Postal Rate Commission
Submitted 11/6/01

Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268–0001

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001–1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TAYMAN TO INTERROGATORIES
OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.
(VP/USPS–T6–1–7)

The United States Postal Service hereby provides the responses of witness Tayman to the following interrogatories of Val-Pak Direct Marketing Systems, Inc.: VP/USPS–T6–1–7, filed on October 22, 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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VP/USPS-T6-1 Please provide a chart showing actual changes in Total factor productivity ("TFP") from 1972 through the Base Year 2000, the actual change in TFP in 2001, if available, and projected changes in TFP through Test Year 2003.

RESPONSE:

Please see the responses to DMA/USPS -T6-15 and MPA/USPS-T6-4 (revised). FY 2001 financial results are not available. Consequently, actual TFP for FY 2001 has not been calculated.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
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VP/USPS-T6-2. Your testimony at page 3, lines 25-29 references the additional cost transfer to the Postal Service under the Balanced Budget Act of 1997.

(a) What was the estimated total expense as a result of transferring the requirement for the funding of Post Office Department Workers' Compensation to the Postal Service?.

(b) How was the total estimated expense recorded? That is, was it entered as a one-time accrued cost, or does it appear in the budget and roll-forward model as an annual recurring expense?

(c) If your answer to part b Is that it is an annual recurring expense, what is the total expense for the base year 2000 and for each of the years 2001 through 2003?

RESPONSE:

(a) The total expense incurred through FY 2000 is $291 million.

(b) The total estimated liability of $258 million was recorded as an expense in FY 1997. Additional amounts equal to the estimated change in the liability have been charged to expense in each year since then.

(c) As reflected in Chapter VI, Section f, of LR J-50, the annual expenses for the period FY 2000-2003 are $14.2 million, $9.3 million, $8.4 million, and $6.5 million, respectively.

VP/USPS-T6-3. Your testimony at page 22 lines 20-22, refers to “performance-based increases (such as) lump sum payouts.”

(a) Are you referring here to a program of the Postal Service that is sometimes referred to as Economic Value Added (“EVA”)? If not, to what specifically are you referring?

(b) How much did the Postal Service spend on the EVA program in each fiscal year since its inception including the latest fiscal year?

(c) How much has the Postal Service budgeted for the EVA program in FY 2002?

(d) In the roll-forward model, what is the estimated expense for the EVA program in Test Year 2003?

(e) In what cost segment or segments are the costs of the EVA program recorded?

(f) Please list all criteria being used to determine awards under the EVA program for FY 2002, and indicate the relative importance of each criterion in making each award.

(g) Please describe the process for recommending and making awards under the EVA program, including the titles of the persons making such recommendations and decisions

RESPONSE:

(a) The performance-based lump sum payments referred to in my testimony are the lump sum portion of non-bargaining merit pay and non-bargaining variable pay or pay-for-performance (referred to previously as EVA).

(b) The EVA Pay for Performance program was first implemented in FY 1996. It currently covers all non-bargaining career employees (over 83,000) of the Postal Service. The employees who participate in this program do not receive the twice-per-year cost-of-living-allowance pay increases that our bargaining employees receive. They also do not receive any annual general increases as our bargaining employees receive or that other federal employees receive. In addition, over 30,000 of the covered employees forwent premium over time pay for work in excess of 8 hours in a day. Since the inception of this program, the Postal Service has recorded the following amounts as an expense in each of the following fiscal years:

1996	$268M
1997	$327M
1998	$277M
1999	$257M
2000	$284M

The amount for fiscal year 2001 will be based on audited financial results and is accordingly not yet finalized.

(c) As reflected on page 408 of LR J-50, the FY 2002 assumption for variable pay expense reflected in this filing is $1,839.98 per base work year or approximately $200 million.

(d) As reflected on page 408 of LR J-50, the FY 2003 assumption for variable pay expense reflected in this filing is $1,839.98 per base work year or approximately $200 million.

(e) The cost impact of variable pay is reflected in those cost segments which include the personnel costs of career non-bargaining employees. These include segments 1,2,11,12,13,16,18, and 19.

(f) Please see the response to DFC/USPS-8.

(g) Please see the response to DFC/USPS-8. The national goals under this group pay for performance program are recommended by the Postmaster General and approved by the Board of Governors. Actual awards are based upon goal attainment and employees who do not fully contribute to the performance of the organization or whose conduct was clearly unacceptable to the organization may be recommended for exclusion by their manager.

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VP/USPS-T6-4.

(a) Please submit as a library reference a copy of the Postal Service's budget for FY 2002.

(b) Indicate all material differences between the budget for FY 2002 and expenses estimated in the roll-forward model for FY 2002.

(c) Indicate all "Field Reserve" items in the budget for FY 2002,explain the purpose of these reserves, and state the expected disposition of these reserves if they are not expended on the purpose for which they are earmarked.

RESPONSE:

(a) Please see the responses to OCA/USPS-T6-1 and OCA/USPS-T6-2.

(b) There are no material differences between the FY 2002 operating budget and the FY 2002 revenue and expense estimates reflected in my testimony.

(c) The FY 2002 operating budget contains no Field Reserves.

VP/USPS-T6-5. Your testimony at page 51 (ll. 6-8) states that "the Postal Service carries an extremely large liability on its balance sheet … for deferred retirement costs …." The balance sheet of the Postal Service also carries and offsetting item, "Deferred Retirement Costs," amounting to some $32.183 billion as of the end of FY 2000. The liability for deferred retirement costs shown on the balance sheet of the Postal Service at the end of FY 2000 amounted to $30.212 billion. Why is the asset for deferred retirement costs greater than the corresponding liability?

RESPONSE:

The difference between the asset and the long-term liability is the current liability (i.e., the amount of principal payable within the next year). The total liabilities equal the total deferred retirement cost.

VP/USPS-T6-6.

a. Please describe all liabilities of the Postal Service that are estimated to exceed $1 billion and that are not, or will not be, reflected in the Postal Service's balance sheet for FY 2001 when its is published?

b. Please provide the estimated amount of each such off-balance sheet liability.

RESPONSE:

(a-b) The Postal Service's financial statements conform with generally accepted accounting principles. Accordingly, all material liabilities known as of the date the statements are certified will be reflected.

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VP/USPS-T6-7. Your testimony at page 50 (l.11) states that the Postal Service "operates some 40,000 post offices, stations and branches."

(a) Please break out this number by type of postal facilities, (e.g., post offices, stations, branches).

(b) How many of these 40,000 post offices, stations, and branches are operated under contract? That is, how many are contract stations?

(c) How many of these 40,000 post offices, stations, and branches are operated under some kind of franchise agreement?

(d) Under what circumstances are contract stations used instead of Postal Service operated post offices, stations and branches?

(e.) Under what circumstances is the Postal Service obligated by law to construct (or lease and operate) new post offices, stations and branches, as opposed to opening a contract station or some kind of franchise outlet?

(f) When were the last 100 post offices closed?

(g) Is there a moratorium on closing post offices? Please specify the source of any such moratorium (e.g., Appropriations rider, Board of Governors' policy, etc.), and provide copies of the relevant documentation.

RESPONSE:

(a) This information can be found on page 70 of the United States Postal Service 2000 Annual Report.

(b) As noted on page 70 of the United States Postal Service 2000 Annual Report, there are 2,833 contract stations and branches and 1,549 community post offices..

(c) None that I am aware of.

(d) The Postal Service uses contract stations in small communities to provide service where an independent post office has been discontinued. Contract stations are also used in a main post office's service area to provide one or more services at sites more convenient to customers.

(e) None that I am aware of.

(f) There have been 104 post offices published in the Postal Bulletin as discontinued from May 7, 1998 through October 18, 2001.

(g) The moratorium on post office closings was initiated by the Postal Service on March 16, 1998 and is still in effect.

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.

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