

WILLIAM P. GALLIGAN
SENIOR VICE PRESIDENT
OPERATIONS



July 8, 2005

The Honorable John M. McHugh
Member of Congress
House of Representatives
Washington, DC 20515-3223

Dear Congressman McHugh:

As required by 31 U.S.C. §720, we are submitting a report of the actions we plan to take in response to the recommendations that were contained in the Government Accountability Office (GAO) report of April 8, 2005, titled U.S. Postal Service: The Service's Strategy for Realigning its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability (GAO-05-261).

The GAO report found that several major changes have affected our mail processing and distribution operations, including marketplace changes such as, declines in First-Class Mail and increased competition; increased automation and mail processing by mailers; and shifts in population demographics. The effects of these changes include excess capacity in the mail processing and distribution infrastructure and variations in productivity among plants.

In recent years, the pace of change affecting the Postal Service has accelerated due to the ubiquity of computer-based communications, both for business and personal use. This has resulted in declining single-piece First-Class Mail volumes. Another factor, automation in the mailing industry has given large-scale commercial mailers both the ability, and with worksharing discounts, the incentive to enter their bulk mailings much closer to the delivery destination within our network. Both of these factors, among others, have created various ranges of excess capacity in our mail processing plants and transportation network. For example, our Bulk Mail Center (BMC) network consists of 21 very large facilities across the country that were originally intended to handle parcels and mail in sacks when built in the early 1970's. This was in the era before automation and worksharing discounts, when virtually all mail entered into the postal system at the post office closest to its point-of-creation and moved end-to-end on Postal Service provided transportation to its delivery post office. The situation we are confronting with the BMC network is illustrative of the issues we are dealing with nationwide – aging facilities in need of substantial physical repairs, upgrades in processing equipment, and the development of a transportation system that captures and builds on the cost-efficiencies of mailers providing a larger portion of the mail movement. The question becomes, in its simplest terms, how do we rebuild and realign the system while we continue to process and move 650 million pieces of mail every day?

To ensure that the Postal Service continues to deliver on the universal service commitment the American public has come to expect, our processing network has to be efficient, affordable, and flexible. To accomplish this, we have successfully rationalized and adjusted our network to achieve efficiencies and cost reductions wherever possible. The initiatives announced in the 2002 Transformation Plan have yielded tremendous results. Thus far, costs have been reduced by over \$4 billion, the career workforce has been trimmed by over 80,000, and customer satisfaction and on-time delivery performance across all product offerings are at all time highs. However, there are still opportunities.

475 L'ENHANT PLAZA SW
WASHINGTON, DC 20260-2700
202-268-5100
FAX: 202-268-7309

Going forward, one of the key strategies in the area of mail processing and transportation network realignment is to migrate to a network that is more closely aligned to the current and future needs of the marketplace. Through the continuing application of network optimization we can respond to the challenges of declining mail volumes, an aging processing infrastructure, transportation network redundancies, and operational inefficiencies. A flexible logistics network that produces the lowest combined cost for customers, increases operational efficiencies, and improves the consistency of our service will be developed.

GAO's Recommendations

To enhance the transparency of our decisions related to realigning our mail processing infrastructure and transportation network, GAO recommended that we establish a set of criteria for evaluating realignment decisions and a mechanism for informing stakeholders as decisions are made. To enhance accountability for these decisions, we should develop a process for implementing these decisions that includes evaluating and measuring the results, as well as the actual costs and savings resulting from these decisions.

Recommendation 1: Establish criteria for evaluating realignment decisions.

There are three key criteria we will use in evaluating realignment decisions:

1. **Capacity:** We have analyzed our current network and identified the areas of excess capacity. The future network design will be focused on minimizing the amount of excess capacity in our network by better utilizing our facilities and equipment.
2. **Cost:** Our objective is to minimize overall network cost by adjusting our processing and transportation capacities in alignment with worksharing opportunities for the mailing industry. We are in the process of analyzing the impact each facility has on overall network cost, including both fixed and operational costs, and will use this information to make the most economical decisions.
3. **Site-Specific Factors:** Consideration is given to other facility-specific factors such as age, condition, size of the facility, status of leases, impact on the local community, proximity to airports and highways, as well as other marketplace considerations.

Based on the above criteria, we will be realigning our processing and transportation network. Through the standardization of facilities and distribution concepts, we will also create a flexible logistics network that reduces costs, increases operational effectiveness, and improves the consistency of service.

Recommendation 2: Develop a mechanism to inform stakeholders.

Area Mail Processing (AMP) is the consolidation of mail processing functions, typically from several facilities into one centralized facility, for the purpose of eliminating excess capacity, increasing operational efficiency, making better use of existing space, staffing, processing equipment and transportation capacities. The planning and implementation process begins at the local management level, with input from, and concern for the views, needs and wishes of stakeholders in the local business community, mailers, employees and their union representatives, and local elected officials. Proposals are then reviewed at the area and headquarters level to ensure they conform to the AMP guidelines and, very importantly, that any outstanding stakeholder concerns are appropriately addressed. When other network changes that do not involve area processing consolidations are being considered, we will consult with the key stakeholders about our intended changes and the impact of our plans.

Recommendation 3: Develop a process to implement realignment decisions.

Existing AMP processes have a post-implementation review requirement following any consolidation. For other non-AMP changes that require an investment, we will use our existing

investment processes to obtain funding approval and to track our physical infrastructure programs in the future. This includes both projects that meet the requirements for a formal Decision Analysis Report (DAR), as well as those outside the scope of the DAR. These processes ensure the development and analysis of accurate cost and savings information to evaluate the viability of specific programs. In addition, the processes provide a mechanism to track actual post-implementation performance.

Because of the constant changes in the mailing industry and technology, our only realistic course is to continuously examine the network for opportunities for further efficiencies, while standardizing the best operational practices, to ensure that our physical and human resources are used in the most effective manner possible.

In conclusion, we have all the components aligned to objectively make, evaluate, communicate and review our infrastructure and network realignment decisions. Our vision is to build a flexible network composed of core distribution and air/surface transfer centers that will enable us to keep our mail processing and transportation networks efficient, while enhancing the availability of workshare participation. In doing so, we will ensure that we provide the lowest combined cost to our customers.

If you or your staff would like to discuss any of these comments further, I am available at your convenience.

Sincerely,



William P. Galligan