>	http://www.usps.com/financials/
	Rate Case Information	http://www.usps.com/ratecase/
Public Reports	<i>Mailing Industry Task Force</i>	http://www.usps.com/strategicdirection/mitfmin.htm
	Mailers Technical Advisory Committee	http://ribbs.usps.gov/mtac.htm
	<i>Household Diary Study</i>	http://www.usps.com/householddiary/
Rules and Regulations	USPS Notices to Federal Register	http://ribbs.usps.gov/fedreg.html
	Postal Explorer	http://pe.usps.gov
	<i>Domestic Mail Manual</i>	http://pe.usps.gov
	<i>International Mail Manual</i>	http://pe.usps.gov
	Customer Support Rulings	http://ribbs.usps.gov/csrule.html
Operations Information	Rapid Information Bulletin Board System	http://ribbs.usps.gov
	Business Mail Acceptance	http://www.pilot.uspspostalone.com/nonsecure/bma/
	Bulk Mail Centers	http://www.usps.com/bulkmailcenters/

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