BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268–0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000	Docket No. R2000–1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TAYMAN TO INTERROGATORIES OF
THE ALLIANCE OF NONPROFIT MAILERS
(ANM/USPS–T9–50-66)

The United States Postal Service hereby provides the responses of witness Tayman to the following interrogatories of the Alliance of Nonprofit Mailers: ANM/USPS–T9–50-66, filed on March 14, 2000.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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March 31, 2000

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ANM/USPS-T9-50. Please refer to your response to ANM/USPS-T9-27b. Aside from the statutory debt limit provisions which you discuss there (as well as in your response to ANM/USPS-T9-2) does the Postal Service or the Board of Governors have any internal guidelines or other limitations (of any kind) on borrowing (either annual amounts/or in aggregate) for capital improvement that are more restrictive than the statutory limitations?

(a) If so, please produce documents containing such guidelines or limitations.
(b) Explain what effect these more restrictive internal guidelines and limitations have had on Postal Service capital investment and borrowing during the period 1990- 1999.

RESPONSE:

(a&b) As explained in my response to ANM/USPS-T9-1, "the Postal Service avoids borrowing and reduces debt when possible to save the net cost of interest". This is explained further in the Financing Plans attached to the response to ANM/USPS-T9-4. The Postal Service has no other internal restrictions or guidelines on borrowing.

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ANM/USPS-T9-51. Please refer to the Capital Investment Plan, FY 1998-2002, FY 2000 Update attached to your response to ANM/USPS-T9-8. At page 6 that Report states the following:

> In 1980 the USPS started investing in automation equipment with the single line optical character reader. Since that time the USPS has invested $5.6 billion in letter mail automation... Our financial analysis begins in 1987, prior to the deployment of multi-line optical character readers and the improved bar code sorters. The salary avoidance since that time amounts to about $15 billion.

(a) When was this report published?
(b) Was the Capital Investment Plan, FY 1998-2002 prepared specifically or primarily for the Governors? If not, for whom was the report primarily intended?
(c) Was this report submitted to the Governors for their review and/or approval?
(d) Do you agree that the $5.6 billion of investment in letter mail automation since 1980 is a correct amount? If not, provide what you believe to be the most accurate amount as of the date when this report was published.
(e) Does the $5.6 billion for letter mail automation include any of the capital investment to date for mechanizing and automating the handling of flats or parcels?
(f) Do you agree that the salary avoidance since 1987 of $15 billion is a correct amount? If not, provide what you believe to be the most accurate amount as of the date when this report was published.
(g) Is the $15 billion in salary avoidance the amount of salaries avoided solely on account of the investment in letter mail automation since 1987? Or, does that $15 billion salary avoidance figure also reflect the result of capital investment in other mail processing equipment? If the $15 billion in salary avoidance reflects some amount of investment that is either greater than or less than the $5.6 billion discussed in the first paragraph on page 6, please provide the total amount of the investment that resulted in the $15 billion of savings, and provide a year-by-year summary showing when that investment occurred and when the savings were realized.

RESPONSE:

(a) This report was published in January, 2000.

(b) No. The report summarizes information and is used primarily as an informational document for postal managers, suppliers and customers.

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ANM/USPS-T9-51. continued

(c) The report is not submitted to the Governors for review or approval.

(d) I have been informed that this amount is correct.

(e) No.

(f) I have been informed that this amount is correct.

(g) No. This is the savings/avoided labor costs since 1987 less funds spent on the remote bar coding system. The salary savings/avoidance were calculated on the basis of work hour reductions obtained from specific mail processing operations. The underlying assumption for the calculation was that those reductions resulted from implementation of the letter automation program. Since some non-quantifiable portion of the work hour reductions may have resulted from other managerial actions, it cannot be stated categorically that labor costs were avoided "solely" on account of the investment in the letter automation program. It is firmly believed, however, that the investment in letter mail automation equipment provided the platform for which all the savings / cost avoidance were captured.

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ANM/USPS-T9-52. Please refer to ANM/USPS-T9-42. That interrogatory asked you to indicate all reductions in depreciation and amortization that will be realized from reductions in capital investment (i.e., items that are subject to being amortized and depreciated over periods greater than 1 year). Your answer did not indicate whether any such capital spending cutbacks have been made. Please provide a responsive answer. If no capital spending program has been reduced and all reductions are for current expense items only, please so state.

RESPONSE:

The capital commitment plan for Fiscal Year 1999 was reduced from $4.4 billion to $4.0 billion and the Fiscal Year 2000 plan was reduced from $4.0 billion to $3.5 billion. The impact of the FY 99 capital commitment reductions on depreciation is already reflected in the filing. For FY 2000 the capital commitment reductions targeted mostly facility projects. The impact of these reductions on test year depreciation is relatively minor in view of the fact that depreciation on new facilities does not start until one year after the in service date.

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ANM/USPS-T9-53. Please refer to your response to ANM/USPS-T9-43, where you state "To purchase equipment, in the past, Congress has even passed legislation that restricted the amount of capital spending the Postal Service could incur in a given year." Provide citations to all such legislation passed since 1987, indicate the spending limits contained in each statute cited, and discuss the practical effect of each such statute (e.g., did it cause cancellation or deferral of certain projects?).

RESPONSE:

The legislation to which I referred was the Omnibus Reconciliation Act of 1987, which limited capital commitments by the Postal Service to $625 million in FY 1988 and $1,995 million in FY 89. As a result of this legislation, the original FY 88 capital commitment plan was reduced from $2,361 million to $625 million. For additional details please refer to the 1988 Comprehensive Statement on Postal Operations, a copy of which is available in the US Postal Service Library, 475 L'Enfant Plaza SW, Washington DC 20260-6444.

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ANM/USPS-T9-54. Please refer to Exhibit USPS-9F. The row "All other differences (net)" indicates a positive cash flow of $1.465 billion in TY 2001 AR. Please indicate each item included in this catchall category that has a projected cash flow greater than $90 million, and indicate the amount projected for each such item.

RESPONSE:

A breakdown of the $1.465 billion TY 2001 AR adjustments to reconcile net income to cash provided by operating activities can be found in Chapter VI, Section b., page 232, of LR-I-127.

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ANM/USPS-T9-55. Please refer to Attachments I, II, and III to ANM/USPS-TI0-17 (redirected from witness Kingsley).

(a) Please provide the date of each attachment or, if they do not carry a date, the month and year when each was distributed to the Governors.

(b) Attachment I, at page 1, states: "We have listened to the concern of the Board about increased spending, and we will take a step back to look at our future investment requirements in conjunction with our attempt to extend the rate cycle." Please provide what you believe to be all concerns of the Board to which this statement refers, indicate whether those concerns were transmitted orally, in writing, or by Board resolution, and provide copies of all resolutions or internal guidelines concerning capital spending received in writing from the Board since 1990.

(c) Is the revised Capital Investment Plan shown on page 1 of Attachment I, which calls for capital investment of $2.7 billion in 2001 and 2002, still in effect? If not, please provide a copy of the current plan for those years.

(d) The Revised Capital Investment Plan shown on page 1 of Attachment I indicates plans of $3.5 billion for 2000. Attachment II, page 1, states that "The fiscal year 2000 capital plan totals $4.0 billion." Does the increase in Attachment II versus Attachment I (i.e., $4.0 vs. $3.5 billion) represent a failure to spend all that was budgeted for FY 1999 and a subsequent effort to catch-up, or does it represent a net increase of $0.5 billion in the five year plan? Please explain.

RESPONSE:

(a) Attachments I was issued on August 17, 1998, Attachment II was issued on July 26, 1999 and Attachment III was published in October, 1998.

(b) It is my understanding that the concerns of the Board related to the level of outstanding debt and interest expense, increased depreciation expense and returns on capital investments. These concerns were expressed by the Board in oral comments as the Capital Investment Plan was being formulated.

(c) No. The Fiscal Year 2001 capital commitment plan has been reduced to $2.3 billion.

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ANM/USPS-T9-55. continued

(d) Attachment I reflects the Fiscal Year 1999 update of the 1998 – 2002 five year capital commitment plan. Attachment II relates only to the Fiscal Year 2000 capital commitment plan. The change from Attachment I ($3.5 billion) to Attachment II ($4.0 billion) in the Fiscal Year 2000 capital commitment plan does not represent a failure to spend all that was budgeted for. In fact, in Fiscal Year 1999, the Postal Service committed $3.8 billion against the $4.0 billion plan. As explained in my response to ANM-T9-53, the Fiscal Year 2000 capital commitment plan has since been reduced to $3.5 billion. The changes in plan are made in response to our ongoing business assessment and analysis and re-prioritizing of capital projects.

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ANM/USPS-T9-56. Exhibit USPS-9F indicates that depreciation and amortization in FY 2001 will amount to $2.154 billion.

(a) Please confirm that if the Postal Service invests $2.7 billion in 2001, its net investment (i.e., net of depreciation and amortization) that year will amount only to $546 million. If you do not confirm, please explain fully.

(b) Is a net investment of only $546 million sufficient to maintain and improve the base and infrastructure of an organization with gross revenues of $70 billion and almost 800,000 employees? Please explain fully any affirmative answer.

RESPONSE:

(a) I confirm that the difference between $2.7 billion, which you have characterized as "investment", and $2.154 billion of depreciation expense, is $546 million.

(b) In my opinion, the adequacy of US Postal Service capital investments should be judged over a period of time greater than one year. I believe the recent level of capital investments made by the Postal Service has been sufficient to improve its infrastructure. I have reached this conclusion subjectively.

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ANM/USPS-T9-57. Please refer to Attachment III to ANM/USPS-TIO-17. The following statement appears on page 2:

> To minimize borrowing, projects in Fiscal Year 1999 Capital Investment Plan will be funded internally to the maximum extent possible.

(a) Is there a formal or informal guideline to limit capital spending to that which can be funded internally?

(b) If the Postal Service can borrow up to $2 billion annually for capital projects, and up to $15 billion total, please explain the concern to limit capital spending to amounts that can be funded internally.

RESPONSE:

(a) There is an informal guideline to finance capital investments through operating funds to minimize outstanding debt and reduce interest expense.

(b) The critical element pertains to the return on capital investments. Merely spending capital funds to the annual borrowing limits or to maximize the outstanding debt does not guarantee a positive return on investment or one that even covers the financing costs. Accordingly, the capital investment plan is developed and closely monitored to insure maximum contribution to operating efficiencies.

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ANM/USPS-T9-58. Please refer to your response to DMA/USPS-T10-44 (redirected from witness Kingsley). In that response you explain the negative total factor productivity (TFP) in four of the last five years by stating that "In recent years, the Postal Service has invested substantial sums in improving customer service and satisfaction," and you point to improved on-time delivery which is not reflected in TFP. Your answer implies that the Postal Service has had to make hard choices, or tradeoffs, between (i) improvements in customer service and satisfaction, versus (ii) higher TFP. Please explain why, in recent years, the Postal Service could not have had a higher level of capital investment that was designed to increase customer service and satisfaction while simultaneously also increasing TFP.

RESPONSE:

Conceptually, anything is possible. However, there are practical limitations on what can be accomplished with given resources, i.e. staffing, time, deployment, learning curve, timing and ability to capture savings.

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ANM/USPS-T9-59. Please refer to your response to ANM/USPS-TI0-19 (redirected from witness Kingsley).

(a) What is the average interest rate which the Postal Service paid during Base Year 1998 on its outstanding debt used for capital investment?
(b) What does the Postal Service consider its cost of capital to be?
(c) What is the relationship, if any, between (i) the 20 percent hurdle rate used for potential capital investments such as those described in ANM/USPS-TI0-19, and (ii) the average interest rate which the Postal Service pays to borrow money, and (iii) the cost of capital?
(d) If the Postal Service were to use a lower hurdle rate (e.g., 10 to 15 percent),would that be likely to increase the amount spent for labor-saving capital equipment? Or, does the Postal Service have other constraints that restrict and limit such investment? Please discuss and explain.

RESPONSE:

(a) Please refer to page 65 of the 1998 Annual Report of the Postmaster General.

(b) The cost of capital used by the Postal Service is based on an estimated long-term borrowing rate from the Federal Financing Bank based on the behavior of rates in recent years.

(c) The 20 percent hurdle rate is explained in my response to ANM/USPS-TI0-19. The average interest rate is exactly that, an average based on borrowings over time, and the cost of capital is based on an estimated borrowing.

(d) No. There is more to the equation than the hurdle rate, i.e. level of outstanding debt, net income plan, etc. Therefore, lowering this threshold would not change the level of capital spending. Also, please see my response to ANM-T9-58.

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ANM/USPS-T9-60. Please refer to your response to ANM/USPS-T9-17.

(a) What is the definition of "workyear" as used in USPS-9P?

(b) What was the total number of overtime hours worked in Base Year 1998, and to how many workyears did those overtime hours correspond?

(c) Your response to part (a) of ANM/USPS-T9-17 indicates that during Base Year 1998 the average employment (including career, transitional and casual employees) amounted to 829,777. Your response to part (b) indicated that a person may count as one employee even though the hours worked by that person are less than one workyear (e.g., a person who works only part-time, or a person who is employed on a full-time basis, but worked only part of the year). This explanation could lead one to expect that the number of workyears would be less than, or at least no greater than, the average number of employees, especially since 51,169 or the employees were in the transitional and casual category. In 1998, however, average workyears amounted to 909,578, which exceeded average employment by 79,801. Did overtime account for all of the excess, or do other factors explain the difference?

RESPONSE:

(a) A workyear is a standard measure of labor resources, sometimes referred to as a full time equivalent. For most categories of employee, one workyear equates to 2080 hours. This is the number of hours for which a full-time empolyee is compensated in one year (i.e. 40 hours per week for 52 weeks). The exception is part time flexible employees for which a workyear equates to 2000 hours. 2000 hours is used because part time flexible employees are not paid for holidays (i.e., 10 holidays @ 8 hours).

(b) As reflected in the PFY 1998 Accounting Period 13 National Payroll Hours Summary Report, the total number of overtime hours worked in PFY 1998 was 144.189 million. This includes 4.324 million hours of non-bargaining overtime hours paid at straight time rates. 1998 overtime workyears, which are reported

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ANM/USPS-T9-60. continued

on a GFY basis, were 67,455. Overtime hours paid at straight time rates are not included in overtime workyears. PFY hours are adjusted to account for differences between PFY and GFY prior to the calculation of GFY workyears.

(c) One major difference relates to the fact that FY 98 average employment for all employees is higher than the number you have referenced which includes only career, casual and transitional employees. To arrive at total employees, Postmaster Leave Replacements, Rural Associates and Reliefs, and Non-bargaining Temporaries must also be included. When these employees are included, average FY 98 employment was 898,755. As explained in my response to ANM/USPS-17 there are also other factors which can result in workyears being different than average employment, one of which is overtime.

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ANM/USPS-T9-61. Please refer to your response to DMA/USPS-T9-31

(a) Confirm that for the years shown in the table provided in your response, the change in Total Factor Productivity (TFP) for the three decades covered has been as follows:

1971-1980	+6.9%
1981-1990	+3.7%
1991- 2000 to date	+1.3%

If you do not confirm, please explain and provide the correct figure for each decade shown above.

(b) Please explain why the increase in TFP was highest in the decade which experienced comparatively little (or no) mechanization and automation of mail processing, and lowest in the current decade, which should have exhibited the greatest benefit from the Postal Service's cumulative investment in mechanization and automation.

(c) Over the decades covered by your table, what has changed to retard the increase in TFP?

RESPONSE:

(a) Confirmed.

(b-c)There are numerous variables that impact TFP. These include capacity utilization, level of infra-structure investments, investments to improve service, etc. Accordingly, it is difficult to provide a comprehensive response to this question. However, some of the major factors for which I am aware are as follows. The decade 1971 – 1980 saw considerable mechanization of process that were previously manual and thus provided significant opportunity for productivity growth. The decade of the 1980's saw the introduction of work sharing discounts that, while improving the productivity of the economy as a whole, transferred some of the Postal Service's prime productivity improvement opportunities to the mailers. Work sharing discounts continue into the 1990's. As higher and higher levels of productivity are achieved, incremental

ANM/USPS-T9-61. continued

improvements become more and more challenging. It is important to note that TFP growth for the three decades in question is 12.2 percent. Multi-Factor Productivity as reported by the Bureau of Labor Statistics grew 13.9 percent during the period 1971 – 1997 – the most recent year for which such data is available. Postal Service TFP grew 11.4 percent during the same period.

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ANM/USPS-T9-62. What was the number of motor vehicles owned by the Postal Service (i) at the beginning of, and (ii) at the end of Base Year 1998?

(a) Of the total number provided in response to part (a) (i), how many were fully depreciated before the beginning of Base Year 1998?

(b) Of the total number provided in response to part (a) (ii), how many were fully depreciated at the end of Base Year 1998?

RESPONSE:

The number of motor vehicles owned by the Postal Service at the end of Fiscal Year 1997 and 1998 as reported in the Comprehensive Statement is 205,493 and 202,833. These values do not include the number of storage vehicles at the end of each year. For the end of Fiscal Year 1998, there were 2,148 storage vehicles.

(a) For the beginning of Fiscal Year 1998, 33,563 vehicles, including storage vehicles, were fully depreciated.

(b) At the end of Fiscal Year 1998,26,307 vehicles were fully deprciated.

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ANM/USPS-T9-63. Please refer to your response to ANM/USPS-T9-18.

(a) Since the FSM 1000s were first installed, has the Postal Service at any time performed a study of the savings and rate of return ("ROI") from any of those machines?

(b) If so, please provide the ROI and savings estimated in each such study, and state how they compare with (i) the hurdle rate of 20% provided in your response to ANM/USPS-TI0-19 and (ii) the savings and ROI projected in the DAR. If no such follow- up studies have been performed, please indicate explicitly.

(c) Provide copies of all such follow-up studies on the FSM 1000.

(d) Indicate which of these studies have been provided to the Governors for their review. If none of the studies which you cite have been submitted to the Governors, please so state and indicate all information provided to the Governors concerning whether the FSM 1000s have met and are meeting the ROI and savings targets set forth in the DAR. If the Governors have been provided only with oral briefings, or if they have not been given any follow-up information, please so state.

RESPONSE:

(a) There have been no studies since the FSM 1000s were installed.

(b) See my response to (a).

(c) See my response to (a).

(d) See my response to (a). I am not aware that the Governors have been provided with information or follow-up information on the FSM 1000s.

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ANM/USPS-T9-64. Please refer to your response to ANM/USPS-T9-23.

(a) Since the CSBCSs were first installed, has the Postal Service at any time performed a study of the savings and rate of return ("ROI") from any of those machines?

(b) If so, please provide the ROI and savings estimated from each such study, and state how they compare with (i) the hurdle rate of 20% provided in your response to ANMIUSPS-T10-19 and (ii) the savings and ROI projected in the DAR. If no such follow- up studies have been performed, please indicate explicitly.

(c) Provide copies of all such follow-up studies on the FSM 1000.

(d) Indicate which of these studies have been provided to the Governors for their review. If none of the studies which you cite have been submitted to the Governors, please so state and indicate all information provided to the Governors concerning whether the FSM 1000s have met and are meeting the ROI and savings targets set forth in the DAR. If the Governors have been provided only with oral briefings, or if they have not been given any follow-up information, please so state.

RESPONSE:

(a) There have been no studies since the CSBCSs were installed.

(b) See my response to (a).

(c) See my response to (a) assuming this question refers to CSBCSs.

(d) See my response to (a), assuming this question refers to CSBCSs. I am not aware that the Governors have been provided with information or follow-up information on the CSBCSs.

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ANM/USPS-T9-65. Since the FSM 775/881s were first installed (see response to ANM/USPS-T10-I), has the Postal Service at any time performed a study of the savings and rate of return ("ROI") from any of those machines?

(a) If so, please provide the ROI and savings estimated from each such study, and state how they compare with (i) the hurdle rate of 20% provided in your response to ANM/USPS-T10-19 and (ii) the savings and ROI projected in the DAR. If no such follow-up studies have been performed, please indicate explicitly.
(b) Provide copies of all such follow-up studies on the FSM 1000.
(c) Indicate which of these studies have been provided to the Governors for their review. If none of the studies which you cite have been submitted to the Governors, please so state and indicate all information provided to the Governors concerning whether the FSM 1000s have met and are meeting the ROI and savings targets set forth in the DAR. If the Governors have been provided only with oral briefings, or if they have not been given any follow-up information, please so state.

RESPONSE:

A preliminary review of savings has been undertaken for the three FSM-related investments. They are:

- the purchase of 267 FSM 881s;
- the retrofitting of the existing complement of 545 FSM 775s to the "2+2" configuration; and
- the addition of bar code reader systems (FMBCRs) to all 812 FSMs.

Preliminary findings indicated various actions required to improve the performance of this equipment and to capture the savings originally projected for the FSM investments.

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ANM/USPS-T9-65. continued

(a) The preliminary findings of the three investments indicated a combined ROI of -1.3 percent if corrective actions were not taken, whereas the DARs projected a combined ROI of 93.4 percent.

(b) No final report has been issued.

(c) No reports have been submitted to the Board of Governors and I am unaware of any oral briefings.

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ANM/USPS-T9-66. Do the Postal Service's existing contracts with its labor unions contain "no-layoff" provisions for career employees?

(a) If so, are the provisions the same in all union contracts? If not, please specify what the no-layoff provision provides in the contract with each union.
(b) When new career employees are hired, at what point do their jobs become protected by the no-layoff provisions?
(c) How many career employees are currently protected by such provisions?

RESPONSE:

The current postal agreements contain provisions dealing with layoff protection as described below:

(a) The agreements with the American Postal Workers Union(APWU), the National Association of Letter Carriers (NALC), and the National Postal Mail Handlers Union all contain identical contract provisions concerning layoffs. Each of these 3 agreements provides for layoff protection for career employees once six years of continuous service have been reached. Once a career employee has reached six years of continuous service, he/she is protected against involuntary layoff. The agreement with the National Rural Letter Carriers' Association provides that no employee in the regular workforce will be laid off on an involuntary basis during the agreement.

(b) See (a) above.

(c) I am informed that as of pay period 7, FY 00, a total of 420,845 employees have been afforded layoff protection.

DECLARATION

I, William P. Tayman, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

William P. Tayman

Dated: 3-31-2000

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Scott L. Reiter

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March 31, 2000