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

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POSTAL RATE COMM
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2001 | Docket No. R2001–1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TAYMAN TO INTERROGATORIES
OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS–T6–1–21)

The United States Postal Service hereby provides the responses of witness Tayman to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS–T6–1–21, filed on October 3, 2001.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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Chief Counsel, Ratemaking

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October 17, 2001

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T6-1. The following refer to the USPS FY 2001 and FY 2002 Operating Plans.

(a) Please provide the FY 2001 Operating Plan and the most current USPS FY 2002 Operating Plan by accounting periods for Postal Service operating revenues, appropriations, investment income, expenses and volumes.

(b) For each of the thirteen accounting periods presented in part "a" of this interrogatory, please provide the most current USPS Operating Plan with operating revenues broken out by mail class and subclass cost categories.

RESPONSE:

(a) The FY 2001 Operating Plan by accounting period is attached. The FY 2002 accounting period Operating Plan has not been finalized. However, the FY 2002 Operating Plan for the categories requested is as follows:

U.S. Postal Service

FY 2002 Operating Plan

(Millions)

Operating Revenue	$68,746.8
Appropriations	47.6
Investment Income	29.1
Total Revenue	$68,823.5
Total Expenses	70,172.6
Net Loss	$ 1,349.1
Total Mail Volume	209,939

(b) As indicated in response to part (a) above, The FY 2002 accounting period Operating plan has not been finalized. However, the FY 2002 operating revenue by class of mail is as follows:

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

U.S. Postal Service

FY 2002 Operating Revenue Plan

(Millions)

First-Class Mail	$36,357
Priority Mail	5,500
Express Mail	1,077
Mailgrams	1
Periodicals	2,379
Standard Mail	16,740
Package Services	2,124
International	1,838
Special Services	2,234
Other Income	497
Total Operating Revenue	$68,747

ATTACHMENT
OCA/USPS-T6-1(a)

U.S. POSTAL SERVICE
FY 2001 OPERATING PLAN
($THOUSANDS)

	AP 01	AP 02	AP 03	AP 04	AP 05	AP 06	AP 07	AP 08	AP 09	AP 10	AP 11	AP 12	AP 13	TOTAL
OPERATING REVENUE	5,191,202	5,245,188	5,125,925	5,461,637	5,188,074	5,194,605	5,474,951	5,465,089	5,258,232	4,936,311	4,919,421	5,043,257	5,141,909	67,645,801
APPROPRIATIONS	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,130	66,738
INVESTMENT INCOME	3,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,135	27,135
TOTAL REVENUE	5,199,336	5,252,322	5,133,059	5,468,771	5,195,208	5,201,739	5,482,085	5,472,223	5,265,366	4,943,445	4,926,555	5,050,391	5,149,174	67,739,674
TOTAL EXPENSES	4,982,236	5,113,018	5,101,723	5,523,923	5,236,926	5,292,520	5,391,102	5,331,983	5,351,309	5,103,306	5,102,275	5,259,359	5,379,994	68,169,674
NET INCOME (LOSS)	217,100	139,304	31,336	(55,152)	(41,718)	(90,781)	90,983	140,240	(85,943)	(159,861)	(175,720)	(208,968)	(230,820)	(430,000)
CONVERSION TO GFY														(50,000)
NET INCOME (LOSS)														(480,000)
TOTAL MAIL VOLUME	16,977,769	17,301,445	16,142,368	15,737,419	16,013,906	15,998,603	16,511,046	16,454,784	15,900,568	14,809,040	14,741,233	15,106,597	15,941,998	207,636,776
CONVERSION TO GFY														80,834
NET INCOME (LOSS)														207,717,610

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
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OCA/USPS-T6-2. Please provide the USPS FY 2001 and FY 2002 budgets broken down by accounting period as used in the following schedules and pages of the Financial and Operating Statements filed each accounting period with the Commission.

(a) Highlights on page 1.
(b) Statement of Income & Expense on page 2.
(c) Revenue by Category on page 5A.
(d) Expense Analysis on page 6.
(e) Analysis of Operating Expenses on page 7.
(f) Analysis of Non-Personnel Expenses on page 8.
(g) Work Hours & Overtime/Sick Leave ratios

RESPONSE:

(a–g) As indicated in the above question, the information requested has been filed with and is available from the Commission for accounting periods 1 – 12 of FY 2001. The attached provides the requested plan information for accounting period 13, FY 2001. As indicated in response to OCA/USPS-T6-1, the FY 2002 accounting period Operating Plan has not been finalized. Available budget information for FY 2002 can be found in the FY 2002 Integrated Financial Plan included in my response to OCA/USPS-T6-7.

Highlights
Accounting Period 13, FY 2001
(Millions)

Accounting Period 13 Budget		Year-to-Date Budget
$ 5,149.1	Total Revenue (1)	$ 67,739.6
5,379.9	Total Expense (2)	68,169.6
$ (- 230.8)	Income/(Loss)	$ (- 430.0)
$ 651.9	Capital Commitments (3)	$ 1,600.7
121.3	Total Work Hours	1,612.0
15,942.2	Mail Volume	207,640.1

[ ] = Unfavorable variance to budget

Note: Totals may not sum due to rounding.

Note: Mail Volume numbers are preliminary numbers and are subject to change.

(1) The revenue plan reflects rates as requested in the R2000-1 Omnibus Rate Case. These averaged 6.4%. Rates implemented January 7, 2001 based on Postal Rate Commission (PRC) decision averaged 4.6%.

(2) Please see explanation on page 6 referencing transportation expense.

(3) The capital plan was reduced from $3.6 billion to $2.6 billion.

Actual Number Of:	Current Period	Last Period	SPLY
Post Offices	-	-	-
Active Postal Owned Vehicles			
Administrative	-	-	-
Operations	-	-	-
Possible City Deliveries (000)	-	-	-
City Delivery Routes	-	-	-
Rural Routes	-	-	-
Career Employees (Excludes Inspector General)	-	-	-
Casual Employees	-	-	-
Transitional Employees	-	-	-

Statement of Income & Expense
Accounting Period 13, FY 2001
($ Millions)

Current Period Budget		Year-to-Date Budget
$ 5,147.0	Operating Revenue *	$ 67,712.5
5,227.4	Operating Expense	66,135.5
$ (- 80.4)	Income (Loss) From Operations	$ 1,577.0
2.1	Investment Income	27.1
- 28.6	Interest Expense	- 423.1
- 123.9	Interest on Deferred Ret. Liabilities	- 1,611.0
$ (- 230.8)	Income/(Loss)	$ (- 430.0)

[ ]=Unfavorable variance to budget
Note: *Totals may not sum due to rounding.*
* The revenue plan reflects rates as requested in the R2000-1 Omnibus Rate Case.

REVENUE BY CATEGORY
Accounting Period 13, FY 2001
($ Millions)

Current Period Budget		Year-to-Date Budget
	Commercial Revenue	
$ 2,383.8	Permit Revenue	$ 29,068.9
1,514.4	Other Commercial Accounts Revenue	21,369.2
$ 3,898.2	**Total Commercial Revenue**	**$ 50,438.1**
	Retail Revenue	
978.5	Retail Postage Revenue	13,719.1
114.6	Retail Services Revenue	991.7
8.9	Retail Products Revenue	125.1
125.8	Other Retail Channels Revenue	1,785.4
$ 1,227.8	**Total Retail Revenue**	**$ 16,621.3**
$ 5,126.0	**Total Commercial & Retail Revenue**	**$ 67,059.4**
15.9	Other Income	586.4
5.1	Revenue Forgone	66.7
$ 5,147.0	**Total Operating Revenue**	**$ 67,712.5**
2.1	Investment Income	27.1
$ 5,149.1	**Total Revenue ***	**$ 67,739.6**

[ ]=Unfavorable variance to budget

Note: Totals may not sum due to rounding.

*** The revenue plan reflects rates as requested in the R2000-1 Omnibus Rate Case.**

EXPENSE ANALYSIS
Accounting Period 13, FY 2001
($ Millions)

Current Period Budget		Year-to-Date Budget
$ 3,904.2	**Personnel Compensation**	$ 51,584.4
	Non-Personnel Expense:	
374.6	Transportation	4,825.9
* 345.2	Supplies & Services	3,432.0
603.4	Other	6,293.2
$ 1,323.2	**Subtotal**	$ 14,551.1
$ 5,227.4	**Total Operating Expense**	$ 66,135.5
28.6	Interest Expense	423.1
123.9	Interest on Deferred Ret. Liabilities	1,611.0
$ 5,379.9	**Total Expense**	$ 68,169.6

]=Unfavorable variance to budget

Note: Totals may not sum due to rounding.

* In Fiscal Year (FY) 2001, the Postal Service began accruing for the cost of holiday transportation when incurred, rather than recognizing the expense when paid. The impact of this change in accounting policy is to increase the reported growth in AP 4 transportation expenses by $137 million, relative to the same period last year (SPLY). Future accounting periods in FY 2001 will also be less comparable to the prior year, as the reported growth will be slightly lower than it otherwise would have been, compared to SPLY.

ATTACHMENT
OCA/USPS-T6-2
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ANALYSIS OF NON-PERSONNEL EXPENSES
Accounting Period 13, FY 2001
($ Millions)

Current Period Budget	Description	Year-to-Date Budget
$ 374.6	Transportation	$ 4,825.9
345.2	Supplies & Services	3,432.0
180.2	Depreciation	2,272.9
78.0	Rent	911.0
67.8	Fuel & Utilities	543.0
30.3	Rural Carrier Equip Maint Allowance	390.3
38.1	Vehicle Maintenance	414.5
57.9	Information Technology	437.9
42.5	Building Projects Expensed	227.5
5.7	Contract Job Cleaners	70.4
15.4	Travel & Relocation	165.4
30.2	Communications	252.5
6.2	Contract Stations	73.4
4.4	Printing	43.4
9.8	Training	93.5
5.3	Carfare & Tolls	66.2
3.1	Vehicle Hire	44.8
3.9	Accident Cost	48.2
- 5.0	Capitalized Interest	- 65.0
29.6	Miscellaneous	303.2
$ 1,323.2	**Total Other Operating Expenses**	**$ 14,551.1**

WORK HOURS & OVERTIME/SICK LEAVE RATIOS
Accounting Period 13, FY 2001
(Data in Thousands)

Current Period		Year-to-Date
Budget	Total Work Hours	Budget
	Operations:	
770	*-Support*	10,225
30,007	-Mail Processing	411,529
13,311	-Rural Delivery	173,295
36,453	-Other Delivery	483,910
2,507	-Vehicles Services	33,657
6,455	*-Plant & Equip Maint*	85,437
19,340	-Customer Services	260,728
786	Controller	10,138
754	Human Resources	9,998
1,069	Customer Service & Sales	14,343
5,141	*Administration*	67,037
4,667	Other	51,701
121,260	Total Work Hours	1,611,998

Overtime		
Budget		Budget
	Overtime Ratio	
8.0%	Per 100 Work Hours	8.1%

Sick Leave		
Budget		Budget
	Sick Leave Ratio	
--	Per 100 Work Hours	--

[ ]=Unfavorable variance to budget

* Recasted Data
Note: Totals may not sum due to rounding.

ATTACHMENT
OCA/USPS-T6-2
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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T6-3. Please provide the Postal Service's FY 2001 and FY 2002 annual Capital Investment Plan similar to the Capital Investment Plans for FY 1999 and FY 2000 included in the record of Docket No. R2000-1 at Tr. 2/409-15. Also, please provide any updates to the FY 2001 and FY 2001 annual Capital Investment plans.

RESPONSE:

Please see my response to OCA/USPS-T6-7 for copies of the FY 2001 and 2002 capital investment plan included in the Integrated Financial Plan for each of these years.

Please note that page 7 of the FY 2002 Integrated Financial Plan reflects the revised FY 2001 Capital Investment Plan that was reduced from $3.6 billion to $1.6 billion. The FY 2002 capital plan was reduced from $3.7 billion to $2.4 billion.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T6-4. Please provide the Postal Services current five year capital plan and any updates for FY 2001 and FY 2002, if any, to the Postal Service's current five year capital plan similar to the FY 1999 update to the FY 1998-2002 Capital Investment Plan included in the record of Docket No. R2000-1 at
Tr. 2/416-427.

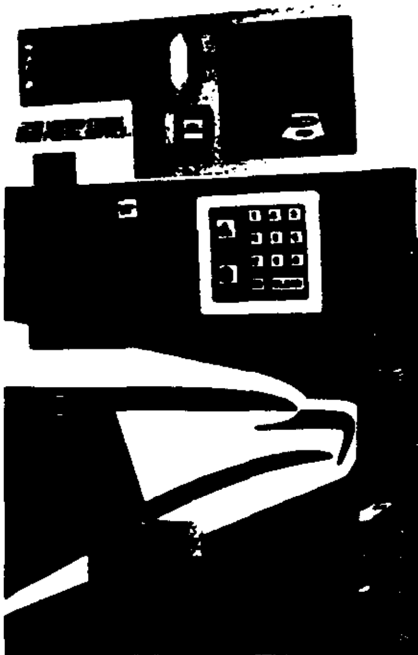
RESPONSE:

Attached is the last approved five-year capital investment plan (FY 2001-2005). This plan does not reflect the FY 2001-2002 reductions referenced in my response to OCA/USPS-T6-3.

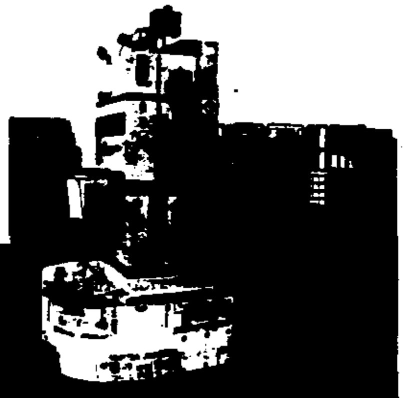
ATTACHMENT
OCA/USPS-T6-4

UNITED STATES
POSTAL SERVICE™

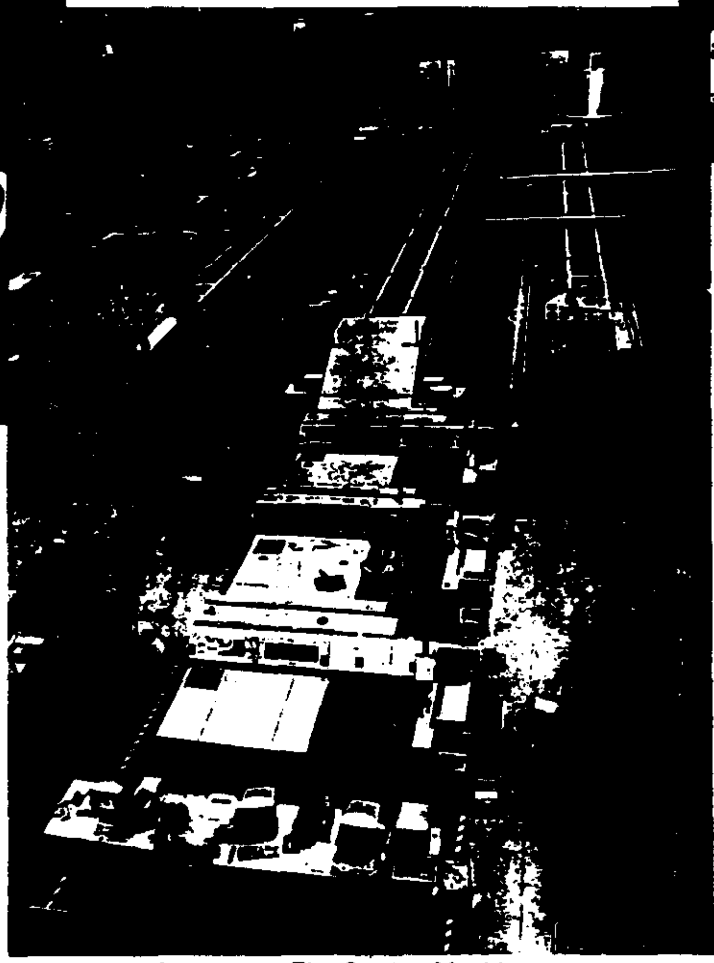
CAPITAL INVESTMENT PLAN FY 2001-2005



Stamp Vending Machines



Automated Guided Vehicles



Automated Flat Sorting Machines

Great Falls, VA Main Post Office

Cargo Vans

Fiscal Year 2000 Results

During quarter 2 the Fiscal Year 2000 capital plan was adjusted from $4 billion to $3.5 billion.

ON MY MIND

[redacted] *ensuring minimum infrastructure investment for expansion of the delivery network, while emphasizing higher return investments. The Board will review this each year as further business trends unfold."*

Richard J. Strasser, Jr.
Chief Financial Officer
Executive Vice President

The capital plan for Fiscal Year 2000 had four major goals, to improve the quality of customer service; allow for aggressive cost management; increase productivity gains through technology; and, maintain infrastructure. The following table lists the primary capital projects committed in Fiscal Year 2000 in support of the four goals, representing approximately 50 percent of the total capital commitments for the year.

The total capital commitment of funds was approximately 92 percent of the final planned amount for Fiscal Year 2000. The fiscal year began with a corporate capital plan of $3.9 billion. However, at midyear an ongoing business reassessment cross-functional team recommended that the plan be reduced by $550 million, most of this reduction came from the facility budget. At the end of the fiscal year, the new capital plan was approximately $3.5 billion with the total year-end to date capital commitments equaling $3.2 billion.

[redacted]

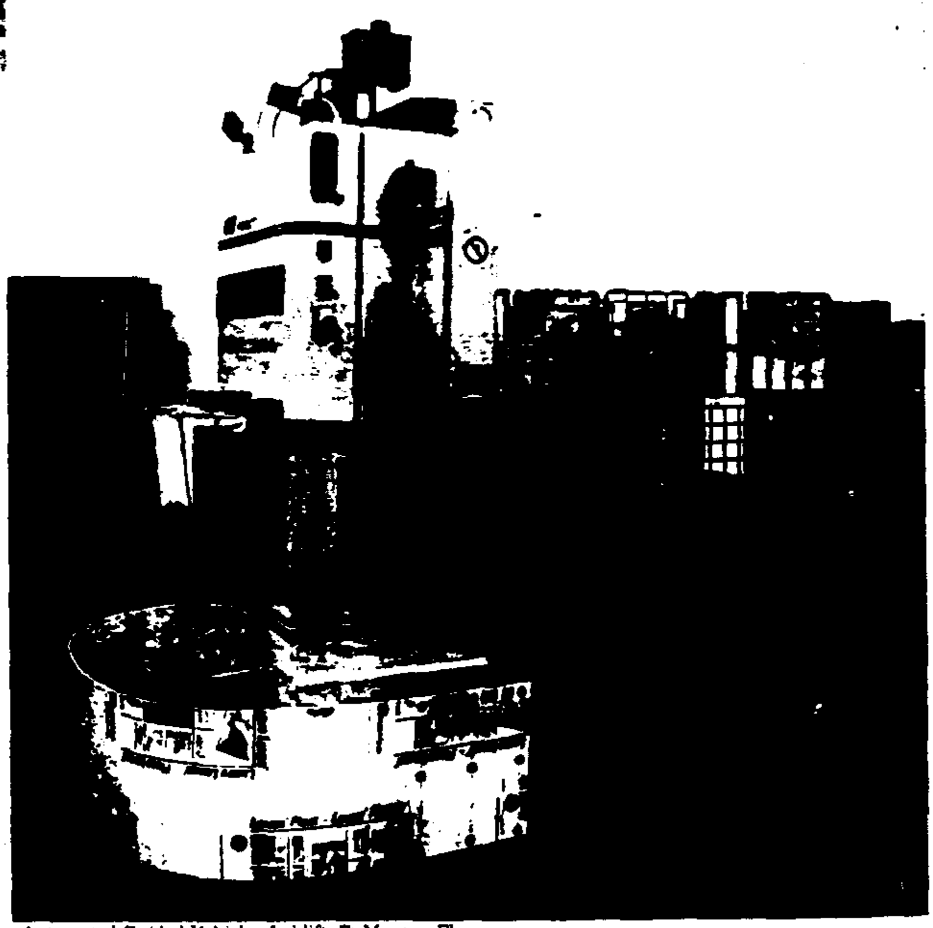
FY 2001-05 Capital Investment Plan

The major categories of capital investment and the actual commitments for Fiscal Year 2000 are displayed in the table above. Except for retail equipment, each of the categories of investment declined from the previous year's levels. The increase in the retail equipment category is attributed to the continued successful deployment of the Point of Service (POS) One terminals to post offices throughout the country

During FY 2000, the capital plan was adjusted from $4 billion to $3.5 billion. However, this was the fifth consecutive year that we have had capital commitments of over $3 billion. During 2000, we completed 9 Board approved projects totaling more than $571 million. Of these 9 projects, 7 were equipment projects, 1 was a facility project, and 1 was classified as an "other" project.

The "other" category includes investments in information systems, retail equipment, customer support systems and new products and services. The Board also approved a total of $1.606 billion for 20 new major capital investment projects.

The effectiveness of the overall capital plan is unequivocal. The improvements in operations show record setting performances in service and productivity. Clearly, the actual capital commitments support the planned emphasis on equipment and infrastructure projects. For the present and the future, the results of the Fiscal Year 2000 capital investments yields the outcomes expected from the objectives set for Postal Service's capital plan.

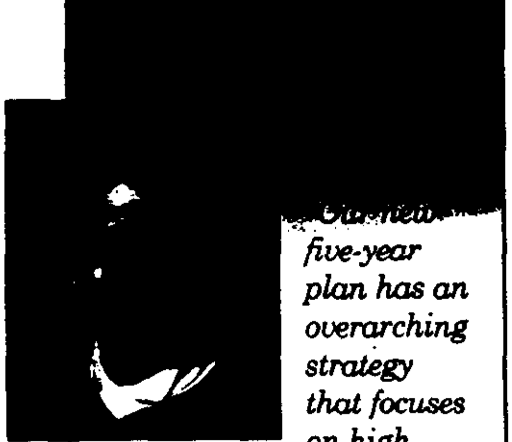


Automated Guided Vehicles-forklift. Ft Meyers, Fl

FY 2001-05 Capital Plan

The Fiscal Years 2001-2005 capital plan totals $17.5 billion. FY 2001 portion is $3.6 billion.

ON MY MIND

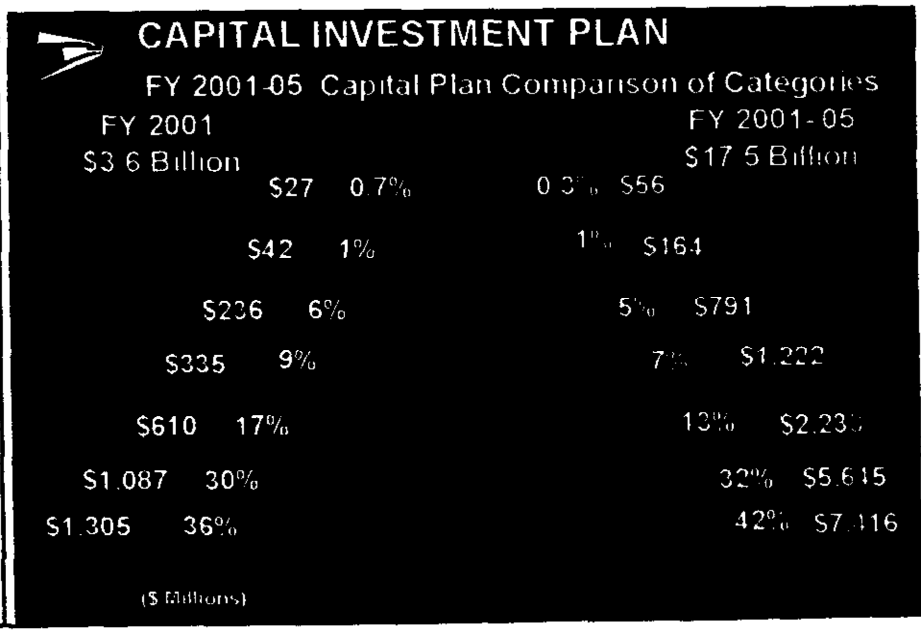


[illegible] five-year plan has an overarching strategy that focuses on high return-on-investment projects, specifically the automated flats sorting machine (AFSM) 100s and the Time and Attendance Control System (TACS), as well as maintain our infrastructure and accommodate growth through our facilities, vehicles, and information systems; plus explore and prepare for opportunities in the e-environment."

Donna M. Peak
Vice President
Finance, Controller

This is the first five-year capital plan since 1998. For illustrative purposes, the total capital plan is divided into the seven categories shown below. The amounts and the percentages down the sides of this pyramid roughly represent each category's portion of the total plan for FY's 2001 and 2001-2005.

As shown below, significant capital investments of $3.6 billion in FY 2001 and $17.5 billion across five years will influence future operating results. To aid cost management efforts, technology will be used for automation and modernization projects affecting distribution, processing, and delivery operations. The capital investment plan also includes programs that will improve the quality of customer services and facilitate revenue growth. Concurrently, infrastructure investments are necessary to sustain operational changes resulting from workload growth. This effort includes the repair or replacement of aging assets and providing a modern information



technology network and infrastructure. The investment strategy is designed to achieve continuous year-to-year performance improvements. To minimize future borrowing requirements, projects in the FY 2001- 2005 Capital investment plan will be funded internally to the maximum extent possible. The Postal Service bylaws require that the capital budget be submitted to the Board of Governors for approval each year. The Board approval signifies general concurrence with the plan. Projects greater than $10 million are individually presented to the Board for approval.

Development of the plan is only the beginning of the capital investment process. Each major project within the plan will be subjected to a vigorous review, validation and approval process, designed to ensure the project is properly justified. Anticipated results are documented and return on investment methodology analyzed to ensure accurate projections. Operating budgets are reduced to reflect those investments based on cost savings. Studies are performed on selected major project following implementation to determine if financial and operating goals were achieved.

The FY 2001-2005 Capital Investment Plan reflects the Postal Service's focus on high return on investment and infrastructure projects. The strategy illustrates the importance of committing resources toward revenue generating activities, as well as funding our eBusiness initiatives, technological infrastructures, and information platform projects. We estimate that our current portfolio of capital investment opportunities will produce a return on investment greater than the cost of borrowing capital funds.

For the purpose of illustration each project within the capital plan has been classified into one of the following categories: Equipment, Facilities, Infrastructure, Vehicles, Retail, eBusiness, and Research & Development.

Automated Flat Sorting Machine

EQUIPMENT PROJECTS

The total equipment category comprises $1.3 billion of the FY 2001 capital plan. The capital resources dedicated to equipment technology escalates in the coming years to a total of $7.4 billion, which is 42 percent of the FY 2001-2005 plan. This investment strategy will continue to be a key enabling element for the achievement of future performance targets. Equipment consists of automation and mechanization investments to enhance previously deployed technologies and expand the technology base available to support postal operations. While most of these investments are directly targeted at controlling costs, many will also contribute to improvements in service quality and ease-of-use goals.

Below is a list of the major equipment projects in the five year capital plan.

Subcategory	Project Name
Parcel	Next Gen Small Parcel Bundle Sorter
Letters	Multi-line Optical Character Reader Replacement
Material Handling	Robotics Container Loader
Other	Information Based Indicia Postage Camera
Letters	Delivery Barcode Sorter Expanded Capability
Material Handling	Field Material Handling Systems
Material Handling	Automated Airline Assignment System
Letters	24-Digit Tray Label
Material Handling	Auto Tray Sleever
Parcel	Upgrade/Replace Parcal Sorting Machine
Parcel	Parcel Singulator/Tunnel
Other	Mail Item Retreival System
Letters	HIP 2000 (Remote Comp Read)
Flats	New Flat Sorting Machine
Material Handling	Tray Systems Support
Letters	Remote Computer Reader
Letters	Fastforward
Other	New Equipment Methods
Other	Recognition Imprvmnt
Other	Intelligent Delivery Unit-Mail Item Retreival System
Parcel	Small Parcal Bundle Sorter Ph II
Letters	Carrier Sequence Barcode Sorter Bulky Mod
Material Handling	Commercial Distribution
Letters	Carrier Sequence Barcode Sorter 21/25 Stacker Upgrade
Letters	Carrier Sequence Barcode Sorter Optical Character Reader

... tem will monitor plant activit[y] and direct the machines according to dynamic operating plans, adjusting for equipment performance and anticipated m[ail] volumes. The near-term focus of the IPF is on letter mail, consistent with the current forecast of the mail volume and product mix. The later phases concentrate on processing flats and parcels.

EQUIPMENT CATEGORIES

Automated Guided Vehicles- Tugger, Ft Meyers, Fl

Equipment programs are segregated into the following sub categories based on the type of mail to be processed.

MATERIAL HANDLING

(FY 2001 plan $401 million. Five-Year plan $2.5 billion.)

The emphasis in this area will be on the robotics and automated tray-handling programs designed to support the expected change in mail mix and offset growing material handling labor costs. The material handling plan calls for linking work units within a plant and automating allied labor functions. The material handling plan is intended to integrate processing across all product lines. It will provide the foundation for unit load tracking. FY 2001 capital funding includes the following programs:

The Robotic Containerization Loader System supports the acquisition of 100 robots to automatically unload letter mail trays and flat tubs out of mail containers.

Robotic Containerization Loader System

These systems will replace current labor intensive operations with automation. This will be implemented in the opening unit and container breakdown operations of mail processing Centers. Upon full deployment, a significant reduction in mail handler workhours is expected.

The Automatic Airline Assignment (AAA) and Semi-Automatic Scan Where You Band (SASWYB) System has been developed to replace the continuous flow system, which has been discontinued. The SASWYB system processes sacks, pouches, outsides, trays and tubs. It provides a semi-automatic means of processing and assigning all types of mail to airline flights.

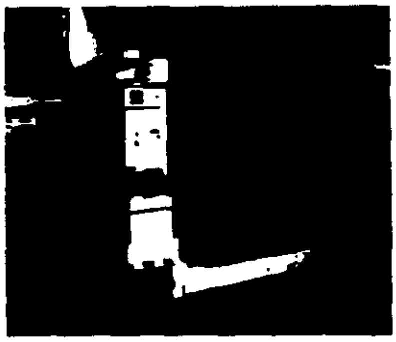
Field Material Handling Systems cover continuing field mail processing projects that support material handling systems in mail processing centers These projects address the safety concerns of the Postal Service and will improve efficiency by increasing productivity while providing for better service.

PARCEL DISTRIBUTION

(FY 2001 plan $384 million. Five-Year plan $1.3 billion.)

Over the next several years, parcel-sorting capacity will be expanded and investments in technology will be made to improve the performance of the equipment. The following programs are included in the capital plan:

The Next Generation Parcel/Bundle sorter channels multiple streams of parcels into a single line in a process known as singulation. The ZIP code/barcodes are read with optical character reader technology or remote keying is used to automatically assign parcels and bundles to the appropriate separation. This machine will be capable of assigning over 11,000 parcels per hour onto the sorter and will reduce mail processing labor by 50 percent from the present small parcel and bundle sorter operation.



Automated Guided Vehicles- forklift, Ft Meyers, Fl

Automated Tray Lidder

The Upgrade/Replace Parcel Sorting Machine/Sack Sorting Machine program's objective is to investigate and evaluate state-of-the-art equipment dedicated to the sorting of parcels and sacks. These new technologies will provide innovative approaches to improve sort capacity, efficiency and reliability in the 21 BMC's, that currently use 30 year-old technology, which is becoming increasingly more difficult to maintain. The new improved sorters will offer greater sort accuracy and reliability.

The BMC Singulator Scan Induction Unit is an automated parcel singulation and induction system that singulates a bulk mail stream of parcels, reads their barcodes, and assigns them onto the secondary parcel sorter in the BMC's. This machine will be capable of assigning over 5,000 parcels per hour onto the sorter and will reduce mail processing labor by four keying positions per tour.

LETTER DISTRIBUTION

(FY 2001 plan $354 million. Five-Year plan $1.7 billion.)

The optical character reading, barcode sorting, and remote encoding technology required to automate letter piece distribution is now deployed. By the end of FY 2001, a number of key programs will have been implemented to further enhance the capability of this equipment and expand the capacity of the system. The following letter distribution programs are included in the FY 2001 capital plan:

The Multi-Line Optical Character Reader Replacement program calls for the acquisition of 600 Delivery Bar Code Sorter Input/Output Sub-System kits and 100 Delivery Bar Code sorting machines to replace 875 out-moded multi-line optical character readers. This program will involve the manufacture and installation of the equipment as well as the removal and disposition of the multi-line devices. The program will provide all logistical support elements such as spare parts and training.

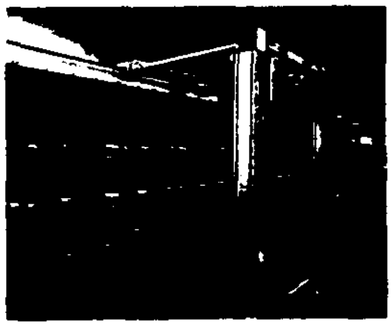
The Delivery Barcode Sorter Expanded Capability program deploys 1,000 expanded capability modification kits to be installed on delivery bar code sorter machines at 250 sites. This will enable the delivery barcode sorters to handle the majority of mail that is currently being sorted manually.

The Remote Computer Reader 2000 program enhances the address recognition technology used in the Remote Computer Reader that targets a 10 percent improvement in handwritten address recognition, while meeting existing throughput and error rate requirements. The upgrade is part of a continuing, highly successful effort to reduce mail processing costs. The encode rate improvement software reduces the number of manually keyed addresses, thereby providing substantial cost savings and improved productivity.

CUSTOMER AND OTHER EQUIPMENT

(FY 2001 plan $175 million. Five-Year plan $789 million.)

This category includes customer service equipment programs designed to enhance Postal Service products, and equipment that supports multiple equipment categories and non-fixed automation and mechanization projects. The following programs are included:



Robots

The Information Based Indicia (IBI) Postage Camera Replacement equips automated facer cancelors, optical character readers, and barcode sorters with cameras of sufficient resolution to read the IBI postage codes. This makes tracking information available in-house and to the customer. The ability to read the IBI postal code is necessary to meet customer requirements and can potentially track approximately 40 percent more of the mail than current capabilities.

Equipment Performance Improvement is for the maintenance and enhancement of existing equipment. The programs cover the entire inventory of automation and mechanization currently deployed and being deployed. Examples of the support programs include testing/fielding/training for the Flat Sorting Machine 100 and training for occupational health and safety issues.

The Mail Item Retrieval System is a service enhancement concept for automating the tracking, storage, and retrieval of mail items that have been brought back to a delivery unit by carriers, i.e. undelivered mail items. The Mail Item Retrieval System utilizes two primary components: a computerized service and monitoring system that provides information on undelivered mail items and an automated secure storage and retrieval carousel.

FLATS DISTRIBUTION

(FY 2001 plan $23 million. Five-Year plan $1.1 billion.)

Flats distribution technology will be improved and capacity will be expanded in FY 2001 and beyond. The major portion of the flats program involves flat sorting machines.

The Advanced Flat Sorting Support Program is the Postal Service's three phased approach to automating flat mail processing. The Phase I purchase of 175 Automated Flat Sorting Machines provides the field sites with additional processing capacity. The deployment is scheduled from March through December 2000. Phase II is an additional purchase of approximately 400 units that will replace the existing 812 Flat Sorting Machines (model 881). The Phase III purchase consists of about 575 machines to delivery point sequence the nation's flats. The system features include on-line video coding, an optical character reader, three automatic feeders, tray take-away conveyors and a through-put of over 17,000 flats per hour.

Delivery Barcode Sorter Mail Cartridge System

FACILITIES

(FY2001 plan $1.1 billion. Five-Year plan $5.6 billion)

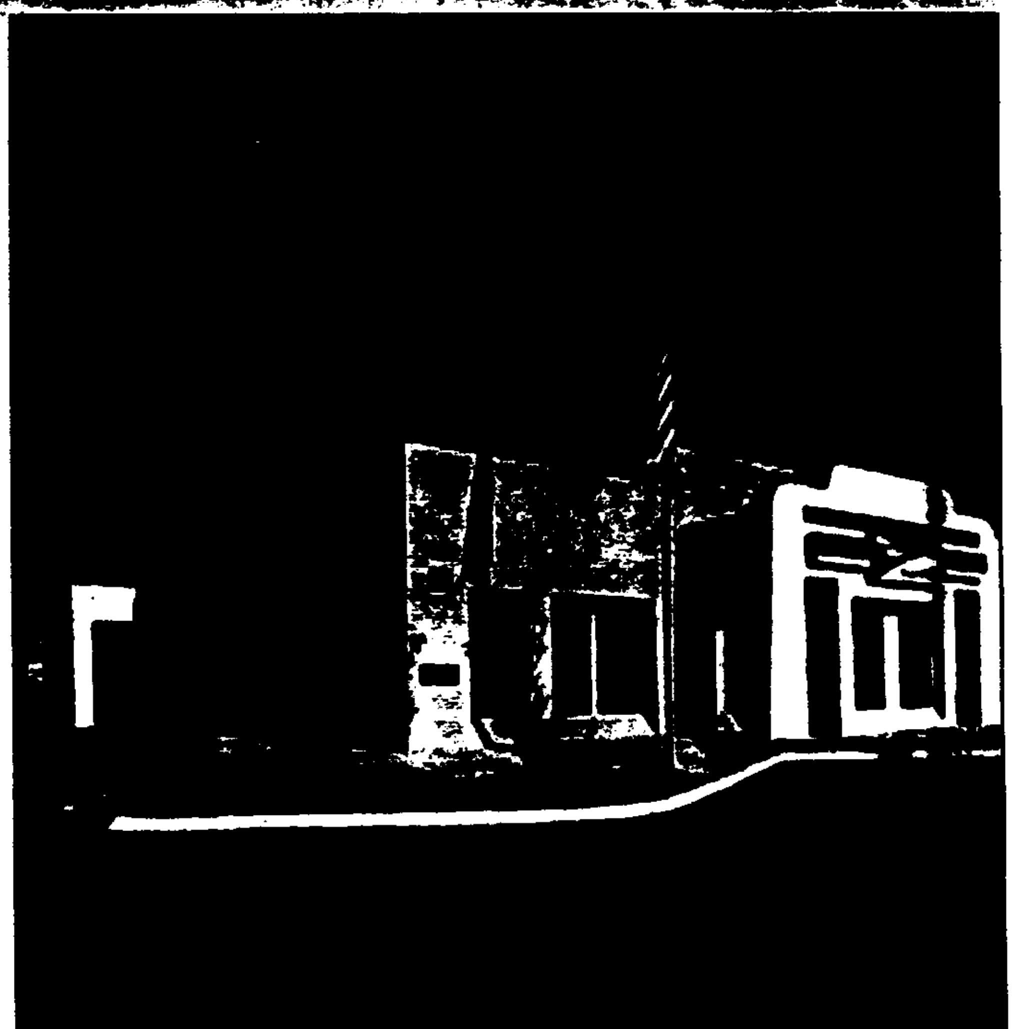
The facility investment decisions are no longer "business as usual". As the mail mix changes, repair and alteration and expansion projects are emphasized over new construction to maintain our valuable assets. The Postal Service seeks to optimize the use of space currently available. The criteria for determining whether to lease or build postal owned facilities will be reviewed. In some areas with multiple facilities, sites may be considered for consolidation or used differently as mail volume begins to decline.

Below is a list of the major processing facility locations in the five year capital plan.

Corrales, New Mexico Post Office *pictured below*

This is the first straw bale post office in the United States. The old fashioned technique of using bales of straw as insulation between support beams was combined with the latest energy conservation systems and recycled materials. The result is a "green," resource-efficient building that fits the rural character and Western environment of the Corrales, New Mexico community.

CHARLOTTE P&DF
CINCINNATI P&DC
HOUSTON AMC
INDIANAPOLIS P&DC
MILWAUKEE P&DC
NORTHEAST METRO P&DC
PORTLAND P&DC
SAN ANTONIO P&DF ANNEX
SEATTLE P&DC R&A
WESTERN CT P&DC
BRONX GPO
NJ METRO P&DC
OKLAHOMA CITY P&DF
PHOENIX AMC
STATEN ISLAND P&DC
ALBUQUERQUE P&DC
ONTARIO AMC
BOSTON AMC
BRONX LASALLE
GREENVILLE P&DC
RICHMOND P&DC
PHILADELPHIA P&DC NCO & RENOVATIONS



To accommodate growth, there will continue to be a need for new facilities in high growth areas and communities under served by delivery and retail facilities, especially in support of the gateway to the household strategy for package delivery. However, the need for the new stand-alone facilities must be evaluated against strategies to provide retail or pickup and return services through alternative means. The facilities commitment plan for FY 2001 is $1.1 billion, which accounts for 30 percent of the total capital plan and includes funding for the following items:

The Major Mail Processing Facilities program funds the planning, site acquisition, and design and construction for plant projects that cost in excess of $5 million.

The Developmental Real Estate program focuses on maximizing benefits and generating revenues from Postal Service real property. Activities to accomplish this objective include the sale of excess real property, development of underutilized real property, and the acquisition of leased facilities.

CAPITAL INVESTMENT PLAN

FY 2001-2005 Capital Projects - Facilities

Project Title	2001	2001-2005
Field Customer Service Projects	331	2 0[illegible]
Major Mail Processing Facilities	289	1 154
Field Repair & Alterations	262	1 576
Developmental Real Estate	35	215
BMC Expansions	10	10

Great Falls, VA Main Post Office
Location: 10001 Georgetown Pike, Great Falls, VA

Building Size: 10.941 Net Sq Ft
Deliveries: 5,366

Facilities Completed in FY 2000

The GSA Building Security program provides for increased security measures at facilities that house high-visibility federal tenants, such as: the FBI, Federal Courts, and the Alcohol, Tobacco and Firearms Agency. This requirement, as set forth in the Department of Justice (DOJ) study entitled "Vulnerability Assessment of Federal Facilities," was in response to the bombing of the Alfred P. Murrah building in Oklahoma City. Approximately 260 Postal Service owned facilities with federal tenants fall within the scope of this program.

The Bulk Mail Center Facility Expansion program enables the BMC network to adjust to expected future growth in palletized volume and large parcels in an efficient and more timely manner. This program is expected to increase customer satisfaction by improving the network's ability to adapt to the changing mail characteristics.

Tulsa Oklahoma Processing and Distribution Center

Building Size: 362,851 square feet

Annual Mail Volume
(Total Originating and Destinating)
approximately 2 million pieces

INFRASTRUCTURE

(FY 2001 plan $610 million. Five-Year plan $2.2 billion.)

The Infrastructure category comprises capital projects, which provide the day-to-day support equipment necessary to help employees perform their work more efficiently and to enhance management's effectiveness.

This category includes the new Information Platform subcategory of projects. The Information Platform group integrates several previously separate areas into one. "Stove pipe" projects from Information Systems, Engineering, and other sponsoring organizations are consolidated to encourage the benefits from economies of scale and project synergy. Information Platform will focus on projects that provide a return on the infrastructure investment. Information Platform infrastructure projects will emphasize improved management tools, using information accessibility. The result will be quantifiable savings in labor and other direct and indirect costs.

The plan includes funding for the infrastructure and postal Information Platform programs listed to the right.

MAJOR INFRASTRUCTURE PROJECTS IN THE FY 2001 - 2005 CAPITAL PLAN

Subcategory	Project Name
Miscellaneous	Future HR/Payroll
Miscellaneous	HR/Pay Enterprise
Miscellaneous	Redesign Enabling Process
Miscellaneous	Employee Assistance Program
Miscellaneous	Central Repair Facility (Topeka)
Miscellaneous.	National Center for EmployeeDevelopment Training
Miscellaneous	National Technical Support Network
Miscellaneous	Two Day International Express
Miscellaneous	Site Meta
Miscellaneous	Breakthrough Productivity Improvement
Miscellaneous	Corporate Market Research
Info Systems	Delivery Operations information System
Info Systems	Mail Evaluation, Readability & Look up Instrument
Info Systems	Distributed Infra. Standardization
Info Systems	Postalone!
Info Systems	Surface Air Maint. System
Info Systems	Integrated Data System
Info Systems	Assciate Office Infrastructure
Info Systems	Postal Field Computer Infrastructure
Info Systems	Standard Acctg Retail
Info Systems	Time & Attendance Collection System
Info Systems	Time & Attendance
Info Systems	EEO Complaint Tracking System
Info Systems	International Systems
Info Systems	Facility Flow Model Analysis
Info Systems	Delivery Redesign
Info Systems	Correspondence & Transactions
Info Systems	Delivery Confirmation Reciept System
Info Systems	Entry Schedule Periodicals
Info Platform	Processing & Distribution Information System
Info Platform	Structured Plant Wiring
Info Platform	Corporate Data Mart
Communications	Enhanced Street Performance
Communications	Telephone Equipment Installation

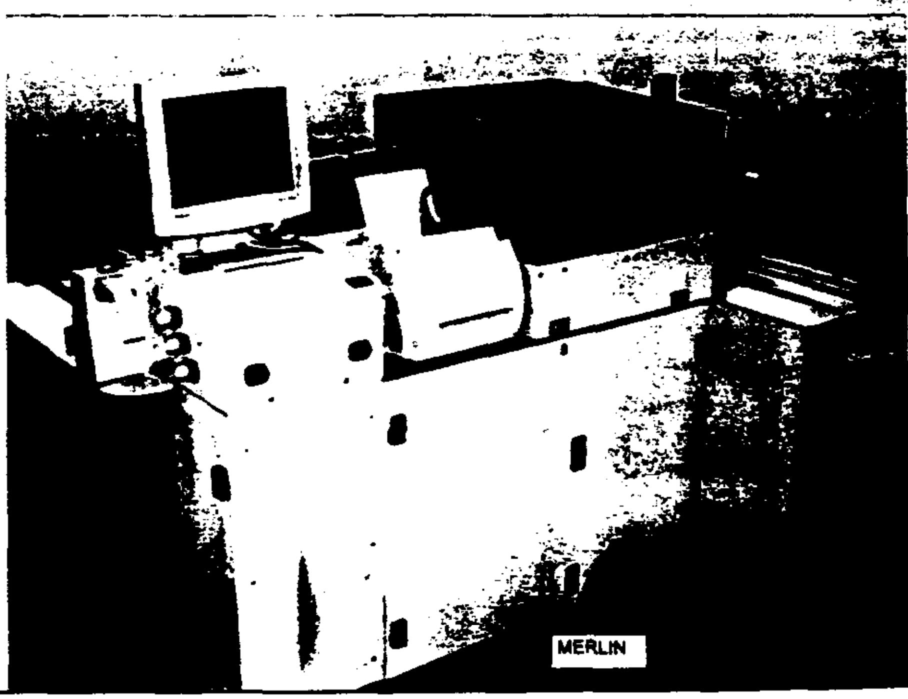
The Mailing Evaluation, Readability and Lookup Instrument (MERLIN) program is designed to read the address and indicia marks, verify meter amounts, weigh the mail, check thickness, and perform many other mail acceptance and business mail entry unit functions. This program is expected to improve the consistency of mail acceptance and improve address quality, while supporting revenue protection goals.

The Delivery Operations Information System (DOIS) is expected to replace our antiquated delivery operations support systems with state-of-the-art software packages that provide delivery unit supervisors with data they need to make solid business decisions in balancing the current daily workload with the available resources. The DOIS pilot successfully deployed the application to six districts (New Hampshire, Salt Lake City, Sacramento, Erie, Lancaster and Fort Worth).

The Surface-Air Management System will provide an integrated transportation system for large customers, plants, and airport mail facilities and centers. The program will incorporate all transportation planning into one system.

Structured Wiring is a program for the installation in all plants of scalable, comprehensive, state-of-the-art data wiring that will support the mail processing equipment and systems on the work room floor. It assures the Postal Service of one nationally configured wiring infrastructure that is standard and supportable across all plants and BMC's.

PostalOne! is a three-phase program that will provide business mailers the opportunity to electronically interact with the Postal Service. The program offers information access and future electronic links to our products and services that fills the gaps in our ability to communicate and serve the business community. This project is also designed to support our revenue protection effort.



MERLIN

VEHICLES

(FY 2001 plan $335 million. Five-Year plan $1.2 billion.)

The primary purpose of the vehicle capital program is to support growth and to replace the mail transport and delivery vehicles that are past their useful service life. Newer vehicles provide better driver safety, higher fuel efficiency, greater reliability, and lower maintenance costs. The FY 2001 capital funding plan for vehicles is $335 million, which represents about 9 percent of the plan. The vehicle category includes the following programs:

Vehicle Projects included in the five year Capital Plan

- Alternate Fuel Vehicles
- Mixed Delivery & Collection Vehicles
- Long Life Vehicle Shelving Modification
- Alternative Fuels
- Truck Tractors
- Cargo Vans
- Trailers

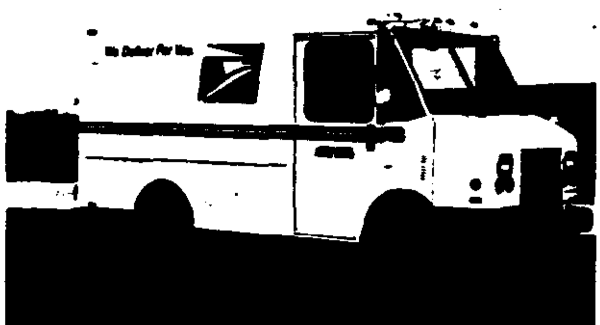
The Mixed Delivery and Collection Vehicles program covers the purchase of 2,200 two-ton vehicles. A portion of the purchase will replace existing vehicles that have reached maximum service life and the balance will provide for new service requirements.

The Cargo Vans program procures 1,250 cargo vans, which support daily transportation of mail between processing centers, large mailers, and delivery units. These new vehicles will allow the Postal Service to avoid higher operating costs due to the increased breakdowns of the older vehicles to be replaced. The reduction in vehicle breakdowns, resulting from this new purchase, will ultimately provide an increased quality and reliability of customer service with more timely deliveries.

The Carrier Route Vans program provides for the acquisition of 15,865 vehicles, beginning in FY 2002 through FY 2005. The vans will replace older vehicles used to support the daily delivery of mail.

Trailers

Cargo Vans



Mixed Delivery and Collection Vehicles

RETAIL EQUIPMENT

(FY 2001 plan $236 million. Five-Year plan $791 million.)

Capital investments for lobby, window, and self-service retail equipment enhance customer service by expanding the availability and convenience of our products and services. Investments in retail and acceptance automation is designed to make both processes more cost-effective, accurate, and responsive. These changes should reduce waiting time in lines in postal lobbies, and provide more relevant, helpful information to both clerks and customers. Streamlining the acceptance process saves both the Postal Service and mailers time and money. Commitments planned for FY 2001 include the following major programs:

MAJOR RETAIL PROJECTS IN THE FIVE YEAR CAPITAL PLAN

- Point Of Service
- Self Service Vending Equipment
- Stamp Service Centers
- In-Store Message Management
- Money Mover
- Stamp Manufacturing
- Retail Operations

Point of Service (POS) One, Stage 2B is the third of the four phases of the POS program, which was started with Board approval of phase one in June 1996. This phase includes the planned installation of 13,504 terminals in 4,615 retail facilities. POS is a sophisticated system that will replace the aging integrated retail terminals (IRTs). *POS is a strategic tool* that will implement an information platform to make technology work for postal management and our customers. The final phase of POS is included within the FY 2001 - 2005 capital plan.

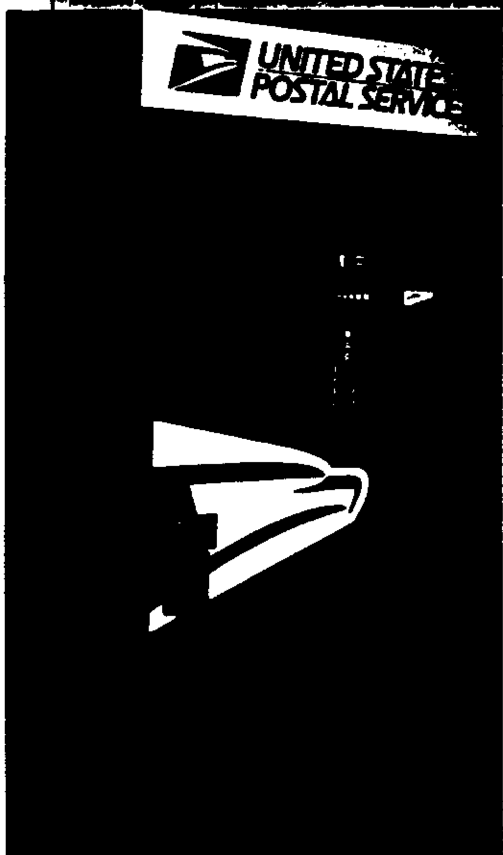
The Self-Service Vending Equipment program provides for the purchase of new stamp vending machines. The following described machines will be capable of communicating with an information system for reporting debit/credit transaction data, and management information to a central site.

Postal Stamp machines (PS-22B) are fully equipped with the latest software enhancements and feature the new postal branded design. These machines use two coil stamp dispensers that vend individual first-class and/or postcard stamps. Full deployment to the field of the 2,000 machines purchased was completed in March 2000.

The Postal Booklet/Stamp Machines (PBSM-624B) are fully equipped with the latest software enhancements and feature the new postal branded design. These machines use two coil stamp dispensers that vend individual first-class and/or postcard stamps and also four criss-cross dispensers that vend stamp booklets. Full deployment to the field of the 1,000 machines purchased is expected to be complete by the end of calendar year 2000.

Contract Postal Units are an ongoing program, however an improvement effort is underway based on lessons learned in the Midwest and Sou theast areas.

The Automated Postal Center will become the central platform for "Smart Vending" to provide commonly available postal products and potentially new financial services and products via an unattended unit.



Postal booklet stamp machine

eBUSINESS

(FY 2001 plan $42 million. Five-Year plan $164 million.)

The goal of eBusiness is to provide new Internet based products and services for our customers, and to enhance features and access to core postal products and information about our services. The programs include:

The Internet Infrastructure program includes several projects designed to get eBusiness off the ground and provide the infrastructure "backbone" needed to compete in the electronic arena.

Mailing Online enables small businesses and other mailers to use the Internet as a channel to access information and services related to First-Class and Standard (A) Mail.

eBusiness Security will provide a strong security architecture designed to protect the USPS networks, platforms, and mission critical electronic business applications.

Internet Shipping Solutions will offer a suite of shipping tools that extends existing USPS products, services, and information to the Internet.

RESEARCH AND DEVELOPMENT

(FY 2001 Plan $27 million, Five-Year Plan $56 million.)

Key Research and Development projects emphasize research into operational areas that will lead to reduced costs and improved customer service. In general, Research and Development costs are expensed and not capitalized. However, the following programs have capital funding:

Automation Support provides software development for the National Directory Support System, which is the offline automation support for mail processing activities.

The Flat Bundle Collator program extends the development of a prototype flats delivery sequencer for large carrier stations.

Material Handling Robotics supports the technology transfer of commercial robotics applications into the Postal Service environment.

Retail Outlet Alternatives explores the low cost alternatives for providing customers convenient access to postal products and services.

SUMMARY

The FY 2001-2005 capital plan supports investing to improve quality customer service, and encourages aggressive cost management. Our capital plan sets the platform for future productivity gains through technology, while maintaining our infrastructure. Our five year $17.5 billion Capital Plan supports the following strategies: investment in high return on investment projects (automation/mechanization/information platform), and maintenance of our infrastructure, while accommodating growth.

Our ability to achieve the commitments outlined in the plan will be determined by future business trends and will greatly depend upon our financial position over the life of this plan.

MAJOR R&D PROJECTS IN THE FY 2001-2005 CAPITAL PLAN

Automation System Communication Support
Optical Character Reader Recognition Support
Midas Rewrite
Vehicle Support
Automation Support
Information Techonology Infrastructure R&D
Retail Outlet Research & Development
Mail Handling Robotics Support
Flats Bundle Collator

FY 2001 - 2005 CAPITAL PLAN BY CATEGORY

($000)

Categories	5-Years
Equipment	7,415,605
Facilities	5,645,380
Vehicles	1,221,802
Infrastructure	2,232,560
Retail	790,983
R&D	55,645
eBusiness	164,114
Total	**17,526,090**

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T6-5. For each capital program and major program initiative with costs that are included in the FY 2002 interim year and the FY 2003 test year revenue requirement, please provide the following information:

(a) The date when the program was approved (or is expected to be approved) by the level of Postal Service management with final approval over the program.

(b) The date each vendor contract was executed (or is expected to be executed).

(c) The date of any other action or transaction that you contend creates a binding commitment to incur costs for the project, and the amount of costs thereby incurred.

(d) Business records sufficient to verify your responses to the previous parts of this question.

RESPONSE:

(a-d) The attachments to OCA/USPS-T6-3 (the line summary of the Postal Service's Capital Investment Plan for FY 2001-2002) and OCA/USPS-T6-4 (Capital Investment Plan FY 2001-2005) provides information on approved major capital programs. Attachment I provides a further breakdown of capital programs as of Quarter III, FY 2001. The following table provides similar information for major programs.

Major Programs		
Program	**Vendor**	**Contract Award Date**
Corporate Call Management	TeleTech Facilities Mgt.	9/16/96
Corporate Call Management	TeleTech Facilities Mgt.	7/27/98
Point of Service	NCR	8/9/96
Point of Service	IBM	8/12/96
Associate Office Infrastructure	MCI Telecommunications	3/24/97
MTESC	DDD Company	9/18/98
MTESC	DynCorp	9/18/98
MTESC	New Breed	12/24/97
MTESC	Resource Consultants, Inc.	9/18/98
MTESC	Alan Ritchey, Inc.	9/18/98
PMPC	Emery Worldwide Airlines, Inc.	4/23/97
Delivery Confirmation	Lockheed Martin	8/27/97

III. Capital Commitments & Capital Cash Outlays, by year: EQUIPMENT PROJECTS as of QUARTER III, 2001

Project Name	Status	Board of Governors Approval Date	Capital Investment	Expense Investment
Advanced Facer Canceler Systems (AFCS), 173 units	Late	Dec-97	$85.9	$1.2
Completed	100%			
Automated Flat Sorting Machine (AFSM 100) - 175 Units	Late	Jun-98	$434.5	$11.5
Post Deploy.	100%			
Automated Flat Sorting Machine (AFSM-100) - 362 units	On-Time	Jul-00	$574.8	$4.1
Deployment	20%			
Automated Flats Feeder & OCR FSM 1000 - 359 units	On-Time	Aug-00	$104.3	$2.2
Design	0%			
Automated Tray Sleever	Behind	Aug-99	$25.8	$0.8
Deployment	18%			
Automatic Airline Assgmnt & Semi-Automatic Scan Where U Band	Behind	Jan-99	$108.9	$3.4
Deployment	35%			
Bulk Mail Center (BMC) Singulation Scan Induction Unit (SSIU)	On-Time	Jan-00	$102.3	$0.9
Pre-Production	0%			
Carrier Route Vehicles (a) - 5,949 units	Late	May-96	$115.0	$0.1
Completed	100%			
Carrier Route Vehicles (b) - 10,000 units	Late	Sep-98	$213.1	$0.0
Completed	100%			
Carrier Route Vehicles (c) - 11,275 units	Behind	Aug-99	$277.6	$0.0
Production	79%			
Carrier Sequence Bar Code Sorter (CSBCS) Sort Bin Expansion	On-Time	Aug-00	$21.1	$0.2
First Article Test	0%			
Delivery Bar Code Sorter (DBCS) Additional Capacity	On-Time	Mar-99	$228.8	$1.4
Deployment	100%			

III. Capital Commitments & Capital Cash Outlays, by year: EQUIPMENT PROJECTS as of QUARTER III, 2001

Project Name	Status	Board of Governors Approval		
		Date	Capital Investment	Expense Investment
Delivery Bar Code Sorter (DBCS) Expanded Capability	On-Time	Aug-00	$55.3	$0.8
Pre-Production	1%			
Forwarding Control Systems	Late	Aug-98	$33.0	$0.8
Completed	100%			
Identification Code Sort	Behind	Sep-98	$114.3	$8.3
Completed	101%			
Integrated Buffer System, R&D Phase III	Late	May-97	$0.0	$17.1
Completed	100%			
Integrated Mail Handling System (b)	Behind	Jun-95	$194.5	$167.4
Deployment	97%			
Letter Mail Recognition Enhancement Program	Behind	May-01	$223.3	$0.0
Pre-Award	0%			
Mail Cartridge System	Behind	Jul-99	$27.5	$7.0
Res. & Devel.	65%			
Mixed Delivery & Collection Vehicles - 2403 units	On-Time	Aug-00	$111.8	$0.0
Production	0%			
Recognition Improvement Program	Behind	Jun-00	$125.2	$6.0
First Article Test	1%			
Remote Computer Reader (RCR) 2000 Handwriting Recognition	Ahead	May-99	$190.6	$2.0
Deployment	92%			
Robotic Container Unloader - 100 units	Behind	Aug-99	$80.0	$1.4
Deployment	72%			
Robotic Tray Handling System Phase I	Behind	Aug-96	$37.0	$0.7
Deployment	85%			

III. Capital Commitments & Capital Cash Outlays, by year: EQUIPMENT PROJECTS as of QUARTER III, 2001

Project Name	Status	Board of Governors Approval Date	Capital Investment	Expense Investment
Small Parcel & Bundle Sorter (SPBS-1) Feed System, 230 units — Completed	Late 100%	Feb-96	$117.6	$6.9
Small Parcel & Bundle Sorter (SPBS-2) Feed System, 37 units — Production	Behind 92%	Feb-99	$20.7	$0.0
Small Parcel & Bundle Sorter - Redesign — Production	Ahead 11%	Aug-00	$27.0	$0.5
Tractors - Spotter — Completed	Late 100%	Dec-95	$91.3	$0.3
Tractors - Truck — Completed	Late 100%	Aug-98	$31.0	$0.0
Tray Management System, Phase II, Prototype — Post Deployment	Behind 100%	Feb-96	$47.1	$13.8
Tray Management System, Phase III, Deploy 42 — Deployment	Behind 96%	Jun-96	$396.4	$100.9
Universal Tray System — Integration	On-Time 0%	Jul-99	$34.3	$1.7

III. Capital Commitments & Capital Cash Outlays, by year: FACILITY PROJECTS as of QUARTER III, 2001

Project Name	Status	Board of Governors Approval		
		Date	Capital Investment	Expense Investment
Ansonia Station, NYC, NY - Renovation Const. Solicitation	Behind 40%	Mar-00	$6.9	$0.0
Arlington, VA, Headquarters Administrative Space Completed	Behind 100%	Sep-98	$9.2	$31.3
Bronx, NY, P&DC, Exterior Renovation Construction	Behind 98%	Aug-99	$12.9	$0.0
Brooklyn, NY, GPO, sale to GSA and lease-back Construction	Behind 40%	Aug-99	$15.4	$0.0
Champaign, IL, P&DF, Expansion Construction	Ahead 37%	Oct-00	$13.0	$0.0
Church Street Station, Phase II Construction	Ahead 81%	Dec-97	$91.0	$0.0
Cincinnatti, OH, AMC Completed	Behind 100%	Jun-99	$9.6	$0.0
Columbus, OH, P&DC Construction	Behind 83%	Aug-99	$140.6	$0.0
Geensboro, NC, P&DC Completed	On-Time 100%	Aug-99	$69.6	$0.0
Indianapolis, IN, Consolidated Mail Processing Annex Construction	Behind 65%	Dec-00	$3.9	$11.5
Las Vegas, NV, Crossroads Design	On-Hold 100%	Aug-00	$6.4	$0.0
Las Vegas, NV, Topaz Stations Design	On-Hold 95%	Aug-00	$6.5	$0.0

III. Capital Commitments & Capital Cash Outlays, by year: FACILITY PROJECTS as of QUARTER III, 2001

Project Name		Status	Board of Governors Approval		
			Date	Capital Investment	Expense Investment
Los Angeles, CA BMC Expansion	Construction	Ahead 94%	Apr-00	$67.7	$0.0
Los Angeles, CA, Mar Vista Station	Construction	Behind #Error	Feb-01	$9.6	$10.4
Midtown Station, NYC, NY	Completed	Early 100%	Mar-00	$0.0	$27.6
Milwaukee, WI, P&DC, Ramp Restoration	Construction	Behind 25%	Dec-00	$13.3	$0.0
Minneapolis, MN, Metro Hub	Completed	Behind 100%	May-98	$6.9	$26.3
Northwest Center - P&DF, Waltham, MA	Completed	Late 0%	Nov-90	$88.5	$0.0
Phoenix, AZ, PM-PPC	Completed	Ahead 100%	Jun-00	$20.4	$32.4
San Francisco, CA, AMC Expansion	Construction	Behind 23%	Aug-00	$74.4	$0.8
Seattle, WA, P&DC	Reopen	On-Hold	Nov-95	$85.4	$0.0
Seattle, WA, P&DC, NCO, HVAC, Roof R&A	Construction	On-Time #Error	Mar-01	$48.1	$0.0
St. Paul - Twin Cities AMF	Construction	Ahead 80%	Dec-99	$57.6	$2.2
Stamford, CT, Springdale Station	Completed	Behind 100%	Nov-99	$13.8	$0.0

III. Capital Commitments & Capital Cash Outlays, by year: OTHER PROJECTS as of QUARTER III, 2001

Project Name		Status	Board of Governors Approval Date	Capital Investment	Expense Investment
Associate Office Infrastructure (a) R&D	Completed	Early 100%	Feb-96	$2.2	$11.1
Associate Office Infrastructure (b) Ph I, Deployment	Completed	Late 100%	Jun-96	$236.9	$2.9
Associate Office Infrastructure (c) Ph II, Deployment	Deployment	Behind 92%	Nov-97	$201.2	$6.2
CODES Equipment Replacement Project:	Completed	Behind 100%	Dec-96	$12.7	$0.0
Commitment Management - Integrated Operations Management Prog	Post Deployment	Behind 100%	Sep-98	$27.9	$6.0
Corporate Call Management Ph I, R&D	Completed	Late 100%	Dec-95	$4.0	$25.9
Corporate Call Management Ph II, Prototype	Completed	Late 100%	Jun-96	$28.7	$0.0
Corporate Call Management Ph III, Deployment	Deployment	On-Time 65%	Jun-98	$226.8	$29.0
Delivery Confirmation Infrastructure Acquisition	Post Deployment	Behind 100%	May-97	$628.1	$76.2
Delivery Operations Information System (DOIS) - Deployment	Deployment	On-Time 0%	Aug-00	$127.6	$0.0
Delivery Operations Information Systems (DOIS) - R&D	Post Deployment	Behind 100%	Jun-98	$34.2	$5.8
Enhanced Security Capability	Impementation	On-Time 15%	Nov-01	$43.3	$0.0

III. Capital Commitments & Capital Cash Outlays, by year: OTHER PROJECTS as of QUARTER III, 2001

Project Name	Status	Board of Governors Approval		
		Date	Capital Investment	Expense Investment
Integrated Data System Upgrade	Behind	Jan-00	$33.8	$0.0
Design	0%			
International/Military Service Centers	Behind	Aug-97	$146.9	$129.7
Deployment	88%			
Mail Evaluation Readability, & Lookup Instrument (MERLIN)	On-Time	Jul-00	$43.9	$1.5
Production	4%			
Mail Transport Equipment Service Centers	Late	Jul-97	$1.3	$0.0
Completed	100%			
Net-Post	Behind	Nov-99	$18.6	$0.0
Post Deployment	85%			
Point of Service (POS ONE) Deployment	Behind	Jun-96	$899.2	$0.0
Deployment	98%			
Postal Field Computing Infrastructure (PFCI) & Remote Office LAN	On-Time	Jan-00	$41.6	$0.0
Deployment	13%			
PostalOne!, Business Customer Support System - Devel & Test	Behind	Feb-00	$10.1	$0.0
Completed	44%			
Radio Frequency Infrastructure Development & Testing	On-Hold	Dec-97	$0.0	$12.4
Terminated	0%			
Self-Service Vending Machine Acquisition	Behind	Aug-98	$26.3	$3.6
Post Deployment	100%			
Stamp Fulfillment Services Center [SFSC], Kansas City, MO	Behind	Aug-96	$33.5	$2.2
Deployment	97%			
Standard Accounting for Retail-RA (SAFR-AR)	On-Time	Jan-00	$34.4	$0.0
Design	0%			

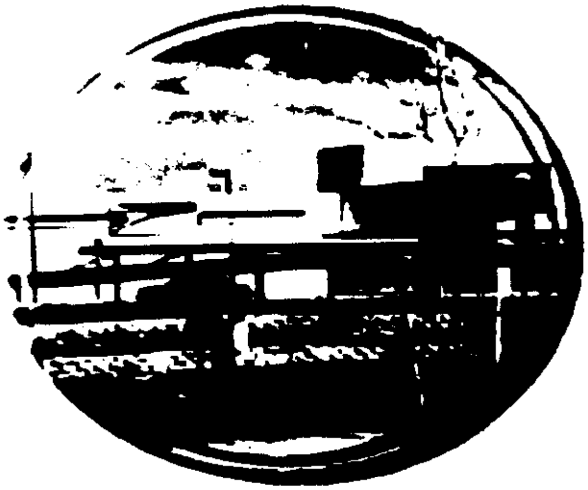
III. Capital Commitments & Capital Cash Outlays, by year: OTHER PROJECTS as of QUARTER III, 2001

Project Name	Status	Board of Governors Approval		
		Date	Capital Investment	Expense Investment
Surface-Air Management System (SAMS)	On-Time	Jul-00	$38.4	$0.0
Deployment	44%			
Time and Attendance Collection System (TACS)	Ahead	Jan-00	$46.7	$0.0
Deployment	13%			

UNITED STATES POSTAL SERVICE

INTEGRATED FINANCIAL PLAN FISCAL YEAR 2002

OPERATING PLAN



CAPITAL PLAN

FINANCING PLAN

9/10/01

SPECIAL NOTE

TO THE FY2002 INTEGRATED FINANCIAL PLAN

The Information contained in this document does not reflect the impact of the aftermath of the World Trade Center and Pentagon attacks on September 11, 2001.

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INTEGRATED FINANCIAL PLAN

FISCAL YEAR 2002

EXECUTIVE SUMMARY

The Fiscal Year (FY) 2002 Integrated Financial Plan incorporates the Operating, Capital and Financing Plans that are built upon projected FY2001 financial results. With a projected net loss for FY2001 of $1.65 billion, the FY2002 operating plan generates a net loss of $1.35 billion.

Revenue

Operating results in FY2001 were hit hard by the economic downturn and increased inflation. Despite the R2000-1 rate increase that was implemented in January and July of 2001, revenue growth, estimated at 2.7 percent, is slightly more than one-half of last year's expectations or, $1.6 billion below plan.

Economic forecasts estimate that this softness in the economy will continue through the second quarter of 2002. Accordingly, with virtually no volume growth in FY2001, volume for FY2002 is forecast to grow by 1.1 percent. This volume growth combined with a full year of increased rates generates revenue growth of 3.7 percent.

Expense

Despite strong expense controls and labor usage below last year, FY2001 expenses are estimated to increase by nearly 5.0 percent. Inflation in labor costs and other nonpersonnel items has outpaced revenue growth in the slow economic environment.

In FY2002, planned expenses will increase by only 3.2 percent, due to further reductions in expenses and work hours. In all of Postal Service history, only in 1994 was the expense growth rate lower. Over the last two years, career complement has been reduced by 21,000 employees while productivity has grown by 4.5 percent. The continuation of these trends is incorporated in the FY2002 operating plan with a reduction in work years of 13,000 and productivity growth of 1.1 percent.

Capital

Due to reduced operating cash flow in FY2001, the capital commitment plan was reduced from $3.6 billion to $1.6 billion to minimize cash outlays in both FY2001 and FY2002. An FY2001 freeze on new capital commitments was put in place and included over 800 planned facility projects. Corresponding cash outlays in FY2001 were reduced from $3.5 billion to $2.7 billion.

With declining cash flows from operations, the FY2002 capital commitment plan of $2.4 billion reflects continued constraint on new capital commitments. FY2002 capital cash outlays are expected to be $2.2 billion, of which 68% represent projects committed in prior years. Over one-half of the commitment plan provides funding for high return on investment equipment projects; the balance of the plan is for emergency facilities and other infrastructure needs such as vehicles. New facilities construction will remain frozen.

Borrowing

Reducing capital spending in FY2001 kept the increase in outstanding debt at $2.0 billion. By reducing capital cash outlays in FY2002, the increase in debt is minimized at $1.6 billion. This brings total outstanding debt at the end of FY2002 to $12.9 billion, an amount that represents 86 percent of the total statutory borrowing level.

Despite management efforts to control the impacts of inflationary cost increases, an increase in Postal price is required. Management has developed an Omnibus Rate Filing using FY2003 as the test year. The FY2002 interim year revenue and expenses included in that filing are based upon and tie to this Integrated Financial Plan.

OPERATING PLAN

The FY2002 Operating Plan was developed under the *CustomerPerfect$_{sm}$* management cycle. In light of the soft revenue and volume growth of FY2000 and FY2001, and current economic indicators, management adopted a conservative FY2002 revenue plan reflective of modest volume growth.

Expenses have been held below plan in FY2001 in response to below plan revenue growth. For the year, total expenses of $68.0 billion will be about $400 million under plan and 5.0 percent more than FY2000 expenses. Management controlled expense growth during FY2001 in spite of higher labor costs, escalating fuel and utility prices, increased workers' compensation costs, and rising health benefit costs. Though mail volume was essentially flat, 1.7 million more delivery points were serviced with 10,000 fewer work years.

NET LOSS

The Operating Plan for FY2002 targets a net loss of $1.35 billion.

Total revenue is estimated to grow 3.7 percent, from $66.3 billion to $68.8 billion. Revenue growth reflects the carryover of FY2001 rate increases and modest volume growth projected for FY2002. Total expense will grow 3.2 percent, from $67.9 billion to $70.2 billion. This is the second lowest annual expense increase since Postal Reorganization.

FY2002 Operating Budget

	FY2001 Estimate	FY2002 Plan	Change	% Change
Revenue	$ 66,340	$68,820	$2,480	3.7
Expense	67,990	70,170	2,180	3.2
Net Loss	$ (1,650)	$ (1,350)	$300	
($ Millions)				

VOLUME AND REVENUE

Revenue is projected to grow $2.5 billion. Approximately $1.8 billion of this growth is from the R2000-1 rate increase implemented on January 7 and July 1, 2001. The remainder is attributable to volume growth.

Volume Forecasts and Related Revenue Impacts

The volume and revenue forecasts underlying the plan were built using DRI*WEFA's June, 2001 baseline macroeconomic projections. The DRI*WEFA forecast assumes that economic growth recovers from the anemic 1.0 percent average during the last three calendar quarters of 2001 to a more robust rate of 2.0 percent in 2002. DRI*WEFA assigned a 55 percent probability to its baseline projection, leaving a 45 percent probability assigned to its less favorable "Late Recession" and "Pessimistic" forecasts. Therefore, there is a downside risk associated with the volume projections. Additional adverse economic developments could reduce volume and revenue below what is projected for the FY2002 plan. The volume forecast

Volume

	FY2001 Estimate	FY2002 Plan	Growth	% Growth
First-Class	103,001	103,493	491	0.5
Priority	1,162	1,187	24	2.1
Express	71	73	2	2.8
Periodicals	10,195	10,081	-113	-1.1
Standard Mail	90,554	92,301	1,746	1.9
Parcel Post	353	379	26	7.5
Other Package Svcs.	756	761	5	0.6
International	1,182	1,249	68	5.7
Other Mail	426	417	-9	-3.2
Total Volume	207,700	209,940	2,240	1.1
(Millions)				

reflects the impact of modest economic growth and the carryover impact of price increases. Total volume is projected to grow by 1.1 percent over estimated FY2001 volumes. First-Class Mail is projected to grow at less than one-half the growth rate of the adult population, currently growing at 1.1 percent. This reflects the sluggish economy and the negative impact of growing Internet use on First-Class Mail volumes. Moderate growth is projected for Priority Mail, Express Mail, Standard Mail and Package Services. Declines in Periodicals volume are projected to continue and International volume is expected to build upon its growth in FY2001.

Revenue

	FY2001 Estimate	FY2002 Plan	Change	% Change
First-Class	$ 35,751	$ 36,357	$606	1.7
Priority	5,139	5,500	361	7.0
Express	1,023	1,077	54	5.2
Periodicals	2,275	2,379	104	4.6
Standard Mail	15,914	16,740	825	5.2
Parcel Post	1,123	1,191	68	6.1
Other Package Svcs.	886	933	47	5.3
International	1,773	1,838	65	3.7
Other Revenue	2,456	2,805	349	14.2
Total Revenue	$ 66,340	$ 68,820	$2,480	3.7
($ Millions)				

Overall, revenue is projected to grow 3.7 percent. The revenue growth for Priority Mail, Express Mail, Periodicals Standard Mail, and Package Services primarily reflects the impact of the rate increase that occurred in FY2001. The lower revenue growth rate for First-Class Mail is accounted for by both slow total volume growth and declining single-piece letter volume. Projected growth in International revenue primarily relates to volume growth. Approximately half of the $349 million planned increase in Other Revenue is generated by diverse revenue initiatives, including those of retail, postal ad networks and e-commerce.

EXPENSE

Operating Budget

In FY2002, total expenses are planned at $70.2 billion, which is 3.2 percent more than FY2001 estimated total expenses of $68.0 billion. This represents the second lowest annual growth rate in total expenses since Postal Reorganization.

Three labor contracts expired in November 2000. These are the agreements with the Mailhandlers, the American Postal Worker's and the Rural Letter Carriers unions. In the absence of an approved contract for these three union groups, labor rates have been estimated based on an expected Employment Cost Index (ECI) for FY2002, less 1 percent.

FY2002 Expenses

	FY2001 Estimate	FY2002 Budget	Change	% Change
Field	$ 54.800	$56,010	$1,210	2.2
Corp Transportation	3,020	3,220	200	6.7
Corporatewide Activities	2,210	2,590	380	17.2
Interest	1,970	2,040	70	3.6
HQ Administrative	1,400	1,400	-	-
OIG and PRC	110	125	15	10.5
Servicewide	4,480	4,785	305	6.8
	$ 67,990	$70,170	$2,180	3.2
($ Millions)				

Field Expense

Field expenses will increase by $1.2 billion in FY2002, with the majority of the increase attributed to inflation in labor costs. The growth in field costs will be restrained by $795 million through cost reduction efforts, including an $80 million reduction in administrative work hour costs at the Area and District offices. Health benefits expense grew by 10 percent in FY2001 and is expected to do so again in FY2002.

Of the $874 million in FY2002 cost reductions, $795 million relates to field operations. Specific capital investment programs account for $402 million of the field cost reductions. The largest single program is the Automated Flat Sorter Machine (AFSM) 100. In addition to the program savings, other field cost reduction efforts account for $393 million in savings. This is broken down into $280 million savings from operations, $80 million in administrative reductions, $17 million in Supply Chain Management and $16 million in transportation savings.

These programs produce a 1.9 percent work hour reduction in FY2002. In FY2001 work hours will be reduced by 1.3 percent compared to the previous year and were reduced by 0.7 percent in FY2000 compared to FY1999. The Postal Service last reduced work hours in three consecutive years in the 1976-1978 period when Presort First-Class Mail discounts were first introduced. The FY2002 reduction target is equivalent to over 13,000 full time employees.

Headquarters Expense
Headquarters expense includes the headquarters organizations and their field service units, and the Postal Inspection Service. Headquarters administrative costs of $1.4 billion are unchanged from the FY2001 estimate. In FY2001, complement was reduced by 500 positions, resulting in $34 million in cost savings. Inflationary cost pressures in FY2002 will be absorbed through staffing reductions.

Programs and Corporatewide Expense
Program and Corporatewide activity costs are budgeted at $2.6 billion in FY2002, compared to our year-end estimate of $2.2 billion for FY2001. Almost 75 percent of the program and corporatewide activity budget is devoted to ongoing activities that represent legal or contractual requirements or are needed to support operations. These include: Mail Transportation Equipment Service Centers ($313 million), the purchase of Mail Transportation Equipment ($159 million), Stamp Manufacturing ($140 million), and Point-of-Service (POS) ONE ($160 million). The FY2002 planned expense holds total program spending at FY1999 levels and represents an increase of only $279 million over what was originally planned for FY2001. The FY2001 budget for these items was reduced to offset the impact of reduced revenue.

Information technology and infrastructure expense programs are planned to increase in FY2002. Included are programs to install security software, advanced employee interfaces to support the transition from internal computer applications to Web-based technology and to automate manual processes. Although these efforts require substantial investments, they are less costly to operate over time. In addition, in FY2002 replacement of the internal desktop computing infrastructure will begin. The current computing environment is technologically obsolete and no longer supported by key vendors. Without improvements, maintenance costs will increase substantially. Updating minimizes future maintenance costs.

Major Program Spending
Top Ten Programs FY2002

Program	FY2001 Estimate	FY2002 Plan	Change	% Change
Total MTESC Program	$325	$313	$(13)	(3.6)
Point of Service	128	160	32	24.8
Recurring Mail Transport	137	159	23	16.7
Corporate Advertising	148	140	(8)	(5.5)
Stamp Manufacturing	152	140	(12)	(7.6)
Expedited Supplies	138	125	(13)	(9.4)
Total CCM Program	101	99	(2)	(2.0)
Delivery Confirmation	57	69	12	21.3
Total AOI Program	69	67	(2)	(3.5)
Environ. Field Support	55	55	-	-
	$1,310	$1,327	$17	1.4

($ Millions)

As a final point, much of the increase in this category is directly related to the decisions made in FY2001 to defer program spending in order to offset the impact of the anemic economic growth on revenue. These decisions generated short-term expense reductions at the risk of jeopardizing long-term cost reductions. Program spending in FY2002 has been structured to offset this risk.

Servicewide Expense

Servicewide expenses are national-level expenses that cannot be isolated and charged to individual operating units and are outside local management control. These expenses are expected to increase by $305 million in FY2002. This increase is largely driven by annuitant Cost-of-Living-Allowances (COLAs) and annuitant health benefits.

National network transportation, which accounts for over 60 percent of total transportation costs, was significantly impacted by fuel costs in FY2001. Continuing efforts to reduce the cost of the transportation network through means such as shifting a greater percentage of transportation from air to ground will limit network transportation costs to $3.2 billion.

In FY2002, benefiting from lower interest rates, interest expense on debt will be about $395 million, an increase of $30 million over FY2001. In addition, the current interest expense on Civil Service Retirement System (CSRS) deferred retirement liabilities is expected to increase by $40 million and total $1.6 billion.

Expense by Component

To gain a different perspective on the FY2002 Operating Plan, expense growth can be examined by component. Personnel expense, including annuitant and workers' compensation costs make up $1,810 million of the FY2002 expense growth. Growth in salaries and benefits is driven by wage inflation and is not a result of growth in work hours which, in fact, decline in FY2002. Health benefit inflation, which had been relatively stable for several years, rose by double digits (10%) in FY2001 and will rise by 10 percent in FY2002. This in turn contributed to the increase in workers' compensation expense that is expected to continue into FY2002. Workers' compensation expense is expected to increase 8.0 percent, bringing the total to over $1 billion in FY2002.

FY2002 Expense by Component

	FY2001 Estimate	FY2002 Plan	Change	% Change
Personnel	$ 51,700	$ 53,510	1,810	3.5
Nonpersonnel	9,230	9,420	190	2.0
Transportation	5,070	5,220	110	2.2
Interest	1,970	2,040	70	3.6
Total Expense	$ 67,990	$ 70,170	2,180	3.2

($ Millions)

Deployment of capital investments committed in prior years drives the increase in non-personnel expense depreciation, which is expected to increase by $145 million, or 6.6 percent. A modest increase in direct transportation expenses is associated with the transfer of Priority Mail operations back to the Postal Service and a zero inflation forecast for fuel costs.

COST REDUCTION PROGRAMS

Offsetting the increase in depreciation resulting from capital investments are the benefits derived as an asset is utilized. In the FY2002 budget, $874 million in cost reductions are included. The benefits are spread between specific operational programs and other productivity initiatives that are described as "Bold Actions." Operational programs total $402 million and are targeted entirely at the field. Bold actions account for $472 million in savings between headquarters and field units. All told, $795 million of the savings will be achieved at the field level and the remainder at headquarters.

The primary focus for operational efficiencies in FY2002 is the processing of flats. Roughly, 60 percent of the program savings will come from these efforts, with tremendous opportunities resulting from automated flat sorting machines. Material handling programs account for approximately 15% of the program savings and another 15% is due to further consolidation of the Remote Encoding Centers. The final 10% is rounded out between letter mail programs and Finance's new Time and Attendance Collection System (TACS).

More than half of the FY2002 savings results from bold actions to reduce costs. Increased efficiencies in all operational functions will save the organization $280 million through reduced work hours. In addition, reductions in the administrative functional areas will net the organization $120 million. The final $72 million in savings will be achieved through supply chain management initiatives and more efficient transportation utilization.

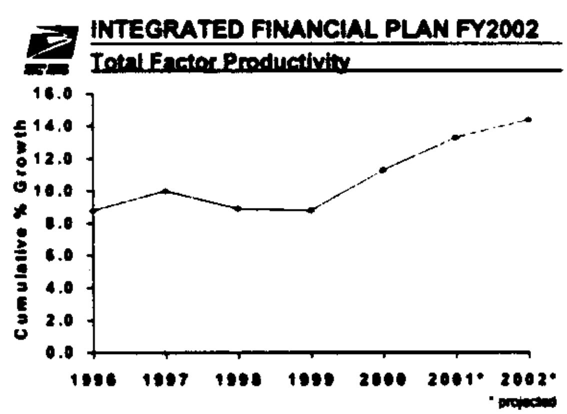
FY2002 Cost Reduction Overview

Activity	Savings	Total
Programs:		
Flat Sorting Machines	$ 239	
Remote Encoding Center Programs	60	
Time & Attendance Collection System	25	
Tray Management Systems	23	
AAA SWYB	13	
ID Code Sorting	11	
Robotics	11	
Parcel Singulator	9	
DBCS	6	
Other	5	$ 402
Bold Actions:		
Operations	$ 280	
Administrative	120	
Supply Chain Management	42	
Transportation	30	472
Total		$ 874

($ Millions)

PRODUCTIVITY

Total Factor Productivity (TFP) measures the change in relationship between outputs, or workload, and all resources used in producing those outputs. Labor productivity measures the change in the relationship between workload (mail volume and deliveries) and the labor resources used in producing those outputs.



It is not uncommon for TFP growth to fluctuate from one year to another. During FY2001, both TFP and labor productivity are projected to grow 2.0 percent, equivalent to $1.3 billion in expense reductions. When compared to other years with strong TFP growth, the FY2001 achievement is significant. In FY2001, TFP growth is estimated to be 2.0 percent in spite of a below average workload increase of just 0.7 percent. In earlier years, strong TFP growth was fueled largely by absorbing workload growth. In FY2001, strong productivity growth has been fueled by substantial restraint on resource usage.

The FY2002 financial plan assumes a 2.1 percent increase in labor productivity and a 1.1 percent TFP growth rate. Without this productivity increase, the net loss would exceed $2 billion. The FY2002 financial plan calls for smaller expense growth than in FY2001, while total workload growth resulting from mail volume and deliveries changes will be less than one percent.

CAPITAL INVESTMENT PLAN

The FY2001 plan for capital commitments was significantly reduced to minimize cash outlays in both FY2001 and FY2002. This action was necessitated by the impact of the soft economy on postal revenue and the corresponding declines in cash from operations. Accordingly, the FY2002 capital commitment plan reflects continued constraint on new capital commitments. The FY2002 plan for commitments was reduced from $3.7 billion to $2.4 billion and the cash outlay plan reduced from $3.2 billion to $2.2 billion. Capital investments will focus on funding projects that provide a high return on investment, and on handling emergency infrastructure requests.

FY2002 Capital Investment Plan

The FY2002 capital commitment plan of $2.4 billion includes address automation and mechanization projects that apply to distribution, processing, and delivery systems. Also included are projects that improve the quality of customer interactions. Infrastructure investments will be necessary to support workload growth, to repair or replace aging assets, and to provide necessary information and communications technology networks. Our plans call for applying new technologies to achieve aggressive cost management and additional productivity improvement through projects with a high return on investment. The current portfolio of capital investment opportunities will produce an estimated return on investment of approximately 17 percent over five years. As information, the Board has previously approved approximately $600 million of the $2.4 billion. In addition, $1.5 billion of the $2.2 billion capital cash outlays in FY2002 relates to commitments made in prior years.

Capital Commitments

	FY 2001 Plan	FY 2001 Revised	FY 2002 Plan
Equipment	$1,305	$681	$1,230
Facility	1,087	462	520
Infrastructure	652	191	472
Vehicle	335	58	94
Retail	236	199	80
R&D	27	10	11
Total	$3,642	$1,601	$2,407
($ Billions)			

Capital Cash Outlays

	FY 2001 Plan	FY 2001 Revised	FY 2002 Plan
Equipment	$1,522	$1,111	$925
Facility	1,078	815	612
Infrastructure	425	360	254
Vehicle	285	181	217
Retail	221	233	192
Total	$3,531	$2,700	$2,200
($ Billions)			

According to its bylaws, the Board of Governors must approve the capital budget each year. Such approval represents a general concurrence with the capital investment plan. In addition, the Board must approve each investment greater than $10 million.

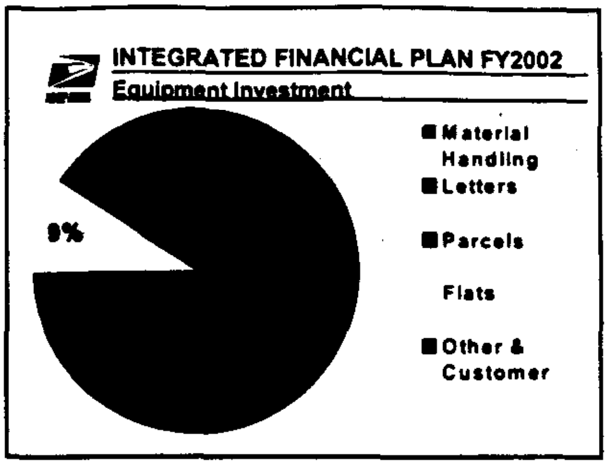
All projects in the approved plan are subjected to an in-depth review and approval process that ensures they are fiscally sound or service oriented. Accountability is established for the results the project is expected to produce and the project is analyzed using a Return on Investment methodology to ensure that projections are accurate. Finally, studies are conducted on selected projects, to determine whether financial and operating goals are achieved. Major programs and project descriptions follow below.

Equipment

The equipment category of the FY2002 capital commitment plan totals $1.2 billion, or 51 percent, for programs that generate reduced operating costs. The chart on the following page reflects the allocation of funds across the various types of equipment projects.

Automated equipment not only saves work hours and associated indirect costs but also improves speed and service quality. Automation provides management with data gathering capabilities that can be used in future information-based services. For example, the material handling systems can be integrated with the Next Generation Small Parcel and Bundle Sorting Machine that utilizes optical character readers and video encoding to process over 11,000 pieces of mail per hour. Completion of the AFSM 100 program will improve processing of periodicals and flat mail volume.

Investment in the Postal Automated Redirection System (PARS) is expected to yield large savings by eliminating multiple downstream handling and moving the process of all undeliverable as addressed letter mail into the automated mail stream. It will also improve service by significantly reducing the amount of time to process this letter mail volume.



Facilities
In FY2002, $520 million will be committed on facilities. These are emergency facility needs only. Consistent with the freeze on new commitments, rather than build new facilities, management will optimize use of existing space whenever possible and avoid investing in more costly new construction.

With average annual growth in delivery points of 1.5 percent, the customer service facility infrastructure will be maintained via ongoing repair and alteration projects equal to 54 percent of the FY2002 facilities plan. Also included are commitments for major mail processing facilities such as the New Jersey Metro Processing and Distribution Center in Teterboro, New Jersey.

Vehicles
In FY2001, the planned commitments for vehicles were delayed in response to the capital freeze. Due to continued growth in deliveries and the aging vehicle fleet, the FY2002 capital plan includes funds in the amount of $94 million for cargo vans and carrier route vans.

Infrastructure
Infrastructure projects maintain and meet communication, computer and network system needs. The capital freeze forced the re-prioritization of the planned FY2001 infrastructure investments. Only non-discretionary or high return on investment projects were pursued. The FY2002 Capital Commitment Plan for infrastructure is $472 million. Included in this category is the Mailing Evaluation Readability and Lookup INstrument (MERLIN) that improves the consistency of mail acceptance, verifies meter amounts, and weighs and measures the thickness of mail to determine that proper postage has been paid.

Other systems include the Delivery Operations Information System (DOIS) infrastructure project reduces work hours by providing supervisors with actionable data on available resources to handle daily workload. The next phase of the Surface and Air Management System (SAMS) improves our ability to control air routing and transportation costs. The Time and Attendance Collection System replaces five systems and reduces considerable work hours related to timekeeping. The initiation of the Human Resources and Payroll Enterprise project, to reengineer and replace our current personnel and payroll systems, is part of the FY2002 plan. Finally, implementing the Enhanced Security Capability program will permit secure communication with business partners, customers, and employees. It will mitigate the risk of a financial loss and ensure the ability to provide services throughout the business environment.

Retail
In FY2002, $80 million will be committed for retail operations. Over 76 percent of this amount is earmarked for Stage 3 of Point-of-Service (POS) ONE. When fully deployed, POS ONE will capture detailed sales and customer information. This, when integrated with the technology platform, will reduce accounting workload in district offices, integrate debit/credit card functionality, provide inventory management, enable automatic reordering, and provide for post office box administration.

FINANCING PLAN

The Financing Plan for FY2002 is integrated across fiscal years with the Operating and Capital Plans for FY2002. With numerous uncertainties facing the Postal Service, a multi-year strategic view of our financing needs is required, especially in light of the statutory limits on our debt.

Financing Plan

		FY 2001	FY 2002
	Cash from Ops	**$ 1.4**	**$ 0.2**
-	**Capital Cash Outlays**	**2.7**	**2.2**
+/-	**Cash**	**0.7**	**(0.4)**
=	**Borrowing**	**2.0**	**1.6**
	Debt Outstanding	**$ 11.3**	**$ 12.9**

($ Billions)

The annual change in debt within a fiscal year is driven by the interaction of cash flow from operations, capital cash outlays, and changes in our cash balance. When cash flow from operations has exceeded capital cash outlays, debt has been reduced. In recent years, cash outlays for capital have been greater than cash flow generated from operations and debt has increased.

Last November, management estimated that cash flow from operating activities would total $1.8 billion in FY2001 and capital cash outlays would be $3.6 billion. A $200 million increase in cash was recommended to provide a cushion for financial uncertainties the Postal Service could be facing in the years ahead. Based on the plans for a net loss, capital cash outlays and cash on hand, management estimated an increase in debt outstanding of $2 billion. Since presentation of the Integrated Financial Plan last November, net losses have worsened but liquidity has been preserved by reducing capital cash outlays. Additionally, in May, the Board Audit and Finance Committee was notified that up to $1 billion in obligations to be accrued in FY2001 might not result in cash outflows until FY2002. Therefore, a larger cash increase at the end of FY2001 is recommended, in part to provide next year's added payments, but also to serve as a buffer against increased risks. The financing request for FY2001 remains at a net increase in debt outstanding of $2 billion.

For FY2002, management projects that cash flow from operations will be $200 million based on a loss of $1.35 billion. Accrued payments from FY2001 contribute to the low cash flow from operations, as does the fact that FY2002 has 27 payroll tax days, versus the usual 26. Capital cash outlays are projected to total $2.2 billion. A net increase in debt of $1.6 billion in FY2002 is necessary to finance the capital cash outlay target. At the end of FY2002, debt outstanding with the Federal Financing Bank will total $12.9 billion, and cash and cash equivalents will be an estimated $950 million.

On a cautionary note, the cash flow figures can be no more than approximate, since they are based on underlying assumptions and judgments regarding cash versus non-cash expenses and changes in working capital accounts. In addition, risks to the net loss plan translate into risks to cash flow from operations that could increase borrowing in FY2002 or require that management make greater reductions to the cash balance.

FINANCIAL OUTLOOK

The chart at right shows the critical elements of the financial condition for FY2001 and FY2002. The first four lines of this chart reflect the generation of cash flows from the operations as outlined in the Operating Plan. As noted in the Financial Planning section, accruals and an extra payroll tax day result in only $200 million of projected operating cashflows in FY2002. The next line in the chart shows anticipated capital cash outlays. The difference between cash flow from operations and capital cash outlay net of any planned changes to cash on hand is the amount needed to borrow, which drives the Financing Plan. The remainder of this chart provides additional information on the Postal Service's financial condition. Debt represents the expected outstanding debt at the end of each fiscal year. The capital commitment plan reflects the estimated new capital commitments in each year. The equity amount – the sum of contributions from the federal government and prior years' losses – is shown in the last line of this chart.

INTEGRATED FINANCIAL PLAN FY2002
Financial Outlook

	FY2001	FY2002
Net Loss	(1.6)	(1.3)
Depreciation	2.2	2.3
Adjustments	0.8	(0.8)
Cash Flow From Operations	1.4	0.2
Capital Cash Outlay	2.7	2.2
Change in Cash	.7	(0.4)
Net Borrowing	2.0	1.6
Debt	11.3	12.9
Capital Plan	1.6	2.4
Equity	(2.3)	(3.6)
Prior Year Losses	(5.3)	(6.6)

($ Billions)

Board Resolution 95-9, concerning restoration of equity and recovery of prior years' losses, established a policy of planning for net incomes that "equal or exceed the cumulative prior years' loss recovery target" set in the last omnibus rate proceeding. Due to accumulated impacts of earlier net incomes that exceeded annual targets, the Postal Service entered FY2001 $1.1 billion ahead of the cumulative target. However, given the projected net loss of $1.65 billion in FY2001 and $1.35 billion in FY2002, the Postal Service will finish FY2002 $2.5 billion below the target.

Resolution 95-9 provides that, if it appears that the projected recovery target will not be met, the Board and management "will take actions that reduce costs and/or increase revenues." Management's preliminary Operating Plan includes approximately $874 million in cost reductions and approximately $187 million in revenue increases from new initiatives. Also, management is continuing to make capital investments that will produce additional savings in future years. However, additional revenue, derived from a postage increase, is needed to put equity restoration back on track.

RISKS

The FY2002 Integrated Financial Plan is the product of an extensive development process, during which numerous scenarios were examined. Management has established a firm foundation for the achievement of the plan. Aggressive actions to manage expenses in response to the slow volume growth during FY2001 have been successful. Because the $1.35 million net loss in the FY2002 plan is minimized, there is minimal reserve for unforeseen events. Risk factors must be acknowledged and are discussed below.

Revenue

Governors' modified rates were implemented in July 2001, principally impacting Standard Mail and Package Services. Historically, mail volume growth has tended to dip after a rate increase. Other factors, such as the economic slowdown and migration of mail toward lower-contribution categories may exaggerate the normal post-rate slowdown in growth. Management believes the modest volume growth plan reflects recent experience. However, acceleration of these trends could result in volume declines.

Economic Risk

Significant dangers and risks characterize the Postal Service's economic environment, as FY2002 begins. Oil prices are still very erratic. As private sector enterprises continue to post profits lower than analyst expectations, concerns mount about a lengthier economic downturn. Federal Reserve attempts to counter this by lowering interest rates have had little impact. Should the economy slow more rapidly or severely than management estimated, significant negative impact to postal operations will result.

Labor Arbitration
Three labor contracts, the American Postal Worker's Union, the Mailhandlers, and the Rural Letter Carriers are currently in arbitration; and the Letter Carrier contract comes up for renewal in November 2001. In the absence of an approved contract, labor rates for these three union groups were estimated based on the expected Employment Cost Index (ECI), less 1 percent each year. Should the negotiations produce a substantially different outcome, the ability to achieve the FY2002 plan will be materially impacted.

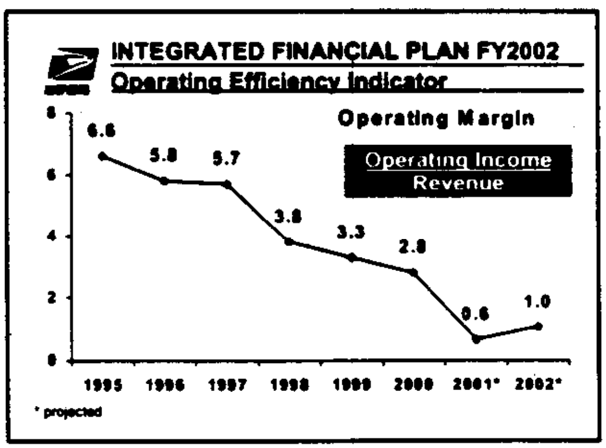
Expense Risks
A continuation of FY2001 adverse workers' compensation trends in FY2002 could drive costs beyond the optimistic estimates included in the plan. Management believes that the accelerated claims processing has a one-time impact that will not continue over the course of FY2002. However, the increase in reported injuries, disproportionately attributable to occupational claims filings, may have a lasting impact on the number of medical and indemnity claims as well as the average cost per medical claim. This could adversely impact the workers' compensation expense accrual and result in additional costs in FY2002.

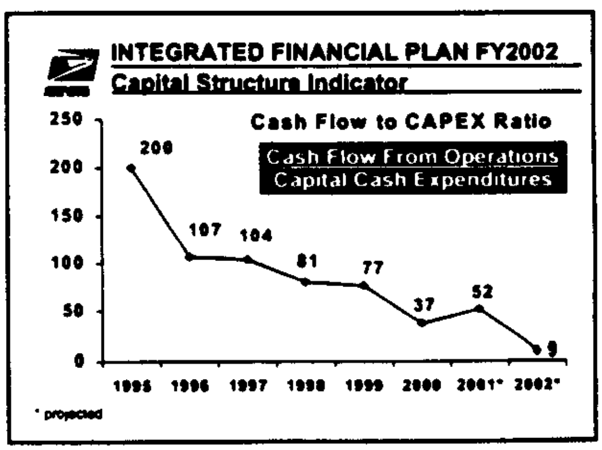
As always, the potential for the occurrence of unplanned events, such as natural disasters which could adversely impact the Postal Service's finances, must be acknowledged as a risk.

FINANCIAL POLICIES AND INDICATORS

In 1999, the Board of Governors adopted selected financial Indicators for their use in setting financial policy for the Postal Service. The areas of financial performance are: financial margins, capital structure and efficiency. The indicators frame the planned Postal Service financial results for FY2002.

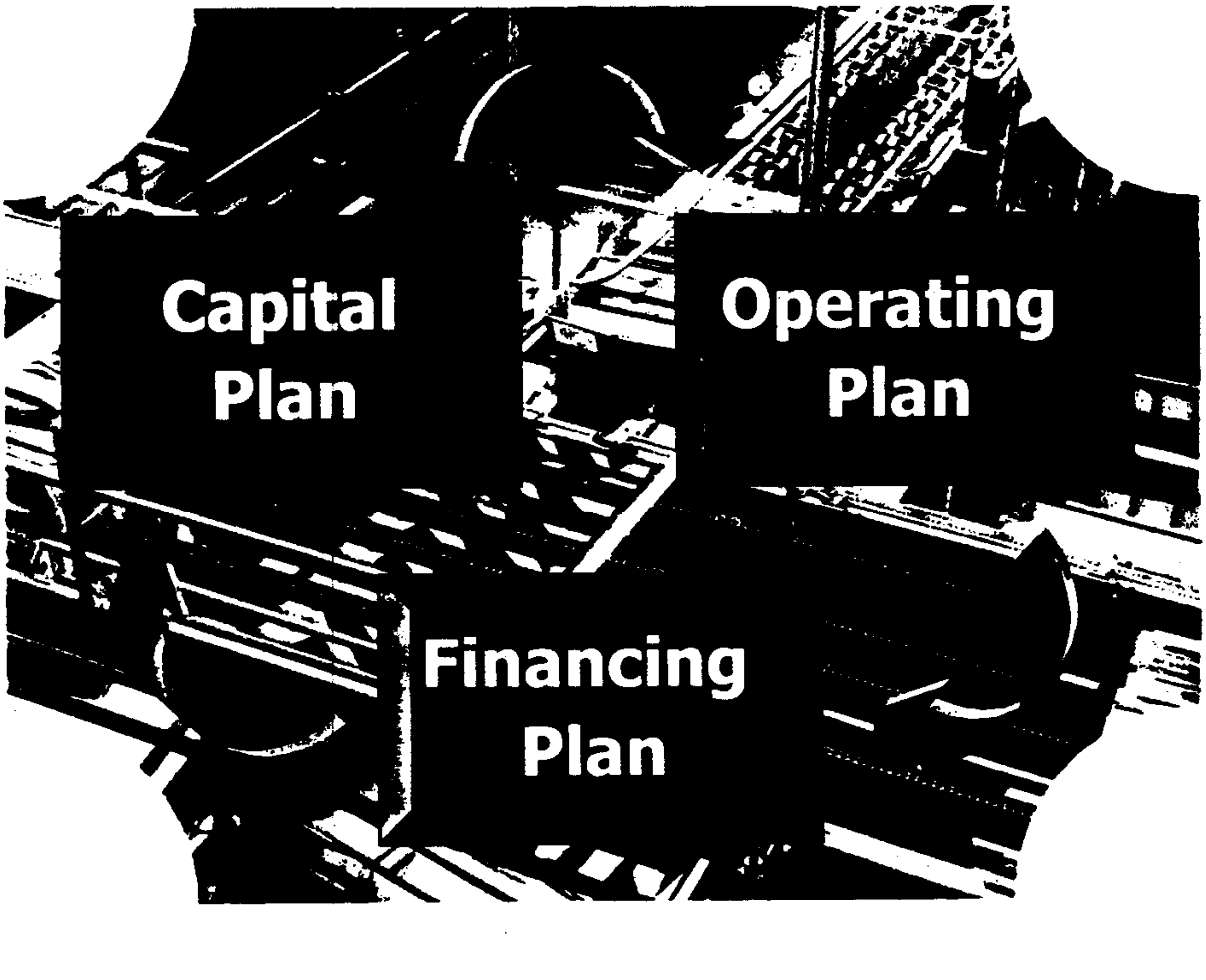
The charts below reflect the historical results of these indicators for FY1995 through FY2002. The Integrated Financial Plan produces an operating margin result of 1.0 in FY2002. Operating margin, defined as operating income divided by revenue, measures performance in areas in which management has the most control. The cash flow to capital expenditures ratio is calculated by dividing operating cash flow by capital cash expenditures. This defines the level of capital expenditures to be financed from internal cash generation versus external financing. For the FY2002 capital structure, a CAPEX result of nine will be produced. This is significantly lower than in recent years.





UNITED STATES
POSTAL SERVICE

INTEGRATED FINANCIAL PLAN
FISCAL YEAR 2001



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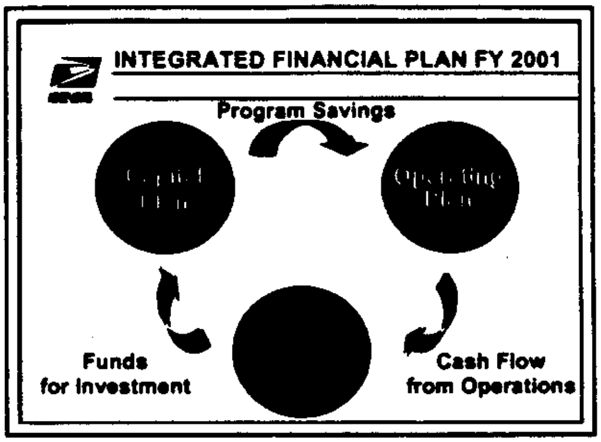
INTEGRATED FINANCIAL PLAN

FISCAL YEAR 2001

EXECUTIVE SUMMARY

The Fiscal Year (FY) 2001 Integrated Financial Plan incorporates the Operating, Capital and Financing Plans that are built upon estimated FY 2000 operating results. These components of the Integrated Financial Plan are linked as indicated on this diagram. The **Operating Plan** allocates resources to meet established goals and generates operating cash. A portion of that cash flow is an element of the **Financing Plan** in which cash and debt are managed. The **Capital Plan** allocates funds for construction and purchase of facilities and equipment that will improve service and infrastructure and generate future efficiencies. These investments are partially funded by cash flows generated from the Operating Plan.



Highlights of Integrated Financial Plan

Operating Plan

The FY 2001 Operating Plan projects total revenue of $67.9 billion, an increase of 5.2 percent. This projected revenue growth is driven predominantly by the price increase anticipated for January 2001. The FY 2001 Operating Plan was developed in the context of disappointing revenue and volume growth in FY 2000. The revenue weakness began shortly after the January 1999 rate increase and has continued through the present. The plan estimates that the combined effects of the price increase, the slowing economy, and an exceedingly competitive environment will flatten mail volume growth in 2001.

The FY 2001 expense plan of $68.4 billion is an increase of 5.6 percent over estimated year-end FY 2000 expenses. This increase is due almost entirely to inflation and other expenses required for operations. The new operating expenses follow five quarters of imposed restraint on expense growth and are now necessary to upgrade services, product offerings, and infrastructure. Continually cutting costs to achieve positive net incomes eventually presents the risk of making it difficult or impossible to engage in the type of innovation necessary to survive in an increasingly complex and competitive environment[1]. Continued cost cutting in order to achieve positive net incomes will ultimately affect infrastructure, which places the long-term future of the organization at risk. Allocating these monies to required operating expenses rather than to present Net Income is an essential strategic investment in the immediate and long-term future of the Postal Service.

Of this $3.6 billion growth in expenses, $2.7 billion is dedicated to the field. The major portion relating to compensation and benefits. The growth in personnel expenses is entirely owing to higher than average increases in salary and benefits mandated by cost-of-living adjustments (COLA) and the new National

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[1] As reported in Business Week, July 17, 2000, Professor Gary Hamel of the Harvard Business School terms this strategy, "corporate liposuction," and warns that it can be taken too far. He pointed to a recent study of companies that raised earnings at least five times faster than sales between 1993 and 1996 and experienced a significant downturn within three years thereafter.

Association of Letter Carriers (NALC) contract. Health benefits expense had a double digit increase in FY 2000 and is expected to increase by double digits in FY 2001.

FY 2001 Corporatewide and Program activity expenses will be $2.8 billion, an increase of $142 million. This expense increase represents, in part, a return to normal and necessary levels to ensure the Postal Service's future after the severe reductions of the last two years. Depreciation expense increases $207 million with the largest part of this increase due to deploying the Point-of-Service (POS) ONE retail terminals and the Automated Flat-Sorting Machines, AFSM 100's.

The remaining expense growth relates to increases in Servicewide costs of $419 million, and interest expense of $227 million. The increase in Servicewide expense is due to increases in annuitant related costs and growth in workers' compensation.

The FY 2001 Operating Plan sets ambitious productivity and expense management targets. Although essentially zero growth in mail volumes is projected, management anticipates shifts in the mail mix towards lower-work-content mail, and budgeted work hours accordingly to account for this change. Additional reductions in budgeted work hours have been achieved as a result of Breakthrough Productivity Initiatives (BPI) and program cost savings, which dictated further work hour reductions in the FY 2001 plan. In total, the budget calls for a 1.5 percent reduction in work hours, or 13,200 workyears. This reduction follows the 0.7 percent (6200 workyears) reduction achieved through local management initiatives and program cost savings in FY 2000. Transportation costs are budgeted at the same level as FY 2000, as newly instituted efficiencies will offset rising fuel prices.

The BPI Initiative focuses on four specific areas:

- The Operations segment focuses primarily on improving plant, delivery, and customer service non-retail operations through the application of performance management techniques, the identification and distribution of best practice tools, and implementation of standard operating procedures. These efforts help support the work hour reduction target.

- The Transportation effort will focus initially on utilization and modal optimization, including the potential for expanded use of rail. During FY 2001, these efforts will help keep the transportation expense at FY 2000 levels.

- Purchasing initiatives will include use of Web-based purchasing, improved supply chain management, and strategic outsourcing.

- Overhead initiatives include reductions in personnel and non-personnel costs in headquarters, area, and other administrative offices.

The workload projections combined with the work hour reductions and changes in materials and capital use result in an estimated Total Factor Productivity (TFP) increase of 0.7 percent for FY 2001. This follows TFP growth of 2.4 percent in FY 2000. The labor productivity component represents a 2.0 percent increase in FY 2001, following a 2.1 percent increase in FY 2000. Note, since labor productivity is a partial measure, it does not distinguish whether the increase is due to growth in the other inputs (capital and materials) or due to increases in efficiency.

The net result of these revenue, expense management, and productivity targets is a net loss of $480 million. Depreciation and other non-cash expenses included in the net loss of $480 million produce cash flow from operations of approximately $1.7 billion.

Capital Plan

The Capital Plan portion of the Integrated Financial Plan consists of $3.6 billion in capital commitments and capital cash outlays of $3.5 billion. The Capital Plan supports the goals of the strategic plan. A new five-year Capital Investment Plan has been presented to the Board covering FY 2001 – 2005. The Board approved the last five-year plan in October 1997, for fiscal years 1998 – 2002. Historically, the Board approves a five-year plan each year with more current information and extension into the next fiscal year. However, to allow time to reassess the strategic direction of the Postal Service and align the investments with that direction, the Capital Plan was only updated for FY 1999 and FY 2000. Now that the strategic plan has been solidified, it is time to update the long-term capital investment strategy for the next five years. The overarching strategy is to:

- Concentrate on high return investments, such as automation/mechanization, and information platform projects;
- Maintain the existing infrastructure (facilities, vehicles, and information systems) and
- Accommodate growth areas, including delivery network growth.

Financing Plan
Based on estimated FY 2001 capital cash outlays of $3.5 billion, and the estimated $1.7 billion in cash to be generated from operations, management estimates that $2 billion in new net borrowing will be required. An increase in cash of $200 million is embedded in this borrowing requirement. With the additional borrowing, outstanding debt at the end of FY 2001 will be $11.3 billion. The FY 2001 increase in debt follows a $2.4 billion increase in debt in FY 2000. Average daily debt outstanding will increase from $4.7 billion in FY 2000 to $6.9 billion in FY 2001. Interest expense on debt will increase from $270 million to $430 million. Risks to the net income plan translate as risks to cash flow from operations and could adversely affect borrowing and liquidity. If the net loss is greater than planned, cash from operating activities will be lower, which could increase borrowing levels.

OPERATING PLAN

The FY 2001 Operating Plan was developed under the *CustomerPerfect$_{sm}$* Establish, Deploy, Implement, and Review cycle. After review, it became apparent that the revenue target was too ambitious in light of the soft revenue growth during FY 1999 and 2000. Accordingly, management reduced the 2001 revenue plan to reflect essentially zero volume growth. Management believes this weakness, especially in Single-piece First-Class Mail, is most likely due to mailing industry consolidation and to the diversion of communications from hard copy to electronic media.

Expenses were held below plan in FY 2000 in response to below plan revenue growth. For the year, total expenses of $64.8 billion were $534 million under plan and only 3.8 percent more than FY 1999 expenses. Management controlled expense growth during FY 2000 in the face of 5.4 billion more pieces of mail, 1.8 million more deliveries with 6,200 fewer workyears. This performance is more impressive when the additional costs of rapidly escalating fuel prices, workers' compensation costs and medical expense inflation are considered. Higher fuel prices cost the Postal Service an estimated $275 million in FY 2000.

Medical expense inflation, which had been relatively stable for several years, heated up again in FY 2000, increasing health benefits expense by 12.2 percent. This, too, impacted workers' compensation expense, although the FY 2000 increase was driven primarily by a higher number of claims. In FY 2000, the number of paid indemnity claims increased by 8.2 percent, the number of paid medical claims increased by 7.7 percent, while the average cost per medical claim increased 13.7 percent. These increases were of unprecedented scale and were due primarily to three factors. Those were: expedited claims processing by the Department of Labor; a 5.9 percent increase in injuries, primarily occupational injuries, reported to the Department of Labor; and a larger proportion of occupational medical claims, typically having higher costs per claim than traumatic claims.

NET INCOME (LOSS)

The Operating Plan for FY 2001 targets a net loss of $480 million.

FY 2001Operating Budget ($ Millions)

	2000 Estimate	2001 Plan	Increase	% Increase
Revenue	64,581	67,925	3,344	5.2
Expense	64,781	68,405	3,624	5.6
Net Income	$ (200)	$ (480)	(280)	

Total revenue is estimated to grow 5.2 percent, from $64.6 billion to $67.9 billion. Revenue growth is almost all due to the proposed 6.4 percent rate increase that management expects to implement in January 2001. Approximately $200 million of the revenue growth is derived from a minor change in the volume mail mix. The revenue plan also includes $304 million of new revenue generated by eBusiness initiatives, retail initiatives, and co-branded advertising.

Total expense will grow 5.6 percent, from $64.8 billion to $68.4 billion. Of the $3.6 billion in expense growth, $2.2 billion, or 59 percent, is due to field salaries and benefits and to other personnel compensation. This represents a 4.9 percent increase in compensation expense over FY 2000. The remainder of the growth is in non-personnel, annuitant costs and interest expense, increases of $1.0 billion, $363 million and $227 million, respectively. The FY 2001 plan includes adding 1.7 million new deliveries, and no workload growth associated with mail volume. The plan does include cost reductions of $1.0 billion.

The growth in compensation expense is entirely related to higher average salary and benefits rates, driven by cost-of-living adjustments (COLA) and the new National Association of Letter Carriers (NALC) contract. The increase in personnel costs would be much larger were it not for a planned 1.5 percent reduction in field work hours and administrative reductions at headquarters and the area offices.

The cost pressures that made a major impact on the FY 2000 bottom line are expected to continue in FY 2001. In addition, the FY 2001 plan calls for increased spending on e-Business initiatives as well as continued investments to improve customer service, grow traditional businesses and maintain infrastructure.

VOLUME AND REVENUE

Total revenue is projected to grow $3.3 billion, which is 5.2 percent higher than the FY 2000 estimate. The major drivers of revenue growth are First-Class, Priority, and Standard (A) mail, which combine to generate 86 percent of the total revenue. Minimal growth in mail volumes is projected in FY 2001, based on product elasticities and below plan mail volume growth in FY 2000.

Economic Basis for Revenue and Volume Forecasts

Over 90 percent of mail volume originates with businesses and other institutions. How businesses use the mail to achieve their objectives determines Postal revenues. Consequently, economic activity and the trends in business practices fundamentally drive Postal Service volume changes.

The New Economy: In recent years, U.S. economic growth has been exceptionally strong as the technology-driven "New Economy" led to the highest productivity growth the U.S. economy has experienced in decades. The increasing spread of computers, new software and the use of the Internet have enabled businesses to operate more efficiently and to better meet customer needs. Consumption spending has grown strongly in the first half of 2000 as households benefit from rising higher incomes, low unemployment and investment gains. The American people have enjoyed the longest economic expansion in U.S. history.

Risks in the Economy: Significant dangers and risks characterize the Postal Service's economic environment, as FY 2001 begins. The phenomenal rise in equity prices seems to have peaked. The U.S. trade deficit is now greater than 4% of the Gross Domestic Product (GDP), causing prudent analysts to question whether the rest of the world will continue to finance low U.S. domestic saving and high stock market valuations. Worldwide economic growth has caused commodity prices to rise significantly over the last twenty months raising a very serious warning that inflation could return to the world economy as it did in the 1970s. Oil prices have risen from as low as $10 a barrel in 1998 to over $36. As labor markets have tightened and capacity becomes strained, concerns about domestic inflation, which has been rising has moved the Federal Reserve to raise interest rates.

Mail and the New Economy: While the New Economy seems to have outstripped the old rules of the business cycle, there is evidence that growth in the New Economy does not translate into mail volume growth to the same degree as did traditional economic growth. First-Class single piece mail has been shrinking and Standard A growth is somewhat more modest than would be expected given the extraordinary economic growth of the last five years. Information Technology has certainly made communications markets more competitive and complex. The World Wide Web has made the Internet a potential alternative to hard copy billing. The growth of the Internet as an advertising medium has made it more difficult for direct mail to compete for its share of the advertising dollar. Simultaneously, Information Technology has improved the prospects for fine-tuning targeting and, thereby, for growing the mail.

Management regularly monitors both the economy and market developments. The FY 2001 plan incorporates recent trends and is based on an economic forecast that reflects these current uncertainties. The Consumer Price Index (CPI) is expected to rise 2.8 percent and the employment cost index (ECI) an alarming 4.6 percent in FY 2000. Total consumer spending is projected to rise 2.7 percent in real terms.

Volume Forecasts and Related Revenue Impacts

Prices, economic developments, and technology drive volume growth, as well as that of competitors'. In analyzing these factors and forecasting Postal Service economic outcomes, the pricing assumption underlying the analysis is particularly important. The FY 2001 revenue and volume plan assumes R2000-1 rates, as proposed by the Postal Service, will be implemented January 7th, 2001. Should the Postal Rate Commission substantially change the proposal, a major impact on FY 2001 estimated revenue and volume would likely result.

Volume

	FY 2000	Plan FY 2001	Growth	% Growth
First-Class	103,526	104,433	907	0.9
Priority	1,222	1,230	8	0.7
Express	71	72	1	1.4
Periodicals	10,365	10,378	13	0.1
Standard (A)	90,057	89,489	-568	-0.6
Parcel Post	324	376	52	15.9
Other Std (B)	804	769	-36	-4.4
International	1,099	1,054	-46	-4.2
Other Mail	413	408	-5	-1.2
Total Volume	207,882	208,208	326	0.2
(Millions)				

Overall Mail Volume Growth: R2000-1 rates will not only affect the fiscal year growth but the pattern within the year. The proposed rates for some of the more price sensitive products (such as Standard A and Priority) are larger than the 6.4 percent average rate increase and will cause negative growth rates after the new postal rates are implemented. The projection is for no volume growth in FY 2001 based on positive growth at the beginning of the year and volume losses over the last two thirds of the year.

Revenue

	FY 2000	Plan FY 2001	Change	% Change
First-Class	35,516	36,503	987	2.8
Priority	4,837	5,330	493	10.2
Express	996	1,039	43	4.3
Periodicals	2,171	2,397	226	10.4
Standard (A)	15,193	16,025	832	5.5
Parcel Post	1,042	1,057	15	1.4
Other Std (B)	870	922	51	5.9
International	1,658	1,746	89	5.3
Other Revenue	2,298	2,907	608	26.5
Total Revenue	64,581	67,925	3,343	5.2
($ in Millions)				

First-Class: The projected growth in First-Class Mail volume is 0.9 percent in FY 2001. First-Class Mail will continue to be impacted by electronic media. Largely due to rate increases, First-Class revenue is estimated to grow $987 million, 29 percent of the total FY 2001 increase.

Priority Mail: Priority Mail volume growth, with an average price increase of 15 percent, will drop to 0.7 percent. This is one of the lowest volume growth rates in almost two decades. Priority revenues are targeted to increase $493 million, or 10.2 percent, which is 18 percent of the total planned revenue growth.

Standard (A): After persistent softness in 1999 and the beginning of FY 2000, Standard (A) finished FY 2000 with 5.1 percent volume growth. Standard (A) volume is projected to decline 0.6 percent in FY 2001, primarily due to the price elasticity typically seen after new rates are implemented. Due entirely to increased rates, Standard (A) revenue is projected to increase $832 million.

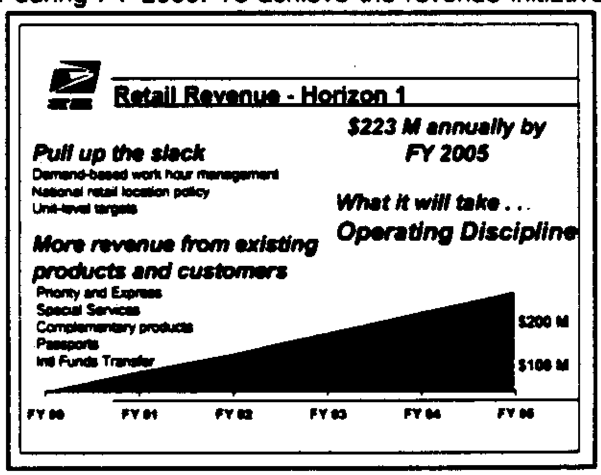
Parcel Post: Parcel Post revenue is expected to increase only 1.4 percent despite an estimated 15.9 percent volume growth and a price increase. This disparity is due to declining revenue per piece as mailers take advantage of the discount rates for drop-shipping, increasing volumes of Parcel Post entered more deeply into the system.

International: International mail revenue is targeted to grow $89 million, or 5.3 percent on a volume decline of 4.2 percent. Growing diversion to electronic media continues to constrain international mail volume growth.

REVENUE INITIATIVES

The $304 million target for new revenue generation is split equally among three initiatives: eBusiness, co-branded advertising, and retail revenue. eBusiness initiatives are projected to provide benefits by leveraging Information Technology and Internet communications to create greater customer satisfaction, cost reduction, revenue generation, and/or employee satisfaction. These new initiatives are for Internet based products and services for consumers, businesses and government entities that will generate revenue to the Postal Service through user charges and license fees. These initiatives include ePayments, NetPost.Certified, Poste*CS*, StampsOnline/Postal Store, and USPS Electronic Postmark™ (EPM).

An aggressive retail revenue plan for FY 2001 complements the eBusiness initiative. During the *CustomerPerfect!*$_{sm}$ catchball process, it was determined an additional $100 million revenue opportunity existed for retail operations. This was based on the missed revenue opportunity attributed to low sales skills as measured by the Mystery Shopper Program during FY 2000. To achieve the revenue initiative target, Retail Operations has developed unit level revenue plans, calculated from the Mystery Shopper scores. Postmasters and Station Managers have been given a daily walk-in revenue threshold. The plan to increase retail revenue has three stages, called horizons. In FY 2001, effort will be concentrated on the first horizon, by focusing on increasing sales of existing products, enforcing operating disciplines, and developing partnerships. Passport acceptance generated revenue of $58 million in FY 2000. One Retail initiative calls for expanding Passport Acceptance services to 300 additional sites identified by the State Department as a critical need.



Sales of co-branded and commercial advertising rely on the name recognition received through partnering, commercial advertising sales, and sponsorship activities. Revenue growth of $100 million has been targeted for this initiative.

EXPENSES

Operating Budget

In FY 2001, total expenses will be $68.4 billion, which is 5.6 percent more than FY 2000's estimated total expenses of $64.8 billion. The FY 2001 growth rate is high, due to labor cost inflation and to servicing an ever-expanding delivery network. The addition of approximately 1.7 million new delivery points in FY 2001 is equivalent to servicing a city the size of Chicago. Additionally, without approximately $1.0 billion in cost reductions built into the plan, expense growth would exceed 7 percent.

The major drivers of the higher growth rate in 2001 are cost increases for labor (COLA), corporatewide and program expenses, and depreciation.

FY 2001 Expenses

	2000 Estimate	2001 Budget	Change	% Change
Field	52,035	54,749	2,714	5.2
Corp. Transportation	2,858	2,847	(11)	(0.4)
CWA & Programs	2,655	2,797	142	5.3
Interest	1,820	2,047	227	12.5
HQ Admininistrative'	1,309	1,396	87	6.6
OIG	68	113	45	66.7
Servicewide	4,036	4,455	419	10.4
	64,781	68,405	3,624	5.6
($ millions)				

Three labor contracts come up for renewal in November 2000. These are the American Postal Worker's Union, the Mailhandlers, and the Rural Carriers. In the absence of an approved contract for these three union groups, labor rates have been estimated based on an Employment Cost Index (ECI) assumption. Combined with the carryover of wage increases from the previous contracts, the actual assumed new salary increases equate to ECI –1. The labor agreement with the Letter Carriers has one additional year to run and those increased costs can be estimated fairly precisely. The Letter Carrier upgrade from level five to level six will cost an additional $266 million.

Field Expenses

Field budget increases account for approximately three-quarters of the expense growth, increasing by $2.7 billion (5.2 percent). About $2.2 billion is for personnel compensation and benefits, due entirely to higher average salary and benefits costs. The major drivers of the higher costs are COLAs for substantially all bargaining unit employees and the higher wage rates given to city carriers in the new NALC contract. Health benefits expenses, which increased 9.4 percent for active employees and 12.2 percent overall, are expected to increase another 10 percent again in FY 2001.

These cost increases are offset by a planned 1.5 percent reduction in work hours, which equates to a $700 million reduction. FY 2001 will be the second year in a row with work hours below the previous year. This will be only the fourth time since 1980 that this has occurred. Reductions of a similar scale attained in the late 1970's were largely enabled by the introduction of presort incentives and resulting work-sharing. Work hour reductions were obtained in FY 1990 and FY 1992 in a period of flat volumes and corporate restructuring. The Postal Service has not attained a reduction of 1.5 percent in the last 20 years. The Field work hour budget for FY 2001 is extremely challenging, but without this large work hour reduction, expenses would be approximately $700 million higher. Attainment of the Breakthrough Productivity Initiatives will be a critical aspect of the work hour targets reduction.

Fuel cost inflation will continue to exert upward pressure on field expenses in 2001. However improving transportation efficiency will largely offset this. As a result, field transportation expense increases a modest 0.6 percent, while the total transportation budget for FY 2001 is essentially the same as FY 2000. Another major driver of field expense growth in 2001 is depreciation, which will increase by over $200 million due to increased capital investments already made and now in use.

Headquarters Expenses
Headquarters administrative costs of $1.4 billion, which are held at essentially the same level despite inflation and the Sales organization being redefined as a headquarters unit, include the expenses of headquarters organizations and their field service units, as well as the Postal Inspection Service and the Postal Rate Commission. Headquarters administrative budgets are $87 million more than FY 2000, due entirely to expanded budgets for eBusiness and the transfer of the Sales organization to headquarters. One component of the BPI will be continuing the administrative reductions that were started during FY 2000. In FY 2000, headquarters complement was reduced by 400 positions. In 2001, complement will be reduced by 500 additional positions.

Programs and Corporatewide Expenses
Program and Corporatewide activity costs of $2.8 billion will increase by approximately $142 million, or 5.3 percent, over 2000. Increased spending for a series of e-Business initiatives, and information technology infrastructure projects such as Point of Service and the Information Platform drives this increase.

In developing the FY 2001 budget, program spending was analyzed extensively, since some portions of the program budget, such as research and development are truly discretionary. A no growth policy for these items was essentially followed for FY 2001. However, necessary spending increased for eBusiness initiatives, POS ONE, and other critical programs such as delivery confirmation and the Delivery Operations Information System (DOIS), and resulted in an overall spending increase.

The table at right details Corporatewide spending for the ten largest programs and activities in the Postal Service's FY 2001 budget. These programs all support core business activities and are either non-discretionary, or are critical to upgrade services or information systems. These ten programs, by themselves, account for approximately one-half of the Postal Service's entire program budget. In spite of more than doubling spending to continue the rollout of POS ONE, net spending on the largest programs actually decreases by $2 million.

Major Program Spending FY 2001
($ Millions)

Program	FY 2000 Actual	Plan 2001	Change	% Change
Priority Mail Network	512	480	(32)	(6.3)
Corporate Advertising	158	160	2	1.3
Recurring Mail Transport Equip.	163	155	(8)	(5.0)
Stamp Manufacturing	151	151	(0)	(0.1)
Point of Service (POS One)	74	150	76	103.3
Expedited Supplies	139	108	(31)	(22.6)
Corporate Call Management	117	99	(18)	(15.3)
Associate Office Infrastructure	84	82	(2)	(2.3)
Delivery Confirmation	59	66	7	10.9
Telecommunications Network	43	48	5	12.2
	1,499	1,498	(2)	(0.1)

Servicewide Expenses
Servicewide expenses, which are national-level expenses that cannot be isolated and charged to individual operating units and are often not controllable by management, are expected to increase by $419 million in FY 2001. This increase is largely driven by the increases of $124 million in the accrual for civil service retirement annuitant COLAs, $100 million for increases in annuitant health benefits costs, and $100 million for increased workers' compensation.

Transportation was significantly impacted by fuel costs in FY 2000. Similar trends are expected to continue in FY 2001. Because much of the transportation network is served by contractors there is a delay in the pass through of fuel cost increases, thus continued upward pressure on prices is expected into FY 2001. By continuing efforts to reduce the cost of the transportation network through means such as shifting a greater percentage of transportation from air to ground, network transportation expenses will be held to $2.8 billion, approximately the same as 2000.

In FY 2001, interest expense on debt will be about $430 million, an increase of $180 million over FY 2000. This increase is caused by continued cash outlays for operations and capital investments, combined with higher interest rates and slower growth in revenues. In addition, the current interest expense on CSRS deferred retirement liabilities is expected to increase by $50 million, to $1.6 billion. Of the $50 million increase, $32 million is interest on the CSRS principal and $18 Million is interest on the COLA principal.

Expenses by Component

To gain a different perspective on the FY 2001 Operating Plan, expense growth can be examined by component. Personnel expense, including annuitant costs makes up the largest growth segment of the FY 2001 Operating Plan, at $2.4 billion. Growth in salaries and benefits is the result of labor contracts, health benefits and other pay related expense drivers, and not a result of growth in work hours. Nonpersonnel increases of $1.0 billion, or 11.8 percent, reflect a commitment to upgrade services and infrastructure. The single largest component of the nonpersonnel expense is depreciation, which is expected to increase by $207 million, or 10 percent. Spending on programs such as Point-of-Service (POS) ONE, DOIS, and eCommerce drives the remainder of the increase in nonpersonnel expenses. Total transportation expense will decline by $40 million. This is below historically allocated inflation due to BPI initiatives and improved transportation efficiencies.

Fiscal Year 2001 Expense by Component

	2000 Estimate	2001 Plan	Change	% Change
Personnel	49,453	51,875	2,422	4.9%
Nonpersonnel	8,772	9,787	1,015	11.6%
Transportation	4,736	4,696	(40)	-0.8%
Interest	1,820	2,047	227	12.5%
Total Expense	64,781	68,405	3,624	5.6%

($ millions)

COST REDUCTION PROGRAMS

A total cost reduction of $1.0 billion is budgeted for FY 2001 with about 45 percent of the savings derived from specific programs and the remaining 55 percent from breakthrough productivity initiatives at the field and headquarters level. Of the total cost reductions, $950 million will come from the field and the remaining from headquarters and servicewide activities.

The vast majority of program specific savings are linked to new or enhanced equipment and software that will enable the workforce to be more efficient. Programs to enhance sorting capabilities account for 83 percent of program cost reductions and for one third of the total cost savings. Investments in programs to reduce letter-sorting cost will result in cost reductions of $245 million across all functions in FY 2001. Programs to reduce flat-sorting costs will result in cost reductions of $148 million, and material-handling investments will produce a cost reduction of $ 74 million across all functions in FY 2001.

A total of $750 million is allocated to breakthrough productivity initiatives. Operational areas with the greatest opportunity for achieving productivity cost savings have been identified using BPI pilots sites during FY 2000. Management established operational improvement targets and developed a comprehensive metric system to provide the areas and plants with data related to current performance levels, improvement opportunities, and ranking relative to similar operations. Best practices have been developed for national use. Through this effort savings of $250 million in mail processing operations, $148 million in delivery operations, and $60 million in customer services are expected. Other BPI savings include $100 million each in transportation, supply chain management and administrative activities. Recognizing the difficulty in achieving the aggressive cost reductions in FY 2001, the first year of BPI, a $200 million field reserve has been allocated.

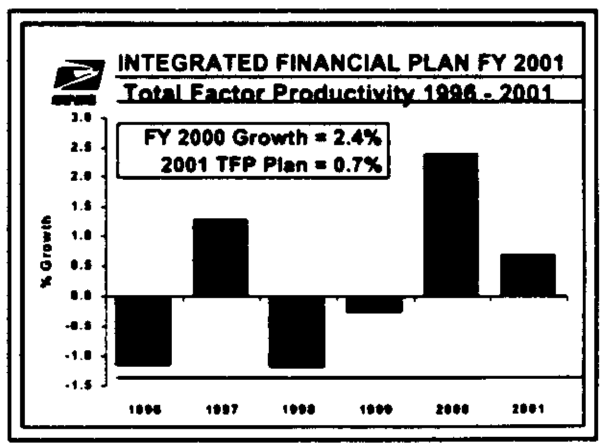
Cost Reduction Programs

Activity	Cost Savings	Total
Programs:		
Flat Mail Program	$ 143	
Delivery Barcode Sorter Program	137	
Indenifilcation Barcode Sort Program	48	
Remote Computer Read 2000 Program	38	
Tray Management System	32	
Remote Encoding Center Consolidation	25	
Robotics	14	
Automatic Airline Assignment Program	14	
Mail Transport Equipment Service Centers	13	
Small Parcel and Bundle Sorter Program	9	
		$ 473
Breakthrough Productivity Initiatives (BPI):		
Operations	450	
Transportation	100	
Supply Chain Management	100	
Adminstrative	100	
Less Field Reserve	(200)	
		550
Total		$ 1,023
($ in Millions)		

The goal of the BPI transportation initiative is to optimize existing transportation while maintaining or improving service and reducing cost. By reviewing all mail transportation contracts to identify and eliminate under-utilized and redundant service, a savings of $72 million will be realized. Trailer lease program costs were reduced $2.1 million through a reverse auction. Fuel cost savings of $25 million will be achieved by maximizing purchasing power on up to 560 million gallons of fuel to be bought in bulk for use by both highway contracts and private vehicle services. The supply chain management target will be achieved by using best-in-class purchasing processes. This effort includes national supply purchasing via the Internet and re-negotiating contracts by working with suppliers to achieve more efficient product design, usage and delivery schedules. Administrative savings will be achieved by limiting the growth in program support, consolidating other activities, and reducing personnel where appropriate.

PRODUCTIVITY

Total Factor Productivity (TFP) measures the change in relationship between outputs and all resources used in producing those outputs. Labor productivity measures the change in relationship between outputs (mail volume and delivery points) and the labor resources used in producing those outputs. It is not uncommon for TFP growth to fluctuate from one year to another. Over the long run, a successful organization will average positive growth in productivity.

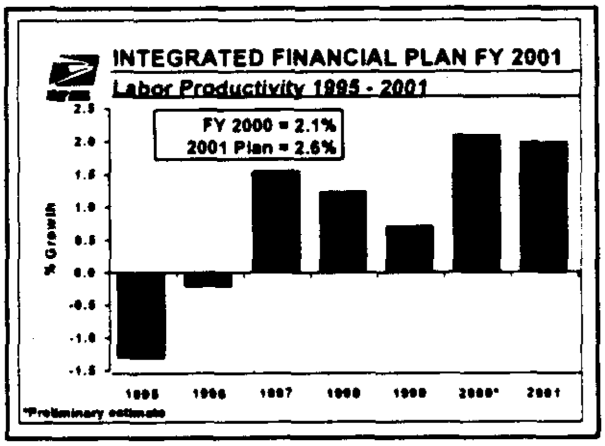


The output measure is the mail volume processed and delivered, and the number of delivery points served. The TFP measure takes into account workload factors such as size (e.g., letter, parcel, and magazine), preparation (e.g., prebarcoding and presorting), and service (e.g., Priority, First Class, or Standard mail). The resource measure is composed of all of the labor, capital and purchased goods and services and materials used in providing services and supporting operations, including all equipment, facilities, transportation, other nonpersonnel costs, as well as indirect costs such as headquarters expenses. During fiscal year 2000 labor productivity grew

2.1 *percent.* TFP *grew by* 2.4 *percent, which is equivalent to* $1.5 *billion in expense reductions.* This is the highest productivity growth achieved by the Postal Service since 1993. Cumulatively, since 1990 TFP has improved 1.7 percent. Management laid the groundwork during the 1990s, through investments in *infrastructure upgrades*, automation *and mechanization, to achieve* strong *TFP growth. The result* of these investments is reflected in the TFP growth rate for FY 2000.

When compared to other years with strong positive TFP growth, the achievement of FY 2000 is significant. During the 1990's TFP grew, on average, 0.2 percent annually while workload grew 1.9 percent, on average, annually. In 2000, TFP growth of 2.4 percent was achieved in spite of a below average workload increase of just 1.7 percent. In earlier years, strong TFP growth was fueled largely by workload growth. In FY 2000, strong productivity growth was fueled by substantial restraint on resource usage. Work hours declined by 0.7 percent and materials use fell by 4.4 percent.

The FY 2001 financial plan assumes a 2.0 percent increase in labor productivity and a 0.7 percent TFP growth rate. Without this productivity increase, the net loss would be approximately $430 million greater. The FY 2001 financial plan calls for greater expense growth than in recent years, while total workload resulting from mail volume and deliveries changes will show minor growth. The expense growth and *planned capital investments offset work hour reductions to yield a* 0.3 *percent net decrease in resource* use. Mail volume for FY 2001 will be approximately the same as FY 2000, though the mail mix will shift to one with less workload content. Delivery points will grow approximately 1.5 percent, which is slightly above average *The combination of mail volume and* delivery changes will result in a workload growth of only 0.4 percent, challenging positive TFP growth.



The labor productivity growth estimate for FY 2001 of 2.0 percent in FY 2001 results from planned work hours at 1.5 percent below FY 2000. When combined with labor mix changes, the work hour reduction yields a 1.6 percent decrease in labor use in the 2001 plan.

Worksharing discounts that were introduced in the 1970s and 1980s, and increased in the 1990s provided cost savings for the Postal Service and *customers, but impact potential TFP gains. These* incentives shift a portion of the workload associated with automation compatible mail to business mailers. While improving the nation's economy as a whole, some of the prime productivity improvement opportunities are thus transferred from the Postal Service. As higher and higher levels of efficiency are achieved within the mailing industry, incremental productivity improvements become more and more challenging.

Achieving the FY 2001 TFP target will require continuing active management of resource utilization against actual volume and delivery point growth. Recent trends suggest the Postal Service is on the right track.

CAPITAL INVESTMENT PLAN

The Fiscal Year 2001 Capital Plan totals $3.6 billion. The Capital Plan consist of investments in high return on investment programs, improvements to facilities, major engineering efforts, customer service programs, and provides funding for eBusiness initiatives, technological infrastructures, and information platform projects. A new five-year Capital Plan has been presented to the Board.

FY 2001 CAPITAL INVESTMENT PLAN
Supports Strategic Objectives

Investments that:

- **Improve Quality of Customer Service**
- **Allow for Aggressive Cost Management**
- **Increase Productivity Gains through Technology**
- **Maintain Infrastructure**

CAPITAL PLAN HIGHLIGHTS

The capital requirements will support the Postal Services' strategic objectives. Investments will be made in programs to ease customers' business contacts with the Postal Service. The plan includes programs that will improve the quality of customer services and increase opportunities for revenue enhancements. Infrastructure investments will be necessary to support workload growth, to repair or replace aging assets and to provide necessary information and communications technology networks. The Postal Service will be applying technology to achieve more aggressive cost management, to gain efficiencies, and to improve productivity. Automation and mechanization projects will be applied to distribution, processing, and delivery systems.

Specific plan commitments of funds illustrate these strategies. Funds for new distribution equipment will reduce material handling costs, important to our cost management strategy. Funds are allocated for commitments for 10 major mail processing and distribution facilities and for over 300 small facility projects identified by the area vice presidents for commitment in FY 2001.

In accordance with the long-term vehicle plan, the plan includes funds for 2,200 mixed delivery and collection vehicles, 1,250 cargo vans, and 375 truck tractors. The plan funds Point-of-Service (POS) ONE, next generation flat sorting machines, and robotics.

FY 2000 CAPITAL INVESTMENTS

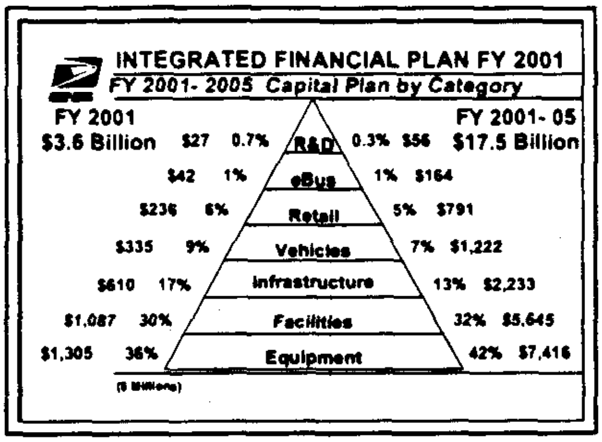
During FY 2000, the Capital Plan was adjusted from $4 billion to $3.5 billion. However, this was the fifth consecutive year that the Postal Service has had capital commitments of over $3 billion. During 2000, the Service completed nine Board approved projects totaling more than $571 million. Of these nine projects, seven were equipment projects and one was a facility project. The remaining completed project was the Mail Transport Equipment Service Centers. In FY 2000, the Board approved a total of $1.6 billion for 20 new major capital investment projects.

INTEGRATED FINANCIAL PLAN FY 2001
FY 2000 Actual Capital Commitments

Automation/Mechanization	1,001
Facilities	1,336
Support Equipment	363
Retail Equipment	334
Vehicles	127
eBusiness	-
Total	3,161

$ Millions

FY 2001 CAPITAL INVESTMENT PLAN



The FY 2001 Capital Plan totals $3.6 billion. With its strong focus on technology, this plan will support aggressive cost management efforts by promoting automation and modernization projects that affect the distribution, processing, and delivery of the mail. This plan also includes programs that will improve the quality of customer services and promote revenue growth. In addition, management will continue to make investments in infrastructure to support continuing workload growth, repair or replace aging assets, and build the information technology network needed to develop new products and services while delivering the highest quality customer service.

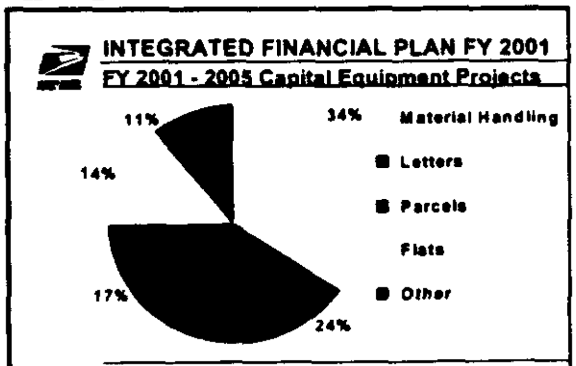
To minimize borrowing, projects are funded with cash flow from operations as much as possible. According to Postal Service bylaws, the Board of Governors must approve the capital budget each year. This approval represents a general concurrence with the Capital Investment Plan. In addition, the Board approves all investments greater than $10 million.

All projects in the approved plan are subjected to an in-depth review and approval process that ensures they are fiscally sound or service oriented. Accountability is established for the results the project is expected to produce; and the project analyzed using a Return on Investment methodology to ensure that projections are accurate. Finally, studies are conducted on selected projects, to determine whether financial and operating goals are achieved.

By committing more resources to revenue generating activities, this capital investment plan reflects the focus on a high return on investment and infrastructure projects, as well as funding eBusiness initiatives, technological infrastructure, and information platform projects. The current portfolio of capital investment opportunities will produce an estimated return on investment of approximately 16 to 18 percent over five years. Capital investments will consist of improvements to facilities, major engineering efforts and customer service programs. Major programs and projects in each of these categories are described on the following pages.

Equipment

The FY 2001 Capital Plan for equipment is $1.3 billion. Automating an increasing number of functions, allows the Postal Service to reduce costs and improve performance. Automated equipment not only saves work hours and associated indirect costs but also delivers faster, higher quality service. The investments in automation and mechanization are essential to the goals of strengthening our financial viability by managing costs and increasing revenues.



Percent of $7.4 Billion Equipment Plan

Automation provides management with data gathering capabilities that can be used in future information-based services. For example, the material handling systems will be able to be integrated with the Next Generation Small Parcel and Bundle Sorting Machine that utilizes optical character readers and video encoding to process over 11,000 pieces of mail per hour.

Investments in the Delivery Barcode Sorter Input/Output Subsystem (DIOSS), a universal modification kit to be installed on all delivery barcode sorters (DBCSs) to improve the capacity, speed and accuracy in which letter mail processing equipment reads, processes and sorts mail, will continue. The Parcel Sorter Singulator Scan Induction System will be installed on all Bulk Mail Center parcel sorters to improve the capacity, speed, and accuracy in which parcel mail processing equipment sorts the mail. Adding 175 Automated Flat Sorting Machines (AFSM 100) will improve periodicals and flat mail processing.

INTEGRATED FINANCIAL PLAN FY 2001
FY 2001Capital Projects - Facilities

Field Customer Service Projects	331
Major Mail Processing Facilities	289
Field Repair & Alterations	262
Developmental Real Estate	35
BMC Expansions	10

$ Millions

Facilities

In 2001, $1.1 *billion will be committed on facilities.* These improvements are necessary to keep up with growing population, increasing mail volume, and changing delivery points, as well as to repair or replace aging facilities. However, rather than build new facilities, management will optimize use of existing space whenever possible.

With delivery points growing at over 1.4 percent, on average, annually, the customer service projects comprise the biggest portion of the facility plan – 31 percent of the FY 2001 plan and 37 percent of the five year capital investment plan. There are a total of 23 separate major mail processing facility projects in the five-year plan. Of these, 10 major mail processing facility projects will require Board approval in FY 2001.

To maintain current facilities, ongoing repair and alteration projects equal 37 percent of the FY 2001 facilities plan and more than 36 percent of the total for five years. This is greater than the plan for mail processing facilities.

INTEGRATED FINANCIAL PLAN FY 2001
FY 2001 Major Infrastructure Projects

Merlin	87
Delivery Operation Information Sys.	83
Surface & Air Management Sys.	35
Structured Wiring	35

$ Millions

Infrastructure

Infrastructure projects maintain and meet the communication, computer and transportation system needs. The FY 2001 Capital Plan for infrastructure is $610 million.

In order to improve mail processing automation and develop future customer services, it is necessary to improve data collection and management capabilities. This includes developing the ability to identify and track individual pieces of mail, alone and in unit loads. The Mailing Evaluation Readability and Lookup Instrument (MERLIN) can improve the consistency of mail acceptance and design robots to read address and indicia, verify meter amounts and weigh and measure the thickness of mail. The Delivery Operations Information System (DOIS), which replaces two legacy systems, will reduce work hours by providing supervisors with actionable data on available resources to handle daily workload.

The Surface and Air Management System (SAMS) will improve our ability to control air routing and air transportation costs.

Vehicles

For 2001, an investment of $335 million in new vehicles will be made. This includes projects for mixed delivery and collection vehicles, cargo vans, and carrier route vans. The Postal Service's award winning alternate fuel program requires continual funding to comply with federal, state and local transportation regulations.

INTEGRATED FINANCIAL PLAN FY 2001

FY 2001 Major Vehicle Projects

Mixed Delivery and Collection Vehicles	**103**
Cargo Vans	**76**
Long Life Vehicle Shelving Modifications	**29**
Truck Tractors	**28**

$ Millions

Consistent with the long term vehicle plan, management will request approval for the acquisition of 2,200 mixed delivery and collection vehicles, 1,250 cargo vans, 375 truck tractors, and shelving modifications for one fifth of deployed Long Life Vehicles (LLVs) in FY 2001. The Capital Plan will continue to replace vehicles that have exceeded their useful life, while adding to the fleet in order to cover growth in delivery points. The shelving modification is an improvement to the existing vehicle model, and contributes to our ability to better manage the changing mix of the mail within our current vehicle capacity.

Retail

In 2001, $236 million will be committed on retail capabilities. Over 90 percent of this amount is earmarked for Point-of-Service (POS) ONE. When fully deployed, POS ONE will capture detailed sales and customer information. This, when integrated with the technology platform will reduce accounting workload in district offices, integrate debit/credit card functionality, provide inventory management, enable automatic reordering, and provide post office box administration ability.

INTEGRATED FINANCIAL PLAN FY 2001

FY 2001Major Retail Projects

Point Of Service One Stage 2B	**213**
Self Service Vending Equipment	**12**
Contract Retail Operations	**3**
***Debit / Credit* VARS**	**2**

$ Millions

Investments in new postal booklet stamp vending machines, and new stamp vending machines with debit and credit payment capability will be made.

eBusiness

The Postal Service is now investing in *e*Business technologies to continue the proud tradition of providing universal service in the Internet age. The goal of *e*Business is to provide new Internet based products and services for customers, enhance features and access to core postal products, and improve information about Postal services. eBusiness initiatives are categorized as *e*Commerce, *e*Service, ePeople, and Infrastructure.

INTEGRATED FINANCIAL PLAN FY 2001

FY 2001 Major eBusiness Projects

Internet Infrastructure	**18**
Mailing Online	**5**
eBusiness IT Infrastructure	**4**
eBusiness Security	**4**
eCommerce Enabling Support	**3**

$ Millions

*e*Commerce initiatives are new internet based products and services for consumers, businesses and *government entities that generate revenue for the* Postal Service through user license fees. *e*Service initiatives will enhance features, access, and information about core products and services. *e*People efforts will keep employees better informed, provide a full range of "self service" items, reduce administrative tasks, and increase access to developmental opportunities. All will be supported by an infrastructure that links our core production processes, parallels the hard copy flow of messages, merchandise and money, increases the convenience of retail transactions currently done at a post office and allows for new electronic products, services and choices to be offered to our customers.

The Internet and eBusiness infrastructure programs include several projects designed to get eBusiness off the ground by providing the infrastructure "backbone" needed to compete in the electronic arena. Mailing Online enables small businesses and other mailers to use the Internet as a channel to access information and services related to First-Class and Standard (A) Mail. eBusiness security will provide a strong security architecture designed to protect the USPS networks, platforms, and mission critical electronic business applications. Enabling support for eCommerce will be developed using Internet Shipping Solutions, which offers a suite of shipping tools that extends existing USPS products, services, and information to the Internet.

Research and Development

Key research and development projects focus on research into operational areas that will lead to reduced costs and improved customer service. While Research and Development projects are generally expensed, the following programs will be capitalized consistent with current accounting practices:

INTEGRATED FINANCIAL PLAN FY 2001

FY 2001 Research & Development

Project Title	2001
Automation Support	11
Flats Bundle Collator	4
Material Handling Robotics	4
Retail Outlets - Alternatives	3

$ Millions

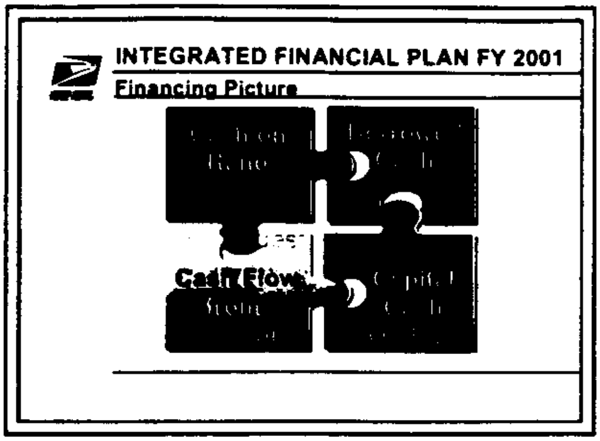
Automation Support provides software development for the National Directory Support System, the offline automation support for mail processing activities.

The Flat Bundle Collator program extends the development of a prototype flats delivery sequencer for large carrier stations.

Material Handling Robotics supports the technology transfer of commercial robotics applications into the Postal Service environment.

Retail Outlet Alternatives explores the low cost alternatives for providing customers convenient access to postal products and services.

FINANCING PLAN



As reflected in the financial outlook on page 23, an estimated $2.0 billion in new net borrowing will be required in FY 2001. The financing picture, as shown, contains four interlocking pieces: cash on hand, cash flow from operations, capital cash outlays, and borrowing (or financing).

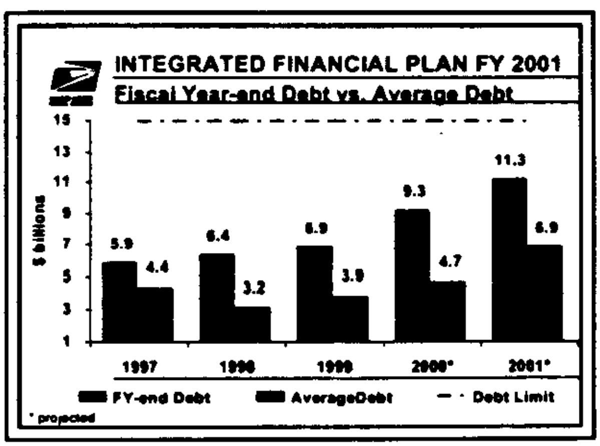
A change in any one piece requires an offsetting change in one or more of the other pieces. The annual change in debt is determined by the interaction of cash flow from operations, capital cash outlays, and changes in the cash balance. In addition, capital cash outlays often differ substantially from capital commitments that do not immediately affect cash.

Taking a longer-term strategic view, management increased the year-end cash balance in FY 2000 and plans to increase cash by $200 million in FY 2001. Given the financial uncertainties that the Postal Service will face in the next few years, a modest increase in the year-end cash balance is a prudent strategy. This action translates into higher balances entering each fiscal year, providing the Postal Service with increased flexibility.

The strategy of minimizing cash and debt has not changed; it has only been refined where cash balances on the last day of the fiscal year are concerned. Management will continue to minimize cash and debt on a daily basis.

The financing needed in any year remains driven by the difference between cash flow from operations and capital cash outlays. When cash flow from operations has been greater than capital cash outlays, the Postal Service has reduced debt. In recent years, cash outlays for capital have exceeded cash flow generated from operations, and debt has increased. In other words, borrowing occurs when capital investments cannot be entirely financed through internally generated funds.

In FY 2001 the Postal Service expects $3.5 billion in cash outlays for capital purchases and cash flow from operations totaling $1.7 billion. These cash flows combined with a planned increase in cash of $200 million will produce a borrowing requirement of $2 billion for FY 2001. Borrowing the full amount requested would bring the debt outstanding with the Federal Financing Bank (FFB) to $11.3 billion.



Due to active management of credit lines, the average debt outstanding during the year will be far less than the year-end balance. The average debt outstanding will increase to $6.9 billion in FY 2001 from $4.7 billion in FY 2000 and FFB interest expense will increase to $430 million from $270 million. Risks to the net income plan translate into risks to cash flow from operations and could adversely affect borrowing and liquidity.

RISKS

The FY 2001 Integrated Financial Plan is the product of an extensive development process, during which numerous scenarios were examined. Management has established a firm foundation for the achievement of the plan. Aggressive actions to manage expenses in response to the lower-than-expected volumes of FY 2000 have been successful. Because the $480 million net loss in the FY 2001 plan is minimized, there is minimal reserve for unforeseen events. Abundant risk factors must be acknowledged and some of these are discussed below.

Revenue
Mail volume and revenue growth fell well below planned levels following the January 10, 1999, rate increase. Historically, mail volume growth has tended to dip after a rate increase. Other factors, such as experimentation with alternate advertising media and the migration of mail toward lower-contribution categories may have exaggerated this normal post-rate increase slowdown in growth. Management believes the zero volume growth plan reflects this recent experience. However, acceleration of these trends could result in volume declines. Additionally, the plan includes $304 million in revenue from new initiatives that carry some degree of uncertainty.

Rate Case Decision
The plan assumes the Postal Rate Commission will return a decision consistent with the rate request. Should the PRC return a substantially different recommendation, the ability to achieve the FY 2001 plan will be materially impacted.

Economic Risk
Significant dangers and risks characterize the Postal Service's economic environment, as FY 2001 begins. Oil prices have risen from a low of $10 a barrel in 1998 to over $36 In October 2000. As labor markets have tightened and capacity has become strained, concerns about mounting domestic inflation, have moved the Federal Reserve to raise interest rates. Economic growth may be poised to flatten. Significant economic change could negatively impact postal operations.

Productivity Improvements
Significant savings from Breakthrough Productivity Initiatives are built into this plan. They are challenging but achievable, and operations management has developed specific strategies for their achievement. These strategies center on the capture of the savings opportunities afforded by improving on plant, delivery, and customer service operations by applying performance management concepts, identifying and distributing best practice tools and standard operating procedures. Economic utilization of the transportation network are also targeted for improvement.

Labor Arbitration
Three labor contracts come up for renewal in November 2000 – the American Postal Worker's Union, the Mailhandlers, and the Rural Carriers. In the absence of an approved contract, labor rates for these three union groups were estimated based on the expected Employment Cost Index (ECI). Should the negotiations produce a substantially different outcome, the ability to achieve the FY 2001 plan will be materially impacted.

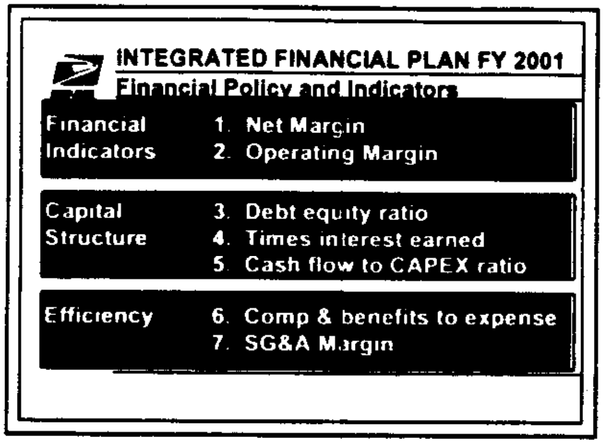
Expense Risks
Significant regulatory changes for the trucking industry are now being proposed and could be effected in FY 2001. The changes relate to the number of hours worked and days off. These changes may add additional expense to Postal Service operations. Management cannot predict any financial impact at this time as no changes to existing regulations have been adopted.

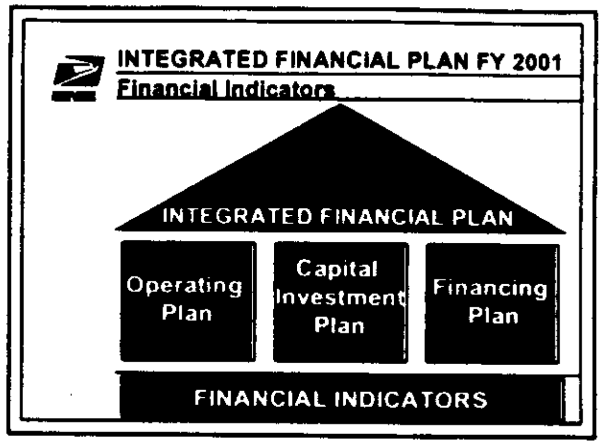
A continuation of FY 2000's adverse workers' compensation trends in FY 2001 could drive those costs beyond the optimistic estimates included in the plan. Management believes that the accelerated claims processing has a one-time impact that will not continue over the course of FY 2001. However, the increase in reported injuries, disproportionately attributable to occupational claims filings, may have a lasting impact on the number of medical and indemnity claims as well as the average cost per medical claim. This will adversely impact the workers' compensation expense accrual, and could result in additional costs in FY 2001.

As always, the potential for the occurrence of unplanned events, such as natural disasters, that could adversely impact the Postal Service's finances, must be acknowledged as a risk.

FINANCIAL POLICIES AND INDICATORS

In 1999, the Board of Governors adopted selected financial Indicators for their use in setting financial policy for the Postal Service. The three areas of financial performance are: financial margins, capital structure and efficiency These are now monitored with the aid of the Indicators listed in the Tables below.





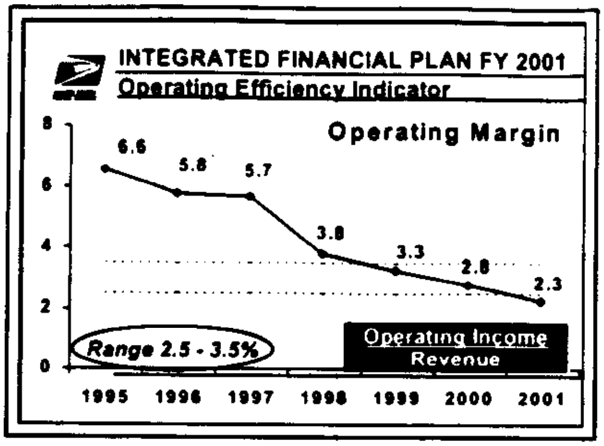
FINANCIAL INDICATORS

These selected financial Indicators, with their specific targets, offer the Board and postal management the opportunity to gain sharper focus on financial performance. Taken together, these Indicator targets frame the planned Postal Service financial results for FY 2001. The Target for each Indicator originates in and corresponds to the specific policy for each financial area that has been established by the Board. As illustrated in the tables on page 22, the indicators and targets are the framework upon which the Integrated Financial Plan is built. The FY 2001 Integrated Financial Plan produces operating margin and CAPEX results within recommended targets. Recovery of prior years' losses is also highlighted here as an integral part of the capital structure.

The Integrated Financial Plan produces an operating margin result of 2.3, which is slightly below the recommended indicator target range of 2.5 to 3.5. Operating margin, defined as operating income divided by revenue, measures performance in areas in which management has the most control.

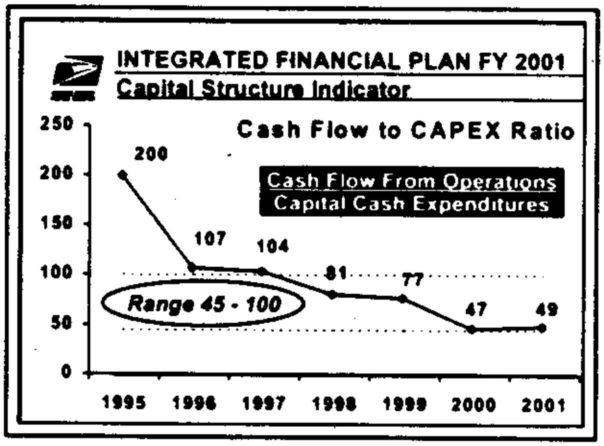
FY 2001 is the third year of the R-97 rate case that assumed price increases would occur in FY 1998. Considering that the implementation of those rates was delayed until January 1999, the reduction in the recovery of the prior years' loss provision from $936 to $377 million, and holding further price increases until January 2001, these results are reasonable.

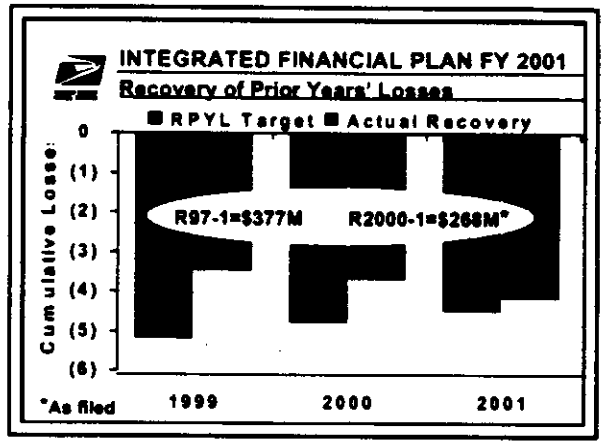
Historical Results of Financial Indicators



The cash flow to capital expenditures ratio is calculated by dividing operating cash flow by capital cash expenditures. This defines the level of capital expenditures to be financed from internal cash generation versus external financing. For the FY 2001 capital structure, a CAPEX result of 49 will be produced. This is on the low side of the targeted range of but it represents a small increase over FY 2000, which had a CAPEX ratio of 47 percent.

The charts to the left and below, reflect the historical results of these indicators for FY 1995 through 2001. Also included on the charts is the recommended range for these Indicators.





This plan will consume a portion of the progress made on the recovery of prior years' losses in relation to Board Resolution 95-9. Due to the accumulated impact of earlier net incomes that exceeded annual targets, the Postal Service will enter FY 2001 an estimated $1.1 billion ahead of the cumulative target. Based on a projected $480 million net loss in FY 2001 and the $295 million annual prior years' loss recovery target, Management estimates finishing FY 2001 $330 million ahead of the cumulative target.

FINANCIAL OUTLOOK

The financial plan allocates resources to achieve corporate goals, strategies, and targets. The plan has three components – the Operating Plan, the Capital Plan, and the Financing Plan – and these are incorporated in this financial outlook. The outlook through 2002 assumes that the Postal Service will implement the pending 6.4 percent rate increase request on January 7, 2001.

The net losses projected for FY's 2001 and 2002 are driven by increases in labor costs. Cost per workyear increases (wages and benefits) are estimated to average 5 percent per year over FY's 2001 and 2002. This rate of labor cost growth reflects acceleration in the growth of labor costs in the economy as a whole as measured by ECI, and the impact of the city carrier contract arbitration award that drives labor cost increases above ECI in FY 2001. This 5 percent growth rate is more than double the average 2.2 percent labor cost growth rate experienced between 1995 and 1999 when the Postal Service earned accumulated net incomes of $5.5 billion. If this lower rate of cost growth had continued, the Postal Service most likely would be predicting net incomes instead of net losses.

INTEGRATED FINANCIAL PLAN FY 2001

Financial Outlook

	2000	2001	2002
Net Income	(0.2)	[illegible]	(0.9)
Depreciation	2.0	2.3	2.4
Adjustments	(0.3)	(0.1)	(0.1)
Cash Flow From Operations	1.5	[illegible]	1.4
Capital Cash Outlay	3.2	[illegible]	3.3
Change in Cash	.7	[illegible]	.0
Net Borrowing	2.4	[illegible]	1.9
Debt	9.3	[illegible]	13.2
Capital Plan	3.4	[illegible]	3.7
Equity	(0.8)	[illegible]	(2.8)
Prior Year Losses	(3.8)	[illegible]	(5.2)

($ Billions)

For FY 2002, there currently are no contracts with the major craft unions. In the absence of agreed to contracts, labor costs are assumed to increase by ECI-1 in FY 2002.

The chart above shows the critical elements of the financial condition through FY 2002. The first four lines of this chart reflect the generation of cash flows from the Operating Plan. Net income, depreciation and other adjustments are the sources of cash flow from operations. The next line in the chart is the capital cash outlay. This represents the cash disbursements necessary to fund capital investments. The difference between cash flow from operations and capital cash outlay is the amount needed to borrow, and that drives the Financing Plan.

The remainder of this chart provides additional information on the Postal Service's financial condition. Debt represents the expected outstanding debt at the end of each fiscal year through 2002. The capital commitment plan reflects the estimated new capital commitments in each year. The equity amount is the sum of contributions from the federal government and prior years' losses, shown in the last line of this chart.

Board Resolution 95-9, concerning restoration of equity and recovery of prior years' losses, established a policy of planning for net incomes that "equal or exceed the cumulative prior years' loss recovery target" set in omnibus rate proceedings. Due to the accumulated impact of earlier net incomes that exceeded annual targets, the Postal Service will enter FY 2001 an estimated $1.1 billion ahead of the cumulative target. Based on a projected $480 million net loss in FY 2001 and the $295 million annual prior years' loss recovery target, the Postal Service will lose ground, but is still estimated to finish FY 2001 $330 million ahead of the cumulative target.

Resolution 95-9 provides that if it appears that the projected target will not be met, the Board and management "will take actions that reduce costs and/or increase revenues." It currently appears that the equity restoration target will not be met in FY 2002. Consistent with this directive, management's preliminary FY 2002 cost projections include approximately $1.1 billion in new cost reduction, primarily relating to breakthrough productivity initiatives. The FY 2002 projection also reflects cumulative new initiative revenue increases of approximately $400 million. It is clear that another omnibus rate case is on the horizon.

Memorandum

CONFIDENTIAL

JPMorgan

J.P. Morgan Securities Inc.

To:	Richard J. Strasser Chief Financial Officer United States Postal Service
From:	Winthrop Watson Managing Director
Date:	August 3, 2001
Subject:	Debt

JPMorgan has been asked by the United States Postal Service to consider its debt in the context of debt levels for private sector companies. This letter summarizes the key messages in analyzing the Postal Service's debt, describes the role of debt for private sector companies, compares those companies to the Postal Service, and discusses methodologies for the Postal Service to evaluate the difficult trade-offs inherent in debt financing.

JPMorgan was not asked to focus specifically on retirement and leasing obligations, however, your staff and ours agree that the inclusion of their impact on cash flow is a necessary aspect of a comprehensive debt analysis.

KEY MESSAGES

- Comparisons of appropriate debt levels for the Postal Service to private sector companies are difficult. Without market-oriented pressures related to equity returns and debt costs, corporate finance theories that guide optimal equity and debt relationships for private sector companies cannot readily be applied to the Postal Service.
- Long-term forecasting and related sensitivity analyses are important to help clarify the trade-offs between rates, investing, cost-cutting, borrowing, and repaying debt.
- It is possible to devise substitutes for market constraints that could provide debt level guideposts.
- The Postal Service's management and Board of Governors need to apply their judgement to determine target debt levels for the organization on an ongoing basis.
- If the Postal Service determines that increased borrowing beyond the debt ceiling is necessary, reasonable arguments could be made to Congress and appropriate constituents.

PRIVATE SECTOR COMPANIES

The goal of private sector companies is to maximize the value of equity for their shareholders. The development of financial policies that balance appropriate levels of equity and debt in the capital structure is a complex process subject to considerable judgement or "art" in addition to the more objective "science" of standard parameters set forth by markets or corporate finance theory. The relevant factors considered include the financial prospects for the company, the expected ability to pay interest and repay debt, the availability and cost of equity and debt, as well as the risk tolerances of the shareholders and debt holders. The balance between debt and equity can be a key driver of stock market valuation.

Debt has the potential to magnify risks and returns to equity shareholders and divides the risks and returns of ownership between shareholders and lenders. When companies are profitable, interest expense, which is tax deductible, can provide a tax shield that enhances earnings. The availability and market cost of debt are critical components in determining appropriate debt levels. Market costs of debt rise as a company's risk of insolvency increases, and increased debt increases the risk of insolvency. Provided that returns to the company exceed the principal and interest costs of debt, the addition of debt can magnify earnings available to shareholders. Conversely, debt can magnify losses and reduce shareholder earnings if company returns do not exceed the principal and interest costs of debt.

Debt capacity and optimal capital structure

Companies use several methodologies to evaluate their overall debt capacity and their optimal debt levels. Key tools in these evaluations are forecasts that project financial performance based on prospective balance sheets, income statements, and cash flow statements. These forecasts take into account expected prices, volumes, expenses, investments, acquisitions, efficiencies, potential asset sales, competitive dynamics, macroeconomic conditions, the availability and cost of equity and debt, and other relevant information. Generally, multiple scenarios are forecasted to assess the potential for future results to vary from base case projections. Management judgement, however, is ultimately required to balance the risks and rewards of debt.

- Debt capacity measures how much debt a company can service (pay interest and repay principal). Forecasts are used to estimate the potential cash flow available to service debt, and therefore the maximum amount of debt that can be borne.

- Companies apply corporate finance theory to arrive at their optimal capital structure. These theories are built on balancing the market costs of equity and debt, the value of the tax shield, and the risk tolerances of shareholders, debt holders, and management to create the lowest cost capital structure for the company. In effect, companies balance the benefits of leverage and the tax shield against the cost of debt, the potential costs of bankruptcy, and the desire to retain access to additional financing at reasonable cost.

Corporate finance theory implies that companies with safe, tangible assets and taxable income to shield should have an optimal capital structure that relies more heavily on debt. Less profitable companies with risky, intangible assets should have an optimal capital structure that relies less heavily on debt financing.

Credit risk, cost of debt and access to debt capital

Credit rating agencies, such as S&P and Moody's, use basic forecasts as a tool to compare companies' ability to service their debt. The traditional letter ratings from each agency (AAA, Baa, etc.) imply probabilities of default and recovery. These guide investors to appropriate debt pricing and availability. Companies often use credit ratings as key inputs in balancing debt levels with cost effective market access. When a company's actual performance falls short of expectations and issues arise about the ability to service debt, credit ratings fall, cost of debt rises, and sometimes access to debt ends.

In these circumstances, companies turn to more complex financing techniques to supplement their cash flow. These techniques include asset sales and secured financing structures such as leasing or securitization related to real estate, equipment and other assets. Depending on the circumstances, these transactions can be more cost effective than other alternatives, provide more financing capacity than unsecured debt, and sometimes provide access to financing in times when equity and debt markets are inaccessible.

We have highlighted credit statistics and other financial information for several companies in Appendix I; these companies include UPS, FedEx, several large corporations with revenues or other attributes similar to the Postal Service, and the Tennessee Valley Authority which is a government corporation that also has a Congressionally-mandated debt ceiling. The debt levels and other information show that each company has a somewhat different financing strategy. The key similarity is the choice to maintain relatively high credit ratings. FedEx maintains a lower investment grade rating. By contrast, UPS is one of the few private sector AAA rated companies in the world. TVA, a government corporation that borrows in the public markets, has a higher rating than its financial performance warrants due to its relationship to the government. The financing strategies of these companies include various degrees of equity, debt, leasing, asset sales, and other techniques. With the exception of TVA, their corporate structures are all very complex with multiple businesses in the U.S. and globally. They are all active in mergers, acquisitions, joint ventures, and strategic investments.

THE UNITED STATES POSTAL SERVICE

Comparisons of appropriate debt levels for the Postal Service relative to private sector companies are difficult to make. Without market-oriented pressures related to equity returns and debt costs relative to risk, the corporate finance theories that guide optimal equity and debt relationships for private sector companies cannot be applied to the Postal Service.

Many of these comparative limitations are a result of the Postal Service's statutory structure. Under the current statutory structure, the Postal Service:

- Has the authority to borrow up to $15 billion from the Federal Financing Bank of the Department of Treasury with annual limits of $2 billion for capital purposes and $1 billion for operating expenses.

- Maintains full access to debt at a cost equal to the yield on comparable maturity Treasuries plus 1/8% provided that it remains under its statutory annual and total debt limits but regardless of the financial condition of the Postal Service. As of September 30, 2000, the Postal Service's debt payable to the Federal Financing Bank totaled $9.3 billion.

- Operates for the benefit of the American people, particularly those using the mail services; it is not required to earn a return on equity, and currently maintains negative equity.

- Is limited in terms of financing options since it cannot raise equity and is supposed to break-even over time. This leaves debt and, potentially, asset sales as the only unsecured financing vehicles to manage cash flow timing, accelerate investments and/or supplement cash flow associated with earnings shortfalls.

Methodologies for assessing debt financing

Given the constraints of the current $15 billion debt ceiling, management can set a financial policy with an internal debt limit at a level that provides a safety cushion below the statutory ceiling. If the Postal Service exceeds the internal debt limit, management will have to balance cost savings and investments in order to generate the necessary cash to avoid further borrowing and to potentially repay debt. Additionally, Postal Service management could emulate private sector companies with limited financing alternatives by considering the potential for asset sales or secured financing to raise cash.

Private sector company financial forecasting tools can also help determine whether more or less debt financing is appropriate. We understand that the Postal Service regularly engages in this analysis for the purposes of financial forecasting and rate case preparation. The forecasting and related sensitivity analyses can help clarify the trade-offs between rates, investing, cost-cutting, borrowing, and repaying debt. The impact of retirement obligations, leasing, and other factors would be included in the forecasting. In conducting such analyses, other Postal Service specific issues need to be considered, such as the need to make low return investments, the cash flow implications of recovery of prior years' losses, and contingencies in new rate cases. This process facilitates clear goals allowing for defendable responses to inquiries about the Postal Service's investment and financing programs. Additionally, forecasting analysis helps the Postal Service determine its risk tolerance for debt in the context of its other decisions.

If, through these or other methodologies, the Postal Service determines that increased borrowing beyond the debt ceiling is necessary, arguments can be made to Congress and appropriate constituents. Several rationales could be developed such as: (i) the debt ceiling has not grown with inflation rates or the revenue growth of the Postal Service; if it had, the ceiling would now be around $20 billion; and (ii) the increased borrowing is necessary to achieve the Postal Service's overall objectives.

Risks and rewards of debt for the USPS

The use of debt can act as a powerful tool to finance investments. Debt can provide cash for investments in the near term that might be undesirable or unattainable through rates. Additionally, the timing of interest and principal payments can be matched to the timing of the expected returns of the investments. Generally speaking, the investments will be successful if the aggregate returns exceed the aggregate cost of the debt. Any additional benefits in the form of cost efficiencies, enhanced service, etc. would accrue to the Postal Service and its constituents. Clearly, a critical component of such analysis is the return generated by increased investments financed by debt. Theoretically, the Postal Service could justify all investments for which the aggregate returns exceed the aggregate cost of the debt.

In practice, debt has risks. Not all investments perform as planned. If overall investments do not pay for themselves or the Postal Service has cash shortfalls related to under performance in other parts of its business, the existing debt's interest and, eventually, principal will need to be serviced by other sources of cash. This would require some combination of additional borrowing (if available), increased rates, cost cutting, lower investments, asset sales or secured financings. This demonstrates the risky aspect of debt. Key components in evaluating the degree of risk are (i) the probabilities that returns exceeding the cost of debt will be realized; and (ii) the plan for repayment of debt.

Management's role

The Postal Service's management and Board of Governors needs to apply its judgement to determine target debt levels for the organization on an ongoing basis. While JPMorgan believes it is feasible to devise a methodology with substitute constraints that could provide debt level guideposts for the Postal Service, the preparation and collaboration that would be required are beyond the timing and scope of this work.

The Postal Service ultimately will need to incorporate its thinking about debt into the complications of the rate case process and the limitations of operating at break-even over time.

I look forward to discussing these issues further with you.

Appendix I: Comparative statistics

Company data as of fiscal year end 2000

Moody's/S&P ratings	Company	Revenue ($MM)	Net income[1] ($MM)	TBF[2] ($MM)	Net worth ($MM)	Cash flow[3] ($MM)	CAPEX ($MM)	Market cap[4] ($MM)	P/E ratio[4] (x)	Times interest earned[5] (x)	Cash flow/ TBF (x
Baa2/BBB	FedEx	18,257	688	1,783	4,785	1,836	1,627	12,415	18.5	8.3	1.0
Aaa/AAA	United Parcel Service	29,771	2,934	3,604	9,735	4,026	2,147	63,641	24.7	21.9	1.1
Aa2/AA	McDonald's	14,243	1,977	8,474	9,204	3,049	1,945	37,700	21.1	7.5	0.4
A2/A	Philip Morris	63,276	8,510	29,122	15,005	11,23	1,682	100,435	12.4	14.1	0.4
Aa1/AA	Wal-Mart	191,329	6,295	22,316	31,343	9,024	8,042	250,443	39.2	7.9	0.4
A2/A	AT&T	65,981	4,669	69,749	103,19	15,99	14,566	69,848	28.0	2.1	0.2
A1/A+	Verizon	64,826	10,810	57,329	34,578	26,50	17,633	147,504	18.2	5.9	0.5
Aaa/AAA	TVA	6,762	24	25,377	4,951	1,444	867	N/A	N/A	1.0	0.1
N/A	United States Postal Service	64,540	(199)	9,316	(646)	1,830	3,337	N/A	N/A	0.4	0.2

Source: Compustat

[1] Net Income: Calculated before extraordinary items

[2] Total borrowed funds: the sum of debt in current liabilities and total long term debt

[3] Cash Flow: Sum of income before extraordinary items, depreciation and amortization and deferred taxes

[4] Bloomberg 8/2/01

[5] Times Interest Earned = EBIT / Interest expense

6/XXX

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[4] Bloomberg 8/2/01

[5] Times Interest Earned = EBIT / Interest expense

JPMorgan

OCA/USPS-T6-6. The following questions refer to the FY 2001 investment plan.

(a) How much of the FY 2001 capital investment plan was actually committed to in FY 2001?

(b) Were all of the FY 2001 capital investment plan committed funds actually spent in FY 2001? If not, please provide the amount actually spent in FY 2001.

(c) Were any capital investments incurred in FY 2001 that were not included in the FY 2001 capital investment plan? If so, please list them and indicate the amount spent.

(d) Have any of the FY 2001 capital investment planned expenditures been pushed forward to FY 2002? If so, how much of the FY 2002 plan includes funds originally included in the FY 2001 plan? If not, please explain what happened to the FY 2001 capital investment planned expenditures that were not actually committed to in FY 2001.

RESPONSE:

(a) In FY 2001, $1.2 billion was committed versus an adjusted plan of $1.6 billion.

(b) No, and one would not expect them to be. Capital commitments are recorded in the year that specific project authorization is made. Actual spending is normally made in future years as projects are completed. Of the $1.2 billion committed in FY 2001, $236 million was actually spent in FY 2001.

(c) No.

(d) Yes. $1.1 billion of the $2.4 billion FY 2002 capital commitment plan represents commitments originally included in the FY 2001 plan.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T6-7. Please produce every study, analysis or plan for FY 2001 and FY 2002 relating to the appropriate level of debt financing for Postal Service capital programs and program initiatives, including the annual Integrated Financial Plan to the Board of Governors for FY 2001 and FY 2002 similar to the FY 1999 and FY 2000 plans in the record in Docket No. R2000-1 at Tr. 2/115-116.

RESPONSE:

Attachments I and II provide copies of the FY 2001 and FY 2002 Integrated Financial Plan. These documents provide analysis of the required level of debt financing for each of these years. Additionally, Attachment III provides a discussion paper prepared by JPMorgan that considers debt in the context of debt levels for private sector companies. This is the only study on the appropriate level of debt that I am aware of.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS–T6–8. Please refer to your testimony at page 15, lines 8-24. The testimony discusses cost reduction programs, many of which appear to be associated with significant investments and projected to attain savings over the next two years. Please provide planned and actual capital investments and commitments for the years 1990-2004 as available for land, buildings, vehicles, customer service equipment, postal support equipment, mechanized support equipment, and automated processing equipment in current year and constant year dollars.

(a) How much of each year's investment is for improvements in quality of service?
(b) How much of each year's investment is for product additions?
(c) How much of each year's investment is for cost reduction?
(d) How much of each year's investment is for new capacity?

RESPONSE:

Actual and planned historical capital commitments by major category for FY 1990 through Accounting Period 12 of FY 2001 can be found in the Financial & Operating Statements. These reports are provided to the Postal Rate Commission and are also available in the U.S. Postal Service Library. Please refer my responses to OCA/USPS-T6-3 and 4 for planned capital commitments.

(a-d) Capital investments are not accounted for according to the categories you have specified. The purpose of many capital investments typically relates to more than one of these categories.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T6-9. Please refer to your testimony at page 3, line 6; page 16, line 29; page 18, line 15; page 46, line 7; and page 50, line 6. The cited testimony mentions service, generally in reference to investment needs.

(a) Please explain by type of investment project how the implementation of capital investment projects has impacted services and service standards. Please distinguish between improvements in quality of service, increases in types of service, and extensions of service to additional customers.

(b) Please define how the Postal Service measures service quality. Assuming that the answer to this question includes information on the number of days for delivery, please also indicate what other measures of service are used.

(c) If service has improved, please explain how investment projects have resulted in service improvements; please give specific examples.

(d) If service has declined, please explain how investment projects have resulted in service decline; please give specific examples.

RESPONSE:

(a) At page 3, line 6, I was referring to both the quality and scope of service and did not have any specific investment projects in mind.

At page 16, line 29 and page 18 line 15, the reference is to improve the quality of service, and improved service can take on the form of greater speed, better reliability, improved accessibility or improvements in any other attributes that our customers value. Essentially all capital investments of whatever type contribute to one or more of these areas of improvement. I have not distinguished capital investments by each.

To the extent that I have discussed service in my testimony in relation to capital investments and the capital freeze, the emphasis is on the need to have an adequate capital investment program to supply productive capacity and be in a position to serve our growing delivery network. Freezing our capital program impedes our ability to serve customers and that is why I refer to that freeze at page 46, line 7 as a "stopgap measure." I specifically refer to universal service at page 50 line 6, because our universal service obligations lead to a continuing need to increase facility, vehicle and infrastructure regardless of whether mail volume grows or declines.

(b) The Postal Service measures service quality in a number of ways, as follows:

- External First Class Measurement System (EXFC) is an independent, third-party system that measures First-Class Mail performance from the time mail enters the mailstream until the time it is delivered. EXFC examines service from a customer perspective for overnight, two-day, and three-day service areas.
- Express Mail Reporting System (EMRS) is an internal system that measures the on-time performance of Express Mail on an individual piece basis.
- Priority Mail End-to-End (PETE) is an independent, external measurement system that measures Priority Mail performance from the time mail enters the system until the time it is delivered. PETE is a customer-focused system which encompasses about 70% of the nation's destinating, identified Priority Mail volume.
- Customer Satisfaction Measurement (CSM) is an independent, third-party measurement system that provides measures of customer experience with Postal products and services. The CSM survey provides information to Postal Service management on ways to improve overall customer satisfaction.
- The Accuracy of Delivery Indicator (ADI) is an independent, externally-measured quality indicator for misdelivered and damaged mail. ADI is for internal use only and is intended to complement the customer satisfaction measures of accuracy.

(c) The Postal Service believes that service has generally improved over the last five to ten years, but is concerned that this trend may not continue if capital spending is excessively limited. Capital investments typically improve service by responding to network growth, by increasing productive capacity, improving accessibility, increasing reliability and/or throughput of operations or otherwise directly or indirectly serving our customers. Virtually any automation or facilities project or vehicle purchase could be used to illustrate this impact.

(d) See answer to part (c), above.

OCA/USPS-T6-10. Please refer to your testimony at page 46, lines 4-13. Please define the hurdle rate used by the Postal Service in determining whether to implement a capital investment project.

(a) Assuming that the hurdle rate is the internal rate of return that an investment must yield in order to qualify for implementation, please explain how the rate is computed, including examples of the measurement of benefits, measurement of costs, and derivation of a cost of capital.

(b) Please provide three examples of the computation of a hurdle rate, based on actual investments.

(c) If the hurdle rate is not the internal rate of return that an investment must yield in order to qualify for implementation, please explain the computation of the appropriate rate, including examples of the measurement of benefits, the measurement of costs, and the derivation of a cost of capital.

(d) Please provide three examples of the computation of a hurdle rate, based on actual investments.

RESPONSE:

The required economic return for capital projects is addressed in Section 1-5.2 of Handbook F-66, General Investment Policies and Procedures (see Attachment I). As noted in Attachment II, Decision Analysis Report Factors/Costs of Borrowing Update, for economically justified projects, a Return on Investment (ROI) threshold or hurdle rate of 20 percent is used.

(a) Please see Attachment II referenced above.

(b) Attachment III provides the cash flow statements for three projects reflecting return on investment calculations.

(c) Please see above response.

(d) See my response to (b) above.

1-5 Investment Strategy

1-5.1 Objectives

The investment strategy of the Postal Service has the following objectives:

- To invest in buildings, equipment, and other corporate initiatives to attain maximum operating efficiency or an overall acceptable return on investment (ROI).
- To invest in facilities and equipment that provide desirable working conditions for Postal Service employees.
- To provide convenient access to existing and future air and surface transportation facilities.
- To control costs.
- To support the strategies of the Strategic Plan and the goals of the *CustomerPerfect!*sm performance management system.
- To ensure adequate security of the mail and postal assets.
- To improve the level of services offered and respond to customer needs.
- To enhance material handling, transportation, retail, and administrative operations.
- To invest in revenue-generating programs.

1-5.2 Required Economic Return

The vice president, Finance, Controller, periodically publishes a memo updating the required ROI for investment projects. This memo establishes the current cost of capital and risk factors, which are used to determine the discount rate used in the cash flow to calculate the net present value (NPV) of a proposed investment. The NPV determines whether a project meets the investment standards of the Postal Service. To be justified solely on economics, a project must meet or exceed the ROI threshold (discount rate) for that category of project. This memo also provides updated DAR factors for escalation of baseline costs, servicewide costs, and productive workyears (see Exhibit 1-1).

1-5.2.1 Generative and Sustaining Investments

Different discount rates apply, depending on the type of project and whether the investment is generative or sustaining:

- **Generative investments** are driven by economic considerations. They must not only measurably enhance postal operations but must demonstrate the potential to provide economic benefits (that is, an ROI that equals or exceeds the established minimum ROI).
- **Sustaining investments** assure the continuation of ongoing operations (for example, by correcting or eliminating a problem) while maintaining security, service, and appropriate working conditions. Economic benefits, if any, are generally secondary.

DONNA M. PEAK
VICE PRESIDENT
FINANCE, CONTROLLER

UNITED STATES
POSTAL SERVICE

August 22, 2001

ALL OFFICERS
AREA FINANCE MANAGERS
DISTRICT MANAGERS
MANAGERS, PROCESSING AND DISTRIBUTION CENTER/FACILITY
MANAGERS, FACILITIES SERVICE OFFICE

SUBJECT: Decision Analysis Report Factors/Cost of Borrowing Update

A review of the cost of borrowing to be utilized in the calculation of present values for Decision Analysis Reports has been performed. This rate has been determined to be 5.5 percent. This reflects our current cost of debt financing and should not be confused with the cost of capital utilized in the calculation of Economic Value Added nor as the input to the Pay for Performance Program.

The escalation factors for USPS labor, non-USPS labor, energy-related cost items, and all other costs were reviewed and updated using the June 2001 Data Resource Incorporated–WEFA forecast. The factors represent a ten-year average beginning fiscal year 2000 through 2009. These factors reflect a downward trend in labor costs and upward trend in energy and other costs over the previous forecast. The servicewide and productive workyear factors have not changed, based on fiscal year 2000, the latest complete fiscal year. All of the factors will be reviewed and updated, as necessary.

Attached for your information is an updated matrix portraying the current rates, which will be effective on September 8, 2001. All projects not in the review cycle should use these new factors. For those projects currently being considered for final approval, please contact Capital and Program Evaluation for guidance.

Donna M Peak

Donna M. Peak

Attachment

cc: Mr. Hartsock
Mr. Sgro
Mr. Tayman
Ms. Weir

475 L'ENFANT PLAZA SW RM 8011
WASHINGTON DC 20260-5200
(202) 268-4177
FAX: (202) 268-6934

DECISION ANALYSIS REPORT (DAR) FACTORS

A. DISCOUNT RATE/RETURN ON INVESTMENT (ROI)

Type of investment / Nature of investment	sustaining			generative		
	risk factor (a)	cost of borrowing (b)*	discount rate (a+b)	risk factor (a)	cost of borrowing (b)*	discount rate (a+b)
Building/vehicles	1.5%	5.5%	7.0%	3.5%	5.5%	9.0%
mechanization (automation)	2.5%	5.5%	8.0%	4.5%	5.5%	10.0%
high technology	-	-	-	5.5%	5.5%	11.0%
new ventures	-	-	-	5.5%	5.5%	11.0%

*reviewed semi-annually

Economically justified projects should meet or exceed a 20 percent ROI threshold. However, other issues, such as service and safety, may influence this threshold.

B. ESCALATION FACTORS

USPS workhour rate*	2.9%
Non-USPS labor workhour rate	3.9%
Energy-related cost items	2.9%
All other costs	2.0%

***Composite rate, including all benefits and servicewide, to be used when specific outyear rates are unknown.**

C. SERVICEWIDE FACTORS

Servicewide factors are to be used in a financial analysis of contracting out versus in-house services only. This factor is multiplied against labor costs to determine personnel costs paid at the national level which are not reflected in the local labor rates (example: civil service deferred retirement liability and unemployment compensation).

bargaining	supervisor
8.7%	6.8%

D. PRODUCTIVE WORKYEAR FACTORS

Productive workyear factors for use in all decision analysis reports and contracting out versus in-house service analyses. These factors represent the number of workhours in a workyear and are used in conjunction with the local workhour rates (which include compensation and benefits) in order to determine the cost per workyear.

bargaining	supervisor
1,763 hours	1,823 hours

Effective date: September 8, 2001

Authorized: Donna M Peak

Donna M. Peak
Vice President, Finance, Controller

Equipment Project, Example #1 ($000)

YEAR	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TOTAL
PROJECT YEAR	0	1	2	3	4	5	6	7	8	9	10	11	12	
# OF MACHINES INSTALLED	0	11	35	0	0	0	0	0	0	0	0	0	0	46
I. CAPITAL INVESTMENT														
HARDWARE	-3964	-17875	-17892											-39731
SITE PREPARATION		-583	-1855											-2438
CONTINGENCY		-1092	-895											-1987
INITIAL SITE SPARES	-215	-1005	-1025											-2245
TOTAL CAPITAL INVESTMENT	-4179	-20555	-21666											-46400
II. EXPENSE INVESTMENT														
DEPOT SPARE PARTS		-18	-56											-74
TOTAL EXPENSE INVESTMENT	0	-18	-56											-74
III. OPERATING VARIANCES														
ENERGY COSTS		-6	-249	-359	-371	-384	-397	-411	-425	-439	-454	-469	-485	-4449
RECURRING SPARES		-2	-132	-213	-218	-223	-229	-235	-241	-247	-253	-259	-266	-2517
INITIAL MAINT. TRAINING (DIRECT LABOR)		-664	-2301											-2964
INITIAL OPERATOR TRAINING (DIRECT LABOR)		-329	-1403											-1732
RECURRING MAINT./OPERATOR TRAINING		-8	-168	-178	-183	-187	-192	-197	-202	-207	-212	-217	-223	-2175
ADDITIONAL SUPERVISION & ALLIED LABOR		-171	-2517	-3088	-3205	-3327	-3454	-3585	-3721	-3862	-4009	-4162	-4320	-39420
POSTAL MAINTENANCE		-26	-1590	-2588	-2687	-2789	-2895	-3005	-3119	-3237	-3360	-3488	-3621	-32405
SAVINGS		403	19234	25221	26179	27174	28207	29278	30391	31546	32745	33989	35280	319646
IV. TOTAL OPERATING VARIANCES	0	-803	10875	18794	19515	20263	21040	21847	22684	23554	24456	25393	26366	233984
V. NET CASH FLOW	-4179	-21375	-10848	18794	19515	20263	21040	21847	22684	23554	24456	25393	26366	187510
VI. RETURN ON INVESTMENT	40.3%													
VII. NET PRESENT VALUE @ 11.8%	$66,646													

Equipment Project, Example #2 ($000)

FISCAL YEAR	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TOTAL
PROJECT YEAR	0	1	2	3	4	5	6	7	8	9	10	11	
# OF MACHINES INSTALLED		240											240
I. CAPITAL INVESTMENT													
HARDWARE	-31200	-46800											-78000
SITE PREPARATION	-1536	-2304											-3840
CONTINGENCY	-3120	-4680											-7800
INITIAL SITE SPARES	-3232	-4848											-8081
MAINTENANCE CONTRACT COSTS		-3798											-3798
OPERATOR CONTRACTOR TRAINING		-95											-95
SPECIAL TOOLING	-103	-155											-259
INSTALLATION	-2880	-4320											-7200
TOTAL CAPITAL INVESTMENT	-42072	-67000											-109072
II. EXPENSE INVESTMENT													
DEPOT SPARE PARTS		-2159											-2159
TOTAL EXPENSE INVESTMENT		-2159											-2159
III. OPERATING VARIANCES													
RECURRING SPARES		-792	-2071	-2123	-2176	-2230	-2286	-2343	-2402	-2462	-2523	-2587	-23995
INITIAL MAINT. (DIRECT LABOR)		-4930											-4930
INITIAL OPERATOR TRAIN. (DIRECT LABOR)		-3161											-3161
RECURRING OPERATOR TRAINING		-124	-328	-341	-353	-367	-381	-395	-410	-426	-442	-459	-4027
RECURRING MAINT. TRAINING		-699	-1852	-1922	-1995	-2071	-2149	-2231	-2316	-2404	-2495	-2590	-22723
POSTAL MAINTENANCE		-1984	-5257	-5457	-5665	-5880	-6103	-6335	-6576	-6826	-7085	-7354	-64523
ENERGY		-259	-683	-706	-730	-755	-780	-807	-834	-863	-892	-922	-8231
SAVINGS		12314	54169	56724	58879	61117	63439	65850	68352	70950	73646	76444	661884
TOTAL OPERATING VARIANCES		366	43978	46175	47960	49814	51739	53738	55814	57969	60208	62532	530293
IV. NET CASH FLOW	-42072	-68794	43978	46175	47960	49814	51739	53738	55814	57969	60208	62532	419062
V. RETURN ON INVESTMENT		36.72%											
VI. NET PRESENT VALUE @ 11.8%		$157,129											

Equipment Project, Example #3 ($000)

FISCAL YEAR	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TOTAL
PROJECT YEAR	0	1	2	3	4	5	6	7	8	9	10	11	
# OF MACHINES INSTALLED		240											240
I. CAPITAL INVESTMENT													
HARDWARE	-31200	-46800											-78000
SITE PREPARATION	-1536	-2304											-3840
CONTINGENCY	-3120	-4680											-7800
INITIAL SITE SPARES	-3232	-4848											-8081
MAINTENANCE CONTRACT COSTS		-3798											-3798
OPERATOR CONTRACTOR TRAINING		-95											-95
SPECIAL TOOLING	-103	-155											-259
INSTALLATION	-2880	-4320											-7200
TOTAL CAPITAL INVESTMENT	-42072	-67000											-109072
II. EXPENSE INVESTMENT													
DEPOT SPARE PARTS		-2159											-2159
TOTAL EXPENSE INVESTMENT		-2159											-2159
III. OPERATING VARIANCES													
RECURRING SPARES		-792	-2071	-2123	-2176	-2230	-2286	-2343	-2402	-2462	-2523	-2587	-23995
INITIAL MAINT. (DIRECT LABOR)		-4930											-4930
INITIAL OPERATOR TRAIN. (DIRECT LABOR)		-3161											-3161
RECURRING OPERATOR TRAINING		-124	-328	-341	-353	-367	-381	-395	-410	-426	-442	-459	-4027
RECURRING MAINT. TRAINING		-699	-1852	-1922	-1995	-2071	-2149	-2231	-2316	-2404	-2495	-2590	-22723
POSTAL MAINTENANCE		-1984	-5257	-5457	-5665	-5880	-6103	-6335	-6576	-6826	-7085	-7354	-64523
ENERGY		-259	-683	-706	-730	-755	-780	-807	-834	-863	-892	-922	-8231
SAVINGS		20895	91919	96254	99912	103708	107649	111740	115986	120394	124968	129717	1123142
TOTAL OPERATING VARIANCES		8947	81728	85706	88993	92406	95949	99628	103448	107413	111530	115805	991552
IV. NET CASH FLOW	-42072	-60213	81728	85706	88993	92406	95949	99628	103448	107413	111530	115805	880320
V. RETURN ON INVESTMENT		66.4%											
VI. NET PRESENT VALUE @ 11.8%		$387,678											

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T6-11. Please *refer to your testimony* at page 46, lines 4-13.

(a) What has been the average projected and realized internal rate of return (or the expected hurdle rate) over each of the last five years for initiated capital projects on a total basis in each of the following areas: land, buildings, vehicles, customer service equipment, postal support equipment, mechanized processing equipment, and automated processing equipment. Please provide both projected and realized rates. Please provide information on a total basis for each of the types of investment.

(b) How does the Postal Service determine whether a project is successful--i.e. is there internal monitoring of actual savings or, alternatively, a different type of measure? Please explain in detail.

(c) Please provide the documentation that delineates the USPS standards for determining the success or failure of investment projects.

RESPONSE:

(a) Attached is the requested information for projected rates of return that is available by investment category for FYs 1998 through 2002. The actual realized rates by *category are not calculated.*

(b) A successful project is one that meets the goals established in the projects Decision Analysis Report (DAR). For sustaining projects, the benefits could be related to such non-economic factors as service improvement, safety, infrastructure, or some other objective spelled out in the DAR. A generative project would be expected to attain the ROI projected for it in the DAR to be judged a complete success; at a minimum, however, it should meet or exceed the Postal Service's discount rate. To ensure that cost savings from capital projects are captured, cost reductions are included in operating budgets.

(c) See my response to OCA/USPS-T6-10.

FIVE-YEAR CAPITAL ROI PLAN
EXECUTIVE SUMMARY
(MILLIONS)

ATTACHMENT
OCA/USPS-T6-11

	1998	1999	2000	2001	2002
TOTAL FACILITIES CAPITAL BUDGET	$1,964	$1,653	$1,443	$462	$519
CORRESPONDING NET CASHFLOW =	($667)	($526)	($528)	($271)	-216
NPV =	($4,628)	($3,446)	($4,267)	($2,969)	($2,878)
FACILITIES PROGRAM ROI =	3.3%	3.5%	3.4%	2.3%	2.2%
TOTAL AUTO/MECH CAPITAL BUDGET	$1,733	$1,489	$1,470	$691	$1,133
CORRESPONDING NET CASHFLOW =	($569)	($472)	($534)	($265)	($444)
NPV =	$6,823	$5,014	$6,556	$3,803	$5,338
AUTO/MECH PROGRAM ROI =	28.6%	31.1%	28.6%	30.2%	29.7%
TOTAL VEHICLES CAPITAL BUDGET	$298	$292	$353	$58	$94
CORRESPONDING NET CASHFLOW =	($121)	($119)	($141)	($26)	($38)
NPV =	($312)	($258)	($324)	($567)	($206)
VEHICLES PROGRAM ROI =	-3.7%	2.8%	-3.2%	-7.3%	-2.9%
TOTAL RETAIL EQUIPMENT CAPITAL BUDGET	$381	$367	$244	$199	$80
CORRESPONDING NET CASHFLOW =	($194)	($185)	($124)	($102)	($40)
NPV =	($186)	($149)	($163)	($152)	($42)
RETAIL EQUIPMENT PROGRAM ROI =	7.8%	5.5%	8.0%	6.6%	10.2%
TOTAL POSTAL SUPPORT CAPITAL BUDGET	$1,217	$641	$490	$191	$581
CORRESPONDING NET CASHFLOW =	($925)	($489)	($388)	($155)	($439)
NPV =	($754)	($615)	($616)	($590)	($710)
POSTAL SUPPORT PROGRAM ROI =	3.3%	4.2%	2.1%	4.5%	3.0%

SUMMARY	1998	1999	2000	2001	2002
TOTAL 5-YR CAPITAL PLAN =	$5,593	$4,442	$4,000	$1,601	$2,408
CORRESPONDING NET CASHFLOW =	($2,476)	($1,611)	($1,713)	($819)	($1,177)
SUM OF NET PRESENT VALUES =	$943	$546	$1,186	($476)	$1,503
R.O.I. FOR THE MIX =	15.9%	14.9%	18.6%	14.7%	17.6%

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T6-12. Please refer to your testimony at page 46, lines 4-13. What are the projected internal rates of return over each of the next five years for the planned capital projects on an overall basis and in the following areas: land, buildings, vehicles, customer service equipment, postal support equipment, mechanized processing equipment, and automated processing equipment.

(a) What is the projected dollar level of investment for each of the above cost classifications?

(b) How will each of these investments impact service quality and service standards?

RESPONSE:

Please see my response to OCA/USPS-T6-11(a) for the projected return on investment for FY 2002. A revised five-year Capital Investment Plan has not been developed, accordingly the requested information is not available beyond FY 2002.

(a) Please see my response to OCA/USPS-T6-7.

(b) Please see my response to OCA/USPS-T6-9(a).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T6-13. Please refer to your testimony at page 11, lines 18-24. This discusses the problem of paring down further an already limited capital program. The Postal Service earlier this year made major cuts in its investment budget.

(a) For each year since and including FY 1999 for which the investment budget has been cut, please explain why the planned level of investment was cut.
(b) For each year since and including FY 1999 for which the investment budget has been raised, please explain why the planned level of investment was raised.
(c) Please explain how these changes in the level of investment have impacted or will impact customer service, the quality of service, and service standards for the postal years 2000-2005; please provide projected information on a yearly basis.
(d) Please explain how these changes in the level of investment have impacted or will impact the need for a contingency.
(e) Please explain how these changes in the level of investment have impacted operating costs in the past or will impact operating costs over the next five years; please provide information on a yearly basis.
(f) Please provide USPS documentation justifying the elimination and/or deferment of capital projects since and including FY 1999.
(g) Please provide information on the projected internal rates of return for the investment projects terminated or delayed by the following asset classes: land, buildings, vehicles, customer service equipment, postal support equipment, mechanized processing equipment, and automated processing equipment.

RESPONSE:

(a) There was no reduction in the capital investment plan for Fiscal Year 1999. Planned capital investments for Fiscal Year 2000 were reduced by $550 million as referenced in the attachment to my response to OCA/USPS-T6-4. The planned commitments for Fiscal Year 2001 were reduced by $2 billion as referenced in my testimony on page 46, lines 4-13.

(b) There were no actions taken to raise investment levels in the years requested.

(c) Although the investment level was reduced, the Postal Service focused on using available funds to invest in generative projects. The outcome for both FY 2000 and 2001 has been an improvement in the productivity rates for the organization. We do not project a degradation in service.

(d) Reductions in planned for capital investments were implemented to conserve cash. The inadequate contingency recommended by the Commission in Docket No. R2000-1 contributed to the cash shortfall. This unfortunate experience reinforces the need to adopt the Postal Service's reasonable contingency provision and demonstrates the Postal Service's ability to absorb financial risk is extremely limited and has collateral consequences.

(e) In FY 2000, capital investments were reduced by $553 million in an effort to reduce the depreciation cost. The impact was a reduction in depreciation cost of $40 million; however, at the end of the fiscal year, prior investments in the Point of Service project were capitalized, resulting in depreciation overruns. For FY 2001, the reduction of $2 billion in investments resulted in a $44 million reduction in the depreciation cost. We know that a reduction in capital expenditures now will most likely result in a negative impact on operating costs in the out years. However, it is impossible to project the effect of those reduced expenditures on a yearly basis due to the many unknowns involved and the complex nature of the business. It should be noted that the investments are not being reduced to save money; they are being curtailed as a result of our diminished ability to generate sufficient funds in the present economic environment.

(f) See the attached statement of the Chairman of the Board of Governors.

(g) All the delayed projects for FY 2001 were facility-related projects having projected rates of return of zero or less.

ATTACHMENT
OCA/USPS-T6-13 (f)

Statement
Robert F. Rider, Chairman of the U.S. Postal Service Board of Governors

February 6, 2001
San Antonio, Texas

Following a report on the Postal Service's integrated financial plan, the U.S. Postal Service Board of Governors issued the following statement today.

While the Board recognizes that management has successfully reduced labor costs, and has achieved record productivity and service improvements, and continues to do so, they directed several immediate management actions. Specifically:

- to undertake a thorough review of all programs and projects, and curtail or eliminate all non-essential activities.
- to begin preparing a rate case as soon as possible to ensure the continued financial viability of the Postal Service.
- to evaluate the Postal Service's rate making needs over the long range (up to five years), which will allow the Postal Service to respond to rapidly changing market conditions.
- to review the rules established by the Postal Rate Commission to determine whether changes can be made to ensure a more responsive rate making process.
- to review all management tools within the present statutory and regulatory framework to aggressively improve its financial integrity.

The Board directed management to reduce its capital commitment budget in fiscal year 2001 from $3.6 billion to $2.6 billion; to postpone making future financial capital commitments and to consider the financial outlook as it moves forward and to match future capital commitments to cash flow.

The Board unanimously stated disappointment with the PRC recommended decision in the recent rate case and looks forward to the PRC reconsideration. In the decision, the PRC reduced $1 billion from the revenue requirement, including a $700 million contingency fund reduction. In addition to the adverse consequences of the PRC decision, the Postal Service continues to experience shrinking margins as costs rise more sharply than revenues.

The Board reaffirmed its prior public commitment to protect the universal service mandate by pursuing statutory reform.

LISTING FOR PROCUREMENT & SUPPLY MANAGEMENT PERSONNEL

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
3DJ	4230.65	86233	07	HAND PALLET TRUCK 5000LBS (EMERY)
1NY	3700.04	86531	10	ACCESS CONTROL SYS BADGE READER
1NY	3700.00	86531	10	ACCESS CONTROL SYSTEM
1NY	3700.08	86531	10	ACCESS/SECURITY/ALARM EQUIPMENT
3TY	3980.00	86533	03	ACOUSTICAL COVERS/SILENCING EQPT
3TY	3980.04	86533	05	ADAPTER, ADP
1HC	3500.00	86531	05	ADDRESSING MACHINE
3TY	3905.50	86533	05	ADP CLEANING/MAINTENANCE EQPT
3TG	3900.98	86533	03	ADP MODIFICATION COST
3TY	3905.60	86533	05	ADP TESTING/ANALZ/MONITORING EQPT
2MA	2200.00	86532	10	AIR CONDITIONER
3TY	3990.00	86533	03	AIR CONTRACT DATA COLL SYS, ACDCS
2MY	2220.00	86532	10	AIR CURTAIN, ENTRANCE/EXIT DOOR
1RP	8900.00	86531	10	AIRCRAFT
2DK	9210.20	86235	07	ALERT SPRKLR/RAPISTAN EQUIP (EMERY)
2MC	2210.00	86532	10	ALTERNATOR, POWER PLANT
1MC	8210.00	86531	05	AMPLIFIER, POWER/SOUND
2DC	4010.91	86232	10	ANALYZER, MARK II
2PB	6010.00	86532	10	ANALYZER, VEHICLE MAINTENANCE
3FY	4430.15	86233	07	ANGLE SCALE (EMERY)
1SA	3600.00	86531	10	ANSWERING/RECORDING UNIT, TELE SYS
3TA	3955.10	86533	05	AOI/NETWORK-RTR,SPLS/SVCS,LAN WIRE
3TA	3955.20	86533	05	AOI/USER-SERVER,MONTOR,PRINTER
1KY	3000.00	86531	10	ART/STATUARY/DECORATOR ITEMS
3TA	3955.00	86533	05	ASSOCIATE OFFICE INFRASTRUCTURE
1MY	8230.90	86531	10	AUDIO-VISUAL MISCELLANEOUS EQPT

ATTACHMENT
OCA/USPS-T6-16
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BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1MY	8230.00	86531	10	AUDIO-VISUAL SPECIAL EFFECTS EQPT
1MF	8220.00	86531	10	AUDIO, PLAYER/RECORDER
1RE	8010.00	86531	10	AUDIOMETER
1DF	9300.60	86231	10	AUTO PACKAGE PROCESSING SYS (APPS)
3TY	3980.08	86533	03	BADGE PUNCHER
2KY	2080.00	86532	10	BALER, PAPER
2DD	9500.00	86235	10	BAR CODE READER
1RE	8010.04	86531	10	BED, MEDICAL UNIT
2LB	2110.00	86532	10	BENDER/BRAKE, METAL
1HF	3500.04	86531	10	BINDING MACHINE
1DF	9700.00	86231	10	BMC CONTAINER LOADER/UNLOADER
1DF	9700.19	86231	10	BMC INBOUND-OUTBOUND CONV MOD COST
1DF	9700.10	86231	10	BMC INBOUND-OUTBOUND TOW CONVEYOR
1DF	9700.20	86231	10	BMC PARCEL SORTING INDUCTION UNIT
1DF	9700.29	86231	10	BMC PARCEL SORTING MACH MOD COST
1DF	9700.22	86231	10	BMC PARCEL SORTING MACHINE
1DF	9700.39	86231	10	BMC PROCESS CONTROL SYS MOD COST
1DF	9700.30	86231	10	BMC PROCESS CONTROL SYSTEM
1DF	9700.40	86231	10	BMC SACK SHAKEOUT MACHINE
1DF	9700.50	86231	10	BMC SACK SORTER AND LOADER
1DF	9700.60	86231	10	BMC TOWVEYOR - INTERNAL TOW CONV
1DF	9700.62	86231	10	BMC TOWVEYOR - WEARBAR LUBRICATOR
2MY	2220.10	86532	10	BOARD, DIRECTORY, CONTROL OR MISC
2PA	6000.00	86532	10	BODY & FRAME MAINTENANCE EQUIPMENT
2PY	6090.00	86532	10	BODY, UTILITY VEHICLE MAINT SERVICE
1KA	3000.10	86531	10	BOOKCASE

ATTACHMENT
OCA/USPS-T6-16
Page 2 of 35

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1RE	8010.08	86531	10	BOOTH, AUDIOMETER EXAMINING
2PY	6070.00	86532	10	BRAKE MAINTENANCE EQUIPMENT
3DJ	4230.05	86233	03	BTRY BCKUP CHGR SYS FRKLFT (EMERY)
2MY	2220.90	86532	10	BUILDING EQUIPMENT, MISCELLANEOUS
1DF	9000.00	86231	10	BULK CONVEYOR
1EY	7000.00	86431	10	BULLETIN BOARD, LOBBY
3TY	3980.12	86533	05	BURSTER, FORM OR CARD
1MD	8110.00	86531	10	CABINET/SPECIAL FURN, FILM PROCESS
1HY	3100.32	86531	10	CABINET, ADP
1HG	3100.00	86531	10	CABINET, FILE
1HG	3100.04	86531	10	CABINET, FILE CARD
1HG	3100.08	86531	10	CABINET, FILE LATERAL
1HG	3100.12	86531	10	CABINET, FILE SECURITY
1HG	3100.16	86531	10	CABINET, FILE/STAND VISIBLE RECORDS
1HY	3100.40	86531	10	CABINET, LABORATORY
1HG	3100.36	86531	10	CABINET, MAP/PLAN
1RE	8010.12	86531	10	CABINET, MEDICAL UNIT
1HG	3100.44	86531	10	CABINET, MICROFILM/MICROFICHE
1HY	3100.48	86531	10	CABINET, STORAGE
2LY	2150.00	86532	10	CABINET, TOOL AND PARTS
1RB	8000.00	86531	10	CAFE EQ, CABINET
1RB	8000.02	86531	10	CAFE EQ, CART
1RB	8000.04	86531	10	CAFE EQ, CASH REGISTER
1RB	8000.06	86531	10	CAFE EQ, COFFEE URN
1RB	8000.08	86531	10	CAFE EQ, CONDIMENT STAND
1RB	8000.10	86531	10	CAFE EQ, COUNTERLINE

PROPERTY CODE NUMBERS - DESCRIPTION SEQUENCE
LISTING FOR PROCUREMENT & SUPPLY MANAGEMENT PERSONNEL

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1RB	8000.12	86531	10	CAFE EQ, DINING TABLE
1RB	8000.14	86531	10	CAFE EQ, DISH WASHER
1RB	8000.16	86531	10	CAFE EQ, DISPLAY CASE
1RB	8000.18	86531	10	CAFE EQ, DISPOSAL UNIT
1RB	8000.20	86531	10	CAFE EQ, DRINK DISPENSER
1RB	8000.22	86531	10	CAFE EQ, FREEZER
1RB	8000.24	86531	10	CAFE EQ, FRYER
1RB	8000.26	86531	10	CAFE EQ, GRILL
1RB	8000.28	86531	10	CAFE EQ, HOOD
1RB	8000.32	86531	10	CAFE EQ, ICE DISPENSER
1RB	8000.34	86531	10	CAFE EQ, ICE MAKER
1RB	8000.36	86531	10	CAFE EQ, ICE STORAGE
1RB	8000.38	86531	10	CAFE EQ, KETTLE
1RB	8000.40	86531	10	CAFE EQ, KITCHEN WORK TABLE
1RB	8000.42	86531	10	CAFE EQ, MICROWAVE
1RB	8000.44	86531	10	CAFE EQ, MISC COOKING & HEATING
1RB	8000.46	86531	10	CAFE EQ, MISC FOOD PREPARATION EQPT
1RB	8000.48	86531	10	CAFE EQ, MISCELLANEOUS APPLIANCES
1RB	8000.50	86531	10	CAFE EQ, MIXER
1RB	8000.52	86531	10	CAFE EQ, OVEN
1RB	8000.54	86531	10	CAFE EQ, RACK/SHELVING
1RB	8000.56	86531	10	CAFE EQ, RANGE
1RB	8000.58	86531	10	CAFE EQ, REFRIGERATOR
1RB	8000.60	86531	10	CAFE EQ, SERV-O-LIFTS
1RB	8000.62	86531	10	CAFE EQ, SINK
1RB	8000.64	86531	10	CAFE EQ, SLICER

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1RB	8000.66	86531	10	CAFE EQ, STEAM TABLE
1RB	8000.68	86531	10	CAFE EQ, TRAY HANDLING EQUIPMENT
1RB	8000.70	86531	10	CAFE EQ, WARMING CABINET
1HD	3200.00	86531	05	CALCULATOR
1HD	3200.10	86531	05	CALCULATOR, PROGRAMMABLE
1MB	8100.00	86531	10	CAMERA
1MB	8100.60	86531	10	CAMERA ACCESSORIES
1MB	8100.20	86531	10	CAMERA, DOCUMENT
1MB	8040.00	86531	10	CAMERA, ID
1MB	8100.30	86531	10	CAMERA, MICROFILM
1MB	8100.40	86531	10	CAMERA, MOVIE
1MH	8100.50	86531	10	CAMERA, VIDEO
2FA	4010.40	86232	10	CANCELLER FLAT
2FA	4010.30	86232	10	CANCELLING MACHINE
2DC	4010.00	86232	10	CANCELLING MACHINE, M-36
2DC	4010.10	86232	10	CANCELLING MACHINE, MARK II
2DC	4010.20	86232	10	CANCELLING/FACING MACHINE
3TA	3905.00	86533	05	CARD PUNCH
3TA	3905.04	86533	05	CARD READER
3TA	3905.08	86533	05	CARD SORTER
1HY	8600.00	86531	10	CARDBOARD CASE MAKING MACHINE
2KC	2040.00	86532	10	CARPET CLEANING MACHINE
3DG	4400.00	86233	10	CARRIER, CARGO & MATERIALS
3DG	4400.10	86233	10	CARRIER, PERSONNEL
2KY	2080.10	86532	10	CART/TRUCK, CUSTODIAL
1RE	8010.16	86531	10	CART, MEDICAL UNIT

PROPERTY CODE NUMBERS - DESCRIPTION SEQUENCE
LISTING FOR PROCUREMENT & SUPPLY MANAGEMENT PERSONNEL

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1HY	3300.90	86531	10	CART, OFFICE MAILROOM
1KC	3000.20	86531	05	CHAIR
1RE	8010.20	86531	10	CHAIR, MEDICAL TREATMENT
3KC	7200.00	86433	10	CHANGER, COIN
3KC	7200.10	86433	10	CHANGER, CURRENCY
3KC	7200.20	86433	10	CHANGER, CURRENCY/COIN
3TA	3900.00	86533	05	CHANNEL CONTROLLER
2LY	2120.00	86532	10	CHARGER, BATTERY
2PY	6080.00	86532	10	CHARGER, BATTERY - VEHICLES
2DK	9210.70	86235	07	CHUTE EQUPMENT RAPISTAN (EMERY)
2LY	2130.00	86532	05	CLEANER, AIR CONDITIONER
2LY	2130.10	86532	05	CLEANER, BOILER TUBES
2LY	2130.20	86532	10	CLEANER, PARTS
2PH	6050.00	86532	10	CLEANING EQUIPMENT, VMF MAINTENANCE
2MY	2220.20	86532	10	CLOCK, MASTER CONTROL & MISC CLOCKS
1MH	8300.00	86531	10	CLOSED CIRCUIT TV SYSTEM
2DK	9210.50	86235	07	CNTR BELT & CONVR RAPISTAN (EMERY)
1QB	8510.00	86531	10	COIL CRADLE EQUIPMENT
1HF	3500.06	86531	10	COLLATOR
1HF	3500.08	86531	10	COLLATOR BINDER
3TA	3990.50	86533	05	COMM.MAN.-INT.OPER.MAN.SYS (CMIOM)
2LY	2120.10	86532	10	COMPRESSOR AIR
2DK	9210.00	86232	05	COMPUTERIZED FORWARDING EQUIPMENT
3TA	3990.40	86533	05	COMPUTERIZED ON-SITE DATA ENTRY SYS
2MY	2220.30	86532	10	CONSOLE, CONTROL
2KY	2080.20	86532	10	CONTAINER TRASH, SCRAP, DISPOSAL

PROPERTY CODE NUMBERS - DESCRIPTION SEQUENCE
LISTING FOR PROCUREMENT & SUPPLY MANAGEMENT PERSONNEL

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1MY	8230.10	86531	10	CONTROL CONSOLE, AUDIO-VISUAL
3TY	3980.20	86533	04	CONVERTER, CARD/PAPER/TAPE EQPT
2FC	4200.05	86232	07	CONVERYOR SYS & CONTROL (EMERY)
2FC	4200.00	86232	10	CONVEYOR
2FB	4200.10	86232	10	CONVEYOR, EXTENDIBLE
2FY	4200.30	86232	10	CONVEYOR, TRACTOR
2MA	2200.10	86532	10	COOLER, ROOM
3TY	3905.10	86533	05	COOLING SYSTEM, ADP
1HH	3500.10	86531	05	COPYING MACHINE
1KD	3000.30	86531	10	COUCH
3KA	7300.00	86433	10	COUNTER, COIN
3KA	7300.10	86433	10	COUNTER, CURRENCY
3TY	3980.16	86533	05	COUNTER, PAPER
2JC	7100.10	86432	10	COUNTERLINE, WINDOW MULTI PURPOSE
2LY	2140.00	86532	10	CRANE
1KY	3000.40	86531	10	CREDENZA
2DB	4000.00	86232	10	CULLING MACHINE
1MB	8040.10	86531	10	CUTTER, ID BADGE
2LB	2110.02	86532	10	CUTTER, METAL
1HY	3500.12	86531	10	CUTTER, PAPER
3TA	3920.00	86533	03	DATA ENTRY SYSTEM
3FY	4430.05	86233	07	DECK SCALE, BALL RAM (EMERY)
3TY	3980.24	86533	05	DECOLLATOR
2DD	9500.20	86235	10	DELIVERY BAR CODE SORTERS (DBCS)
3TY	3990.10	86533	05	DELIVERY RECEIPT SYSTEM, ADR
1EY	7000.10	86431	10	DESK/TABLE, LOBBY

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1KE	3000.50	86531	10	DESK/WORKSTATION
1HE	3210.00	86531	05	DICTATING/TRANSCRIBING EQUIPMENT
3TA	3900.10	86533	03	DISK PACK
3TA	3900.20	86533	05	DISK STORAGE DRIVE
3FY	4410.20	86233	10	DISPENSER, LABEL
3FB	4420.00	86233	10	DISPENSER, TAPE
1EY	7000.20	86431	10	DISPENSER, TICKET MACHINE
2DC	4010.92	86232	10	DIVERTER CHUTE MARK II
2DH	4020.00	86232	05	DIVERTER EDGER FEEDER ATTACHMENT
3DF	2300.05	86233	07	DOCK PLATE PORTABLE (EMERY)
3DF	2300.00	86233	10	DOCKBOARD/DOCKRAMP, PORTABLE
2PD	6020.00	86532	10	DOLLY, VEHICLE TOWING
1HY	3300.10	86531	10	DRAFTING EQUIPMENT
1HY	3300.12	86531	10	DRAFTING TABLE
2LB	2110.04	86532	10	DRILL
2LB	2110.06	86532	10	DRILL PRESS
1HY	3500.14	86531	10	DRILL/PUNCH, PAPER
2JC	7100.20	86432	10	DRIVE-THRU/WALK-UP WINDOW ASSEMBLY
1MD	8110.10	86531	10	DRYER, FILM PROCESSING
2DB	4000.10	86232	10	DUAL PASS ROUGH CULL SYSTEM (DPRCS)
3DB	4200.50	86233	10	DUMPER, HAMPER
1HF	3500.16	86531	10	DUPLICATING EQPT, OFFSET
1HF	3500.18	86531	05	DUPLICATING EQPT, PLATE MAKER UNIT
1HF	3500.20	86531	10	DUPLICATING EQPT, STENCIL UNIT
1HF	3500.22	86531	10	DUPLICATING EQPT, TRANSPARENCY UNIT
1HF	3500.24	86531	10	DUPLICATING EQPT, VARITYPER

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1HY	3500.90	86531	10	DUPLICATING/PRINTING, MISC EQPT
1MF	8220.10	86531	10	DUPLICATOR, AUDIO
1HM	3995.00	86531	10	DUPLICATOR, MICROFILM/MICROFICHE
2PY	6090.10	86532	10	DYNAMOMETER, VEHICLE
2DH	4020.10	86232	05	EDGER FEEDER
2DH	4020.20	86232	05	EDGER STACKER
3DJ	4230.45	86233	07	ELECTRIC FORK LIFT (EMERY)
1RE	8010.24	86531	10	ELECTROCARDIOGRAPH
1HY	3500.26	86531	10	EMBOSSING MACHINE
2PC	6010.10	86532	10	ENGINE MAINTENANCE EQUIPMENT
1MD	8110.20	86531	10	ENLARGER, FILM PROCESSING
3FY	4440.00	86233	10	ENVELOPE STUFFER / SEALER SYSTEM
3TY	3980.26	86533	03	EPROM PROGRAMMER DEVICE
1HF	3500.28	86531	05	FEEDER, ADDRESSING EQUIPMENT
1HF	3500.30	86531	10	FEEDER, COLLATOR EQUIPMENT
3FY	4410.30	86233	10	FEEDER, LABEL PRINTER
1HH	3500.32	86531	05	FEEDER, PHOTOCOPY EQUIPMENT
1HG	3100.20	86531	10	FILE, AUTOMATED SYSTEM UNIT
1HG	3100.24	86531	10	FILE, ROTARY
1HG	3100.28	86531	10	FILE, SHELVING
1MD	8110.90	86531	10	FILM PROCESSING, MISCELLANEOUS EQPT
2LB	2110.08	86532	10	FINISHING EQUIPMENT, METAL
1RY	8700.00	86531	10	FIRE, SAFETY & RESCUE EQUIPMENT
1DF	9000.10	86231	10	FIXED MECH MEMORY CONT SYS
2DK	9200.10	86235	10	FLAT SORTER BIN UNIT
2DK	9200.20	86235	10	FLAT SORTER CULL UNIT

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BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
2DK	9200.30	86235	10	FLAT SORTER EXTRACTOR UNIT
2DK	9200.40	86235	10	FLAT SORTER FEED UNIT
2DK	9200.00	86235	10	FLAT SORTER MACHINE
2DK	9200.50	86232	10	FLATS FEEDER/OCR
2DK	9210.10	86232	05	FLATS FORWARDING TERMINAL
1HY	3500.34	86531	10	FOLDER, PAPER
1HY	8600.10	86531	10	FORMING MACHINE, CARTON OR TRAYS
2LB	2110.10	86532	10	FORMING MACHINE, METAL
2MC	2210.10	86532	10	GENERATOR
2LA	2100.00	86532	10	GENERATOR, SIGNAL
3TA	3970.00	86533	03	GRAPHICS SYSTEM
3TA	3970.10	86533	03	GRAPHICS SYSTEM, CONTROLLER
3TA	3970.20	86533	03	GRAPHICS SYSTEM, DISPLAY UNIT
3TA	3970.30	86533	03	GRAPHICS SYSTEM, PLOTTER
2LB	2110.12	86532	10	GRINDER
2PC	6010.20	86532	10	GRINDER, VALVE
1QA	8500.00	86531	10	GROMMET MACHINE
2LB	2110.14	86532	10	HAMMER MACHINE, METAL
3DJ	4230.55	86233	07	HAND PALLET TRUCK (EMERY)
2LB	2110.16	86532	10	HEAT TREAT EQUIPMENT
2MY	2220.40	86532	10	HEATER, PORTABLE
2LY	2140.10	86532	10	HOIST
2MY	2200.20	86532	10	HUMIDIFIER
3TY	3990.20	86533	05	HVAC ENERGY MANAGEMENT SYSTEM
1RE	8010.28	86531	10	HYDROCOLLATOR
1HY	3250.00	86531	10	IMPRINTING MACHINE

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
2DH	4020.30	86232	05	INCLINED FEEDER ASSEMBLY
2LA	2100.02	86532	10	INFRARED VIEWER
1HY	3500.36	86531	10	INSERTING EQUIPMENT
1NY	3700.12	86531	10	INSP SERVICE CRIME LAB EQPT
2GG	9999.98	86232	10	INSTALL COST, NON-FIXED MECHANIZATN
1DF	9999.99	86231	10	INSTALLATION COST FIXED MECHANIZATN
1SB	3610.99	86531	05	INSTALLATION COST, RADIO EQUIPMENT
1MH	8300.10	86531	10	INTERCOM, CLOSED CIRCUIT TV
2DC	4010.93	86232	10	INVERTER, MARK II CANCELLING MACH
2JG	7120.20	86432	07	IRT, INTERGRATED RETAIL TERMINAL
2PD	6020.10	86532	10	JACK
1HY	3500.38	86531	10	JOGGER, PAPER
2LB	2110.18	86532	10	JOINTER, WOOD
2LY	2120.20	86532	10	KEY DUPLICATING/CUTTING MACHINE
1QA	8500.10	86531	10	KEY MANUFACTURING MACH-MAIL EQ SHOP
2FD	4410.00	86232	10	LABEL PRINTING SYSTEM
2LY	2120.30	86532	10	LACER, BELT
2LY	2140.20	86532	10	LADDER, SAFETY PLATFORM
1MB	8040.20	86531	10	LAMINATOR, ID BADGE
2LB	2110.20	86532	10	LATHE
2KY	2050.90	86532	05	LAWN & YARD, MISCELLANEOUS EQPT
1MC	8210.10	86531	10	LECTURN
1MB	8100.70	86531	10	LENS
2DD	9100.00	86232	10	LETTER SORTING MACHINE, MULTI POS
2DD	9100.10	86232	10	LETTER SORTING MACHINE, SINGLE POS
1HY	3400.00	86531	10	LETTERING EQUIPMENT & SYSTEMS

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BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
2LY	2140.40	86532	10	LIFT PLATFORM, CLEANING/MAINTENANCE
2LY	2140.25	86532	10	LIFT, BATTERY
2LY	2140.30	86532	10	LIFT, TABLE
2PD	6020.30	86532	10	LIFT, VEHICLE
1RE	8010.32	86531	10	LIGHT, MEDICAL UNIT
1MY	8230.20	86531	10	LIGHTS & LIGHTING, SPECIALIZED
1DF	9700.09	86231	10	LOADER/UNLOADER MODIFCATION
1DF	9000.20	86231	10	LOOSE MAIL CONVEYOR SYSTEM
2DD	9100.34	86232	10	LSM - ELECTRONIC SORT PROCESSOR
2DD	9100.91	86232	10	LSM - EXPANDED ZIP RETROFIT
2DD	9100.92	86232	07	LSM - EZR MAINTENANCE TERMINAL
2DD	9100.94	86232	10	LSM - VACUUM SYSTEM
2DD	9100.30	86232	10	LSM - ZIP MAIL TRANSLATOR
2DD	9100.93	86232	10	LSM MISC MODIFICATION COST
2DD	9100.20	86232	10	LSM TRAY CONVEYOR SYSTEM
2DD	9110.00	86232	05	LSM(AFCS-DBCS DIRECT CONNECT SYS)
3TA	3900.30	86533	05	MAGNETIC TAPE UNIT
3TA	3900.34	86533	05	MAGNETIC TAPE UNIT, AUTOMATED
1QA	8500.90	86531	10	MAIL EQPT SHOP MISCELLANEOUS EQPT
1DF	9000.30	86231	10	MAIL PREPARATION SYSTEM
1QB	8510.90	86531	10	MAILBAG FACILITY MISCELLANEOUS EQPT
2LY	2120.90	86532	10	MAINTENANCE, MISC TOOLS AND EQPT
1RE	8010.36	86531	10	MEDICAL INSTRUMENT/DIAGNOSTIC EQPT
1RE	8010.40	86531	10	MEDICAL TREATMENT EQPT & DEVICES
3TA	3900.40	86533	05	MEMORY STORAGE UNIT
3TA	3900.44	86533	05	MEMORY STORAGE, CONTROLLER

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
2DH	4050.00	86232	10	MERLIN SYSTEMS
1NY	3700.16	86531	10	METAL DETECTOR
3TB	3920.10	86533	03	MICR DATA ENTRY/CAPTURE SYS
3TA	3950.00	86533	03	MICRO COMPUTER SYSTEM
3TA	3950.10	86533	03	MICRO CONTROLLER
3TA	3950.20	86533	03	MICRO CRT/VDT
3TA	3950.30	86533	03	MICRO DISK DRIVE
3TA	3950.40	86533	03	MICRO KEYBOARD
3TA	3950.50	86533	03	MICRO MEMORY STORAGE UNIT
3TA	3950.80	86533	03	MICRO PRINTER
3TA	3950.82	86533	03	MICRO PRINTER/KEYBOARD
3TA	3950.60	86533	03	MICRO PROCESSOR
3TA	3950.70	86533	03	MICRO TAPE DRIVE
3TA	3950.90	86533	03	MICROCOMPUTER SOFTWARE
3TY	3995.10	86533	10	MICROFILMER COMPUTER OUTPUT
1MC	8210.20	86531	10	MICROPHONE
1NY	3700.20	86531	10	MICROSCOPE
2LB	2110.22	86532	10	MILLING MACHINE
3TA	3940.10	86533	05	MINI COMPUTER PROCESSOR
3TA	3940.00	86533	05	MINI COMPUTER SYSTEM
3TA	3940.20	86533	05	MINICOMPUTER SOFTWARE
2LY	2120.40	86532	10	MIXER, CONCRETE
2MY	2400.00	86532	10	MOBILE HOME/POST OFFICE
3TB	3910.00	86533	04	MODEM
1SA	3600.99	86531	10	MODIFICATION COST, TELEPHONE SYSTEM
2DC	4010.94	86232	05	MODIFICATION, MARK II CONTROL

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BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1MH	8300.20	86531	10	MONITOR, TV
1DF	9000.39	86231	10	MONORAIL MODIFICATION COST
1DF	9000.35	86231	10	MONORAIL SORTING SYSTEM
2KY	2050.00	86532	05	MOWER, LAWN
3KJ	7210.10	86433	10	MULTI-COMMODITY VENDING MACHINE
1DF	9000.50	86231	10	MULTI-SLIDE
1DF	9000.40	86231	10	MULTIBELT SORTING SYSTEM
3TB	3910.10	86533	04	MULTIPLEXOR
2LB	2110.26	86532	10	NOTCHER
1KY	3000.45	86531	07	OFFICE FUNITURE CREDENZA (EMERY)
1KE	3000.55	86531	07	OFFICE FURNITURE DESK (EMERY)
1KY	3000.90	86531	10	OFFICE FURNITURE, MISCELLANEOUS
1HY	3250.90	86531	10	OFFICE MACHINES & EQUIPMENT, MISC
1HY	3250.04	86531	10	OPENER, ENVELOPE
1SC	3620.00	86531	10	P/A - INTERCOM - MUSIC - SYSTEM
2KY	2080.30	86532	10	PACKER/COMPACTER, TRASH, DISPOSAL
2LY	2160.00	86532	10	PAINT SHOP EQUIPMENT, MISCELLANEOUS
1DF	9000.60	86231	10	PALLET UNLOADER
1DF	9300.00	86231	10	PARCEL SORTING MACHINE
1HY	3500.40	86531	10	PERFORATOR
1SA	3600.20	86531	07	PHONE SYSTERM & LAN (EMERY)
1NY	3700.24	86531	10	PHOTO IMAGE ID KIT
1HF	3500.42	86531	05	PHOTOTYPE COMPOSING MACHINE
2LB	2110.28	86532	10	PIPE BENDING/CUTTING/THREADING EQPT
2LB	2110.30	86532	10	PLANER
3DF	2300.10	86233	10	PLATFORM ELEVATOR/LIFT, PORTABLE

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
2JG	7120.30	86432	05	POINT OF SERVICE (POS)
2KB	2010.00	86532	10	POLISHER/SCRUBBER, FLOOR
2KB	2010.10	86532	10	POLISHER, FLOOR
1NY	3700.28	86531	10	POLYGRAPH
2JE	7110.00	86432	10	POSTAGE METERS
2DD	9680.00	86235	10	POSTAL AUTO REDIRECT SYS (PARS)
3TY	3905.12	86533	07	POWER CONDITIONER
3TY	3905.14	86533	05	POWER CONVERTER
3TY	3905.18	86533	07	POWER PROTECTION/ALARM UNIT
2MC	2210.20	86532	10	POWER SUPPLY
3TY	3905.16	86533	05	POWER UNIT
2DF	9000.70	86232	10	PP DISTRIBUTION RING
2LB	2110.32	86532	10	PRESS, ARBOR/POWER
3TA	3900.50	86533	05	PRINTER
3FY	4410.10	86233	10	PRINTER, ADDRESS LABEL
1MD	8110.30	86531	10	PRINTER, FILM PROCESSING
1HY	3400.10	86531	10	PRINTER, SIGN AND SHOWCARD
3TA	3900.54	86533	05	PRINTING SYSTEM
1MD	8110.40	86531	10	PROCESSOR, FILM
3TA	3900.60	86533	05	PROCESSOR, MAINFRAME
3TA	3900.64	86533	05	PROCESSOR, MAINFRAME CONTROLLER
3TA	3900.68	86533	05	PROCESSOR, OPERATOR CONSOLE/STATION
1ME	8200.90	86531	10	PROJECTOR ACCESSORIES & MISC EQPT
1ME	8200.00	86531	10	PROJECTOR, COMPUTER IMAGE
1ME	8200.10	86531	10	PROJECTOR, MOVIE
1ME	8200.20	86531	10	PROJECTOR, OPAQUE

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1ME	8200.30	86531	10	PROJECTOR, OVERHEAD
1ME	8200.40	86531	10	PROJECTOR, SLIDE
1ME	8200.50	86531	10	PROJECTOR, STRIP FILM
1ME	8200.60	86531	10	PROJECTOR, TELEVISION
2PY	6090.20	86532	10	PULLER EQUIPMENT
2MY	2220.50	86532	10	PUMP, MISCELLANEOUS PORTABLE
2PE	6030.00	86532	10	PUMP, SERVICING/DISPENSING
2LY	2150.10	86532	10	RACK, MAINTENANCE
1KY	3000.60	86531	10	RACK, OFFICE MISCELLANEOUS
2FY	4210.00	86232	10	RACK, TRAY STORAGE
1SB	3610.00	86531	10	RADIO, BASE STATION
1SB	3610.04	86531	10	RADIO, DUPLEXOR
1SB	3610.08	86531	10	RADIO, ENCODER
1SB	3610.12	86531	10	RADIO, FREQUENCY FILTER
1SB	3610.16	86531	05	RADIO, INSERTER
1SB	3610.20	86531	05	RADIO, MOBILE TELEPHONE UNITS
1SB	3610.90	86531	05	RADIO, OTHER MISCELLANEOUS TYPES
1SB	3610.24	86531	05	RADIO, PAGER
1SB	3610.28	86531	10	RADIO, REMOTE CONTROL UNIT OR BASE
1SB	3610.32	86531	10	RADIO, REPEATER
1SB	3610.36	86531	10	RADIO, SIGNAL BOOSTER
1SB	3610.40	86531	10	RADIO, SYSTEM CONTROL CONSOLE
1SB	3610.44	86531	10	RADIO, TOWER
1SB	3610.48	86531	05	RADIO, TWO-WAY PORTABLE
1SB	3610.52	86531	05	RADIO, TWO-WAY VEHICLE
1SB	3610.56	86531	05	RADIO, VOTING SYSTEM

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1HM	3995.30	86531	10	READER/PRINTER, MICROFICHE
1HM	3995.50	86531	10	READER/PRINTER, MICROFILM
3TY	3980.28	86533	04	READER/PUNCHER, PAPER TAPE
1HM	3995.20	86531	10	READER, MICROFICHE
1HM	3995.40	86531	10	READER, MICROFILM
2DD	9600.00	86235	10	READER, OPTICAL CHARACTER
2DD	9600.10	86235	10	READER, OPTICAL CHARACTER (OCR/CS)
3FY	1000.20	86233	01	RECLASSIFIED EXPENSE
3KY	1000.40	86433	01	RECLASSIFIED EXPENSE
1HY	1000.50	86531	01	RECLASSIFIED EXPENSE
2DD	9650.00	86235	05	RECOGNITION TECHNOLOGY
3TY	3980.32	86533	03	RECORDER, COMPUTER IMAGE
2LA	2100.04	86532	10	RECORDER, PLOTTING
3TY	3990.30	86533	05	REGISTER DISPATCH SYS, ADSRM
1DF	9000.90	86231	05	REMANUFACTURED MISC MAIL PROC EQPMT
2DD	9600.20	86235	10	REMOTE BAR CODING IMAGE PROCESS SYS
1RE	8010.44	86531	10	RESUSCITATOR MANIKIN
2JG	7120.40	86432	05	RETAIL DATA MART (RDM)
3FB	4420.10	86233	10	REWRAP OR PATCH-UP EQUIPMENT
2LB	2110.36	86532	10	RIVETING EQUIPMENT
1DF	9400.99	86231	10	SACK SORT MACH MODIFICATION
1DF	9400.00	86231	10	SACK SORTING MACHINE
1ND	7310.00	86531	10	SAFE
1ND	7310.10	86531	10	SAFE, VAULT SHELL
1DF	9800.30	86231	03	SAFETY IMPROVEMENT SYS, P&D CTR
1DF	9800.10	86231	03	SAFETY IMPROVEMENT SYS,AIR MAIL CTR

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1DF	9800.20	86231	03	SAFETY IMPROVEMENT SYS,BULK MAIL CT
1DF	9800.00	86231	03	SAFETY IMPROVEMENT SYSTEM
2LB	2110.38	86532	10	SANDER
2LB	2110.40	86532	10	SAWS AND SAW EQUIPMENT
3FY	4430.00	86233	10	SCALE, FLOOR OR PLATFORM
2JF	7120.00	86432	10	SCALE, MISCELLANEOUS
2JF	7120.10	86432	05	SCALE, PROGRAMMABLE/ELECTRONIC
3FY	4430.10	86233	10	SCALE, REMOTE CONSOLE/INDICATOR
3TC	3925.40	86533	05	SCANNER, CHARGING/COMMUMICATIONS
3TC	3925.00	86533	03	SCANNER, CONTROLLER
3TC	3925.10	86533	03	SCANNER, FIXED UNIT
3TC	3925.30	86533	05	SCANNER, HANDHELD DATA TERMINAL
3TC	3925.20	86533	03	SCANNER, PORTABLE UNIT
3DG	4400.20	86233	05	SCOOTER
1NY	3700.32	86531	10	SCOPE, COVERT VEHICULAR
1RC	8030.00	86531	10	SCORING, TEST, MACHINE
1ME	8200.70	86531	10	SCREEN, PROJECTION
1QA	8500.20	86531	10	SCREW MACHINE
2KC	2010.20	86532	10	SCRUBBING MACHINE
1HY	3250.12	86531	10	SEALER, ENVELOPE
1QB	8510.10	86531	10	SEALER, HEAT TYPE
1ND	7310.20	86531	10	SECURITY CONTAINER WITH CABINET
3TA	3940.05	86533	03	SERVER-WORKSTATION (EMERY)
2PE	6030.10	86532	10	SERVICING/DISPENSING EQUIPMENT
2KY	2070.00	86532	10	SEWER MAINTENANCE EQUIPMENT
1QB	8510.20	86531	10	SEWING MACHINE

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1QA	8500.30	86531	10	SHAPING/FORMING MACHINE
2LB	2110.42	86532	10	SHEAR, METAL
2MY	2400.20	86532	10	SHED, STORAGE
2MY	2400.30	86532	10	SHELTER, DOCK OR YARD TYPE
2MY	2400.40	86532	10	SHELTER, SECURITY GUARD
1NY	3700.36	86531	10	SHOOTING RANGE EQUIPMENT
1EY	7000.30	86431	10	SHOWCASE/DISPLAY CASE
1RE	8010.48	86531	10	SHOWER/WASH, MEDICAL OR SAFETY
1HY	3250.16	86531	10	SHREDDER
1HY	3250.20	86531	10	SHREDDER AND PULPER
1HY	3250.24	86531	10	SHREDDER SOUND ENCLOSURE
1HY	3400.20	86531	10	SIGN SHOP, MISCELLANEOUS EQUIPMENT
2MY	2220.60	86532	10	SIGN, INDOOR/OUTDOOR
1NY	3700.02	86531	07	SIGNALING SYS/DOCK DOORS (EMERY)
1HY	3250.28	86531	10	SIGNER, CHECK OR OTHER
1MD	8110.50	86531	10	SINK, FILM PROCESSING
2DD	9500.10	86235	10	SMALL BAR CODE SORTER (SBCS)
2DL	9300.40	86232	10	SMALL PARCEL/BUNDLE SORTER SYSTEM
1DF	9300.50	86231	10	SMALL PARCEL/ROLL SORTER SYSTEM
2KD	2060.00	86532	05	SNOW BLOWER
2KD	2060.90	86532	10	SNOW/ICE REMOVAL/CONTROL MISC EQPT
2LY	2120.50	86532	10	SOLDERING/DESOLDERING EQUIPMENT
2DK	9210.60	86235	07	SORTATION EQUIP RAPISTAN (EMERY)
3KA	7300.20	86433	10	SORTER/CHANGER, COIN
3KA	7300.30	86433	10	SORTER/COUNTER, COIN
3KA	7300.40	86433	10	SORTER, COIN

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BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1MC	8210.30	86531	10	SPEAKER SYSTEM
2LY	2160.10	86532	10	SPRAYER, PAINT
2KD	2060.10	86532	10	SPREADER, ICE & SNOW CONTROL
3TA	3955.30	86533	03	SRVR LAN WIRG & FBR OPTICS (EMERY)
3KB	7210.39	86433	10	SSPC, INSTALLATION COST
3KB	7210.30	86433	10	SSPC, SELF SERVICE POSTAL CENTER
2DH	4020.40	86232	10	STACKER UNIT
3KJ	7210.20	86433	10	STAMP VENDING MACHINE
2PD	6020.40	86532	10	STAND, VEHICLE MAINTENANCE
1HY	3500.44	86531	10	STAPLER
2PY	6090.30	86532	10	STARTER, VEHICLE
1RE	8010.52	86531	10	STERILIZER
1HY	3500.46	86531	10	STITCHING MACHINE, BOOK
2FF	4220.05	86232	07	STRAPPING MACHINE (EMERY)
2FF	4220.00	86232	10	STRAPPING MACHINE, NON-METALLIC
2LY	2120.60	86532	10	STRAPPING MACHINE, STEEL
2FF	4220.10	86232	10	STRAPPING SYSTEM
2LY	2160.20	86532	05	STRIPE PAINTING EQUIPMENT
1NY	3700.44	86531	10	SURVEILLANCE, MISCELLANEOUS EQPT
1HY	3300.20	86531	10	SURVEYING EQUIPMENT
2KE	2030.30	86532	10	SWEEPER ACCESSORY/ATTACHMENT
2KE	2030.00	86532	10	SWEEPER, LAWN
2KE	2030.10	86532	10	SWEEPER, MANUAL
2KE	2030.20	86532	10	SWEEPER, POWERED
3TA	3900.70	86533	05	SWITCHING UNIT
1KG	3000.70	86531	10	TABLE

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1RE	8010.60	86531	10	TABLE/COUCH, MEDICAL EXAM/TREATMENT
2PE	6030.20	86532	10	TANK, GAS
2KC	2010.30	86532	10	TANK, MOPPING
2PE	6030.30	86532	10	TANK, OIL
3TB	3910.20	86533	04	TELECOMMUNICATIONS UNIT
1SA	3600.10	86531	10	TELEPHONE SYSTEM
1SA	3600.90	86531	10	TELEPHONE SYSTEM, MISC EQUIPMENT
1MH	8300.30	86531	05	TELEVISION
1SB	3630.00	86531	10	TELEVISION STATION EQUIPMENT
3TB	3930.00	86533	03	TERMINAL, BADGE READER
3TB	3930.10	86533	03	TERMINAL, CRT/VDT
3TB	3930.30	86533	03	TERMINAL, POINT OF SALE
3TB	3930.40	86533	03	TERMINAL, SCALE INPUT
3TB	3930.60	86533	03	TERMINAL, TELECOPIER
3TB	3930.50	86533	03	TERMINAL, TELETYPE
3TB	3930.20	86533	03	TERMINAL, TRANSACTION
2PC	6010.30	86532	10	TEST EQ, VEHICLE ELECTRICAL SYSTEMS
2PC	6010.50	86532	10	TEST EQ, VEHICLE EXHAUST
2PC	6010.40	86532	10	TEST EQ, VEHICLE TUNE-UP/DIAGNOSIS
2LA	2100.40	86532	10	TEST/MEASURING EQUIP TELEVISION STA
2LA	2100.22	86532	10	TESTING/MEASURING EQ, OSCILLOSCOPE
2LA	2100.32	86532	10	TESTING/MEASURING EQ, STANDARD SETS
2LA	2100.06	86532	10	TESTING/MEASURING EQPT, AIR
2LA	2100.08	86532	10	TESTING/MEASURING EQPT, CHEMICAL
2LA	2100.10	86532	10	TESTING/MEASURING EQPT, DISTANCE
2LA	2100.12	86532	10	TESTING/MEASURING EQPT, ELECTRICAL

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
2LA	2100.14	86532	10	TESTING/MEASURING EQPT, FUEL
2LA	2100.16	86532	10	TESTING/MEASURING EQPT, LABORATORY
2LA	2100.18	86532	10	TESTING/MEASURING EQPT, LIGHT
2LA	2100.20	86532	10	TESTING/MEASURING EQPT, OPTICAL
2LA	2100.24	86532	10	TESTING/MEASURING EQPT, PHYSICAL
2LA	2100.26	86532	10	TESTING/MEASURING EQPT, SOUND
2LA	2100.28	86532	10	TESTING/MEASURING EQPT, SPEED
2LA	2100.30	86532	10	TESTING/MEASURING EQPT, TEMPERATURE
2LA	2100.34	86532	10	TESTING/MEASURNG EQ, WATER/MOISTURE
1HY	3250.32	86531	10	TICKOMETER
3TA	3954.00	86533	03	TIME & ATTENDANCE SYS(TACS)
2PG	6040.00	86532	10	TIRE MAINTENANCE EQUIPMENT
2MY	2400.50	86532	10	TOILET, PORTABLE
1QA	8500.40	86531	10	TOOLING MACHINE, ELECTRIC DISCHARGE
2KY	2050.11	86532	05	TRACTOR & MOWER ACCESSORIES
3DJ	4230.00	86233	05	TRACTOR, ATTACHMENTS & ACCESSORIES
3DJ	4230.10	86233	10	TRACTOR, INDUSTRIAL & FARM TYPE
2KJ	2050.10	86532	05	TRACTOR, LAWN & YARD TYPE
3DJ	4230.20	86233	05	TRACTOR, TOW/TUG/WAREHOUSE
3DJ	4230.30	86233	10	TRACTOR, W/AUTO GUIDANCE SYSTEM
2MY	2400.10	86532	10	TRAILER, UTILITY/STORAGE BUILDING
1RC	8030.02	86531	10	TRAINER, BASIC ELECTRICITY
1RC	8030.04	86531	10	TRAINER, BASIC HYDRAULIC/PNEUMATICS
1RC	8030.08	86531	10	TRAINER, COMPUTER ELECTRONICS
1RC	8030.12	86531	10	TRAINER, DRIVER TRAINING SYSTEM
1RC	8030.16	86531	10	TRAINER, ELECTRICAL SYSTEMS

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1RC	8030.20	86531	10	TRAINER, ELEVATOR MAINTENANCE
1RC	8030.24	86531	10	TRAINER, KEYBOARD
1RC	8030.28	86531	10	TRAINER, KEYBOARD PARCEL SACK
1RC	8030.32	86531	10	TRAINER, LSM TRAINING CONSOLE
1RC	8030.36	86531	10	TRAINER, MISC HVAC & BLDG SYSTEMS
1RC	8030.40	86531	10	TRAINER, MISC VEHICLE SYSTEMS
1RC	8030.44	86531	10	TRAINER, MISCELLANEOUS
1RC	8030.48	86531	10	TRAINER, PARCEL OR SACK SORTER
1RC	8030.52	86531	10	TRAINING SYSTEM, AUDIO VISUAL
1RC	8030.56	86531	10	TRAINING VISUAL AID
2MC	2210.30	86532	10	TRANSFORMER, PORTABLE
1NY	3700.40	86531	10	TRANSMITTER, SURVEILLANCE
1DF	9000.80	86231	10	TRAY TRANSPORT SYSTEM
3DJ	4230.40	86233	10	TRUCK, FORK LIFT
2PD	6020.50	86532	10	TRUCK, FORK LIFT/TOW, VEHICLE MAINT
3DJ	4230.50	86233	10	TRUCK, HAND LIFT/PALLET
3DJ	4230.60	86233	10	TRUCK, LIFT SPECIALIZED SYSTEM
3TY	3980.36	86533	03	TRUCK, REEL
1EY	7000.40	86431	10	TURNSTILE
2FF	4220.20	86232	10	TYING MACHINE
1HK	3220.00	86531	10	TYPEWRITER, ELECTRIC
1HK	3220.10	86531	10	TYPEWRITER, W/EXTENDED CAPABILITIES
2FY	4210.20	86232	07	ULD RACK-4-WAY & BALL (EMERY)
2KC	2040.10	86532	10	UPHOLSTERY CLEANING MACHINE
2KF	2020.00	86532	05	VACUUM CLEANER
1NE	7310.30	86531	10	VAULT DOOR/ENTRANCE

LISTING FOR PROCUREMENT & SUPPLY MANAGEMENT PERSONNEL

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
3KJ	7210.40	86433	10	VENDING CONSOLE
2DH	4020.50	86232	05	VIBRATOR HOPPER ASSEMBLY
1MH	8300.50	86531	10	VIDEO SPECIAL EFFECTS EQUIPMENT
1MF	8300.40	86531	10	VIDEO, PLAYER/RECORDER
1ME	8200.80	86531	10	VIEWER, SLIDE/STRIP/MOVIE
2LY	2120.70	86532	10	VISE
1RE	8010.64	86531	10	VISION TESTING/MEASURING DEVICE
1MY	8230.30	86531	10	VISUAL PRESENTATION EQUIPMENT
2PY	6090.90	86532	10	VMF MAINTENANCE EQ, MISCELLANEOUS
2DK	9210.30	86235	07	VOICE NETWKNG/RAPISTAN EQUIP(EMERY)
2KC	2040.20	86532	05	WASHER, CLOTHES
2PH	6050.10	86532	10	WASHER, VEHICLE
2KC	2040.30	86532	10	WASHING/CLEANING MACHINE
2KB	2010.40	86532	10	WAXER, FLOOR
2LY	2120.80	86532	10	WELDING EQUIPMENT
3DF	2300.20	86233	10	WHEEL RAISER
2PJ	6060.00	86532	10	WHEEL/SUSPENSION MAINTENANCE EQPT
2DK	9210.40	86235	07	WOOD FLR SYS/ RAPISTAN EQUIP(EMERY)
3TW	3960.00	86533	03	WORD PROCESSING SYSTEM
3TW	3960.40	86533	03	WORD PROCESSING, CONSOLE
3TW	3960.30	86533	03	WORD PROCESSING, CONTROLLER
3TW	3960.70	86533	03	WORD PROCESSING, FEEDER
3TW	3960.60	86533	03	WORD PROCESSING, KEYBOARD
3TW	3960.20	86533	03	WORD PROCESSING, MEMORY UNIT
3TW	3960.50	86533	03	WORD PROCESSING, PRINTER
3TW	3960.10	86533	03	WORD PROCESSING, TERMINAL

VEHICLE MAKE/MODEL SERVICE LIFE AND SALVAGE VALUE			
		SERVICE	SALVAGE
MAKE	**MODEL**	**LIFE (YRS)**	**VALUE**
	1/4-TON		
01-10	1/4T AMG 75-76 LH	6	5%
01-20	1/4T AMG 75-76 RH	6	5%
01-30	1/4T AMG 79 RH	8	5%
01-40	1/4T AMG 77 RD	8	5%
01-51	FORD PINTO 3DR 80 CA	8	15%
01-57	FORD PINTO 3DR 80	8	15%
01-61	1/4T AMG 78 RH CA	8	5%
01-70	CHRYSLER ARIES/REL.S/W 81	8	20%
01-71	CHRYSLER ARIES/REL.S/W 81CA	8	20%
01-80	1/4T AMG 82 RH	8	20%
01-81	1/4T AMG 82 RH CA	8	20%
01-90	1/4T AMG 83 RH	8	20%
01-92	1/4T AMG 84 RH	8	20%
02-10	1/4T AMG 70-71 LH	6	5%
02-20	1/4T AMG 70-71 RH	6	5%
02-30	1/4T AMG 73-74 LH	6	5%
02-40	1/4T AMG 73-74 RH	6	5%
	1/2-TON		
10-01	1/2T FORD AEROSTAR AWD 97	8	5%
10-02	1/2T FORD WINDSTAR FWD 98	8	5%
10-03	1/2T FORD/UTIL FFV 00 FLEXF RH	24	5%
10-04	1/2T FORD/UTIL FFV 01 FLEXF RH	24	5%
10-05	1/2T FORD/UTIL FFV 01 4x4 RH	24	5%
10-10	1/2T CHEROKEE 4WD 93 RH	8	5%
10-20	1/2T FORD 70 RH	6	5%
10-30	1/2T AMG 71 RH	6	5%
10-40	1/2T AMG 73-74 RH	6	5%
10-50	1/2T AMG 4x4 83 RH	6	15%
10-60	1/2T AMG 83 RH	8	15%
10-61	1/2T AMG 83 RH CA	8	15%
10-70	1/2T GRUMMAN LLV 87 RH	12	20%
10-71	1/2T GRUMMAN LLV 88 RH	12	20%
10-72	1/2T GRUMMAN LLV 89 RH	12	20%
10-73	1/2T GRUMMAN LLV 90 RH	12	20%
10-74	1/2T GRUMMAN LLV 91 RH	12	20%
10-75	1/2T GRUMMAN LLV 92 RH	12	20%
10-76	1/2T GRUMMAN LLV 93 RH	12	20%
10-77	1/2T GRUMMAN LLV 94 RH	12	20%
10-78	1/2T GRUMMAN LLV 87 LPG RH	12	20%
10-79	1/2T GRUMMAN LLV 88 LPG RH	12	20%

10-80	1/2T GRUMMAN LLV 89 LPG RH	12	20%
10-81	1/2T GRUMMAN LLV 90 LPG RH	12	20%
10-82	1/2T GRUMMAN LLV 91 LPG RH	12	20%
10-83	1/2T GRUMMAN LLV 92 LPG RH	12	20%
10-84	1/2T GRUMMAN LLV 93 LPG RH	12	20%
11-20	OTHER 1/2T VEHICLES	6	5%
12-77	1/2T GRUMMAN LLV 94 ELECT RH	8	10%
12-80	1/2T FORD/GRUMMAN LLV 01 ELECT RH	8	5%
13-70	1/2T GRUMMAN LLV 87 DUAL CNG RH	12	20%
13-71	1/2T GRUMMAN LLV 88 DUAL CNG RH	12	20%
13-72	1/2T GRUMMAN LLV 89 DUAL CNG RH	12	20%
13-73	1/2T GRUMMAN LLV 90 DUAL CNG RH	12	20%
13-74	1/2T GRUMMAN LLV 91 DUAL CNG RH	12	20%
13-75	1/2T GRUMMAN LLV 92 DUAL CNG RH	12	20%
13-76	1/2T GRUMMAN LLV 93 DUAL CNG RH	12	20%
13-77	1/2T GRUMMAN LLV 94 DUAL CNG RH	12	20%
75-13	1/2T GRUMMAN LLV 83 RH DSL	8	15%
	1-TON		
16-01	1T GMC 96 DSL	12	5%
16-10	1T CHEV PARCEL DEL 83	8	15%
16-11	1T CHEV PARCEL DEL 83 CA	8	15%
16-12	1T FORD VAN 81	8	15%
16-20	1T DODGE VAN WAGON 83	8	15%
16-21	1T DODGE VAN WAGON 83CA	8	15%
16-22	1T DODGE VAN WAGON 84	8	15%
16-32	1T CHEV. PARCEL DEL 83 DSL	8	15%
16-40	1T AMG 76 LHD	6	5%
16-50	OTHER 1T VEHICLES	8	5%
16-51	1T FORD AEROSTAR PRC.DEL 86 CA	8	15%
16-81	1T DODGE 80 CA	8	15%
16-82	1T DODGE 80	8	15%
	2-TON, 2 1/2 TON		
21-01	2T GMC 96 DSL	12	5%
21-30	2T AIRSTREAM 75 LH	7	5%
21-40	2 1/2T CHEV.PRC.DEL 84 DSL	12	15%
21-41	2 1/2T CHEV.PRC.DEL 84 CA DSL	12	15%
21-50	2T CHEV.PRC.DEL 87-88 DSL	12	15%
21-51	2T CHEV.PRC.DEL 87-88 CA DSL	12	15%
21-52	2T FREIGHTLINER 01 LEV DSL	12	5%
21-54	2T CTC/WORKHORSE 01 DSL	12	5%
22-10	2T SOLECTRIA 01 ELEC	12	5%
22-50	2T CHEV.PRC.DEL 87-88 DED.CNG	12	15%
22-51	2T FREIGHTLINER 96 DED. CNG	12	5%
22-52	2T FREIGHTLINER 97 DED. CNG	12	5%
	5-TON CARGO VAN		
26-40	5T FORD CARGO VAN 75 COE	8	5%

26-41	5T FORD CARGO VAN 75 COE CA	8	5%
26-50	5T FORD CARGO VAN 75 CBE	8	5%
26-60	OTHER 5T VEHICLES	10	5%
26-70	5T IHC CARGO VAN 78 COE	8	5%
26-71	5T IHC CARGO VAN 78 COE CA	8	5%
26-80	5T IHC CARGO VAN 84 COE DSL	12	10%
26-82	5T IHC CARGO VAN 86 COE DSL	12	10%
	7-TON CARGO VAN		
26-99	7T IHC ARMORED CARGO VAN	8	10%
27-02	7T IHC CARGO VAN 84 COE DSL	12	10%
27-03	7T IHC CARGO VAN 86 COE DSL	12	10%
27-70	7T VOLVO GM CARGO VAN 91 DSL	8	10%
27-72	7T FORD CARGO VAN 92 DSL	8	10%
	9-TON CARGO VAN		
27-73	9T FORD CARGO VAN 96 DSL	8	10%
27-90	9T VOLVO GM CARGO VAN 91 DSL	8	10%
27-92	9T FORD CARGO VAN 92 DSL	8	10%
27-99	9T CARGO VAN EMERY	5	5%
	TRACTOR - SINGLE AXLE		
31-01	TRC SA MACK 92	8	5%
31-02	TRC SA MACK 97	8	5%
31-03	TRC SA MACK 97 CBE	8	5%
31-04	TRC SA MACK 99 COE	8	5%
31-05	TRC SA MACK 99 CBE	8	5%
31-11	TRC SA MACK 84 CA	8	5%
31-12	TRC SA MACK 84	8	5%
31-20	TRC SA VOLVO-WHITE 83	8	5%
31-21	TRC SA VOLVO-WHITE 83 CA	8	5%
31-60	TRC SA WHITE 76	8	5%
31-61	TRC SA VOLVO-WHITE 86-87 CA	8	5%
31-62	TRC SA VOLVO-WHITE 86-87	8	5%
31-63	TRC SA VOLVO GMC 92	8	5%
31-70	TRC SA WHITE 82	8	5%
31-71	TRC SA WHITE 82 CA	8	5%
31-80	TRC SA MACK 78-79	8	5%
31-97	TRC SA FREIGHTLINER EMERY FL-70	5	5%
31-99	TRC SA FREIGHTLINER EMERY FL-112	5	5%
	TRACTORS - TANDEM AXLE		
32-01	TRC TA MACK 92	8	5%
32-02	TRC TA MACK 97	8	5%
32-03	TRC TA MACK 99 COE	8	5%
32-04	TRC TA MACK 99 CBE	8	5%
32-10	TRC TA VOLVO-WHITE 83	8	5%
32-11	TRC TA VOLVO-WHITE 83 CA	8	5%
32-21	TRC TA MACK 84 CA	8	5%

32-22	TRC TA MACK 84	8	5%
32-40	TRC TA WHITE SD 82	8	5%
32-41	TRC TA WHITE SD 82 CA	8	5%
32-50	TRC TA WHITE TD 82	8	5%
32-60	TRC TA VOLVO-WHITE 86-87	8	5%
32-61	TRC TA VOLVO-WHITE 86-87 CA	8	5%
32-62	TRC TA VOLVO GMC 90	8	5%
32-70	TRC TA MACK 78-79	8	5%
32-98	TRC TA FREIGHTLINER EMERY SLPR	5	5%
32-99	TRC TA FREIGHTLINER EMERY	5	5%
	TRACTOR - SPOTTER		
33-40	SPOT IBEX 76 GAS	8	5%
33-50	SPOT IBEX 79 GAS	8	5%
34-01	SPOT CAP. OF TEXAS 97 DSL	8	5%
34-02	SPOT CAP. OF TEXAS 98 DSL	8	5%
34-20	SPOT OTTAWA 75 DSL	8	5%
34-30	SPOT T & J INDUSTRIES 83 DSL	8	5%
34-40	SPOT CAP. OF TEXAS 87 DSL	8	5%
34-50	SPOT CAP. OF TEXAS 89-90 DSL	8	5%
34-60	SPOT OTTAWA 95 DSL	8	5%
34-98	SPOT EMERY	0	1%
34-99	SPOT EMERY	5	5%
	TRAILERS 11' x 6"		
41-01	TRL WABASH 28x11'6 92	12	5%
41-02	TRL WABASH 32x11'6 92	12	5%
41-03	TRL WABASH 38x11'6 92	12	5%
41-04	TRL WABASH 45x11'6 92	12	5%
41-05	TRL WABASH 28X11'6 98	12	5%
41-06	TRL WABASH 33X11'6 98	12	5%
41-20	TRL COPCO 24x11'6 68	10	5%
41-21	TRL BAILLIE 22x11'6 87	12	5%
41-22	TRL COPCO 24x11'6 69	10	5%
41-23	TRL COPCO 24x11'6 74	10	5%
41-24	TRL MONAN 22x11'6 83	12	5%
41-25	TRL MONAN 28x11'6 83	12	5%
41-26	TRL MONAN 32x11'6 83	12	5%
41-27	TRL MONAN 38x11'6 83	12	5%
41-30	TRL COPCO 28x11'6 68	10	5%
41-31	TRL BAILLIE 28x11'6 87	12	5%
41-32	TRL COPCO 28x11'6 69	10	5%
41-33	TRL COPCO 28x11'6 74	10	5%
41-40	TRL COPCO 32x11'6 75	8	5%
41-42	TRL BLACK DIAMOND 32x11'6 78	12	5%
41-44	TRL MONAN 28x11'6 84	12	5%
41-45	TRL MONAN 32x11'6 84	12	5%
41-46	TRL MONAN 38x11'6 84	12	5%
41-50	TRL COPCO 34x11'6 74	10	5%

41-51	TRL STOUGHTON 32x11'6 87	10	5%
41-60	TRL COPCO 36x11'6 68	10	5%
41-72	TRL COPCO 38x11'6 75	10	5%
41-73	TRL BLACK DIAMOND 38x11'6 76	10	5%
41-74	TRL BLACK DIAMOND 38x11'6 78	12	5%
41-75	TRL COPCO 38x11'6 74	10	5%
41-76	TRL BLACK DIAMOND 38x11'6 80	12	5%
41-80	TRL STOUGHTON 38x11'6 87	12	5%
41-99	OTHER MAIL HAULING TRAILERS	8	5%
	TRAILER 12' 6"		
43-01	TRL WABASH 38x12'6 92	12	5%
43-02	TRL WABASH 45x12'6 92	12	5%
43-03	TRL WABASH 38X12'6 98	12	5%
43-04	TRL WABASH 45X12'6 98	12	5%
43-05	TRL WABASH 45X12'6 98 PLATE	12	5%
43-50	TRL MONON 38x12'6 83	12	5%
43-52	TRL MONON 38x12'6 84	12	5%
43-53	TRL MONON 45x12'6 84	12	5%
43-70	TRL COPCO 38x12'6 75	12	5%
43-72	TRL BLACK DIAMOND 38x12'6 76	8	5%
43-73	TRL BLACK DIAMOND 38x12'6 78	12	5%
43-74	TRL BLACK DIAMOND 38x12'6 74	8	5%
43-75	TRL BLACK DIAMOND 38x12'6 80	12	5%
43-76	TRAILMOBILE 38x12'6 75-76	12	5%
43-77	TRL MONON 38x12'6 75-76	12	5%
43-80	TRL STOUGHTON 38x12'6 87	12	5%
43-90	TRL STOUGHTON 45x12'6 87	12	5%
	TRAILER 13'6"		
44-01	TRL WABASH 45X13'6 98	12	5%
44-91	TRL EMERY 48'X13'6"	10	5%
44-92	TRL EMERY 48'X12'	10	5%
44-93	TRL EMERY 28'X12'	10	5%
44-94	TRL EMERY 53'X12'6" ROLLER	10	5%
44-95	TRL EMERY 53'X13'6" ROLLER	10	5%
44-96	TRL EMERY 28'X12'6"	10	5%
44-97	TRL EMERY 33'X11'6"	10	5%
44-98	TRL EMERY 48'X12'6"	10	5%
44-99	TRL EMERY 53'X13'6"	10	5%
	VEHICLE MAINTENANCE SERVICE		
59-00	VM 01 CNG	8	10%
59-01	VM 01 FLX	8	10%
59-02	VM PICKUP, VAN 02	8	10%
59-10	VM PRIOR TO 1991	8	10%
59-11	VM TRAILER	8	10%
59-13	VM 02 CNG	8	10%
59-14	VM 02 FLX	8	10%

59-15	VM 99 CNG	8	10%
59-16	VM 99 FLX	8	10%
59-17	VM 00 CNG	8	10%
59-18	VM 00 FLX	8	10%
59-20	VM PICKUP, VAN 91	8	10%
59-21	VM PICKUP, VAN 92	8	10%
59-22	VM PICKUP, VAN 93	8	10%
59-23	VM PICKUP, VAN 94	8	10%
59-24	VM PICKUP, VAN 95	8	10%
59-25	VM PICKUP, VAN 96	8	10%
59-26	VM PICKUP, VAN 97	8	10%
59-27	VM PICKUP, VAN 98	8	10%
59-28	VM PICKUP, VAN 99	8	10%
59-29	VM PICKUP, VAN 00	8	10%
59-30	VM WRECKER 91	8	10%
59-31	VM WRECKER 92	8	10%
59-32	VM WRECKER 93	8	10%
59-33	VM WRECKER 94	8	10%
59-34	VM WRECKER 95	8	10%
59-35	VM WRECKER 96	8	10%
59-36	VM WRECKER 97	8	10%
59-37	VM WRECKER 98	8	10%
59-38	VM WRECKER 99	8	10%
59-39	VM WRECKER 00	8	10%
59-40	VM FLATBED WRECKER 91	8	10%
59-44	VM FLATBED WRECKER 02	8	10%
59-45	VM FLATBED WRECKER 96	8	10%
59-46	VM FLATBED WRECKER 97	8	10%
59-47	VM FLATBED WRECKER 98	8	10%
59-48	VM FLATBED WRECKER 99	8	10%
59-49	VM FLATBED WRECKER 00	8	10%
59-50	VM TRANSPORT TRAILER 91	8	10%
59-51	VM TRANSPORT TRAILER 92	8	10%
59-52	VM TRANSPORT TRAILER 93	8	10%
59-53	VM TRANSPORT TRAILER 94	8	10%
59-54	VM TRANSPORT TRAILER 95	8	10%
59-55	VM TRANSPORT TRAILER 96	8	10%
59-56	VM TRANSPORT TRAILER 97	8	10%
59-57	VM TRANSPORT TRAILER 02	8	10%
59-58	VM TRANSPORT TRAILER 99	8	10%
59-59	VM TRANSPORT TRAILER 00	8	10%
59-60	VM TRANSPORT TRAILER 01	8	10%
59-70	VM WRECKER 01	8	10%
59-80	VM FLATBED WRECKER 01	8	10%
59-81	VM WRECKER 02	8	10%
59-90	VM PICKUP, VAN 01	8	10%
	PLANT SERVICE VEHICLES		
65-00	PLANT 01 CNG	8	10%

65-01	PLANT 01 FLX	8	10%
65-10	PLANT PRIOR TO 1991	8	15%
65-11	PLANT TRAILER	8	15%
65-12	ALL OTHER PLANT VEHICLES	8	10%
65-13	PLANT 02 CNG	8	10%
65-14	PLANT 02 FLX	8	10%
65-15	PLANT 99 CNG	8	10%
65-16	PLANT 99 FLX	8	10%
65-17	PLANT 00 CNG	8	10%
65-18	PLANT 00 FLX	8	10%
65-20	PLANT PICKUP 1/2-3/4-1 T 91	8	10%
65-21	PLANT PICKUP 1/2-3/4-1 T 92	8	10%
65-22	PLANT PICKUP 1/2-3/4-1 T 93	8	10%
65-23	PLANT PICKUP 1/2-3/4-1 T 94	8	10%
65-24	PLANT PICKUP 1/2-3/4-1 T 95	8	10%
65-25	PLANT PICKUP 1/2-3/4-1 T 96	8	10%
65-26	PLANT PICKUP 1/2-3/4-1 T 97	8	10%
65-27	PLANT PICKUP 1/2-3/4-1 T 98	8	10%
65-28	PLANT PICKUP 1/2-3/4-1 T 99	8	10%
65-29	PLANT PICKUP 1/2-3/4-1 T 00	8	10%
65-30	PLANT MINI PICKUP 91	8	10%
65-31	PLANT MINI PICKUP 92	8	10%
65-33	PLANT MINI PICKUP 94	8	10%
65-34	PLANT MINI PICKUP 95	8	10%
65-35	PLANT MINI PICKUP 96	8	10%
65-36	PLANT MINI PICKUP 97	8	10%
65-37	PLANT MINI PICKUP 98	8	10%
65-38	PLANT MINI PICKUP 99	8	10%
65-39	PLANT MINI PICKUP 00	8	10%
65-40	PLANT VAN 1/2-3/4-1 T 91	8	10%
65-41	PLANT VAN 1/2-3/4-1 T 92	8	10%
65-42	PLANT VAN 1/2-3/4-1 T 93	8	10%
65-43	PLANT VAN 1/2-3/4-1 T 94	8	10%
65-44	PLANT VAN 1/2-3/4-1 T 95	8	10%
65-45	PLANT VAN 1/2-3/4-1 T 96	8	10%
65-46	PLANT VAN 1/2-3/4-1 T 97	8	10%
65-47	PLANT VAN 1/2-3/4-1 T 98	8	10%
65-48	PLANT VAN 1/2-3/4-1 T 99	8	10%
65-49	PLANT VAN 1/2-3/4-1 T 00	8	10%
65-50	PLANT STAKEBED 91	8	10%
65-51	PLANT STAKEBED 92	8	10%
65-52	PLANT STAKEBED 93	8	10%
65-53	PLANT STAKEBED 94	8	10%
65-54	PLANT STAKEBED 95	8	10%
65-55	PLANT STAKEBED 96	8	10%
65-56	PLANT STAKEBED 97	8	10%
65-57	PLANT STAKEBED 98	8	10%
65-58	PLANT STAKEBED 99	8	10%
65-59	PLANT STAKEBED 00	8	10%

65-60	PLANT MINIVAN 91	8	10%
65-61	PLANT MINIVAN 92	8	10%
65-62	PLANT MINIVAN 93	8	10%
65-63	PLANT MINIVAN 94	8	10%
65-64	PLANT MINIVAN 95	8	10%
65-65	PLANT MINIVAN 96	8	10%
65-66	PLANT MINIVAN 97	8	10%
65-67	PLANT MINIVAN 98	8	10%
65-68	PLANT MINIVAN 99	8	10%
65-69	PLANT MINIVAN 00	8	10%
65-70	PLANT MINIVAN 02	8	10%
65-80	PLANT PICKUP 1/2-3/4-1 T 01	8	10%
65-81	PLANT PICKUP 1/2-3/4-1 T 02	8	10%
65-85	PLANT MINI PICKUP 01	8	10%
65-86	PLANT MINI PICKUP 02	8	10%
65-90	PLANT VAN 1/2-3/4-1 T 01	8	10%
65-91	PLANT VAN 1/2-3/4-1 T 02	8	10%
65-95	PLANT STAKEBED 01	8	10%
65-96	PLANT STAKEBED 02	8	10%
	ADMINISTRATIVE		
66-01	ADMN 98 FLX	8	10%
66-02	ADMN 99 FLX	8	10%
66-03	ADMN 00 FLX	8	10%
66-04	ADMN 01 FLX	8	10%
66-05	ADMN 02 FLX	8	10%
66-10	ADMN PRIOR TO 1991	8	15%
66-20	ADMN COMPACT 91	8	10%
66-21	ADMN COMPACT 92	8	10%
66-22	ADMN COMPACT 93	8	10%
66-23	ADMN COMPACT 94	8	10%
66-24	ADMN COMPACT 95	8	10%
66-25	ADMN COMPACT 96	8	10%
66-26	ADMN COMPACT 97	8	10%
66-27	ADMN COMPACT 98	8	10%
66-28	ADMN COMPACT 99	8	10%
66-29	ADMN COMPACT 00	8	10%
66-30	ADMN MIDSIZE 91	8	10%
66-31	ADMN MIDSIZE 92	8	10%
66-32	ADMN MIDSIZE 93	8	10%
66-33	ADMN MIDSIZE 94	8	10%
66-34	ADMN MIDSIZE 95	8	10%
66-35	ADMN MIDSIZE 96	8	10%
66-36	ADMN MIDSIZE 97	8	10%
66-37	ADMN MIDSIZE 98	8	10%
66-38	ADMN MIDSIZE 99	8	10%
66-39	ADMN MIDSIZE 00	8	10%
66-40	ADMN SW/MINIVAN 91	8	10%

66-41	ADMN SW/MINIVAN 92	8	10%
66-42	ADMN SW/MINIVAN 93	8	10%
66-43	ADMN SW/MINIVAN 94	8	10%
66-44	ADMN SW/MINIVAN 95	8	10%
66-45	ADMN SW/MINIVAN 96	8	10%
66-46	ADMN SW/MINIVAN 97	8	10%
66-47	ADMN SW/MINIVAN 98	8	10%
66-48	ADMN SW/MINIVAN 99	8	10%
66-49	ADMN SW/MINIVAN 00	8	10%
66-50	ADMIN FULL SIZE 91	8	10%
66-51	ADMIN FULL SIZE 92	8	10%
66-52	ADMIN FULL SIZE 93	8	10%
66-53	ADMIN FULL SIZE 94	8	10%
66-54	ADMIN FULL SIZE 95	8	10%
66-55	ADMIN FULL SIZE 96	8	10%
66-56	ADMIN FULL SIZE 97	8	10%
66-57	ADMIN FULL SIZE 98	8	10%
66-58	ADMIN FULL SIZE 99	8	10%
66-59	ADMIN FULL SIZE 00	8	10%
66-60	ADMIN FULL SIZE 01	8	10%
66-61	ADMIN FULL SIZE 02	8	10%
66-70	ADMIN COMPACT 02	8	10%
66-80	ADMIN MIDSIZE 01	8	10%
66-81	ADMIN MIDSIZE 02	8	10%
66-90	ADMIN SW/MINIVAN 01	8	10%
66-91	ADMIN SW/MINIVAN 02	8	10%
66-98	ADMIN COMPACT EMERY	7	5%
66-99	ADMIN FORD VAN EMERY	5	20%
68-32	ADMN MIDSIZE 93 DUAL CNG	8	10%
68-51	ADMN FULL SIZE 92 DUAL CNG	8	10%
68-52	ADMN FULL SIZE 93 DUAL CNG	8	10%
68-53	ADMN 98 DUAL CNG	8	10%
68-54	ADMN 99 DUAL CNG	8	10%
68-55	ADMN 00 DUAL CNG	8	10%
68-56	ADMN 02 DUAL CNG	8	10%
69-43	ADMN SW/MINIVAN 94 DED CNG	8	10%
	BUS		
67-10	IHC BUS	8	10%
	INSPECTION SERVICE		
76-01	INSP 02 FLX	8	10%
76-02	INSP 02 CNG	8	10%
76-03	INSP 99 FLX	8	10%
76-04	INSP 99 CNG	8	10%
76-05	INSP 00 FLX	8	10%
76-06	INSP 00 CNG	8	10%
76-07	INSP 01 FLX	8	10%
76-08	INSP 01 CNG	8	10%

76-10	INSP ADMN PRIOR TO 91	8	15%
76-20	INSP ADMN 91	8	10%
76-21	INSP ADMN 92	8	10%
76-22	INSP ADMN 93	8	10%
76-23	INSP ADMN 94	8	10%
76-24	INSP ADMN 95	8	10%
76-25	INSP ADMN 96	8	10%
76-26	INSP ADMN 97	8	10%
76-27	INSP ADMN 98	8	10%
76-28	INSP ADMN 99	8	10%
76-29	INSP ADMN 00	8	10%
76-30	INSP ADMN 01	8	10%
76-31	INSP ADMN 02	8	10%
78-10	INSP SECURITY PRIOR TO 91	8	15%
78-20	INSP SECURITY 91	8	10%
78-21	INSP SECURITY 92	8	10%
78-22	INSP SECURITY 93	8	10%
78-23	INSP SECURITY 94	8	10%
78-24	INSP SECURITY 95	8	10%
78-25	INSP SECURITY 96	8	10%
78-26	INSP SECURITY 97	8	10%
78-27	INSP SECURITY 98	8	10%
78-28	INSP SECURITY 99	8	10%
78-29	INSP SECURITY 00	8	10%
78-30	INSP SECURITY 01	8	10%
78-31	INSP SECURITY 02	8	10%
79-10	INSP LAW ENFORCE PRIOR TO 91	8	15%
79-20	INSP LAW ENFORCE 91	8	10%
79-21	INSP LAW ENFORCE 92	8	10%
79-22	INSP LAW ENFORCE 93	8	10%
79-23	INSP LAW ENFORCE 94	8	10%
79-24	INSP LAW ENFORCE 95	8	10%
79-25	INSP LAW ENFORCE 96	8	10%
79-26	INSP LAW ENFORCE 97	8	10%
79-27	INSP LAW ENFORCE 98	8	10%
79-28	INSP LAW ENFORCE 99	8	10%
79-29	INSP LAW ENFORCE 00	8	10%
79-30	INSP LAW ENFORCE 01	8	10%
79-31	INSP LAW ENFORCE 02	8	10%
	MISCELLANEOUS		
75-10	EXPERIMENTAL	10	15%
75-72	FORD ESCORT AUTOMATIC 81	8	20%
75-73	FORD ESCORT MANUAL 81	8	20%
82-10	MOBILE SELF-POWERED P. O.	8	15%
82-20	MOBILE POST OFFICE TRAILERS	12	15%
	STORAGE		
82-23	1/4T RR MISC (STORAGE ONLY)	8	20%

99-10	STORAGE	7	5%
99-20	NON-ROAD USE STORAGE TRAILER (TEMP. STORAGE ONLY)	12	5%
99-90	SOLD	8	5%

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T6-14. The Postal Service has presented information in speeches by its senior management on the need for investment to control costs, improve service, etc. Please also refer to your testimony at page 46, lines 4-13. In particular please focus on the sentence in line 7, "This is a stopgap measure."

(a) What is the overall level of additional needed investment?

(b) Is there a plan for achieving this needed level of investment?

(c) What will be the effect on the quality of service if this level of investment is not achieved?

RESPONSE:

(a-c) As indicated in my response to OCA/USPS-T6-12, a revised capital plan beyond FY 2002 has not been developed. Also, please see my response to OCA/USPS-T6-9 (a) and (c) for discussion of service relative to capital investments.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T6-15. Please refer to your testimony at page 46, lines 4-13. On the assumption that there is an unmet need for additional capital investment, please provide information in current year and constant year dollars for end of year real capital stock by the following asset types for the years 1990-present: land, buildings, vehicles, customer service equipment, postal support equipment, mechanized processing equipment, automated processing equipment.

(c) Does this level equal the optimal level of capital stock needed for customer service?.
(d) If the answer to question (a) is negative, what is the impact on customer service?
(e) If the answer to question (a) is negative, what is the impact on operating costs?
(f) Do you have any studies related to the overall need for additional investments?

RESPONSE:

This information in constant year dollars is provided in the categories requested with the exception of "mechanized processing equipment" and "automated processing equipment" which is combined under the category of "mail processing equipment" as follows:

1997-1999	R2001-1, Chapter XII, LR J-50
1997-2000	R2000-1, Chapter XIII, LR I-27
1995-1996	R1997-1, Chapter XIII, LR H-12
1992-1993	R1994-1, Exhibit 8-B, testimony of John Ward

For the years 1990, 1991 and 1994, the requested information in constant dollars can be extracted from the accounting period 14 Trial Balance for these years that are on file with the Postal Rate Commission.

(a) Based on the assumption included in the question "that there is an unmet need for additional capital investment," I would assume that the level of capital stock would not be at the optimal level needed for customer service.

(b) Please see my response to OCA/USPS T6-9 (a) for relationships between capital investments and service.

OCA/USPS-T6-15. CONTINUED.

(c) We have not identified the optimum level of capital investment for customer service, accordingly, we have likewise not quantified the impact on operating costs related to different levels of capital investments.

(d) There are no current studies that I am aware of relating to the overall need for additional investments

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T6-16. Please refer to your testimony at page 44, line 18 to page 45, line 15, discussing depreciation.

(a) Please provide the rates of depreciation, by asset class, that the Postal Service applies to its capital stock.

(b) Does the Postal Service have any studies that indicate that the performance of the equipment degrades proportionally with the depreciation? If so, please provide them.

(c) Does the Postal Service have any studies that show how maintenance costs for equipment are related to the age of the equipment? If so, please provide them.

RESPONSE:

(a) See the attachment.

(b No.

(c) No.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS–T6–17. Please refer to your testimony at page 20, Table 14 that presents workyear mix.

a. Why does the clerk overtime ratio remain constant during and after FY2001?
b. Why does the casual percentage remain constant for clerks, city carriers, and mail handlers throughout the table?
c. Why does the transitional usage increase for clerks and decrease for city carriers in Table 14?

RESPONSE:

(a) Please refer to page 19 of my testimony. On line 13, I state that "overtime is based on the FY 2001 operating plan." I further state on line 17 that "the clerk overtime ratio is assumed to continue at the FY 2000 level for FY 2001, as reflected in the FY 2001 operating plan, and then remain at that level through the test year." This is a reasonable assumption in view of the fact that overtime assumptions made in conjunction with operating plan development were not available for FYs 02 and 03.

(b) Please refer to page 19 of my testimony. On line 27, I state that "casuals are assumed to continue to be utilized at the same level experienced in FY 00 for all years through the test year." This is a reasonable assumption in view of the fact that casual assumptions made in conjunction with operating plan development were not available for FYs 02 and 03.

(c) Please refer to page 19 of my testimony. On lines 19-27, I state that "clerk transitional employee (TE) workyears for FY 2001 reflect actual data through Accounting Period 9, and are assumed to be little changed from FY 2000, based on year-to-date FY 2001 actual paid employee experience. Clerk TE workyears are assumed to remain at the FY 2001 level through the test year. FY 2001 city carrier transitional employee workyears are also based on actual data through Accounting Period 9 of FY 2001, and are assumed to decline from the FY 2000 level based on FY 2001 actual paid employee data. City carrier TEs are assumed to continue to decline in FYs 2002 and 2003 at the same rate of decline experienced in FY 2001." These are reasonable assumptions in view of the fact that TE assumptions made in conjunction with operating plan development were not available for FYs 02 and 03.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

Please refer to Chapter VIII of Library Reference J-50 for additional information and calculations related to the mix of base workyears (career, casual, and transitional), and overtime workyears.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS–T6–18. Please refer to your testimony at page 42, line 33, which references Standard & Poor's DRI publications. Please provide the following information.

(a) Please identify the publication from which information is used by name, date, page number, etc. If you used more than one edition of the publication, please identify which edition(s) apply to the various portions of your testimony.

(b) Please provide copies of the relevant Standard & Poor's publication tables, graphs, text, and briefing/summary charts that underlie the numbers used in your testimony regarding the budget and the contingency amount.

RESPONSE:

a. The indices referenced on page 42 of my testimony relate to workers' compensation only. Please refer to Exhibit USPS–6S for the names of the publications from which these indices were taken. The publications containing the data for 1998–2000 are available in the U.S. Postal Service Library. The publications contatining earlier data are no longer maintained in the Library, although they may be available from DRI/WEFA.

b. The DRI/WEFA indices used to calculate and support the revenue requirement are referenced on page 23 of my testimony and in Exhibit 6T. As stated on page 23 line 28 of my testimony, a detailed list of the indices used can be found in Chapter IV of Library Reference J-50. The annual indices were developed on a Fiscal Year basis specifically for the Postal Service and were not taken from a DRI/WEFA publication. The forecasts used by DRI/WEFA to develop the indices used by the Postal Service are referenced in my testimony (USSIM/CONTROL 0601 and CISSIM/TRENDLONG 0501).

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OCA/USPS-T6-19. Please refer to your testimony at page 45 line, 29 and page 47, line 3. The word "reasonable" is used in referring to the proposed contingency. You also note that the Postal Service has a strong productivity performance, has aggressive cost savings programs, and continues to limit capital spending, at page 47, lines 11-13.

(a) On what basis is it concluded the Postal Service's productivity performance is strong – e.g. how is performance measured, and what is the standard of benchmarking the performance of comparable organizations. Please provide the measurements.

(b) On what basis is it concluded that the Postal Service's cost savings programs are aggressive— e.g. how are the cost savings programs measured to determine that they are aggressive and what is the standard of benchmarking the cost savings programs against that of comparable organizations.

(c) In view of these Postal Service efforts, what is the justification for the Postal Service request for a contingency of three percent that is higher than in previous cases?

RESPONSE:

With regard to the predicate for your questions, my testimony does not merely say that a 3 percent contingency provision is reasonable. It also says this is the minimum amount necessary to address the inherent uncertainties relating to the Postal Service's projected financial status in the test year.

(a) With regard to the measurement part of your question, productivity performance is typically measured in terms of ratios of outputs to inputs, and changes in productivity performance are typically referenced in terms of percent changes in those ratios. An increase in ratios over time indicates increasing productivity and a decrease in ratios over time indicates decreasing productivity. The strong productivity performance in FYs 2000 and 2001 referenced at page 47 of my testimony is documented by Exhibit USPS-6T, which displays 2.5 percent total factor productivity growth in FY 2000 and 2.0 percent estimated end-of-year growth in FY 2001. These productivity growth rates are among the strongest ever experienced by the Postal Service, are substantially greater than the long-term trend in private non-farm, multi-factor productivity growth and are reflected in the revenue requirement. The revenue requirement would be greater by approximately $3 billion if it were not for the productivity improvement in FYs 2000 and 2001.

With regard to the benchmarking part of your question, I do not believe there are comparable organizations to the United States Postal Service (my discussion of the contingency provision identifies a number of attributes of the Postal Service that make it unique). Further, it has been my experience that other organizations rarely, if ever, publish comparable productivity data. Therefore, I am unable to supply information responsive to the second part of your question because I do not believe such information exists and the Postal Service has no such information.

(b) With regard to the measurement part of this question, cost savings programs are measured by dollar amounts. As is stated at page 17 of my testimony, the net cost savings included in this rate case total $2.6 billion. These net cost savings are included in the revenue requirement. If it were not for these net cost savings, the revenue requirement would be greater by $2.6 billion dollars, and would result in rate increases that are half again as large as those proposed (i.e., an average rate increase of approximately 13 percent). My assessment that these savings are aggressive is based primarily on the benefit of these savings to customers and on my six years of experience as Manager of Budget and Financial Analysis, which involves budgeting for cost savings programs.

With regard to the part of your question on benchmarking, as mentioned above I do not believe there are comparable organizations to the United States Postal Service. Further I am not aware of other organizations that regularly publish comprehensive information on cost savings programs. Therefore, I am unable to supply information responsive to the second part of your question because I do not believe such information exists and the Postal Service has no such information.

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(c) I do not agree that the 3 percent contingency provision is higher than in previous cases. It is in fact equal to or lower than the contingency provision proposed in 7 out of the 11 previous omnibus rate cases. It is also only 0.5 percentage points greater than the 2.5 percent contingency provision that proved to be inadequate in the recently completed Docket No. R2000-1 rate case. Further, going into the test year in this rate case the Postal Service will be in a much weaker financial position than in Docket No. R2000-1. The 3 percent contingency represents the Board's and management's assessment of the Postal Service's exposure to financial risks and its willingness and ability to absorb those risks—prior to September 11, 2001—as is explained throughout the contingency section in my testimony.

Concerning the requested justification, the cost savings programs and strong productivity improvements I reference do not reduce financial risk or enhance the Postal Service's ability to absorb that risk. As I noted above, these efforts are built into the Postal Service's revenue requirement and therefore have reduced the revenue requirement from what it otherwise would be. t would therefore seem odd to cite them as a basis for lowering the contingency, as is seemingly implied by the question.

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OCA/USPS-T6-20. Please refer to your testimony at page 48, lines 14-15 where you state that the Postal Service does not control its rates and fees.

(a) Please confirm that the current case does, in fact, have an impact on rates and fees, and that the Board of Governors will receive a decision from the Postal Rate Commission.

(b) Please confirm that the Postal Service has an opportunity to update filings reflecting experience following the filing of a case and adjustments for known or knowable cost changes.

(c) Please confirm that the 76.7 percent of total expenses related to labor, that you delineate on page 49, line 4 of your testimony are known in terms of current wage rates, and as estimates of future wage rates (subject, however, to arbitration).

(d) Please confirm that the 76.7 percent of total expenses related to labor can be affected by the amount of labor used and is possibly open to change from the implementation of innovative techniques, such as changes in materials requirements planning, robotics, electronic data interchange, improved scheduled, enterprise resource planning, and computerization.

(e) Does the Postal Service have information on how implementation of such techniques referred to in part (d), above, has affected productivity in other industries?

RESPONSE:

(a) Not confirmed. It will not be known whether and to what extent the current case will have an impact on rates and fees unless and until there is a recommended decision returned by the Postal Rate Commission that is acted upon by the Postal Service's Governors. In this connection, I understand that the statute expressly contemplates that the Postal Rate Commission may fail to return a recommended decision within the prescribed ten-month period. I also understand that the statute provides for extension of that ten-month period under certain circumstances. These are uncertainties and risks that I did not specifically mention in my testimony, but which could be added to the list if more specificity were desired.

(b) Confirmed that the Postal Rate Commission has in the past ordered updates and testimony to be filed that indicated higher costs than assumed in the original filing. However, the Commission has resisted increasing the revenue requirement based on such information, meaning that the Postal Service may not receive financial relief as a result of such testimony being filed. In Docket No. R2000-1, for example, three recommended decisions and the Governors' modification decision were required before the Postal Service could gain the benefit of updated cost data (and by the time rates were implemented in July, 2001, the updated cost data were over a year old).

(c) Confirmed that FY 2000 labor expenses are known. I cannot confirm that estimates of future estimates of wages are known. By virtue of being estimates these future wages are unknown.

(d) I can confirm that labor expenses are affected by the factors listed in the question, but would suggest they are more affected by wage rates, cost levels and benefit expenses than by the listed factors. Both the factors listed in your question and the additional factors that I have cited are subject to considerable uncertainty.

(e) I am not aware of any such listing and the Postal Service has no such listing.

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OCA/USPS-T6-21. Please refer to your testimony at page 54 line 27. You state that the dollar may weaken, a conclusion apparently tied to the sad tragedy of September 11. Further information on the impact of postal costs is needed.

(a) A "weak" dollar" (explicitly, the exchange rate moving so as to require more dollars to buy a peso, pound sterling or other currency) ceteris paribus means that U.S. exports are less expensive, providing economic stimulation. Would this not result in a favorable impact on the economy, thereby stimulating the demand for Postal Services?

(b) On page 54 lines 22-26 of your testimony, you cite the recent terrorist attack on the World Trade Center. Dealing only with the economic relationships as noted by experience with no implied value judgement, economic textbooks indicate that military expenditures have stimulated the economy. Accordingly, what economic logic leads to the prediction of increased economic slowdown?

RESPONSE:

(a) Your question ignores the fact that imports become more expensive when the dollar weakens, meaning that consumers spend more for imported goods and inflation accelerates. Increased inflation negatively impacts postal finances.

Please note that I addressed the export issue at page 54 of my testimony where it is stated, "[I]n the end there are not lifelines for the U.S. economy from the rest of the world." This is because much of the remainder of the industrialized world is in a cyclical slump. So, rather than relying on export growth, the passage at page 54 of my testimony says that continued United States economic growth would depend on "keeping consumer spending buoyant." The likelihood that export lifelines will not be available to the U.S. economy afloat, is reinforced by DRI-WEFA's October release, quoted in part (b) below, which states that a global recession is now "inevitable."

(b) I do not understand that economic textbooks indicate that military spending is better than other types of spending.

Martin Baily, past chairman of the Council of Economic Advisors, apparently disagrees in the current situation with the hypothesis stated in your question. He reports as follows:

> There is broad agreement that the terrorist attack will push the US economy into recession and the global economy into a period of slow growth.

"Economic Policy Following the Terrorist Attacks," Economic Policy Briefs Number 01-10, Institute for International Economics, October 2001, p.2.

DRI-WEFA's confidence in the prospects for economic growth has also been shaken.

> Prior to the September 11 terrorist attacks on the United Sates, there was a slightly better than 50/50 chance that the U.S. economy and the rest of the world could avoid a recession. The fallout from the attacks now makes U.S. and global recessions inevitable.

"Post-Attack World Economic Prospects: A Deeper Recession and a Faster Recovery," DRI-WEFA, October 12, 2001, p. 1.

In the new DRI-WEFA forecasts, the faster recovery does not fully compensate for the deeper recession. DRI-WEFA projects less economic growth through the test year as a result of the terrorist attacks, and specifically notes that growth in consumer spending and the resilient service sectors were badly damaged by the terrorist attacks. This lower level of economic activity would tend to reduce the Postal Service's volume and revenue below that projected in the rate filing.

In the current economic situation there are significant new risks and real indications of sharp slowdowns in consumer spending, construction and business investment. There are already hundreds of thousands of people who have been furloughed or laid off, or have had their hours worked significantly reduced in the travel, transportation and tourism industries. Increases in unemployment reverberate throughout the economy. It would take rather extraordinary increases in military spending, including enormous increases in personnel hired to provide and support national defense to compensate for these impacts on the civilian workforce and to restore rattled consumer confidence. Your question makes no reference to the negative impacts.

I know of no economic textbook that says that a country's being attacked and being subject to attack is good for the economy of that country. Attacks and fears of attack rattle confidence and divert scarce resources into non-productive security expenditures. Increased defense and security expenditures, by crowding out productivity enhancing investment and research, can slow economic growth and induce higher inflation. These risks are real. In addition, recent uses of mail as an agent for distributing anthrax spores directly affect the Postal Service. We can be hopeful that fear induced by this activity will not have any long-term impact on Postal Service volume and revenue. But the stark reality may not justify this hope.

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: 10/17/01

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

475 L'Enfant Plaza West, S.W.
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October 17, 2001