

**BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001**

**MAIL PROCESSING NETWORK RATIONALIZATION  
SERVICE CHANGES, 2012**

**DOCKET No. N2012-1**

**DIRECT TESTIMONY OF MARC A. SMITH  
ON BEHALF OF THE  
UNITED STATES POSTAL SERVICE  
(USPS-T-9)**

## TABLE OF CONTENTS

LIST OF TABLES .....	ii
ASSOCIATED LIBRARY REFERENCES.....	ii
AUTOBIOGRAPHICAL SKETCH.....	iii
I. PURPOSE OF TESTIMONY.....	1
II. RELEVANCE OF PRC'S PRIOR CONSIDERATION OF PEAK LOAD PROBLEM.....	3
III. FRAMEWORK FOR DETERMINING SAVINGS.....	6
IV. DOCKET ACR 2010 PIGGYBACK FACTORS USED FOR SAVINGS CALCULATION .....	8
V. MAIL PROCESSING EQUIPMENT RELATED SAVINGS.....	13
VI. FACILITY RELATED SAVINGS .....	16
VII. WORKLOAD REDUCTION SAVING .....	21
VIII. SUMMARY OF SAVING PROVIDED IN THIS TESTIMONY.....	25
APPENDIX A: DESCRIPTION OF SERVICE-WIDE BENEFITS	
LIST OF ATTACHMENTS	

## **LIST OF TABLES**

- Table 1: FY 2010 Service Wide Benefits**
- Table 2: Miscellaneous Postal Supplies & Services Factor**
- Table 3: Mail Processing Equipment Maintenance Labor Savings**
- Table 4: Mail Processing Equipment Parts and Supplies Savings**
- Table 5: Facility Maintenance and Custodial Labor Savings**
- Table 6: Facility-Related Utilities and Supplies Savings**
- Table 7: Facility Lease and Sale Related Savings**
- Table 8: Savings Due to Reduction in Outgoing Secondary Sorting**
- Table 9: Savings Due to Eliminating CSBCS and UFSM 1000 Sortation**
- Table 10: Savings Due to Additional Automated Sorting of Letters**
- Table 11: Summary of Cost Savings Provided in this Testimony**

## **ASSOCIATED LIBRARY REFERENCES**

**USPS-LR-N2012-1/23      Workload Reduction Savings**

**USPS-LR-N2012-1/24      Calculations in Support of Smith Testimony**

**USPS-LR-N2012-1/23 provides the documentation for the calculations done in part VII of this testimony. USPS-LR-N2012-1/24 contains the spreadsheets for Tables 1-11 and the three Attachments of this testimony.**

1 **Autobiographical Sketch**

2 My name is Marc A. Smith. I have been employed by the Postal Service  
3 since February, 1987 as an Economist in the Cost Attribution group of Finance.  
4 My work is to contribute to the development of the attributable costs for the  
5 classes and subclasses of mail, provided annually in the Cost and Revenue  
6 Analysis (CRA). My product costing work has focused on plant and equipment  
7 costs, and other “indirect” (or piggyback) costs, helping to reflect USPS  
8 automation efforts in the CRA and in cost avoidance work. I have been a rate  
9 case witness for the Postal Service on these topics in numerous cases before the  
10 Postal Rate Commission, now the Postal Regulatory Commission (PRC). I have  
11 also supported work by other witnesses in numerous cases before the PRC. I  
12 discuss my participation in these PRC Dockets in more detail below.

13 Prior to coming to the Postal Service, I was a Senior Economist with the  
14 New York Department of Public Service. I testified as an expert witness in  
15 numerous electric and telephone rate proceedings, primarily on the marginal  
16 costs of electricity. This testimony was in support of both retail and co-  
17 generation electric rate proposals. In 1981, I served as an economist at the  
18 Interstate Commerce Commission. There, I worked on modifying railroad  
19 regulations to conform with the Staggers Rail Act of 1980.

20 I received a B.A. with honors in Economics from the George Washington  
21 University in 1975. I received a M.A. in Economics from the University of  
22 Michigan in 1978. While at the University of Michigan, I completed all

1 requirements toward a Ph. D in Economics except the dissertation. As a  
2 graduate student, I served as a teaching fellow in introductory economics and  
3 econometrics courses. I also worked as a research assistant at the Institute for  
4 Social Research in Ann Arbor, Michigan on a study of electric utility load  
5 management and peak load pricing experiments.

6 Improving the treatment of equipment and plant costs used in processing  
7 is an area to which I have contributed throughout my USPS work. In Docket No.  
8 R90-1, I developed the initial process to identify depreciation, maintenance, and  
9 facility-space related costs by equipment type, and incorporated this into the  
10 CRA to distribute these costs to mail classes utilizing the equipment. I have  
11 refined this work as the automation program has progressed in Dockets No. R97-  
12 1, R2000-1, R2001-1, R2005-1 and R2006-1.

13 In Docket No. R87-1, in support of Dr. Paul Kleindorfer's testimony and in  
14 Docket No. R90-1 in my testimony I've taken up the issue of how differences in  
15 service or service standards can affect the attributable costs for the classes of  
16 mail. These testimonies discussed the issue of peak load pricing theory and its  
17 implications for postal product costs. This topic, which has also been the subject  
18 of my publications listed below, is pertinent as well to determining cost savings  
19 associated with proposed changes in service standards in this docket as  
20 discussed below.

21 In Docket No. MC95-1, which led to major changes in mail preparation  
22 requirements for presort discounts for letters, I provided estimates of First-Class -

1 Mail letter mail processing costs for the existing and proposed presort rate  
2 categories by enhancing the letter mail flow and costs models to reflect mail  
3 preparation characteristics (bundling, tray/container makeup). This work helped  
4 demonstrate the merits of using tray-based letter presorting.

5 In Docket No. N2010-1, Six to Five-Day Carrier Delivery and Related  
6 Service Changes, I assisted Drs. Bradley and Colvin in their testimonies to  
7 determine the annual on-going savings from this proposed change. As I discuss  
8 below, this testimony draws on that work.

9

10 My most pertinent papers and publications are as follows:

11

12 "Peak-Load Pricing in Postal Services" with Michael A. Crew and Paul R.  
13 Kleindorfer, Economic Journal, September, 1990.

14

15 "Measuring Product Costs for Ratemaking: The United States Postal Service,"  
16 with Michael D. Bradley and Jeffrey L. Colvin, edited by Michael A. Crew and  
17 Paul R. Kleindorfer Regulation and the Nature of Postal and Delivery Service.  
18 Boston: Kluwer Academic Publishers, 1993, pp. 133-157.

19

20 "Peak Loads and Postal Services: Some Implications of Multi-Stage Production"  
21 with Michael A. Crew and Paul R. Kleindorfer, edited by Michael A. Crew and  
22 Paul R. Kleindorfer Managing Change in Postal and Delivery Industries. Boston:  
23 Kluwer Academic Publishers, 1997, pp. 42-64.

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1 **I. Purpose of Testimony**

2 The purpose of this testimony is to assist in calculating the annual cost  
3 savings, expressed in FY 2010 terms, that will accrue to the Postal Service as a  
4 result of the Mail Processing Network Rationalization Service Changes initiative.  
5 I have relied heavily upon the testimonies of witnesses Bratta, Neri, and  
6 Rosenberg. In the testimony, I address:

7 1. The relevance of the PRC's past consideration of peak load pricing  
8 theory in determining the differences in attributable costs by class of  
9 mail associated with different service levels or standards to the task at  
10 hand of determining the savings associated with the present proposal.

11 The savings stemming from the proposed revisions to First-Class Mail  
12 and Periodicals service standards, which allow an additional day for  
13 delivery for a significant portion of this mail, can be understood in the  
14 context of the peak load problem.

15 2. The framework for calculation of the savings, including the use of FY  
16 2010 costs from Docket No. ACR2010 as the basis for determining the  
17 annual savings.

18 3. Inputs from Docket No. ACR2010 used in the calculation of savings by  
19 witness Bradley, USPS-T-10, and myself. These include productive  
20 hourly rates (or cost per work hour), labor productivities, service wide  
21 benefits costs and piggyback factors.

22 4. Mail processing equipment-related savings in maintenance labor, parts  
23 and supplies due to the reduced amount of equipment needed under

1 the proposed service standards. These annual savings are \$461.9  
2 million.

3 5. Facility-related savings associated with a reduced number of plants,  
4 including building maintenance and custodial labor, utilities, supplies  
5 and contractor costs, and rents and annual earnings associated with  
6 the proceeds from the sale of facilities. These annual savings are  
7 \$374.8 million.

8 6. Mail processing labor and carrier savings associated with workload  
9 reductions enabled by the processing network under consideration,  
10 including reduction in outgoing secondary sorting, replacement of  
11 Carrier Sequence Barcode Sorter (CSBCS) and Upgraded Flat Sorting  
12 Machine (UFSM) 1000 sortation with more efficient sortation and  
13 additional letter automated sorting (incoming secondary and delivery  
14 point sequencing (DPS)). These annual savings are \$74.2 million.

15 7. In total, the annual savings put forth in my testimony are \$910.9  
16 million.



1

2 **II. Relevance of PRC's Prior Consideration of Peak Load Problem**

3 In Dockets Nos. R84-1, R87-1 and R90-1, the PRC addressed the  
4 question of how the service accorded First-Class Mail and Periodicals Mail, as  
5 compared to that given to Standard Mail and Package Services, affects the  
6 relative mail processing costs for those products. This led to the consideration of  
7 the peak load problem, often considered in electric and telephone service,  
8 serving as the basis for determining cost and pricing differences for different  
9 hours of the day or days of the week. While the issue in this docket is not cost  
10 differences between classes, the peak load problem can help us understand how  
11 changes in service standards affect costs.<sup>1</sup>

12 The peak load problem arises from the combination of significant work  
13 load/output fluctuations and production capacity inflexibilities such that by virtue  
14 of having production capacity sufficient to meet workload/output peaks,  
15 significant periods of underutilization of production capacity arise.<sup>2</sup> In electric and  
16 telephone service, this has often been ameliorated or addressed by charging  
17 customers different rates for usage in peak and off-peak times. In Docket No.  
18 R87-1, the PRC concluded that First-Class Mail service standards and volumes  
19 led to significant daily processing workload peaks of relatively short duration

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<sup>1</sup> This same point is reflected in the PRC-sponsored "Report on Peak Load Cost Modeling" by Robert Cohen, Charles McBride, John Panzar, and John Waller, working with the School of Public Policy, George Mason University, October 7, 2011.

<sup>2</sup> The general peak load problem and its application to postal services was discussed in the Direct Testimony of Dr Paul R. Kleindorfer, on behalf of the U.S. Postal Service, in PRC Docket No. R87-1, pages 6-13.

1 (perhaps two to four hours) and that there were likely important capacity  
2 inflexibilities, including in labor, since most staff worked eight hour shifts. It was  
3 determined, however, that much workload leveling was accomplished through  
4 the processing of the more deferrable Standard Mail (then Third-Class Mail)  
5 before and after the workload peaks, thereby raising utilization and limiting the  
6 processing cost differences for First-Class Mail and Third-Class Mail.<sup>3</sup>

7         Since that time (1987) the peak load problem has gotten worse,  
8 particularly in letter processing, due to both greater production capacity  
9 inflexibilities and more uneven workloads. Due to the automation of letter  
10 processing, production capacity has become more inflexible as equipment and  
11 facilities costs have become a larger share of total processing costs.<sup>4</sup> While  
12 labor inflexibilities remain since much staff work 8 hour shifts, at least it can be  
13 adjusted somewhat over the course of a day, or week. Plant and equipment  
14 capacity, however, cannot be adjusted for daily, weekly, nor for the most part,  
15 even seasonal workload fluctuations.

16         The work load fluctuations, especially related to letter sorting, have grown  
17 in magnitude for the following reasons. First, due to automation efforts,  
18 processing work related to letter (and flat) processing has grown as sortation now  
19 includes delivery point sequencing (DPS). In addition, as pointed out by  
20 witnesses Williams, USPS-T-1, part IV, Rosenberg, USPS-T-3, part II and Neri,

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<sup>3</sup> Docket No. R87-1, PRC Opinion and Decision, pages 126-204. The PRC indicates that more deferrable Third-class Mail ameliorated much of the peak load problem, indicating that the cost difference could be limited to night-shift and other premiums being allocated more to First-Class Mail, as opposed to the arguments of Third-Class Mailers claiming that processing of their mail had a zero cost due to all the staffing being driven by First-Class Mail.

<sup>4</sup> The share of plant and equipment related costs by operation is shown in Docket No. ACR2010, USPS-FY10-25.

1 USPS-T-4, part III.B.2, the second pass of DPS cannot begin until the first pass  
2 is fully completed and thus contains all of the letters to be sequenced.<sup>5</sup> At that  
3 point, the second pass must be run for all classes at the same time. Thus, even  
4 though Standard Mail letters are available to be processed prior to the DPS  
5 window, they cannot be run on a second pass ahead of the availability of First-  
6 Class Mail to level the workload, as the PRC's R87-1 discussion of operations  
7 indicated was done in 1987. Since meeting overnight First-Class Mail service  
8 standards entails that all the First-Class Mail letters for next day delivery aren't  
9 available for the DPS first-pass until perhaps 1:00-2:00 a.m. or later, the result is  
10 a large workload peak in the 2:00 a.m. to 6:00 a.m. time period. Another  
11 important reason that workload has become more uneven is that bulk-entered  
12 mail constitutes a higher proportion of the mail mix. In addition, bulk-entered mail  
13 has become more heavily workshared (presorted, prebarcoded, dropshipped,  
14 etc.) over time. As a result, there is far less need for origin processing and  
15 handling and also far less need for non-DPS destination sorting as well. So DPS  
16 has made the letter processing workload peaks higher, while the decline in  
17 single-piece mail has reduced the workloads in the rest of the day's operations.  
18 As a result, the peak load problem has grown, leading to low levels of utilization  
19 in plant, equipment and, to some degree, labor, as well. The latter stems from  
20 the workload peak lasting less than the eight-hour shift for most staff. Witness

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<sup>5</sup> The two-pass DPS is based on a two-pass "radix," least significant digit sequencing method. This requires that the results of the first pass contain all the mail to be sequenced, sorted by carrier stop. The second pass is done by running the results of the first pass starting with the first stop, then second, in order of stops to separate the mail by carrier route in the order of the route.

1 Neri, USPS-T-4, part II, also points out the decline in utilization of capacity  
2 resulting from workshare growth.

3         The worsening peak load problem highlights an important source of  
4 savings associated with changing First-Class Mail service standards. The  
5 proposed service standard changes narrow significantly the scope of overnight  
6 delivery of local First-Class Mail, a long-time feature of the Postal Service's  
7 premier product. This is a change that will no doubt be a concern to many of our  
8 customers. But allowing another day for delivery for a significant portion of First-  
9 Class Mail enables longer operation windows, especially for DPS, as discussed  
10 by witnesses Rosenberg, USPS-T-3, and Neri, USPS-T-4. This enables a great  
11 deal of workload leveling, meaning that the same mail volumes can be processed  
12 using less capacity –plant, equipment and labor. Thus, changing the service  
13 standards, as proposed greatly ameliorates the peak load problem, or problem of  
14 low capacity utilization, that has worsened acutely in the past couple of decades.  
15 Thus, the peak load framework allows for understanding this significant savings  
16 opportunity.

17

### 18 **III. Framework for Determining Savings**

19         The estimates in this testimony are of “full-up” cost savings stemming from  
20 the mail processing network rationalization described by witnesses Williams,  
21 USPS-T-1, Rosenberg, USPS-T-3, Neri, USPS-T-4 and Bratta, USPS-T-5, using  
22 FY 2010 costs as a base. The term “full-up savings” refers to the annual savings  
23 available after the completion of all adjustments needed to reduce staffing and

1 adapt contracts, plants, and equipment to the changed operational environment.  
2 Put differently, the estimates in this testimony are expressed as the annual  
3 savings that would occur if the processing network described by witnesses  
4 Williams, Rosenberg, Neri and Bratta had been fully implemented for handling  
5 FY 2010 volumes at FY 2010 wages and other input costs.

6 To implement this methodology for the activities listed above, I use the FY  
7 2010 Annual Compliance Report (ACR) as a framework.<sup>6</sup> The savings  
8 discussed in this testimony are based upon the analyses of witnesses  
9 Rosenberg, USPS-T-3, Neri, USPS-T-4 and Bratta, USPS-T-5. I apply financial  
10 factors to the savings estimates in order to express them in dollar terms. I  
11 perform this task in different ways for different activities, as explained below.

12 To determine maintenance and custodial labor savings, I apply FY 2010  
13 annual average salary and benefits costs based on Docket No. ACR2010 to the  
14 staffing savings estimates provided by witness Bratta, USPS-T-5. In the case of  
15 some equipment and facility-related savings, I determine the savings as a  
16 percentage of FY2010 CRA costs for certain components, based on witnesses  
17 Bratta and Rosenberg's testimonies. To determine supervision and  
18 miscellaneous supplies savings, which witness Bratta describes in his testimony,  
19 I employ the piggyback factor approach used in the CRA and cost avoidance  
20 work. In addition, I apply ACR2010 processing productivities and other factors to  
21 the workload reduction estimates to determine the savings in processing and  
22 delivery.

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<sup>6</sup> The approach taken in this testimony is similar to that of Dr. Colvin's, USPS-T-7 in Docket No. N2010-1.

1 Attachments 1 and 2 supply important inputs used for quantifying savings  
2 based on Docket No. ACR2010. The Docket No. ACR2010 productive hourly  
3 rates are shown in my Attachment 1 and more detailed maintenance and  
4 custodial hourly rates (and salaries and benefits) are contained in my Attachment  
5 2. In Attachment 3, I have augmented the ACR2010 materials with FY2010  
6 costs from mail processing facilities that are the focus of the analysis, using  
7 accounting costs by finance number.

8

9 **IV. Docket ACR 2010 Piggyback Factors Used for Savings Calculation**

10 As was true in Docket No. N2010-1, concerning six to five-day delivery,  
11 the traditional piggyback approach is not the a correct approach for estimating  
12 the cost savings for most aspects of the operational changes associated with the  
13 service standard changes.

14 A piggyback factor reflects the overall ratio of indirect costs to direct labor  
15 costs as determined in the development of attributable costs by product.<sup>7</sup> The  
16 FY 2010 piggyback factor for mail processing of 1.689 indicates that for each  
17 dollar of processing labor costs incurred by the Postal Service, 68.9 cents of  
18 costs related to processing are incurred in the areas of supervision,  
19 administrative work, facility-related costs, equipment-related costs, and service-  
20 wide benefits.<sup>8</sup> This ratio represents the relative direct and indirect costs for  
21 processing that the Postal Service has experienced, reflecting that as clerk and

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<sup>7</sup> See Docket No. R2006-1, Testimony of Marc A. Smith, USPS-T-13, pp. 21-24.

<sup>8</sup> See Docket No. ACR2010, USPS-FY10-24. This is the piggyback factor for total attributable costs.

1 mail handlers are added for processing work due to volume growth, there is a  
2 need to add supervision, facility space, and equipment as well as administrative  
3 and service-wide benefits. The same is true in response to volume declines over  
4 the long term, hence the usefulness of this methodology in CRA attributable cost  
5 estimation.

6 As discussed in section VII below, piggyback factors are applied to reflect  
7 the delivery savings associated with the growth in DPS volumes under the  
8 proposed network. But apart from this, and despite the validity of the use of  
9 piggyback factors for this and other ACR purposes, it isn't appropriate to apply  
10 them to reflect mail processing savings in this docket. In this case, witnesses  
11 Neri, Bratta and Rosenberg specify changes in plant and equipment and staffing  
12 in the proposed mail processing network. This network stems from their  
13 collective analysis of what is consistent with the proposed service standards.  
14 Thus the long-term relationships of labor and indirect costs are explicitly  
15 changing, thereby making the general use of piggyback factors inappropriate. I  
16 do, however, make more limited use of piggyback factors in three ways, as  
17 described below.

18 First, as done in Docket No. N2010-1, concerning six to five-day delivery, I  
19 have relied upon traditional CRA or piggyback factor methods in the case of  
20 service-wide benefits. While certain types of indirect costs, as indicated above,  
21 will not decline with the reductions in direct labor costs stemming from the  
22 operations changes contemplated as part of the proposed service standard  
23 changes, the relationship between service-wide benefits and direct labor costs is

1 much more certain—since service-wide costs are in essence a part of direct labor  
2 costs. Hence, the traditional piggyback methodology is reflective of the savings  
3 to be obtained as labor costs are reduced given the operations changes being  
4 considered in conjunction with the proposed service standards. Service-wide  
5 benefits consist of retiree health benefits, workers' compensation, earned Civil  
6 Service Retirement System (CSRS) benefits, unemployment compensation,  
7 repriced annual leave, holiday leave adjustment, and annuitant life insurance.  
8 These are shown in Table 1, below, and each is described in Appendix A to my  
9 testimony.

10       These corporate-wide or service-wide benefits reflect additional  
11 compensation (or costs related to employment) received by postal employees  
12 during FY 2010 over and above the salaries and benefits included in the cost  
13 segments and components of 1-13, 16, 18.1, and 19. As described in Appendix  
14 A, they are contained in cost segment 18.3 because the Postal Service  
15 accounting system does not split these costs by employee category as is done  
16 for the salaries and benefits contained in cost segments 1-13, 16, 18.1, and 19.  
17 While not included in these labor cost segments, the service-wide benefits shown  
18 in Table 1 are treated exactly the same as the total costs of all of these labor cost  
19 segments—same attribution, same distribution—in the development of attributable  
20 costs, because these service-wide benefits are indeed part of labor costs. Thus  
21 service-wide costs savings would be realized in the same way as labor cost  
22 savings given the operations changes facilitated by the proposed service  
23 standards.



1 As shown in the table below, service-wide benefits in FY 2010 were \$5.4  
 2 billion, or \$111.54 for every \$1,000 of salaries and benefits in cost segments 1-  
 3 13, 16, 18.1, and 19. As such, for every \$1,000 of labor savings enabled by the  
 4 operations changes facilitated by the proposed service standards, there is an  
 5 additional \$111.54 of savings in service-wide benefits, consistent with the way  
 6 the costs are developed in the cost segments and components. These are  
 7 savings that would be realized along with savings in salaries and benefits.<sup>9</sup>

<b>Table 1: FY 2010 Service-Wide Benefits</b>	
<b>(000s)</b>	
<b>Repriced Annual Leave</b>	<b>90,502</b>
<b>Holiday Leave Adjustment</b>	<b>-13,588</b>
<b>Workers Compensation Current Year</b>	<b>1,167,995</b>
<b>Unemployment Compensation</b>	<b>73,933</b>
<b>Annuitant Health Benefits–Earned (Current)</b>	<b>3,055,000</b>
<b>Civil Service Retirement System (CSRS)–Earned</b>	<b>1,040,064</b>
<b>Annuitant Life Insurance</b>	<b>15,863</b>
<b>Total Service-Wide Benefits</b>	<b>\$5,429,769</b>
<b>Total Salary and Benefits</b>	<b>\$48,680,906</b>
<b>Service-Wide Benefits per \$1,000 of Salary &amp; Benefits</b>	<b>\$111.54</b>

8

9 The second use of piggyback factors is an adaptation of standard factors  
 10 in order to determine miscellaneous expense savings. In this case, however,  
 11 rather than rely on the traditional mail processing piggyback factors, we make

<sup>9</sup> See Docket No. ACR2010, USPS-FY10-31, FY10.ARpt.xls and FY10.KRpt.xls.

1 use of the specific piggyback relationships for mail processing plants. In the  
 2 case of miscellaneous expenses,<sup>10</sup> witness Bratta has said that these types of  
 3 expenses will be saved at closing plants.<sup>11</sup> Nevertheless, the treatment of these  
 4 costs in the CRA has been that they are as variable as labor and receive the  
 5 same distribution. Since some staff at inactive facilities will be needed at the  
 6 active plants, it makes most sense to determine the share of these savings  
 7 based on the share of overall labor savings. To do this, we use the costs by  
 8 segment and component for plants or network processing facilities as shown in  
 9 Attachment 3. As shown in Table 2 below, we take the ratio of miscellaneous  
 10 costs to total labor associated with the plant finance numbers to get the following  
 11 factor: for every \$1,000s of labor savings, there is \$7.81 of miscellaneous costs  
 12 savings.

13

<b>Table 2: Miscellaneous Postal Supplies &amp; Services Factor</b>	
	<b>Expenses For Major Processing Facilities</b>
Miscellaneous Postal Supplies and Services	91,923,418
Total Current Network Labor costs (comp 527)	11,764,388,784
Miscellaneous Costs per \$1,000 of Network Labor Costs	\$ 7.81

14

15 The third use of piggyback factors is the traditional one used to reflect  
 16 delivery cost savings stemming from the increase in DPS letters permitted by the  
 17 new network as discussed below in part VII.

<sup>10</sup> This includes supplies and services purchased with credit cards, contractual services other than repairs and maintenance; and for other miscellaneous supplies and services.

<sup>11</sup> Witness Bratta, USPS-T-4, part IVB.

1 **V. Mail Processing Equipment Related Savings**

2 One of the important benefits of the revision to First-Class service  
3 standards is that it permits a significant reduction in the amount of equipment  
4 needed. Much less equipment is needed to run the same volume of mail due to  
5 a more level workload. In FY2010, mail processing equipment related costs  
6 included depreciation (and related interest expense) of \$793 million,  
7 maintenance labor of \$1,371 million and parts and supplies costs of \$194  
8 million.<sup>12</sup> For Delivery Barcode Sorters (DBCS), which account for about one-  
9 third of these equipment related costs, these costs were \$119 million for  
10 depreciation (and related interest expense), \$631 million for maintenance labor  
11 and \$58 million for parts and supplies. Witness Rosenberg indicates the new  
12 network would require 3,165 DBCS as compared to the FY2010 mid-year total of  
13 5,916, nearly cutting the required amount in half.<sup>13</sup> This provides an indication of  
14 the magnitude of savings to be obtained. Witnesses Rosenberg, USPS-T-3, and  
15 Neri, USPS-T-4, discuss the reduction in equipment requirements given the  
16 network under consideration.<sup>14</sup>

17 I obtained specific estimates of resource savings and dollar savings in  
18 maintenance labor and in parts and supplies from witnesses Bratta and  
19 Rosenberg. Witness Bratta has determined that the total authorized positions for  
20 non-supervisory maintenance of mail processing equipment (LDC36) for

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<sup>12</sup> Docket No. ACR2010, USPS-FY10-8. Parts and Supplies costs shown here don't include Mail Transport Equipment costs.

<sup>13</sup> Docket No. ACR 2010, USPS-FY10-8 and witness Rosenberg, USPS-T-3, Part IV. DBCS totals used here include Delivery Barcode Sorter w/Input Output Sub-System (DIOSS) and Combined Input Output Sub-System (CROSS).

<sup>14</sup> Witnesses Rosenberg, USPS-T-3, Part IV and Neri, USPS-T-4, Part VI

1 processing facilities will fall from 15,320 to 11,877, or by 3,443 positions. In  
 2 addition, witness Bratta has determined that administrative non-supervisory  
 3 positions (LDC 39) will decline from 1,645 to 1,239 or by 406 positions.<sup>15</sup> As  
 4 shown below in Table 3, the annual savings, based on the annual average  
 5 FY2010 salary and benefits (including service wide benefits) for both types of  
 6 staffing, is \$313.5 and \$32.9 million. While witness Bratta does not provide an  
 7 estimate of changes in the number of supervisor positions, he indicates that he  
 8 would expect a decline, consistent with the current supervision to staff ratios.  
 9 Attachment 2 shows the current ratio of supervisors to staff of 0.08037. Using  
 10 this ratio, this would mean a reduction of 309 supervisor positions at a savings of  
 11 \$33.5 million, for a total of \$379.9 million, as shown below in Table 3.

12

<b>Table 3: Mail Processing Equipment Maintenance Labor Savings</b>					
<b>Labor Type</b>	<b>Change in Authorized Positions</b>	<b>Average Annual Rate*</b>	<b>Labor Cost Savings</b>	<b>Service-Wide Benefits</b>	<b>Total Savings</b>
---- in millions ----					
<b>Postal Operating Equipment</b>	3,443	\$ 81,914	\$ 282.1	\$ 31.5	\$ 313.5
<b>Administrative</b>	406	\$ 72,933	\$ 29.6	\$ 3.3	\$ 32.9
<b>Supervision</b>	309	\$ 97,300	\$ 30.1	\$ 3.4	\$ 33.5
<b>Total</b>			\$ 341.8	\$ 38.1	\$ 379.9

**\*Average Annual Rate from Attachment 2.**

13

14 Savings on spare parts and supplies have three components. Witness  
 15 Bratta has determined that annual spare parts costs will decline by \$67.9 million.  
 16 See witness Bratta, USPS-T-5, Part IVA and USPS-LR-N2012-1/33. In addition,

<sup>15</sup> Witness Bratta, USPS-T-5, Part IVA and also see USPS-LR-N2012-1/31 and USPS-LR-N2012-1/32.

1 witness Rosenberg, USPS-T-3, Part IV, has determined that based on her  
 2 estimates of reduced requirements for Advanced Facer Canceler Systems  
 3 (AFCS), there will be a reduced need for Biohazard Detection System (BDS)  
 4 cartridges, going from 520 currently to 335, a 36 percent reduction. The FY2010  
 5 BDS cartridge expense was \$32.0 million. A 36 percent reduction would have  
 6 allowed FY 2010 BDS cartridge savings of \$11.4 million. Finally, the third  
 7 component is the decline in miscellaneous postal supplies and services  
 8 associated with the reduction of \$341.8 million (labor savings excluding service  
 9 wide benefits) in maintenance personnel costs shown above in Table 3.  
 10 Miscellaneous postal supplies and costs decline with this personnel cost  
 11 reduction at \$7.81 per \$1,000 of salary and benefits or \$2.7 million. The sum of  
 12 this is \$82.0 million, as shown in Table 4 below.

13

<b>Table 4: Mail Processing Equipment Parts and Supplies Savings</b>	
	<b>Total Savings</b>
	in millions
Spare Parts	\$ 67.9
BDS Cartridge Reduction	\$ 11.4
Miscellaneous Postal Supplies and Services	\$ 2.7
<b>Total</b>	<b>\$ 82.0</b>

14

15 I do not provide an estimate of the reduction in FY2010 depreciation  
 16 expense for mail processing equipment, but it is of use to discuss the potential  
 17 savings in this area. The closing sites had significant amounts of equipment  
 18 depreciation, much of which is no doubt for processing. However, as witnesses  
 19 Rosenberg, USPS-T-3, and Neri, USPS-T-4, indicate, the Postal Service will

1 reposition equipment, disposing of older, less useful equipment from any and all  
2 sites. See witness Neri, USPS-T-4, part VI. For instance, the Postal Service is  
3 likely keeping the newer DBCSs, and Automated Flat Sorting Machines (AFSM)  
4 100s with Automated Induction (AI) and Automated Tray Handling System  
5 (ATHS). If there was a detailed list of which equipment was to be retained, the  
6 FY2010 accounting records for depreciation could be used to determine the  
7 FY2010 reduction in depreciation that would have occurred given the full-up  
8 operations and savings.

9 Another item to point out is that, to the extent that the current service  
10 standards are maintained, the Postal Service is going to need to acquire more  
11 equipment, such as DBCSs, than it would otherwise need under the proposed  
12 service standards. This additional equipment purchases would lead to additional  
13 depreciation, costs that could be saved though the proposed change in service  
14 standards.

15 Despite not including any depreciation savings for mail processing  
16 equipment, the total annual savings (based on FY2010 costs) from mail  
17 processing equipment changes is \$461.9 million.

18

## 19 **VI. Facility Related Savings**

20 Witness Rosenberg, USPS-T-3, as a part of her study of potential facility  
21 consolidation, has identified a list of Active and Inactive facilities associated with  
22 the network being considered (see USPS-LR-N2012-1/34). Witness Bratta has  
23 taken this list of facilities and determined the savings in personnel and non-

1 personnel that this consolidation would provide. In this testimony, based on  
2 witness Bratta's work, I put forth an estimate of the annual savings (in FY2010  
3 costs or dollars) due to no longer needing the Inactive sites for processing.  
4 These savings includes: building and custodial labor savings; utilities and  
5 heating fuel; custodial supplies and services; rents and annual earnings  
6 associated with the utilization of the facility sale proceeds.

7         Witness Bratta, USPS-T-5, has determined that no longer needing  
8 processing at the Inactive facilities would enable reductions of building  
9 maintenance and custodial staff of 620 and 2,073 respectively. See witness  
10 Bratta, USPS-T-5, part IV, and USPS-LR-N2012-1/31 and USPS-LR-N2012-  
11 1/32. In doing so, witness Bratta has considered that often the Inactive facilities  
12 contain activities such as retail, delivery, Bulk Mail Entry Unit (BMEU), district  
13 offices, and Vehicle Maintenance Facility (VMF). Building Maintenance and  
14 custodial staff for these activities would not be saved since these activities would  
15 need to be relocated and/or maintained at these sites with the remaining space  
16 utilized by bringing in either tenants or other postal operations (thereby freeing up  
17 other space). Witness Bratta has estimated that these activities account for 5  
18 percent of the facility space at Inactive sites. See witness Bratta, USPS-T-5, part  
19 IV.

20         As shown below in Table 5, these reductions in building maintenance and  
21 custodial staff of 620 and 2,073 respectively, given the average annual salary  
22 and benefits costs for this staff including service wide benefits, result in \$208.1  
23 million in annual savings. To that we add a reduction of 216 supervisor positions

1 (using the supervisor to staff ratio from Attachment 2) at a savings of \$23.4  
 2 million for a total of \$231.5 million, as shown below in Table 5.

3

<b>Table 5: Facility Maintenance and Custodial Labor Savings</b>					
<b>Labor Type</b>	<b>Change in Authorized Positions</b>	<b>Average Annual Rate*</b>	<b>Labor Cost Savings</b>	<b>Service-Wide Benefits</b>	<b>Total Savings</b>
			---- in millions ----		
<b>Building Maintenance</b>	620	\$ 75,980	\$ 47.1	\$ 5.3	\$ 52.4
<b>Custodial Maintenance</b>	2,073	\$ 67,570	\$ 40.1	\$ 15.6	\$ 155.7
<b>Supervision</b>	216	\$ 97,300	\$ 21.1	\$ 2.3	\$ 23.4
<b>Total</b>			\$ 208.3	\$ 23.2	\$ 231.5
<b>*Average Annual Rate from Attachment 2.</b>					

4

5 Witness Bratta has determined that, apart from the need to provide for the  
 6 5 percent of space utilized for non-processing purposes, all non-personnel facility  
 7 related expenses can be saved. See witness Bratta, USPS-T-5, part IV.B. In  
 8 accordance with this, I have taken the FY2010 utilities/heating and custodial  
 9 supplies expenses for the Inactive sites of \$78.3 million and \$18.7 million  
 10 respectively, reduced these by 5 percent to come up with savings of \$74.4 million  
 11 and \$17.8 million respectively. This reduction is consistent with the treatment in  
 12 the CRA or methods used to develop attributable costs since these costs are  
 13 apportioned based on square feet as well for the CRA. The decline in  
 14 miscellaneous postal supplies and services associated with the reduction of  
 15 \$208.3 million (labor savings excluding service wide benefits) in maintenance  
 16 personnel costs at \$7.81 per \$1,000 of salary and benefits is \$1.6 million. The  
 17 sum of these non-personnel facility-related cost savings is \$93.8 million, as  
 18 shown in Table 6 below.



1

	<b>Expenses for Inactive Sites*</b>	<b>Percentage of Inactive Site Space for Processing</b>	<b>Total Savings</b>
	in millions		in millions
Utilities and Heating Fuel	\$ 78.3	95.0%	\$ 74.4
Custodial Supplies and Services	\$ 18.7	95.0%	\$ 17.8
Miscellaneous Postal Supplies and Services			\$ 1.6
Total			\$ 93.8

\*Expenses for Inactive Sites Based on PSFR data.

2

3           The final aspect of annual facility-related savings stemming from reduced  
4 need for facility space is rents saved on leased space or potential earnings  
5 relating to vacated owned facilities (from the sale or leasing of such space).  
6 About 90 percent of the space associated with the Inactive sites is owned, while  
7 10 percent is rented. To estimate these savings, we sought assistance from our  
8 Facilities department.

9           Facilities has been tasked to estimate these types of savings for the  
10 buildings and properties associated with Inactive sites. Though this work is not  
11 yet complete, they were able to offer the following based on work done to date.  
12 An important point related to their work is that there are non-processing activities  
13 at these buildings (VMF, retail, delivery, district offices), some of which can be  
14 expensive to relocate. Thus, it is a possibility we could keep even large facilities  
15 to support the remaining activities, seeking to utilize vacant space by moving in  
16 other nearby postal operations, such as delivery annexes, or by subleasing.

1 Facilities indicated that they have been directed, as a general rule, to sell  
2 vacant owned assets when possible and to terminate leases as space is vacated.  
3 Based on the most current studies completed by Facilities, it appears that, of the  
4 252 buildings in the study, which consists of 209 owned buildings and 43 leased  
5 buildings totaling 28.7M square feet, the Postal Service would be able to fully  
6 vacate only 93 buildings totaling 13.5M square feet. This would result in a  
7 financial breakdown as follows:

8 \$448 million one time revenue

9 \$121 million one time capital cost

10 \$16.8 million annual lease savings

11 In a number of cases where the Postal Service would be retaining space,  
12 Facilities will move other surrounding operations into the space and capture  
13 savings and revenue for these buildings. Those potential moves are figured into  
14 the above revenue, cost and savings.

15 Based on this, the annual savings obtainable after a transition is complete  
16 would consist of \$16.8 million annual lease savings plus the annual benefit  
17 associated with the net revenue of \$327 million (=\$448 million - \$121 million).  
18 Determining the annual benefit or “savings” associated with the \$327 million net  
19 revenue is difficult. This is especially true for a federal agency that is greatly  
20 constrained by law in terms of its investment options.<sup>16</sup> However, it is my view  
21 that the Postal Service could put these funds to use making capital investments  
22 for postal plant, equipment or vehicles, earning at least a 10 percent annual

---

16 Federal Trade Commission, *Accounting for Laws that Apply Differently to the United States Postal Service and Its Private Competitors*, December, 2007, page 45.

1 return.<sup>17</sup> On this basis, the annual “savings” stemming from the \$327 million in  
2 net revenue is 10 percent of this, or \$32.7 million.

3 The rental earnings and rental savings would total \$49.5 million, as  
4 shown in Table 7 below. Considering all facility-related savings together – for  
5 building maintenance and custodial labor; utilities and heating fuel; custodial  
6 supplies and services; rental savings and benefits from facility sale proceeds –  
7 the total annual savings is \$374.8 million.

8

<b>Table 7: Facility Lease and Sale Related Savings</b>	
	<b>Total Annual Savings</b>
	in millions
Potential Annual Earnings from Facility Sales Proceeds	\$ 32.7
Potential Rent Savings	\$ 16.8
<b>Total</b>	<b>\$ 49.5</b>

9

## 10 **VII. Workload Reduction Savings**

11 The consolidated network under consideration, as described by witnesses  
12 Rosenberg, USPS-T-3, and Neri, USPS-T-4, results in reduced workload in many  
13 ways, three of which can be explicitly quantified:

14 1. Elimination or reduction of outgoing secondary sorting

---

<sup>17</sup> The basis for this view is summarized in 2011 Report on Form 10-K United States Postal Service, page 9, where the following risk is acknowledged: “Due to our current cash constraints, our operational performance in the future could be at risk as a result of inadequate capital investment in transportation equipment, mail processing equipment, facilities, or information technology which are either essential to operations or to improve the quality of our services.”

1           2. Complete elimination of CSBCS and UFSM 1000 sortation, and  
2           3. Additional letter automated incoming secondary and DPS sorting  
3 I have used the Docket No. ACR2010 letter and flats cost models, productivities,  
4 and wage rates to get processing labor savings, and I have relied on the Docket  
5 No. ACR 2010 as well for delivery cost savings.<sup>18</sup> This is detailed in USPS-LR-  
6 N2012-1/23.

7           Reduction in Outgoing Secondary Sorting

8           In today's processing environment, we distribute automated letter-sized  
9 mail to 166 Automated Area Distribution Center (AADC) mail processing facilities  
10 and manual letters, flats, and parcels are sorted to 130 Area Distribution Center  
11 (ADC) facilities. In addition, with the current overnight service standard, outgoing  
12 sorting has a focus on getting turnaround mail sorted to the 5-digit zip codes as  
13 much as possible, leaving much additional sortation for an outgoing secondary.  
14 Under the proposed plan, there would be fewer separations to make for letters,  
15 and there wouldn't be a need to focus on local or turnaround mail for both letters  
16 and flats. As a result, for letter sorting, there won't be a need to do outgoing  
17 secondary sorting. In the case of flats, the reduced need to get local turnaround  
18 mail to the 5-digit level allows a greater depth of sortation for mail for other  
19 plants, allowing a reduction in outgoing secondary. Under the proposed network,  
20 flats outgoing secondary sorting would be 42 percent of the current volumes.  
21 These specific estimates of the amount of reduction in outgoing secondary  
22 sorting have been provided to me by Operations and are discussed further in

---

<sup>18</sup> See Docket No. ACR 2010, USPS-FY10-10, USPS-FY10-11, USPS-FY10-19 and USPS-FY10-23.

1 USPS-LR-N2012-1/23. Table 8 below summarizes the savings calculations  
 2 shown in more detail in this library reference. Table 8 shows the annual volume  
 3 reductions expected under the proposed network, along with the labor savings  
 4 per piece (including service wide benefits) and the savings in miscellaneous  
 5 postal supplies and services.

6

<b>Table 8: Savings Due to Reduction in Outgoing Secondary Sorting</b>						
<b>Equipment Type</b>	<b>Annual Volume Reduction in Outgoing Secondary (TPH)</b>	<b>Labor Savings per TPH</b>	<b>Labor Cost Savings</b>	<b>Service-Wide Benefits</b>	<b>Miscellaneous Postal Supplies and Services</b>	<b>Total Savings</b>
		in cents	--- in millions ---			
DBCS	3,981,560,824	0.4111	\$ 16.4	\$ 1.8	\$ 0.1	\$ 18.3
AFSM 100, UFSM 1000	204,200,697	1.9539	\$ 4.0	\$ 0.4	\$ 0.0	\$ 4.5
Total			\$ 20.4	\$ 2.3	\$ 0.2	\$ 22.8

7

8 Elimination of CSBCS and UFSM 1000 Sortation

9 Additionally, being able to process the same volumes on less equipment  
 10 and in a smaller number of locations would allow the Postal Service an  
 11 opportunity to select the most efficient equipment. For example, in FY 2010,  
 12 CSBCS workload reflected 17.297 billion sorts. Under the proposed plan, the  
 13 CSBCS workload would migrate to the DBCS, resulting in less processing  
 14 handlings. Similarly, in FY 2010, there was a UFSM 1000 volume of 1.254  
 15 billion. This would move to the more efficient AFSM 100. In FY 2011, on-going  
 16 migration activities have resulted in a decrease of CSBCS and UFSM 1000  
 17 workload, and so the volumes to be eliminated under the proposed network have

1 been reduced to account for this. Table 9 shows the summary of calculations,  
 2 which are further detailed in USPS-LR-N2012-1/23.

3

<b>Table 9: Savings Due to Eliminating CSBCS and UFSM 1000 Sortation</b>						
<b>Equipment Type</b>	<b>Annual Volume Eliminated</b>	<b>Labor Savings per piece</b>	<b>Labor Cost Savings</b>	<b>Service-Wide Benefits</b>	<b>Miscellaneous Postal Supplies and Services</b>	<b>Total Savings</b>
		in cents	--- in millions ---			
CSBCS	1,507,665,860	0.44	\$ 6.7	\$ 0.7	\$ 0.1	\$ 7.5
UFSM 1000	642,383,165	1.11	\$ 7.1	\$ 0.8	\$ 0.1	\$ 8.0
Total			\$ 13.8	\$ 1.5	\$ 0.1	\$ 15.4

4

5 Additional Automated Letter Sorting

6 The consolidation of the network into a smaller number of sites allows  
 7 additional automation of letters sorting. There is an opportunity to move mail  
 8 currently processed in manual operations into automated or mechanized  
 9 operations, which require less workhours to process the same volume.

10 Also, there are opportunities for productivity improvements by doing  
 11 additional DPS for the remaining automation-compatible and non-DPS letter  
 12 volumes. Within our active list of 5-digit ZIP Codes for letters, there are 2,072  
 13 zones not being sorted to the finest depth of sort and placed in DPS. Under the  
 14 Network Rationalization concept, the operating window would be extended and  
 15 additional zones could be sorted in DPS, resulting in the elimination of manual  
 16 distribution by the carrier. Within these zones, Post Office Boxes would be  
 17 sequenced, resulting in a reduction in distribution handling by the clerk.  
 18 Similarly, the P. O. Box mail would be sequenced for zones without carriers that  
 19 are currently non-automated, resulting in reduced distribution handling by the

1 clerk. The calculation of these savings is summarized in Table 10 and detailed in  
 2 USPS-LR-N2012-1/23.

3

<b>Table 10: Savings Due to Additional Automated Sorting of Letters</b>								
		Processing Labor Costs						
<b>Current Incoming Secondary Sortation</b>	<b>Annual Volume Added to DPS</b>	<b>Labor Cost Change per piece</b>	<b>Labor Cost Change</b>	<b>Service-Wide Benefits</b>	<b>Miscell. Postal Supplies and Services</b>	<b>Total Proc. Savings and/or Costs</b>	<b>Total Delivery Savings</b>	<b>Total Savings</b>
	millions	in cents	--- in millions ---					
Manual	90.4	3.01	\$ 2.7	\$ 0.3	\$ 0.0	\$ 3.0	\$ 4.1	\$ 7.1
Automated	687.2	(0.27)	\$ (1.8)	\$ (0.2)	\$ (0.0)	\$ (2.1)	\$ 31.0	\$ 28.9
Total			\$ 0.9	\$ 0.1	\$ 0.0	\$ 1.0	\$ 35.0	\$ 36.0

4

5 In total, these three workload reductions add \$74.2 million in annual savings.

6

7 **VIII. Summary of Savings Provided in This Testimony**

8 Again, as discussed above, these savings are “full-up” savings—annual  
 9 ongoing savings once a full transition is made. Also, these are the savings in  
 10 terms of FY 2010, as if the plan of consolidating mail processing, currently under  
 11 study, had been in place and “full up” during FY 2010. Witness Rosenberg,  
 12 USPS-T-3, has made estimates of the considerable reductions in facility space  
 13 and equipment requirements for this consolidated network. Witness Bratta,  
 14 USPS-T-5, has used this information to determine the reductions in maintenance  
 15 and custodial staffing savings and non-personnel resources due to this  
 16 consolidated network. My testimony has worked to quantify the savings  
 17 associated with the staffing reductions, savings in non-personnel and workload

1 that witness Bratta has identified. I have done this using Docket No. ACR2010  
 2 costs and data, supplemented as well with additional FY2010 cost information.  
 3 These savings are summarized in Table 11 below.

4

<b>Table 11: Summary of Cost Savings Provided in this Testimony</b>	
<b>(in terms of FY2010 Costs)</b>	<b>in millions</b>
<b>Mail Processing Equipment</b>	
Maintenance Labor	\$ 379.9
Parts and Supplies (including BDS cartridges)	\$ 82.0
Depreciation of Equipment	
Subtotal	\$ 461.9
<b>Facility Related Savings</b>	
Building Maintenance and Custodial Labor	\$ 231.5
Utilities and Heating Fuel	\$ 74.4
Supplies and Contractor Costs	\$ 19.4
Rents and Earnings on Sales Proceeds	\$ 49.5
Subtotal	\$ 374.8
<b>Workload Reduction Savings</b>	
Reduction in Outgoing Secondary Sorting	\$ 22.8
Replacement of CSBCS and UFSM 1000 Sortation	\$ 15.4
Additional Letter Automated Sorting (e.g. DPS)	\$ 36.0
Subtotal	\$ 74.2
<b>Total for Testimony</b>	<b>\$ 910.9</b>

5

6 An additional observation can be made. Future years will have higher  
 7 hourly labor costs and input unit costs, and most likely lower mail volumes.  
 8 Actual savings obtainable in the coming years will be affected somewhat by  
 9 these offsetting factors.

10



1 **Appendix A**

2 DESCRIPTION OF SERVICE-WIDE BENEFITS

3 Service-wide personnel benefits costs are not reported by employee  
4 category and therefore are not included in Cost Segments 1-13, 16, 18.1 and 19.  
5 Instead, these costs are included in cost segment 18.3. This Appendix contains  
6 a description of those service-wide benefits from cost segment 18.3 which are  
7 pertinent to labor savings identified in this docket, including an explanation of  
8 how they are pertinent. A complete description of service-wide benefits and their  
9 treatment in developing attributable costs by class is contained in “Summary  
10 Description of USPS Development of Costs by Segments and Components,  
11 Fiscal Year 2010,” filed with the Postal Regulatory Commission in July 2011, in  
12 connection with the Commission’s rules pertaining to periodic reports, 39  
13 C.F.R. § 3050 (2009).

14  
15 Repriced Annual Leave and Holiday Leave Adjustment - Repricing of annual  
16 leave represents the increased liability associated with the difference between  
17 the value of annual leave when it is earned and when it is taken. Postal  
18 employees earn a specific number of annual leave hours per pay period. Pay  
19 increases that occur after leave is earned but before it is used result in an  
20 increase in the liability and cost.

21 The cost of repriced annual leave is determined by relating the number of  
22 unused leave hours for each employee at year end to the current wage rates,

1 summing for all employees, and then comparing this figure with the recorded  
2 liability for annual leave. The difference yields the cost of repricing annual leave.

3

4           Holiday Leave Adjustment is holiday leave variance and holiday leave on  
5 terminal leave. Like repriced annual leave, holiday leave adjustment costs are  
6 driven by wage increases and the actual cost of holiday leave versus the amount  
7 accrued. These costs relate to the services of current employees. Holiday leave  
8 variance represents the difference between actual year-end holiday leave costs  
9 and the amount of holiday leave costs estimated at the start of the fiscal year. At  
10 the beginning of the fiscal year, the amount for holiday leave is estimated in order  
11 to expense a uniform amount chargeable to each accounting period. At year-  
12 end, the actual holiday leave amount is compared with the estimated amount, the  
13 difference being the cost of holiday leave variance. Holiday leave on terminal  
14 leave represents the cost of holiday leave that is earned for the period  
15 represented by annual leave paid out as terminal leave.

16           Repriced annual leave and holiday leave adjustment costs could be  
17 identified by craft or function and reflected with the personnel costs of this and  
18 other segments. These costs are part of salaries and benefits and would be  
19 saved due to staffing and workhour reductions under operations or the network  
20 given the proposed service standard changes in the same manner as all other  
21 personnel-related costs.

22

1 Workers' Compensation - Workers' compensation costs are considered in terms  
2 of current-year costs, prior-year costs and health benefit payments for current or  
3 former Postal Service employees who are on Office of Workers' Compensation  
4 Programs (OWCP) rolls full-time.

5         Current-year workers' compensation costs represent the discounted  
6 present value of current and projected payments for employee claims against the  
7 Postal Service arising out of current-year workplace injuries. The number of  
8 employees directly influences changes in the amount of current-year workers'  
9 compensation expense for which the Postal Service is liable. If the number of  
10 workers' compensation claims were held constant per 1,000 employees, then any  
11 change in the total Postal Service labor force would cause a proportionate  
12 change in the number of claims. Current-year workers' compensation costs  
13 would be saved due to staffing and workhour reductions given the operations  
14 changes under the proposed service standards in the same manner as all other  
15 personnel-related costs.

16         Prior-year workers' compensation costs, Post Office Department workers'  
17 compensation costs and OWCP health benefits relate to worker compensation  
18 expenses of prior years and are not affected by current year staffing or work  
19 hours, so could not be saved in relation to the operational changes due to  
20 proposed service standards. It is for this reason that these prior-year workers'  
21 compensation costs are not included in attributable costs, but instead are  
22 classified as institutional.

23

1 Unemployment Compensation - Unemployment compensation costs reflect  
2 payments by the Postal Service to the Department of Labor to reimburse states  
3 for payments to unemployed former Postal Service employees. Holding labor  
4 force attrition and postal hiring and termination practices constant, the number of  
5 potentially unemployed postal workers is a function of total postal employment.  
6 Thus Unemployment Compensation would be saved through staffing and  
7 workhour reductions given the operations changes under the proposed service  
8 standards in the same manner as all other personnel-related costs.

9

10 Annuitant Health Benefits & Earned CSRS Pensions - The benefits earned  
11 during FY 2010 by current employees—benefits not contained in the labor Cost  
12 Segments of 1-13, 16, 18.1, and 19--nor in any of the FY 2010 expenses of the  
13 Postal Service —include both the retiree health benefits of \$3.1 billion and Civil  
14 Service Retirement System (CSRS) pension benefits of \$1.040 billion. These  
15 benefits, to be paid to current employees during their retirement years, are part of  
16 FY 2010 “pay” or salary and benefits for the postal employees receiving these  
17 benefits. The future payment of these benefits represents an obligation for the  
18 Postal Service, which will ultimately have to be paid by the Postal Service. As  
19 will be explained further below, the amount of this obligation depends on the  
20 number of employees and/or the earnings of the employees receiving these  
21 benefits. Thus, costs for retiree health benefits and CSRS pension would be  
22 saved through staffing and workhour reductions given the operations changes

1 under the proposed service standards in the same manner as all other  
2 personnel-related costs.

3 Under the Postal Accountability and Enhancement Act (PAEA), OPM  
4 determines the amount of the new obligations incurred each year pertaining to  
5 retiree health benefits (39 U.S.C. § 8908a[d][1]). The yearly increase in  
6 obligations is the change in the net present value of the future retiree health  
7 benefits payments during the year. It is the value of the retiree health benefits  
8 earned by current employees during the year. While it will not be paid to current  
9 employees until they retire, it is part of the compensation to employees, just like  
10 salaries and currently paid benefits. OPM's estimate of the present value of the  
11 additional obligation taken on during FY 2009 for future payment of retiree health  
12 benefit is \$3.1 billion, reported in the Postal Service FY 2010 10-K Annual  
13 Report, page 28, shown as Normal Cost. In addition, OPM will tally these  
14 obligations each year and it will determine if additional payments after 2016 are  
15 needed to fully fund past obligations on retiree health benefits.<sup>19</sup> The larger the  
16 obligations taken on by the Postal Service in any year, the larger the amounts of  
17 additional funding will be required. The calculation of the Normal Cost is based  
18 on the number of employees potentially able to receive such benefits.

---

<sup>19</sup> The PAEA stipulated that a \$5.4 billion payment for Postal Retirees Health Benefit Fund (PRHBF) should be made in FY 2007, with additional payments specified for each year up until 2016, with a 10 year total of payments of \$51.8 billion, as per the 2010 Continuing Appropriations Resolution, Legislative Branch Appropriations Act, 2010, Public Law 111-068. These payments were to make up for past under funding of these retiree benefits and will be used in the payment of retiree health benefits starting in 2017.

1 Retirement pension benefits earned by CSRS employees in FY 2010  
2 equaled \$1.040 billion.<sup>20</sup> Under PAEA, the Postal Service no longer has to make  
3 contributions to CSRS, despite the continued employment of CSRS covered  
4 employees, because its past contributions to CSRS had overfunded this  
5 obligation. Again, as with the PRHBF, CSRS obligations taken on in FY 2010  
6 and future years will affect how much the Postal Service ultimately pays to CSRS  
7 (either due to additional payments or monies returned to the Postal Service).<sup>21</sup>  
8 The CSRS fiscal year cost, previously called “employer contribution,” is based on  
9 the fiscal year earnings of CSRS employees.<sup>22</sup>

10 For the above reasons, these benefits earned during the fiscal year by current  
11 employees, retiree health benefits of \$3.1 billion and CSRS pensions of \$1.040  
12 billion are treated the same as salaries and benefits costs in Cost Segments 1-  
13 13, 16, 18, and 19 for the determination of attributable costs in the CRA.<sup>23</sup>  
14 Annuitant Life Insurance and Annuity Protection Program - Annuitant life  
15 insurance costs represent the employer's share of the Federal Employee Group  
16 Life Insurance (FEGLI) for Postal Service annuitants. The OBRA of 1990  
17 required the Postal Service to pay the employer's share of FEGLI premiums for

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<sup>20</sup> See Docket No. ACR2010, USPS-FY10-2.

<sup>21</sup> 39 U.S.C. § 8348.

<sup>22</sup> PL 108-18 provided, starting in March, 2003, that the Postal Service “employer” contribution be 17.4 percent of CSRS employee salaries and that, together with the employee contribution of 7 percent, provides 24.4 percent of total salary per year toward retirement. This was designed to be the appropriate and actuarially sound annual contribution for CSRS retirement. It is the “current” year cost for CSRS pensions. Also see Docket No. ACR2007, Postal Service Response to Question 11 of CIR No. 1 (February 11, 2008).

<sup>23</sup> See Docket No. ACR2010, USPS-FY10-2. For a more detailed discussion of this topic, see the FY 2007 ACR, USPS-FY07-2, Supplement.

1 all employees retiring on or after July 1, 1971, and their survivors, with the  
2 exclusion of Federal civilian service prior to that date. The annuitant life  
3 insurance costs are part of the benefits earned by the covered employees. Such  
4 costs would be saved through staffing and workhour reductions given the  
5 operations changes under the proposed service standards in the same manner  
6 as all other personnel-related costs.

7

8 Annuity protection program costs are for benefits paid to specific disability and  
9 discontinued service annuitants and their beneficiaries under the Annuity  
10 Protection Supplemental Retirement Plan. Because these costs are unrelated to  
11 to current employees, they are not affected by current year staffing or work  
12 hours, so they could not be saved in relation to operational changes associated  
13 with service standard changes. It is for this reason that these costs are not  
14 included in attributable costs, but instead are classified as institutional.

15

## **ATTACHMENTS**

Attachment 1: Productive Hourly Rates for FY 2010 by Cost Segment

Attachment 2: Productive Hourly Rates for FY 2010 for Maintenance and  
Custodial

Attachment 3: FY2010 Labor and Non-Personnel Costs for Processing Facilities



### Productive Hourly Rates for FY 2010 by Cost Segment

**FY 2010**

SEGMENT/SUBSEGMENT	COMP.	TOTAL PERS. EXP. (\$ 000)	WORK YEARS	AVERAGE ANN. RATE	CONVERSION FACTOR	PROD. HRLY. RATE
SUPERVISORS & TECHNICIANS*	284	3,652,436	41,552	\$ 87,901.17	1,813	\$ 48.4838
CLERKS A-J	478	11,765,543	164,956	\$ 71,325.33	1,738	\$ 41.0387
MAIL HANDLERS	478	3,645,179	51,521	\$ 70,751.69	1,746	\$ 40.5222
CLERKS & MAIL HAND. A-J	478	15,410,722	216,477	\$ 71,188.80	1,740	\$ 40.9131
CITY DEL. CARR'S.	256 & 257	15,640,234	216,418	\$ 72,268.53	1,755	\$ 41.1786
VEHICLE DRIVERS	258	615,140	8,133	\$ 75,636.63	1,756	\$ 43.0733
RURAL CARRIERS	72	5,964,202	96,496	\$ 61,807.61	1,836	\$ 33.6643
BLDG. SERVICES	74	1,141,502	16,419	\$ 69,522.45	1,729	\$ 40.2096
OPERATING EQUIPMENT	75	1,541,042	18,621	\$ 82,759.06	1,742	\$ 47.5081
BLDG EQUIPMENT	79	510,589	6,671	\$ 76,539.96	1,724	\$ 44.3967
MOTOR VEH. SVC.	90	431,482	5,650	\$ 76,373.51	1,736	\$ 43.9940
CITY & RURAL CARRIERS		21,604,436	312,915	\$ 69,042.61	1,780	\$ 38.7880
HEADQUARTERS	191	781,507	7,203	\$ 108,502.83	1,746	\$ 62.1437

Source:

Total Personnel Expense - RealTB10

Workyears - Wkyrcalc-10

Conversion Factor - FFM

Source: Docket No. ACR2010, USPS-FY10-7, part8.xls.

\*Supervisors and Techicians includes Plant Managers, as well as LDCs 2-9 (Quality Improvement, Industrial Engineer, Address Information Systems Tech., Environmental Management, Admin and Cler Oper Suppt, Travel- ops sup, delivery and retail analysts.

**Productive Hourly Rates for FY2010 for Maintenance and Custodial**

<b>Segment/Subsegment</b>	<b>Comp.</b>	<b>Total Personnel Expense (\$000)</b>	<b>Workyears</b>	<b>Average Annual Rate</b>	<b>Conversion Factor</b>	<b>Productive Hourly Rate</b>
Equipment Maintenance /1	75	\$ 1,304,476	15,925	\$ 81,914	1,739	\$ 47.1042
Building Maintenance /1	79	\$ 381,761	5,024	\$ 75,980	1,719	\$ 44.2003
Custodians /1	74	\$ 1,044,559	15,459	\$ 67,570	1,729	\$ 39.0801
Administration /1	74-79	\$ 160,417	2,200	\$ 72,933	1,747	\$ 41.7476
Supervisors /2		\$ 301,920	3,103	\$ 97,300	1,773	\$ 54.8787
		\$ 3,193,134	41,711			

Notes:

/1 Includes Career and Casual employees.

/2 Includes all Supervisors.

Source: Same as for Attachment 1, and additional detail from the National Consolidated Trial Balance and the National Payroll Hours Summary Report.

Ratio of Supervision to Staff Work Years in Maintenance and Custodial  
Workyears

Supervision	3,103
Maintenance and Custodial Staff	38,608
Ratio	0.080371592

**FY2010**  
**LABOR AND NON-PERSONNEL COSTS FOR PROCESSING FACILITIES\***

	<b>Total</b>
C/S 1 - POSTMASTERS	7,828,302
C/S 2 - SUPERVISORS	875,933,386
C/S 3 - CLERKS & MAILHANDLERS	7,788,306,393
C/S 4 - CLERKS CAG K OFFICES	160
C/S 5 & 7 - CITY DELIVERY CARRIERS	156,971,212
C/S 8 - VEHICLE SERVICE DRIVERS	559,083,602
C/S 10 - RURAL CARRIERS	
72 Subtotal Rural Carrier Personnel Costs	39,152,458
73 Subtotal Equipment Maintenance Allowance	2,911,232
TOTAL	42,063,690
C/S 11 - CUSTODIAL & MAINTENANCE SERVICES	
74 Subtotal Building Service Maintenance Personnel Costs	536,103,912
75 Subtotal Operating Equipment Maintenance Personnel Costs	1,216,162,580
79 Subtotal Building & Plant Equipment Maintenance Personnel Costs	350,832,546
81 CONTRACT JOB CLEANERS-BUILDING SERVICES	765,090
74-79 Subtotal Maintenance Administrative Support Personnel Costs	216,586,522
TOTAL	2,320,450,651
C/S 12 - MOTOR VEHICLE SERVICE	
90 Subtotal Motor Vehicle Service Personnel Costs	17,427,710
99 Subtotal Motor Vehicle Supplies & Materials	100,959,671
108 VEHICLE HIRE	2,441,760
TOTAL	120,829,142
C/S 13 - MISCELLANEOUS LOCAL OPERATIONS	
111 Subtotal Contract Station Service	2,020,999
113 Subtotal Tolls & Ferriage - Local Transportation	319,922
114 Subtotal Facilities & Purchasing Field Service Unit Personnel Costs	198
115 Subtotal Individual Awards	25,266,286
117 Subtotal Mail Equipment Shop Issue and Freight	2,567,049
125 Federal Reserve and Commercial Bank Services	14
135 Subtotal - Carfare - Other than Carrier Owned	3,452,499
141 Subtotal City Carrier Drive Out Costs	13
TOTAL	33,626,980
C/S 15 - BUILDING OCCUPANCY	
165 Subtotal Net Cost of Rent	89,287,038
166 Subtotal - Building Heating Fuels	17,652,114
167 Subtotal Utilities	203,139,886
168 Subtotal - Communications	143,516
169 Subtotal Building Repair & Alteration Projects	73,079
170 Subtotal Moving Expenses	9,435
TOTAL	310,305,066
C/S 16 - SUPPLIES & SERVICES	
173 Subtotal Materiel Distribution Centers & Label Printing Center Personnel Cost	1,361
174 Subtotal ADP supplies & services	1,387,669
175 Subtotal repair & maint. of equipment excluding ADP & vehicles	1,566,833
176 Subtotal custodial supplies & services	60,231,054
177 Total postal supplies & services	91,923,418
179 Subtotal printing and reproduction	837,787
180 Subtotal stamps and accountable paper	30,019
182 Total inventory adjustments	(43,677)
184 Subtotal operating equipment, supplies & services	148,404,339
187 Subtotal - Expedited Mail Supplies	75
189 Total reimbursements (Reimbursements)	(404,101)
246 Subtotal - Advertising and Sales Promotions	119,850
1426 Subtotal - Non-Mail Related Products	102
TOTAL	304,054,727

### Attachment 3

C/S 18 - HQ&AREA ADMIN&CORPORATEWIDE PERSONNEL COSTS	
191 Total Headquarters & Field Service Unit Personnel Costs	48,236
193 Subtotal Area Administration Personnel Costs	158,543
206 Subtotal Workers' Compensation expense	302,121,639
210 Subtotal Supplies & Services	967,407
211 Subtotal miscellaneous expenses	1,991,693
212 Subtotal investigative costs & employee losses	33,554
213 Subtotal reimbursements	(70)
895 H.B.PREMIUMS-WORKERS COMP CLAIMANTS	456,872
1429 Total Individual Awards	65,013
1430 Miscellaneous Personnel Compensation	237,805
TOTAL	306,080,692
C/S 19 - EQUIPMENT MAINT & MGMT TRAINING SUPPORT	
219 Subtotal Maintenance Technical Support Center Personnel Costs	1,548
220 Subtotal - Training - Contract Support	25,791,429
TOTAL	25,792,977
C/S 20 - DEPRECIATION, WRITE OFFS, LOSSES & INTEREST	
231 Subtotal Depreciation - Motor Vehicles	38,482,653
232 Subtotal Depreciation - Equipment	664,515,704
236 Subtotal Depreciation - Leases and Buildings	282,018,106
237 Subtotal Amortization - Leasehold Improvements	29,112,002
242 Subtotal Claims & Losses	3,932,044
245 Subtotal Disposition of Property	54,364
1437 Subtotal - Other Interest	222,157
TOTAL	1,018,337,029
TOTAL EXPENSES	13,869,664,008