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POSTAL REGULATORY COMMISSION

Analysis of the Postal Service's FY 2014 Program Performance Report and FY 2015 Performance Plan

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EXECUTIVE SUMMARY

Each year the Postal Service must submit to the Commission copies of its most recent performance plan and program performance report. 39 U.S.C. § 3652(g). On December 29, 2014, the Postal Service filed its fiscal year (FY) 2014 program performance report (*FY 2014 Report*) and FY 2015 performance plan (*FY 2015 Plan*) in Docket No. ACR2014. The *FY 2015 Plan* describes the Postal Service's performance goals for FY 2015. The *FY 2014 Report* discusses the Postal Service's progress toward its four FY 2014 performance goals:

- Deliver High-Quality Services
- Provide Excellent Customer Experiences
- Ensure a Safe Workplace and Engaged Workforce
- Sustain Controllable Income

In this report, the Commission analyzes three issues. First, it determines whether the *FY 2014 Report* and *FY 2015 Plan* comply with 39 U.S.C. §§ 2803 and 2804. It finds that the *FY 2015 Plan* complies with all section 2803 requirements except for covering each program activity in the Postal Service's budget. *See id.* § 2803(a). The *FY 2014 Report* complies with most section 2804 requirements, but fails to express fiscal year results comparable to FY 2014 targets and include actual results comparable across "the three preceding fiscal years" (2011, 2012, and 2013). *See id.* §§ 2804(b)(1) and (c).

Second, the Commission evaluates whether the Postal Service met each performance goal in FY 2014. *See* 39 U.S.C. § 3653(d). It finds that:

- The Postal Service **partially met** the Deliver High-Quality Services and Sustain Controllable Income goals.
- The Postal Service **did not meet** the Ensure a Safe Workplace and Engaged Workforce goal.
- The Commission **cannot determine** whether the Postal Service met the Provide Excellent Customer Experiences goal due to lack of comparable FY 2014 data.

The Commission provides recommendations for each performance goal to help the Postal Service meet the goals and better assess its performance in future years.

Third, the Commission examines strategic initiatives and cross-portfolio performance indicators, which measure the performance of strategic initiatives. The Commission finds that strategic initiatives should be evaluated in conjunction with performance plans and program performance reports. It recommends that the Postal Service establish performance measures for each strategic initiative that link only to that strategic initiative, allowing the Postal Service to better evaluate progress toward individual strategic initiatives.

CHAPTER 1: INTRODUCTION

A. Background

The Postal Service is required by title 39 of the United States Code to submit to the Commission for each fiscal year a performance plan covering each program activity in the Postal Service's budget and a program performance report. 39 U.S.C. §§ 2803, 2804, 3652(g). The Postal Service included its *FY 2014 Report* and *FY 2015 Plan* in its *2014 Annual Report to Congress*.¹

The *FY 2014 Report* discusses the Postal Service's progress in meeting its performance goals for FY 2014. A performance goal is "a target level of performance expressed as a tangible, measurable objective, against which actual achievement shall be compared" 39 U.S.C. § 2801(3). In its *FY 2014 Report*, the Postal Service identified four performance goals for FY 2014:

- Deliver High-Quality Services
- Provide Excellent Customer Experiences
- Ensure a Safe Workplace and Engaged Workforce²
- Sustain Controllable Income

Each performance goal has two or more performance indicators used to measure output or outcome. 39 U.S.C. § 2801(4). For example, the performance indicators for Deliver High-Quality Services measure the percent of mail delivered on time. Table I-1 lists the four performance goals, their corresponding performance indicators, and targets and results from FY 2012 through FY 2014. It also displays the performance goals, performance indicators, and targets for FY 2015.

¹ *United States Postal Service 2014 Annual Report to Congress*, at 37-45 (*FY 2014 Annual Report*); see Library Reference USPS-FY14-17, December 29, 2014. This Analysis cites to pages from the *FY 2014 Annual Report* when referring to the *FY 2014 Report* and *FY 2015 Plan*. The Postal Service does not distinguish the *FY 2014 Report* from the *FY 2015 Plan*. This Analysis refers to those documents both individually and together as the *FY 2014 Report* and *FY 2015 Plan*.

² *FY 2014 Annual Report* at 38. This performance goal was initially identified as "Ensure a Safe and Healthy Workplace." *Id.* In later portions of the *FY 2014 Annual Report*, it was discussed by the Postal Service under the heading "Ensure a Safe Workplace and Engaged Workforce." *Id.* at 40. The Commission uses the latter formulation in this Analysis because it more closely aligns with the Postal Service's discussion of this goal. See *id.*

Table I-1
Performance Goals by Performance Indicator Results and Targets

Performance Goal	Performance Indicator	FY TARGET		FY RESULT ■ Target not met			FY TARGET		
		2015	2014	2014	2013	2012	2013	2012	
Deliver High Quality Services (% on-time)	Single-Piece First-Class Mail	Overnight	96.8%	96.8%	96.0%	96.1%	96.48%	96.7%	96.65%
		2-Day	96.5%	96.5%	94.9%	95.3%	94.84%	95.1%	94.15%
		3-5 Day	95.25%	95.25%	87.7%	91.6%	92.29%	95.0%	92.85%
	Presort First-Class Mail	Overnight	96.8%	96.8%	97.0%	97.2%	n/a	96.7%	n/a
		2-Day	96.5%	96.5%	96.4%	97.0%	n/a	95.1%	n/a
		3-5 Day	95.25%	95.25%	92.2%	95.1%	n/a	95.0%	n/a
	First-Class Mail Composite	96.0%	96.0%	93.6%	n/a	n/a	n/a	n/a	
	Standard Mail Composite	91.0%	91.0%	86.4%	n/a	n/a	n/a	n/a	
	Provide Excellent Customer Experiences	Customer Experience Measurement Composite Metric	n/a	82.5	n/a	78.4	79.0	82.5	82.0**
		Customer Insights Measurement Composite Metric*	86.7 [#]	n/a	84.65	n/a	n/a	n/a	n/a
Business Service Network*		94.0	n/a	94.05	n/a	n/a	n/a	n/a	
Point of Sale*		90.0	n/a	81.59	n/a	n/a	n/a	n/a	
Delivery*		90.0	n/a	79.55	n/a	n/a	n/a	n/a	
Customer Care Center*		90.0	n/a	74.0	n/a	n/a	n/a	n/a	
Ensure a Safe Workplace and Engaged Workforce	OSHA Illness & Injury Rate	5.1	5.55	6.32	5.61	5.78***	5.72 [#]	5.72 [#]	
	Voice of the Employee	65.1	65.1	65.01	64.7	64.7	64.9 [#]	64.9 [#]	
Sustain Controllable Income	Deliveries per Work Hour	42.4 [#]	42.9 [#]	42.0	41.6	41.0	42.7 [#]	42.2	
	Net Controllable Income (Loss) (\$ Billions)	0.5	0.9 [#]	1.37	(1.0)	(2.4)	(2.0)	(3.0)	

■ Shaded result denotes target not met in fiscal year under review.
n/a – not available; no fiscal year performance result or target.

*Results were provided in United States Postal Service Responses to Questions 1-5, 8 and 9 of Chairman’s Information Request No. 5, February 10, 2015, question 2e. (February 10 Response to CHIR No. 5).

[#]Target changed (or later identified) from that originally published. The FY 2015 Plan targets for the Customer Insights Composite Metric and Deliveries per Work Hour performance indicators were changed after the FY 2014 Annual Report was published. See United States Postal Service Reply Comments Regarding FY 2014 Performance Report and FY 2015 Performance Plan, March 4, 2015, at 5; see n.74, *infra*. The FY 2014 Deliveries per Work Hour target was originally expressed as 43.3 and the FY 2014 Net Controllable Income (Loss) target was originally expressed as 1.1. Docket No. ACR2013, *United States Postal Service 2013 Annual Report to Congress*, at 39 (FY 2013 Annual Report); see Docket No. ACR2013, Library Reference USPS–FY13–17, December 27, 2013. They were changed in the FY 2014 Annual Report due to the postponement of Phase 2 of the Network Rationalization Initiative. The FY 2012 and FY 2013 Voice of the Employee targets were originally listed as “TBD” and the FY 2013 Deliveries per Work Hour target was originally expressed as 42.9. Docket No. ACR2012, *United States Postal Service FY 2012 Comprehensive Statement*, at 34 (FY 2012 Annual Report); see Docket No. ACR2012, Library Reference USPS–FY12–17, December 28, 2012; Docket No. ACR2011, *United States Postal Service 2011 Comprehensive Statement on Postal Operations*, at 33 (FY 2011 Annual Report); see Docket No. ACR2011, Library Reference USPS–FY11–17, December 29, 2011. The FY 2012 OSHA Illness & Injury Rate target was originally expressed as 5.57 in the FY 2011 Annual Report at 33. The FY 2013 OSHA Illness & Injury Rate target was originally expressed as “1% below SPL” in the FY 2012 Annual Report at 34. In its Responses of the United States Postal Service to Questions 1-3, 5 of Chairman’s Information Request No. 17, May 15, 2015, question 2a. (May 15 Response to CHIR No. 17), the Postal Service states that the FY 2012 target was 5.72 and was erroneously listed as 5.57 in the FY 2014 Annual Report.

**FY 2012 Annual Report at 39.

***Updated FY 2012 OSHA Illness & Injury Rate. See May 15 Response to CHIR No. 17, questions 2b. and 2c.

Sources: Table modified from the FY 2014 Annual Report (footnotes omitted) at 39 to reflect the results, targets, or modified targets provided in the published fiscal year performance plan and program performance report under review; FY 2013 Annual Report at 39; FY 2012 Annual Report at 34, 39; FY 2011 Annual Report at 33; and February 10 Response to CHIR No. 5, question 2e.

The Postal Service's *FY 2015 Plan* sets forth the same four performance goals for FY 2015 as it used for FY 2014. In some cases, however, the Postal Service has modified the performance indicators that will be used to assess performance in the FY 2015 program performance report (*FY 2015 Report*).

Each year, the Commission must evaluate whether the Postal Service met its performance goals. 39 U.S.C. § 3653(d). It considers the Postal Service to have met a performance goal if results for each performance indicator meet or exceed targets established in the applicable performance plan. The Commission may also provide recommendations to the Postal Service related to protecting or promoting public policy objectives in title 39. *Id.*

B. The FY 2014 Report and FY 2015 Plan

Prior to FY 2013, the Commission included its analyses of program performance reports and performance plans as part of its *Annual Compliance Determination* (ACD).³ In FY 2013, the Commission determined that its obligations under 39 U.S.C. § 3653(d) are distinguishable from its ACD obligations under 39 U.S.C. § 3653(b). The Commission, therefore, issued a separate report analyzing the Postal Service's FY 2013 program performance report (*FY 2013 Report*) and FY 2014 performance plan (*FY 2014 Plan*).⁴ Issuing a separate report allowed the Commission to provide a more in-depth analysis of the Postal Service's performance goals than in previous years.

As it did in FY 2013, the Commission is issuing its analysis of the *FY 2014 Report* and *FY 2015 Plan* separately from the FY 2014 ACD.⁵ In conducting this year's review, the Commission designated a Public Representative and invited comments on whether the Postal Service met its performance goals and satisfied applicable statutory and regulatory provisions.⁶ It also sought input on public policy recommendations, the role of strategic initiatives, and other relevant matters. Order No. 2342 at 3.

³ See, e.g., Docket No. ACR2012, *Annual Compliance Determination Report*, Fiscal Year 2012, March 28, 2013, at 43-46 (FY 2012 ACD).

⁴ Postal Regulatory Commission, *Review of Postal Service FY 2013 Performance Report and FY 2014 Performance Plan*, July 7, 2014 (FY 2013 Review).

⁵ Postal Regulatory Commission, *Annual Compliance Determination Report*, Fiscal Year 2014, March 27, 2015 (FY 2014 ACD).

⁶ Notice Regarding the Postal Service's FY 2014 Performance Report and FY 2015 Performance Plan, February 3, 2015, at 2 (Order No. 2342). The Commission later issued a notice substituting the Public Representative. Notice and Order Designating Substitute Public Representative, February 9, 2015, at 2 (Order No. 2351).

The Chairman issued several information requests to clarify the *FY 2014 Report* and *FY 2015 Plan*.⁷ The Postal Service filed responses to all information requests.⁸ The Public Representative submitted comments⁹ to which the Postal Service provided reply comments.¹⁰

The following chapters set forth the Commission's analyses of the *FY 2014 Report* and *FY 2015 Plan*: Chapter 2 analyzes the *FY 2014 Report* and *FY 2015 Plan* for compliance with legal requirements, Chapter 3 evaluates whether the Postal Service met its four performance goals in FY 2014, and Chapter 4 discusses the role of strategic initiatives in performance plans and program performance reports.

⁷ See, e.g., Chairman's Information Request No. 5, February 3, 2015.

⁸ The Postal Service filed motions for late acceptance of some information requests. See Motion of the United States Postal Service for Late Acceptance of Responses to Questions 6 and 7 of Chairman's Information Request No. 5, February 18, 2015; Motion of the United States Postal Service for Late Acceptance of Responses to Questions 1-5, 12-14, 26-27, and 31-33 of Chairman's Information Request No. 13, March 11, 2015; United States Postal Service Motion for Late Acceptance of Responses to Questions 6, 7, 9, 10, 20-25, 29, 30, 34, and 35 of Chairman's Information Request No. 13, March 13, 2015; United States Postal Service Motion for Late Acceptance of Responses to Questions 8, 11, and 15-19 of Chairman's Information Request No. 13, March 19, 2015; Motion of the United States Postal Service for Late Acceptance of Responses to Questions 1, 4, 5, and 8 of Chairman's Information Request No. 14, March 25, 2015; United States Postal Service Motion for Late Acceptance of Responses to Question 28 of Chairman's Information Request No. 13 and Question 6 of Chairman's Information Request No. 14, March 30, 2015; Motion of the United States Postal Service for Late Acceptance of Responses to Questions 1-3 of Chairman's Information Request No. 16, April 14, 2015; Motion of The United States Postal Service for Late Acceptance of Its Response to Question 4 of Chairman's Information Request No. 17, May 20, 2015. These motions are granted.

⁹ Public Representative Initial Comments on the FY 2014 Performance Report and FY 2015 Performance Plan, February 25, 2015 (PR Comments).

¹⁰ United States Postal Service Reply Comments Regarding FY 2014 Performance Report and FY 2015 Performance Plan, March 4, 2015 (USPS Reply Comments).

CHAPTER 2: COMPLIANCE WITH LEGAL REQUIREMENTS

A. Legal Requirements

The *FY 2014 Report* and *FY 2015 Plan* must meet the requirements of 39 U.S.C. §§ 2803 and 2804.¹¹ Section 2803 establishes requirements for Postal Service performance plans. The Postal Service must cover “each program activity set forth in the Postal Service budget” and must:

- Establish objective, quantifiable, and measurable performance goals that define a program activity’s performance level.
- Describe the operational processes, skills and technology, and the human, capital, information, or other resources needed to meet the performance goals.
- Establish performance indicators to measure or assess each program activity’s relevant outputs, service levels, and outcomes.
- Compare actual program results with performance goals and describe the means to be used to verify and validate measured values.

39 U.S.C. § 2803(a).

Section 2804 sets forth four requirements for Postal Service program performance reports. First, it requires the Postal Service to prepare program performance reports that review whether it has met the performance goals previously established by the performance plan for that fiscal year. *Id.* § 2804(d)(1). Second, the Postal Service must “set forth the performance indicators established in the Postal Service performance plan, along with the actual program performance achieved compared with the performance goals expressed in the [FY 2014] plan.” *Id.* § 2804(b)(1). Third, the Postal Service must include actual results for the three preceding fiscal years. *Id.* § 2804(c). Fourth, the Postal Service must evaluate the performance plan for the current fiscal year (in this case, the *FY 2015 Plan*) relative to the performance achieved toward those goals in the year covered by the performance report (in this case, the *FY 2014 Report*). *Id.* § 2804(d)(2).

¹¹ Chapter 28 of title 39, which includes sections 2803 and 2804, was added by the Government Performance and Results Act (GPRA) of 1993, Pub. L. No. 103-62, 107 Stat. 285 (1993). Sections 2803 and 2804 were not affected by the GPRA Modernization Act of 2010, which does not apply to the Postal Service. Pub. L. No. 111-352, 124 Stat. 3866 (2011).

If the Postal Service does not meet a performance goal, it must explain why the goal was not met and its plans and schedules for achieving the performance goal. *Id.* § 2804(d)(3). The Postal Service must also include summary findings of program evaluations completed during the fiscal year covered by the report. *Id.* § 2804(d)(4).

B. Comments

The Public Representative argues that the *FY 2015 Plan* fails to meet some section 2803 requirements. PR Comments at 14. She asserts that the *FY 2015 Plan* does not cover each program activity in the Postal Service's budget. *Id.* She contends that the *FY 2015 Plan* briefly describes operational resources required to meet the performance goals, but states that these descriptions may be insufficient because the Postal Service did not meet or only partially met its FY 2014 performance goals. *Id.* at 14-15.

The Public Representative asserts that the *FY 2014 Report* complies with section 2804 but also expresses concerns that she believes may need to be addressed. *Id.* at 15. She notes that in some cases the Postal Service does not provide plans or schedules for achieving goals it did not meet in FY 2014. *Id.* She also points out that the *FY 2014 Report* does not include comparable customer experience results for fiscal years 2012, 2013, and 2014 because the Postal Service changed its measurement systems in FY 2014. *Id.*

The Postal Service argues that 39 U.S.C. § 3653(d) limits the Commission's authority to evaluating whether the Postal Service met performance goals and to making recommendations relating to the protection or promotion of public policy objectives of title 39. USPS Reply Comments at 2. It contends that section 3653(d) does not authorize the Commission to evaluate whether the *FY 2014 Report* and *FY 2015 Plan* themselves comply with sections 2803 and 2804 or to direct the Postal Service to make specific changes. *Id.* It asserts that the Public Representative's conclusions regarding compliance of performance plans and program performance reports with sections 2803 and 2804 are outside the scope of the Commission's authority. *Id.*

The Postal Service also asserts that the performance goals "address the Postal Service's program activities and provide the required metrics." *Id.* at 2-3. It contends that including each program activity in performance plans in the Postal Service's budget would not add value because the performance goals provide the large scale overview relevant to the Commission's review. *Id.* at 3.

C. Commission Analysis

1. Commission's Authority

39 U.S.C. § 3653(d) provides, in part, that the Commission “shall also evaluate annually whether the Postal Service has met the goals established under sections 2803 and 2804” The Postal Service reads this language narrowly to authorize Commission evaluation of whether goals were met, and to preclude the Commission from evaluating performance plans and program performance reports themselves.

Contrary to the Postal Service's assertions, 39 U.S.C. § 3653(d) does not limit the Commission's authority in this manner. The Commission's authority to evaluate performance plans and program performance reports flows directly from sections 2803 and 2804, which provide the foundation upon which the Commission must evaluate the Postal Service's performance goals under section 3653(d).

Section 2803(a)(1) requires performance goals to be “in an objective, quantifiable, and measurable form.” Performance goals use performance indicators established by the Postal Service under section 2803(a)(4) to measure or assess relevant outputs, service levels, and program activity outcomes. Commission oversight is essential to ensure performance goals are “objective, quantifiable, and measurable” and that performance indicators are appropriate and effective. Without reliable performance goals and performance indicators, meaningful Commission evaluations of the Postal Service's performance under section 3653(d) would be compromised.

The need for Commission oversight is also demonstrated by section 2803(b), which gives the Postal Service the opportunity to express performance goals in an “alternative form.” An alternative form must, among other things, “include separate descriptive statements of ... a minimally effective program, and a successful program[.]” 39 U.S.C. § 2803(b)(1). However, to use this alternative form, the descriptive statements must be of “sufficient precision and in such terms that would allow for an accurate, independent determination of whether the program activity's performance meets the criteria of either” a minimally effective program and a successful program. *Id.* Without Commission evaluation of alternative forms of performance goals themselves, there is no assurance that the alternative form chosen by the Postal Service will be either sufficiently precise or capable of allowing for an accurate, independent determination of the Postal Service's performance under section 3653(d).

To adopt an alternative form of performance goals, the Postal Service is required to “state why it is infeasible or impractical to express a performance goal in any form for the program activity.” *Id.* § 2803(b)(2). Once again, without Commission evaluation of claims of infeasibility or impracticability, there can be no assurance that such claims warrant the use of an alternative form of performance goals.

The *FY 2014 Report* provides an example of the need for the Commission to evaluate performance plans and program performance reports themselves. For the Provide Excellent Customer Experiences goal, the *FY 2014 Report* does not “set forth the performance indicators established in the Postal Service performance plan, along with the actual program performance achieved compared with the performance goals expressed in the [FY 2014] plan....” *See id.* § 2804(b)(1). As a result, the Commission cannot determine whether the Postal Service met the Provide Excellent Customer Experiences goal expressed in its *FY 2014 Plan*. Chapter 3, section B.3.b., *infra*, explores this issue in more detail.

This inability of the Commission to make its required evaluation has been discussed by the Commission previously. In reviewing the Postal Service’s FY 2009 program performance report and FY 2010 performance plan,¹² the Commission found that the information the Postal Service provided was “not detailed fully, lack[ed] specificity as to performance goals and a basis for comparing results with goals, or [was] not addressed at all in terms of performance plans.” *Id.* at 45. The Commission concluded that the information provided made “meaningful evaluation problematic” because “what is provided does not allow the Commission to complete the evaluation Congress assigned in section 3653(d).” *Id.* at 44-45.

For the Commission to meaningfully evaluate whether the Postal Service has met the performance goals established under 2803 and 2804, the Postal Service’s performance plans and program performance reports must themselves satisfy the requirements of sections 2803 and 2804. *The Commission finds that acceptance of the Postal Service’s position could produce results that are contrary to the intent of 39 U.S.C. §§ 2803 and 2804. Without the authority to evaluate the compliance of performance plans and program performance reports with sections 2803 and 2804, the Commission would be precluded from producing the meaningful and reliable performance evaluation envisioned by 39 U.S.C. § 3653(d).*

2. FY 2015 Plan

The Commission finds that the FY 2015 Plan partially meets section 2803 requirements. The four performance goals are “objective, quantifiable, and measurable” because the Postal Service sets quantitative targets for each goal that can be compared with objectively measured results. *See* 39 U.S.C. §§ 2803(a)(1) and (2). Each performance goal has two or more performance indicators that measure or assess relevant outputs, service levels, and outcomes of most program activities in the Postal Service’s budget. *See id.* § 2803(a)(4). For example, the Deliver High-Quality Services performance goal has eight performance indicators that measure service performance results for First-Class Mail and Standard Mail.

¹² Docket No. ACR2009, *FY 2009 Annual Compliance Determination*, March 29, 2010, at 41-48 (FY 2009 ACD).

The *FY 2015 Plan* describes “the operational processes, skills and technology, and ... other resources required to meet the performance goals[.]” *See id.* § 2803(a)(3). For example, to meet the Ensure a Safe Workplace and Engaged Workforce goal, the Postal Service has extended to both career and non-career employees the opportunity to participate in the Voice of the Employee survey. *FY 2014 Annual Report* at 40. The Postal Service will also enhance safety program reporting capabilities and distribute safety videos focusing on the root causes of accidents. *Id.* The *FY 2015 Plan* provides a basis for comparing actual program results with established performance goals by comparing FY 2014 results and targets. *See* 39 U.S.C. § 2803(a)(5).

The *FY 2015 Plan* also verifies and validates measured values for each performance indicator based on objective measurement systems. *See id.* § 2803(a)(6). For example, the Deliveries per Work Hour performance indicator verifies and validates measured values for the Sustain Controllable Income goal by summarizing the effectiveness of its productivity improvement efforts.

However, the *FY 2015 Plan* fails to “[cover] each program activity set forth in the Postal Service budget” *Id.* § 2803(a).¹³ In its FY 2010 ACD, the Commission determined that the “Postal Service budget” means its operating budget that is part of the Postal Service’s *Integrated Financial Plan*.¹⁴ Thus, the *FY 2015 Plan* must cover each program activity in the FY 2015 *Integrated Financial Plan*.¹⁵ *See* 39 U.S.C. § 2803(a).

In its FY 2013 *Review*, the Commission found that the *FY 2014 Plan* did not cover each program activity set forth in the Postal Service’s budget. *FY 2013 Review* at 40. It directed the Postal Service in future performance plans to provide performance indicators for each program activity in its budget. *Id.*

In its reply comments, the Postal Service argues that the performance goals “address the Postal Service’s program activities and provide the required metrics.” USPS Reply Comments at 2-3. It contends that including each program activity in performance plans “would not offer additional value to the Commission” because the performance goals provide the large scale overview relevant to the Commission’s review. *Id.* at 3.

Contrary to the Postal Service’s position, including each program activity in the Postal Service’s budget would add value and improve transparency and

¹³ A “program activity” is “a specific activity related to the mission of the Postal Service[.]” *Id.* § 2801(5). The Postal Service’s mission is “to provide a reliable, efficient, trusted and affordable universal delivery service that connects people and helps businesses grow.” *FY 2014 Annual Report* at 37.

¹⁴ Postal Regulatory Commission, *Annual Compliance Determination Report Fiscal Year 2010*, March 29, 2011, at 50 (FY 2010 ACD).

¹⁵ United States Postal Service, *Fiscal Year 2015 Integrated Financial Plan*, November 24, 2014 (FY 2015 *Integrated Financial Plan*).

accountability by enriching the Commission's analyses of performance plans. Moreover, covering each program activity in the Postal Service's budget is required by 39 U.S.C. § 2803(a). *The Commission finds that the FY 2015 Plan does not cover each program activity in the Postal Service's budget as required by 39 U.S.C. § 2803(a). In the FY 2016 Plan, the Postal Service must identify all program activities in its budget and explain how the FY 2016 Plan covers each one.*

3. FY 2014 Report

The Commission finds that the FY 2014 Report meets most, but not all, of section 2804 requirements. It reviews the Postal Service's success in achieving its performance goals in FY 2014 and provides summary findings of program evaluations completed during FY 2014. *See* 39 U.S.C. §§ 2804(d)(1) and (4). In most cases, the *FY 2014 Report* explains why the Postal Service did not meet a performance goal and identifies the plans and schedules for achieving the goal in future years. *See id.* § 2804(d)(3). In those cases in which the *FY 2014 Report* did not itself provide such explanations, plans, and schedules, the Postal Service attempted to provide the necessary information in responses to information requests.

Program performance reports must "evaluate the performance plan for the current fiscal year relative to the performance achieved toward the performance goals in the fiscal year covered by the report[.]" *Id.* § 2804(d)(2). In other words, the Postal Service must evaluate the *FY 2015 Plan* relative to the performance achieved toward the four performance goals in FY 2014. The FY 2014 and FY 2015 performance goals are the same.¹⁶ The *FY 2014 Report* meets the requirements of section 2804(d)(2) by comparing FY 2015 targets with FY 2014 results for each performance indicator. Although the *FY 2014 Report* does not contain any FY 2014 results for the Provide Excellent Customer Experiences goal, the Postal Service provided the FY 2014 results in response to an information request.

However, the *FY 2014 Report* does not meet two other section 2804 requirements. First, it does not "set forth the performance indicators established in the Postal Service performance plan, along with the actual program performance achieved compared with the performance goals expressed in the [FY 2014] plan" for the Provide Excellent Customer Experiences goal. *See* 39 U.S.C. § 2804(b)(1). This provision requires the Postal Service to list FY 2014 performance indicators and compare FY 2014 results with FY 2014 targets.

The *FY 2014 Report* does not meet this requirement because the Postal Service set one FY 2014 target for a performance indicator that it discontinued using in FY 2014. Although it provided FY 2014 results for the new performance indicators that it

¹⁶ United States Postal Service Response to Question 28 of Chairman's Information Request No. 13, March 30, 2015 (March 30 Response to CHIR No. 13); file "ChIR13.28b.pdf." The FY 2015 performance goals are worded differently as Service, Customer Experience, Financial, and Workplace. *Id.*

implemented during FY 2014, the Postal Service neither provided the FY 2014 result for the old performance indicator nor developed FY 2014 targets for the new performance indicators. Thus, the only data for comparison are the original FY 2014 target (for the old performance indicator) and the FY 2014 results (for the new performance indicators).

In the case of that performance goal, the FY 2014 target and results provided by the Postal Service are not comparable because they are based on responses from different types of customers and consist of different survey responses covering different postal service experiences and events. *For this reason, the Commission finds that the FY 2014 Report fails to “set forth the performance indicators established in the Postal Service performance plan, along with the actual program performance achieved compared with the performance goals expressed in the [FY 2014] plan ...” for the Provide Excellent Customer Experiences goal as required by 39 U.S.C. § 2804(b)(1). To comply with this requirement in future years, targets expressed in performance plans must be comparable with results presented in program performance reports.* Chapter 3, section B.3.b., *infra*, explores this issue in more detail.

Second, the *FY 2014 Report* does not “include actual results for the three preceding fiscal years.” See 39 U.S.C. § 2804(c). The *FY 2014 Report* must include results for FY 2014. See *id.* § 2804(d)(1). It follows that “the three preceding fiscal years” to which section 2804(c) refers are fiscal years 2011, 2012, and 2013. *The Commission finds that the “actual results” must also be comparable across all three preceding fiscal years.* If results are not provided on a comparable basis, the Commission cannot meaningfully evaluate performance across fiscal years 2011, 2012, 2013, and 2014.

The *FY 2014 Report* does not meet this requirement for the Provide Excellent Customer Experiences goal. As discussed above, results of new performance indicators used during FY 2014 are not comparable with the result of the old performance indicator used in fiscal years 2011, 2012, and 2013. *Without comparable results, the Commission finds that the FY 2014 Report does not “include actual results for the three preceding fiscal years” as required by 39 U.S.C. § 2804(c).*

For the FY 2015 Report to comply with 39 U.S.C. § 2804(c), the Postal Service must provide comparable results for each performance indicator for, at minimum, fiscal years 2012, 2013, 2014, and 2015. The Postal Service can fulfill this requirement by providing all results using the same methodology or by explaining how results can be compared under different methodologies. If the Postal Service makes any changes that affect comparability of results for any performance indicator, the Postal Service must do either of the following to ensure that the FY 2015 Report complies with section 2804(c):

- *Provide FY 2015 results using the old methodology, if available*
- *Provide FY 2015 results using the new methodology and explain how results can be compared under the old and new methodologies*

The Postal Service should also describe any methodology changes in the Annual Report to Congress and analyze the impact of methodology changes on results.

Chapter 3 explores this issue in more detail for instances where methodology changes are likely to affect comparability of results for certain performance indicators in FY 2015. *See* section A.3.c (Deliver High-Quality Services goal), section B.3.b (Provide Excellent Customer Experiences goal), and section C.3.b (Ensure a Safe Workplace and Engaged Workforce).

CHAPTER 3: ANALYSIS OF POSTAL SERVICE PERFORMANCE

The Postal Service's four performance goals for FY 2014 were:

- Deliver High-Quality Services
- Provide Excellent Customer Experiences
- Ensure a Safe Workplace and Engaged Workforce¹⁷
- Sustain Controllable Income

In this chapter the Commission evaluates whether the Postal Service met each performance goal in FY 2014. *See* 39 U.S.C. § 3653(d). It finds that:

- The Postal Service **partially met** the Deliver High-Quality Services and Sustain Controllable Income goals.
- The Postal Service **did not meet** the Ensure a Safe Workplace and Engaged Workforce goal.
- The Commission **cannot determine** whether the Postal Service met the Provide Excellent Customer Experiences goal due to the lack of comparable FY 2014 data.

Table III-1 lists each performance goal, whether the goal was met, reasons for not meeting the goal, and plans and schedules for achieving the goal in future years. *See* 39 U.S.C. § 2804(d)(3).

¹⁷ This performance goal was initially identified as "Ensure a Safe and Healthy Workplace." FY 2014 *Annual Report* at 38. In later portions of the FY 2014 *Annual Report*, it was discussed by the Postal Service under the heading "Ensure a Safe Workplace and Engaged Workforce." *Id.* at 40. The Commission uses the latter description in this Analysis because it more closely aligns with the Postal Service's discussion of this goal. *See* n.2, *supra*.

**Table III-1
FY 2014 Progress Toward Performance Goals**

<i>Performance Goal</i>	<i>Goal Met</i>	<i>Reason for Not Meeting Goal</i>	<i>Plans and Schedules</i>
Deliver High-Quality Services (% on-time)	Partially	An aggressive work hour stretch and the hiring, training, and replacement (due to turnover) of many new employees	Complete Phase 2 of the Network Rationalization Initiative*; benefit from a fully-trained non-career workforce to supplement career employees
Provide Excellent Customer Experiences	Cannot Determine	FY 2014 target and FY 2014 performance results are not comparable	No Postal Service analysis of performance plan or results; no FY 2015 plans or schedules identified
Ensure a Safe Workplace and Engaged Workforce	No	Severe winter weather from December 2013 through February/March 2014	Focus on at-risk employees and new employees who are less familiar with safe work practices; tailor safety programs to address concerns at the local facility level; address ergonomic impacts associated with lifting, handling, and repetitive motions required for delivery Redesign employee survey program to increase levels of employee engagement; provide tools to help managers respond to survey results
Sustain Controllable Income	Partially	Overrun of an aggressive work hour plan; failure to capture savings from Phase 1 of the Network Rationalization Initiative; additional work hours from Sunday package delivery and during the Christmas season; hiring and training of many new non-career employees; high turnover rate for city carrier assistants	Implement Phase 2 of the Network Rationalization Initiative* and continue the POSTPlan, load leveling, and voluntary centralized delivery programs

*The Postal Service postponed Phase 2 of the Network Rationalization Initiative to FY 2016. See n.27, *infra*.

Source: FY 2014 *Annual Report* at 38, 40; Responses of the United States Postal Service to Questions 1-13 of Chairman's Information Request No. 15, question 5, April 6, 2015 (Response to CHIR No. 15).

In the sections that follow, the Commission analyzes each performance goal in-depth and provides recommendations to help improve future performance plans and program performance reports.

A. Deliver High-Quality Services

1. Background

The Postal Service uses the percent of mail delivered on time to assess whether its performance meets the Deliver High-Quality Services performance goal.¹⁸ Progress toward this goal is measured by eight performance indicators:

- Single-Piece First-Class Mail
 - Overnight
 - 2-Day
 - 3-5 Day
- Presort First-Class Mail
 - Overnight
 - 2-Day
 - 3-5 Day
- First-Class Mail Composite
- Standard Mail Composite

First-Class Mail Composite combines performance for Single-Piece First-Class Mail and bulk-entered Presort First-Class Mail for an aggregate of Overnight, 2-Day, and 3-5 Day service.¹⁹ Standard Mail Composite is a composite of destination entry and origin entry service for Standard Mail Letters and Flats.²⁰

In FY 2014, the Postal Service fell short of the target set for each performance indicator except for Presort First-Class Mail (Overnight). FY 2014 *Annual Report* at 38; see Table I-1, *supra*. The Postal Service explains that it did not meet FY 2014 targets “due to an aggressive work hour stretch and the hiring, training and replacement (due to turnover) of many new employees.” *Id.* It asserts that severe winter storms during the first and second quarters of FY 2014 significantly impacted performance results for many service standards and products.²¹

¹⁸ The Postal Service also reports service performance on all Market Dominant products in the *Annual Compliance Report*. 39 U.S.C. § 3652(a)(2)(B)(i). Service performance reporting in the *Annual Compliance Report* is independent of service performance reporting in performance plans and program performance reports under 39 U.S.C. §§ 2803 and 2804.

¹⁹ FY 2014 *Annual Report* at 39 n.1; see Docket No. ACR2013, Responses of the United States Postal Service to Questions 1-9 of Chairman’s Information Request No. 10, question 9, March 4, 2014 (Docket No. ACR2013, Response to CHIR No. 10).

²⁰ Responses of the United States Postal Service to Questions 1, 4-5, and 8 of Chairman’s Information Request No. 14, March 25, 2015, question 1 n.1 (March 25 Response to CHIR No. 14). In this response, the Postal Service corrected the Standard Mail Composite description included in its *FY 2014 Report* and *FY 2015 Plan*. See FY 2014 *Annual Report* at 39 n.2.

²¹ See Library Reference USPS–FY14–29, December 29, 2014, at 8; Responses of the United States Postal Service to Questions 7, 9, 11, and 14 of Chairman’s Information Request No. 2, January 29, 2015, questions 11a., 14a. (January 29 Response to CHIR No. 2).

The FY 2015 targets are the same as the FY 2014 targets. Consequently, except for Presort First-Class Mail (Overnight), the results for all performance indicators will have to improve to meet FY 2015 targets. The improvement needed to meet each target ranges from 0.10 to 7.55 points. The Postal Service contends that it will improve service performance and meet FY 2015 targets by completing Phase 2 of the Network Rationalization Initiative and by benefitting from a fully-trained non-career workforce to supplement career employees.²²

2. Comments

The Public Representative observes that the gap between the targets and results for five performance indicators exceeds 2 percentage points. PR Comments at 4. Although the Postal Service cites employee turnover as one reason why service performance scores decreased, the Public Representative notes that the Postal Service does not clearly explain how it will address this issue. *Id.* at 6. She finds the Postal Service's assertion that "FY 2014 performance scores have remained remarkably high and relatively stable" to be insufficient.²³ She mentions that in FY 2013, the Postal Service claimed it would achieve service performance targets in FY 2014 by applying Lean Mail Processing principles to improve efficiency, reduce cycle time, and eliminate waste. *Id.* at 6. However, she contends that applying Lean Mail Processing principles will not improve service performance immediately because its implementation is "an ongoing cycle" that includes "more projects in phases."²⁴ She concludes that service performance will not improve until the Postal Service fully implements Lean Mail Processing projects. *See* PR Comments at 6.

3. Commission Analysis

As noted above, in FY 2014, the Postal Service missed targets for seven out of eight performance indicators for its Deliver High-Quality Services goal. FY 2014 *Annual Report* at 38-39. *The Commission finds that because the Postal Service met one of the service performance targets it partially met the Deliver High-Quality Services performance goal in FY 2014.*

In this section, the Commission makes observations on the Postal Service's FY 2014 service performance and recommendations on its plans for meeting FY 2015 targets. It also discusses the impact of severe winter weather and two methodology changes to the Presort First-Class Mail (Overnight, 2-Day, and 3-5 Day) and Standard Mail Composite performance indicators.

²² FY 2014 *Annual Report* at 38. In May 2015, the Postal Service announced that it will defer Phase 2 of the Network Rationalization Initiative to FY 2016. *See* n.27, *infra*.

²³ *Id.* (citing January 29 Response to CHIR No. 2, question 11a.).

²⁴ *Id.* (citing Docket No. ACR2013, Responses of the United States Postal Service to Questions 1, 5-6, 8-11 of Chairman's Information Request No. 15, question 10c., March 21, 2014 (Docket No. ACR2013, Response to CHIR No. 15)).

a. Observations

The Commission observes that concerns about FY 2014 service performance may be alleviated, at least in part, by improvements made to the Service Performance Diagnostics tool. This tool enables field managers to examine mail information throughout the supply chain and notify shippers of scanning issues so they can improve print quality and visibility.²⁵ In FY 2014, the Postal Service enhanced this tool to provide greater operational visibility to field managers. FY 2014 *Annual Report* at 50. The Postal Service explains that these enhancements provided new insight on service issues and enabled its managers in the field to systematically identify root causes for the largest service issues. *Id.* It asserts that the Service Performance Diagnostics tool enabled it to continue to apply Lean Mail Processing principles and reduce service variances. *Id.* at 51.

The Postal Service identifies two plans for improving service and meeting FY 2015 targets. The Commission is concerned that neither plan will improve service performance enough to enable the Postal Service to meet the Deliver High-Quality Services goal in FY 2015.

First, the Postal Service states that it will complete Phase 2 of the Network Rationalization Initiative. *Id.* at 38. However, the Postal Service does not explain how Phase 2 is expected to improve service performance, and FY 2013 service performance results did not exhibit any clear improvement after the completion of Phase 1 in FY 2012.²⁶ Moreover, after comments were filed in Docket No. ACR2014, the Postal Service announced that it will defer Phase 2 of the Network Rationalization Initiative until FY 2016.²⁷

Second, the Postal Service contends that it will benefit from a fully-trained non-career workforce to supplement career employees. Yet many non-career employees who resigned in FY 2014 did so for “personal reasons” such as life situations that the Postal Service was not able to accommodate.²⁸ If this trend continues, non-career employee resignations could continue to limit the Postal Service’s ability to sustain a fully-trained non-career workforce to supplement its career workforce and thereby improve service performance.

The Postal Service has not explained how Phase 2 of the Network Rationalization Initiative will improve service performance. Even if it will, the decision to postpone

²⁵ United States Postal Service, “Delivering Solutions to the Last Mile” (accessed June 29, 2015); <https://www.usps.com/lastmile/#>.

²⁶ See Docket No. ACR2013, *Annual Compliance Determination Report*, March 27, 2014, at 104, Table V-2 (FY 2013 ACD).

²⁷ United States Postal Service, Industry Alert: Network Rationalization Initiative, May 27, 2015; https://ribbs.usps.gov/industryoutreach/documents/tech_guides/IndustryAlertArchives/2015IndustryAlerts/NetworkRationalizationInitiative.pdf.

²⁸ United States Postal Service Responses to Questions 1-5, 12-14, 26, 27, and 31-33 of Chairman’s Information Request No. 13, March 11, 2015, question 5 (March 11 Response to CHIR No. 13).

Phase 2 implementation means that any such improvement will not occur in FY 2015. Moreover, it is unclear how the Postal Service will benefit from a fully-trained non-career workforce if non-career employees continue to resign for personal reasons outside of the Postal Service's control. *The Commission recommends that the Postal Service explore and develop other plans for meeting FY 2015 service performance targets and include them in the FY 2015 Report and FY 2016 Plan.*

b. Severe Winter Weather

The Postal Service asserts, "In FY 2014, the Postal Service experienced one of the more challenging winters in recent history." FY 2014 *Annual Report* at 51. According to American Customer Satisfaction Index (ACSI) analysts,²⁹ severe winter weather adversely impacted not only the Postal Service, but also other large national shipping companies during the first two quarters of FY 2014.³⁰ The Postal Service's FY 2014 service performance results are consistent with the ACSI's finding that customer satisfaction with regular and express delivery services declined during the first two quarters of FY 2014. *See id.* ACSI analysts explain that this decline is mainly due to delays caused by weather and strained systems over the winter. *Id.* Also, because of a shorter than usual 2014 holiday season, a surge of packages flooded delivery networks in the final days before Christmas. *Id.* Even the largest carriers were unprepared for the rush of last-minute deliveries and packages that did not arrive on time for the holidays.³¹

The Postal Service asserts that its delivery service mission is "most affected by extreme weather events which can delay and disrupt mail delivery[,] but notes that it has an existing plan that includes preparing and responding to those events.³² Responses include issuing clear guidance to inform customers what to expect regarding mail delivery under severe winter conditions. For example, the Postal Service regularly issues news releases for areas where snow and icy conditions may be hazardous to mail carriers.³³ Postal Service suggestions for maintaining continued regular mail delivery and collection are specific during winter weather:

²⁹ The ACSI is an independent national measure of customer satisfaction with the quality of products and services available to household consumers in the United States. ACSI, *About the American Customer Satisfaction Index*; <http://theacsi.org/about-acsi>. Each year, around 70,000 customers are surveyed about the products and services they use the most. *Id.* The data serve as inputs to an econometric model that benchmarks customer satisfaction with more than 230 companies, 43 industries, and 10 economic sectors, as well as over 100 services, programs, and websites of federal government agencies. *Id.*

³⁰ ACSI, *Utilities, Shipping, and Health Care Report 2014*, May 6, 2014, at 6-7, 9; <http://www.theacsi.org/news-and-resources/customer-satisfaction-reports/reports-2014/acsi-utilities-shipping-and-health-care-report-2014/acsi-utilities-shipping-and-health-care-report-2014-download>.

³¹ ACSI, *ACSI Report: Customer Satisfaction Drops for Energy Utilities, Shipping and Health Care*, May 6, 2014, at 2; <http://www.theacsi.org/news-and-resources/press-releases/press-2014/press-release-utilities-shipping-and-health-care-2014>.

³² United States Postal Service, *Climate Change Adaptation Plan*, June 2014, at 8, 16 (*Climate Change Adaptation Plan*); http://about.usps.com/what-we-are-doing/green/pdf/CCAP_FINAL_2014.pdf.

³³ United States Postal Service Press Release, *Milwaukee Post Office Reminds Customers to Clear Snow and Ice*, January 8, 2014; http://about.usps.com/news/state-releases/wi/2014/wi_2014_0108.htm.

- Door-to-door delivery customers should clear their sidewalks, steps, and porches.
- Curbside delivery customers should keep access to their mailboxes clear for carriers by removing snow piles left by snow plows.
- Residents and businesses with blue collection boxes near their property should clear them of snow and ice.

Id.

During severe winter weather conditions, customers may be inconvenienced when carriers curtail mail delivery. However, the Postal Service states that carriers carefully consider other options before curtailing mail delivery and do so only as a last resort “whenever streets or walkways present hazardous conditions for letter carriers or when snow is plowed against mailboxes.” *Id.* When mail cannot be delivered on a given day, carriers attempt to deliver all curtailed mail the next delivery day. *Id.*

In some cases, severe winter weather conditions delay snow removal on public roads in some areas, which may adversely affect individuals awaiting time-sensitive mail.³⁴ Some customers may lack the resources or ability to clear snow and ice from mail carriers’ paths for several days. *To address this issue and improve customer service, the Commission recommends providing more local information about holding, storing, and delivering time-sensitive mail items when severe winter weather conditions are anticipated.*³⁵ The Postal Service would improve customer service by providing this type of advance information, especially for more vulnerable individuals or businesses that provide essential services.

By providing more current local information to the community during severe winter weather conditions, the Postal Service may better inform customers about what to expect and what specific options are available in their community for obtaining time-sensitive mail. Communicating in advance delivery contingency plans and information at the community level to all customers may also benefit the Postal Service by decreasing customer calls to the local Post Office and the Customer Care Center when delivery is delayed.

The Postal Service does issue service alerts that provide information to consumers, small businesses, and business mailers about postal facility service disruptions due to weather-related and other natural disasters or events.³⁶ The Postal Service states that it reorganized and upgraded its service disruption webpage based on customer

³⁴ See, e.g., CBS Detroit, *Plowing Companies Scramble To Prevent Liability Claims Amid Road Salt Shortage*, February 27, 2014; <http://detroit.cbslocal.com/2014/02/27/plowing-companies-scramble-to-prevent-liability-claims-amid-road-salt-shortage/>.

³⁵ The Commission’s FY 2014 ACD lists winter storms during fiscal quarters 1 and 2, their dates and the affected regions, and corresponding Postal Service areas. FY 2014 ACD at 97-98.

³⁶ See United States Postal Service, *USPS Service Alerts*, May 21, 2015; <http://about.usps.com/news/service-alerts/welcome.htm>.

feedback as well as disasters and severe winter weather events that affected the mail.³⁷ However, some of the information on the service disruption webpage appeared to be out of date when the webpage was reviewed by the Commission. Upgrades to the service alerts webpage help the Postal Service communicate important information during events that impact mail service. *The Commission urges the Postal Service to closely monitor updates to ensure that current and accurate local information is posted and communicated on the USPS Service Alerts website.*

Severe winter weather during winter 2014 may have contributed to the Postal Service's failure to meet most FY 2014 targets for the Deliver High-Quality Services performance indicators. In its FY 2014 ACD, the Commission found that the Postal Service's claim that severe winter weather had an adverse effect on service performance results is, on its face, reasonable. FY 2014 ACD at 88. However, it concluded that it was unclear if weather alone was responsible for the continuing failure of some products to meet intended annual targets. *Id.*

There is little evidence to suggest that severe winter weather had an adverse impact on service performance during the second half of FY 2014. *If substantially lower service performance in quarters 1 and 2 pulled down the average for the entire fiscal year such that the FY 2014 targets were not met, the Postal Service should consider further analyzing the times and areas impacted by severe winter weather and including more comprehensive service performance information in its FY 2015 Report and FY 2016 Plan.*

c. Performance Indicators

In FY 2015, the Postal Service plans to make two methodology changes to the Presort First-Class Mail (Overnight, 2-Day, and 3-5 Day) and Standard Mail Composite performance indicators. March 25 Response to CHIR No. 14, question 1. The Postal Service asserts that it will use actual Presort First-Class Mail Flats data rather than proxy data. *Id.* Also, the Standard Mail Composite performance indicator will include Every Door Direct Mail. *Id.* The Postal Service observes that these changes may affect comparability of performance indicators for fiscal years 2012, 2013, 2014, and 2015. *Id.*

The proposed methodology changes may impact the Postal Service's compliance with 39 U.S.C. § 2804 in two ways. First, the results expressed in program performance reports must be comparable with targets for that fiscal year. *See* 39 U.S.C. § 2804(b)(1); Chapter 2, section C.3, *supra*. *To comply with 39 U.S.C. § 2804(b)(1), the Postal Service must develop FY 2015 targets using the new methodology to ensure that the results presented in the FY 2015 Report are comparable with FY 2015 targets.*

³⁷ FY 2013 Annual Report at 57; see Docket No. ACR2013, Library Reference USPS-FY13-17.

Second, the *FY 2015 Report* must include actual results comparable across fiscal years 2012, 2013, 2014, and 2015. 39 U.S.C. § 2804(c); see Chapter 2, section C.3, *supra*. If the Postal Service makes any changes that affect comparability of results for any performance indicator, to comply with section 2804(c), the Postal Service must either provide the FY 2015 results using the old methodology (if available) or provide the FY 2015 results using the new methodology and explain how results can be compared under the old and new methodologies in its FY 2015 Report. The Postal Service should also describe any methodology changes in the Annual Report to Congress and analyze the impact of methodology changes on results.

The Presort First-Class Mail (2-Day) performance indicator combines Presort First-Class Mail products such as letters, postcards, packages, and flats. In FY 2014, the Postal Service calculated results for this performance indicator by combining products that met service performance targets (such as letters and cards) with products that missed service performance targets by a wide margin (such as flats and parcels). See FY 2014 ACD at 96, Table V-4. Because of this, the FY 2014 result for the Presort First-Class Mail (2-Day) performance indicator missed the FY 2014 target.

The Commission recommends that the Postal Service include disaggregated delivery service performance measurements in its FY 2015 Report for time periods, geographic regions, or products in cases where the overall service performance indicator result fails to meet the FY 2015 target, yet the disaggregated delivery service performance results show service performance met or exceeded FY 2015 targets. Disaggregated results may help the Postal Service distinguish between delivery delays caused by issues the Postal Service can control and delivery delays caused by severe winter weather and other factors that the Postal Service cannot control.³⁸ The Commission also suggests that in the FY 2015 Report, the Postal Service discuss which of the disaggregated results were impacted by the delay in implementing Phase 2 of the Network Rationalization Initiative. The Postal Service should also disaggregate the percent on-time performance for those clusters that met FY 2015 targets and were not impacted by the delay in implementing Phase 2 of the Network Rationalization Initiative.

B. Provide Excellent Customer Experiences

1. Background

The Postal Service currently uses results from national surveys of residential, small/medium business, and large business customers to assess whether its performance meets the Provide Excellent Customer Experiences goal. In fiscal years

³⁸ The Postal Service does disaggregate data on Market Dominant products in the *Annual Compliance Report*. Each year, the Commission compares service performance data in the *Annual Compliance Report* against targets the Postal Service established to evaluate annual service performance for each Market Dominant product. See Chapter 5 of the FY 2014 ACD at 87-115. Even so, grouping service performance data differently may better illustrate which service performance targets were met during the fiscal year under review.

2012 and 2013, the Postal Service measured performance using one performance indicator based on the Customer Experience Measurement (CEM) measurement system: the CEM Composite Metric.³⁹ The CEM Composite Metric weighted and combined survey responses of “Very Satisfied” and “Mostly Satisfied” from residential and small/medium business customers regarding four overall Postal Service experiences: receiving letters or packages, sending letters or packages, Post Office experience, and contact experience.⁴⁰ The Postal Service set a FY 2014 target of 82.5 for the CEM Composite Metric performance indicator. FY 2013 *Annual Report* at 39.

In FY 2014, the Postal Service began measuring performance using a new Customer Insights (CI) measurement system. It is based on five customer surveys the Postal Service uses to measure customer experiences. Table III-2 describes each new CI survey.

Table III-2
Customer Insights Measurement System
Customer Survey Names and Descriptions

Customer Survey Name	Description
Business Service Network	Surveys large business customer accounts in the Postal Service CustomerFirst! database that have reported service issues
Point of Sale	Surveys retail customers who conduct transactions at Postal Service locations with Point of Sale equipment
Delivery (Residential)	Surveys a random sample of households that receive mail delivery
Delivery (Small/Medium Business)	Surveys a random sample of small/medium size businesses (<i>i.e.</i> , those with fewer than 250 employees) that receive mail delivery
Customer Care Center	Surveys a random sample of residential customers who call the Customer Care Center and talk to a live agent

Sources: Library Reference USPS–FY14–38, December 29, 2014, “Preface.pdf” file; FY 2014 *Annual Report* at 39-40.

The Postal Service established five new performance indicators based on the CI surveys:

³⁹ FY 2013 *Annual Report* at 39. Information on customer experience performance indicators in the FY 2013 *Annual Report* appears to be inconsistent with similar information presented in the FY 2012 *Annual Report*. Compare FY 2013 *Annual Report* at 39 n.4 with FY 2012 *Annual Report* at 39 n.4. Both the FY 2012 and FY 2013 *Annual Reports* include CEM targets and results. The Postal Service confirmed that the FY 2012 CEM Composite Metric was calculated with the same computations as the one in FY 2013. See Docket No. ACR2013, Response to CHIR No. 10, questions 3b., 3c. In the FY 2012 *Annual Report*, the CEM Composite Metric had been included as a “cross-portfolio performance indicator.”

⁴⁰ FY 2013 *Annual Report* at 39 n.4. The Commission analyzed the FY 2012 and FY 2013 CEM Composite Metric calculation methodology in its FY 2013 *Review* at 13.

- CI Composite Metric
- Business Service Network
- Point of Sale
- Delivery
- Customer Care Center

Table III-3 lists the names and descriptions of each new CI performance indicator and the customer survey responses used to measure them.

**Table III-3
Customer Insights Performance Indicators
Customer Survey Responses Used for Performance Indicator**

Customer Insights Performance Indicator	Customer Survey Responses Used for Performance Indicator*
<p align="center"><u>Customer Insights Composite Metric**</u></p> <p>Combines weighted survey results from the Business Service Network, Point of Sale, Delivery, and Customer Care Center performance indicators</p>	<p>40% Business Service Network, 20% Point of Sale, 20% Delivery, and 20% Customer Care Center</p>
<p align="center"><u>Business Service Network</u></p> <p>Measures Overall Customer Satisfaction with Business Service Network Representative</p>	<p>“How satisfied are you with the OVERALL service provided during this interaction?”</p>
<p align="center"><u>Point of Sale</u></p> <p>Measures Retail Customer Overall Satisfaction</p>	<p>“Thinking about this visit to the Post Office, overall, how satisfied were you?”</p>
<p align="center"><u>Delivery***</u></p> <p>Measures Overall Customer Satisfaction with Carrier</p>	<p>“Just thinking about your overall experience with the mail or packages you recently RECEIVED, how satisfied are you with USPS performance?”</p>
<p align="center"><u>Customer Care Center</u></p> <p>Measures Overall Customer Satisfaction with Live Agent</p>	<p>“Now, please think only about the agent who handled your call today, how would you rate the agent’s overall quality of service?”</p>

*Based on the top two survey responses (Very Satisfied or Mostly Satisfied).

**Surveys were provided in Library Reference USPS–FY14–38. The CI Composite Metric calculation methodology is shown in the “CHIR5.Q1b.Calculation Worksheet” file provided with the February 10 Response to CHIR No. 5, question 1b.

***The Delivery performance indicator combines responses from both the Delivery (Residential) and Delivery (Small/Medium Business) surveys.

Source: February 10 Response to CHIR No. 5, question 1a.

The new CI Composite Metric performance indicator is composed of the four weighted metrics from the Business Service Network, Point of Sale, Delivery, and Customer Care Center performance indicators. It combines customer-segment-weighted “Very Satisfied” and “Mostly Satisfied” responses to the questions listed in Table III-3.⁴¹ The Postal Service asserts that the new CI surveys are an improvement over the old CEM surveys⁴² because the old CEM surveys were not sufficiently sensitive to small changes in customer perception and did not provide results in a timely and efficient manner (fewer than 45 days).⁴³

2. Comments

The Public Representative has several concerns about how the Postal Service uses the new CI performance indicators. Concerning the *FY 2015 Plan*, she states that it is unclear how the Postal Service calculated the FY 2015 CI Composite Metric target of 82.5. PR Comments at 9. She is also concerned that in the *FY 2014 Plan* the Postal Service set the FY 2014 customer experience target for a performance indicator under the old CEM measurement system rather than the new CI measurement system. *Id.* She concludes that comparing FY 2014 targets with results appears difficult because the old CEM and new CI measurement systems are different. *Id.* at 8. She also asserts that the Postal Service did not provide any other details regarding the new CI measurement system and that the Commission in its *FY 2013 Review* discussed performance indicators under the old CEM measurement system. *Id.* at 9-10.

The Public Representative expresses her expectation that in the future, the Postal Service will provide “adequate and on-time information” about changes to its measurement systems. *Id.* at 10. She contends that doing so will increase transparency, help Commission reviews of performance plans and program performance reports, and serve the interests of the general public. *Id.*

In its reply comments, the Postal Service explains how it calculated the FY 2015 CI Composite Metric target and notes that it modified the FY 2015 target from 82.5 to 86.7 after it published the *FY 2014 Report* and *FY 2015 Plan*. USPS Reply Comments at 5.

⁴¹ The Postal Service asserts that the customer segment weighting used to calculate the CI Composite Metric is “an improved holistic view of customer satisfaction.” Library Reference USPS–FY14–38, “Preface.pdf” file. The Postal Service explains how the CI Composite Metric is weighted: “The weighting of each [customer] segment of the different interconnected customer touch points results in a more accurate and detailed view of the satisfaction level for the largest core customer segment.” United States Postal Service Responses to Questions 1-3 of Chairman’s Information Request No. 11, March 3, 2015, question 1b. (Response to CHIR No. 11).

⁴² The old CEM surveys consisted of three comprehensive customer surveys for each customer segment: residential customers, small/medium business customers, and large business customers. However, the CEM Composite Metric performance indicator only used and combined responses from residential and small/medium business customers. See the Residential Survey, Small/Medium Business Survey, and Large Business Survey pdf files provided in Docket No. ACR2013, Library Reference USPS–FY13–38, December 27, 2013.

⁴³ See the discussion in the “C. Methodology” section of the “USPS-FY14 Preface.pdf” file provided in Library Reference USPS–FY14–38.

3. Commission Analysis

In this section, the Commission discusses three topics. First, it reviews whether the Postal Service effectively addressed key customer experience issues identified in FY 2013. Second, it evaluates whether the Postal Service met the Provide Excellent Customer Experiences goal in FY 2014. Third, it identifies two issues with the new CI performance indicators.

- a. Postal Service Efforts to Address FY 2013 Customer Experience Issues

In FY 2013, the Postal Service identified two primary reasons why it did not meet the Provide Excellent Customer Experiences performance goal: lower customer satisfaction with problem resolution and repeat customer complaints.⁴⁴ To address these issues, the Postal Service set targets of 90 percent customer satisfaction with problem resolution and a 50 percent reduction in repeat customer complaints by FY 2017.⁴⁵ The Postal Service asserts that in FY 2014 it “standardized the complaint-handling and resolution process by providing guidelines that give direction from initial contact through completion, with a quality resolution.”⁴⁶

Because the *FY 2014 Report* and *FY 2015 Plan* do not include any numeric evaluation or discussion of the Postal Service’s progress toward these customer experience performance targets, the Commission requested FY 2014 performance results for customer satisfaction with problem resolution and repeat customer complaints to assess the efficacy of the Postal Service’s efforts to improve these aspects of the customer experience. The Postal Service responded that in FY 2014, less than 21 percent of customers were satisfied with their problem resolution.⁴⁷ It explained that it did not measure reductions in repeat customer complaints because the measurement system was still under development in FY 2014. *Id.*

The FY 2014 result of less than 21 percent customer satisfaction with problem resolution is well below the projected FY 2017 target of 90 percent. *The Commission recommends that in the FY 2015 Report and FY 2016 Plan, the Postal Service:*

⁴⁴ As reported in FY 2013, the Postal Service had planned on providing weekly messaging to inform and engage employees, providing diagnostic reports, and reviewing current complaint processes to improve its customer experience performance in FY 2014. See Docket No. ACR2013, Responses of the United States Postal Service to Questions 1-8 of Chairman’s Information Request No. 12, March 14, 2014, questions 6a., 6b. (Docket No. ACR2013, Response to CHIR No. 12).

⁴⁵ See Docket No. ACR2013, Response to CHIR No. 12, question 6.

⁴⁶ FY 2014 *Annual Report* at 40. These are documented in the “ChIR13.24a.Complaint-Guidelines” file provided in United States Postal Service Responses to Questions 6, 7, 9, 10, 20-25, 29, 30, 34, and 35 of Chairman’s Information Request No. 13, March 13, 2015, question 24a. (March 13 Response to CHIR No. 13).

⁴⁷ See Response to CHIR No. 15, question 4a.

- *Provide an explanation if the FY 2015 result for customer satisfaction with problem resolution indicates that the Postal Service will not meet the FY 2017 target.*
- *Include plans for improving customer satisfaction with problem resolution and achieving the 90 percent target in FY 2017.*
- *Provide annual fiscal year updates of its progress toward FY 2017 targets for both customer satisfaction with problem resolution and repeat customer complaints, as well as annual fiscal year updates of its progress toward other long-term targets with performance targets that span multiple years.*

b. Evaluating FY 2014 Performance

To evaluate whether the Postal Service met the Provide Excellent Customer Experiences goal in FY 2014, the Commission must determine whether the FY 2014 result meets or exceeds the FY 2014 target. As previously discussed, the Postal Service originally set one FY 2014 target for the old CEM Composite Metric performance indicator. During FY 2014, it implemented new performance indicators based on the new CI measurement system. In the *FY 2014 Report* and *FY 2015 Plan*, the Postal Service does provide FY 2015 targets for each new CI performance indicator.⁴⁸ However, the Postal Service failed to include *any* FY 2014 targets or results for either the old CEM Composite Metric or new CI performance indicators. See *FY 2014 Annual Report* at 39.

To address this failure, the Chairman issued an information request to obtain FY 2014 targets and results for the new CI performance indicators.⁴⁹ The Postal Service provided FY 2014 results, but did not include any FY 2014 targets for the new CI performance indicators. The Postal Service explains that FY 2014 serves as the baseline measure for the new CI measurement system. *FY 2014 Annual Report* at 39 n.3. It asserts it did not develop FY 2014 targets for the new CI performance indicators because FY 2014 “was a development year.” February 10 Response to CHIR No. 5, question 2e. Table III-4 lists available targets and results for the new CI performance indicators.

⁴⁸ *FY 2014 Annual Report* at 39. The Postal Service changed the FY 2015 target for the CI Composite Metric performance indicator after the *FY 2014 Annual Report* was published. USPS Reply Comments at 6. Responding to an information request, the Postal Service explains how it set FY 2015 targets for each new CI performance indicator. March 13 Response to CHIR No. 13, question 34. However, it is unclear why the values of the expressed FY 2015 targets range from 2 to 16 points higher than the FY 2014 baseline results and why the FY 2015 Business Service Network target was set lower than the FY 2014 result.

⁴⁹ See February 10 Response to CHIR No. 5, question 2e.

**Table III-4
Commission Requested Customer Insights Performance Indicators
Available Targets and Results⁵⁰**

Customer Insights Performance Indicator	FY 2015 Target	FY 2014 Result	FY 2014 Target
Customer Insights Composite Metric	86.7*	84.65	Not Developed
Business Service Network	94.0	94.05	Not Developed
Point of Sale	90.0	81.59	Not Developed
Delivery	90.0	79.55	Not Developed
Customer Care Center	90.0	74.00	Not Developed

*The FY 2015 target for the CI Composite Metric changed after the FY 2014 *Annual Report* was published. See USPS Reply Comments at 5.

Source: FY 2014 *Annual Report* at 39; February 10 Response to CHIR No. 5, question 2e.

Thus, the only available data for the evaluation of FY 2014 performance are the FY 2014 target for the old CEM Composite Metric performance indicator and the FY 2014 results for the new CI performance indicators. However, the old CEM and new CI performance indicators are not comparable because they are based on responses from different types of customers and consist of different survey responses covering different postal service experiences and events. *Without comparable FY 2014 performance data, the Commission cannot determine whether the Postal Service met the Provide Excellent Customer Experiences goal expressed in its FY 2014 Plan.*

Moreover, without comparable FY 2014 performance data, the *FY 2014 Report* does not comply with two statutory requirements in 39 U.S.C. § 2804. First, it does not “set forth the performance indicators established in the Postal Service performance plan, along with the actual program performance achieved compared with the performance goals expressed in the [FY 2014] plan....” as required by 39 U.S.C. § 2804(b)(1). This provision requires the *FY 2014 Report* to list FY 2014 performance indicators and compare FY 2014 results with FY 2014 targets. Because FY 2014 targets and results are not comparable, the *FY 2014 Report* does not comply with section 2804(b)(1).

To enable the Commission to fulfill its responsibilities under 39 U.S.C. § 3653(d), the Postal Service should have developed and provided FY 2014 targets for each new CI performance indicator. Alternatively, it should have provided the FY 2014 result for the old CEM Composite Metric performance indicator.

Second, the *FY 2014 Report* does not comply with 39 U.S.C. § 2804(c). This provision requires the *FY 2014 Report* to include comparable results for fiscal years 2011,

⁵⁰ Table III-3, *supra* lists which survey question and responses were used for each new CI performance indicator. The CI performance indicator calculation methodology was provided in the “CHIR5.Q1b.Calculation Worksheet” file provided with the February 10 Response to CHIR No. 5, question 1b.

2012, 2013, and 2014. *See* Chapter 2, section C.3, *supra*. The *FY 2014 Report* fails to comply with section 2804(c) because results from the old CEM and new CI performance indicators are not comparable. Thus, it is impossible to meaningfully compare results from fiscal years 2011, 2012, 2013 and 2014.

The *FY 2015 Report* must include actual results comparable across fiscal years 2012, 2013, 2014, and 2015. 39 U.S.C. § 2804(c); *see* Chapter 2, section C.3, *supra*. To do this, the Postal Service must either provide the FY 2014 and FY 2015 results using the CEM performance indicator (if available) or explain how the FY 2014 and FY 2015 results derived from the CI surveys can be compared to the FY 2012 and FY 2013 results derived from the CEM surveys in the FY 2015 Report. For example, some delivery questions from the old CEM survey appear to be comparable to delivery questions in the new CI surveys.⁵¹ The Postal Service could compare responses to these questions to evaluate customer delivery experiences for fiscal years 2012, 2013, 2014, and 2015. To ensure that the FY 2015 Report complies with section 2804(c) for the Provide Excellent Customer Experiences goal, the Postal Service must explain how to compare results between the old CEM and new CI surveys for similar customer experiences if it is unable to provide comparable results.

c. Concerns with New Customer Insights Surveys

The Commission has identified two concerns with the new surveys used under the CI measurement system. First, they do not track some of the key customer experiences that were tracked under the old CEM surveys. Although some survey questions may be comparable, several important survey questions asked in the old CEM surveys are not included in the new CI surveys. For example, the new CI surveys do not ask about customers' experiences sending letters or packages or whether letters and packages are consistently delivered when expected.⁵² Also, business customers are no longer asked about their Post Office experiences, and there are far fewer contact points surveyed for large business customers' satisfaction.⁵³ As a result, under the new CI measurement system, the Commission is unable to track some key measurable customer experiences that the old CEM measurement system tracked previously.

⁵¹ Compare question 4c. of the Residential and Small/Medium Business CEM surveys: "Now thinking about your overall experience with the letters or packages you [your business] recently RECEIVED, how satisfied are you with USPS performance?" with question 1 of the CI Delivery surveys: "Just thinking about your overall experience with the mail or packages you recently RECEIVED, how satisfied are you with USPS performance?" See the respective CEM surveys in Docket No. ACR2013, Library Reference USPS-FY13-38 and the CI Delivery surveys in Library Reference USPS-FY14-38.

⁵² See the "Sending Letters or Packages" section (questions 5-8b.) and the "Receiving Letters or Packages" section (question 3, first item) of the Residential and Small/Medium Business CEM surveys in Docket No. ACR2013, Library Reference USPS-FY13-38.

⁵³ See the "Visiting Post Office" section (questions 9-12b.) on the Small/Medium Business CEM survey and questions 8, 9, and 9a. of the Large Business CEM Survey for questions on comprehensive contact points in Docket No. ACR2013, Library Reference USPS-FY13-38.

Second, the Postal Service received certain CI surveys during only part of FY 2014. Responding to an information request, the Postal Service reported partial FY 2014 customer survey data for the new CI surveys, which are shown in Table III-5 below.⁵⁴

Table III-5
FY 2014 Customer Insights Surveys
Time Period Collected and Number Initiated and Received

Customer Insights Survey Name	Time Period	Number of Surveys Initiated	Number of Surveys Received
Business Service Network	November 2013-September 2014	10,794	1,904
Point of Sale	December 2013-September 2014	1,049,104,781	173,290
Delivery (Residential)	August 2014-September 2014	470,631	7,283
Delivery (Small/Medium Business)	August 2014-September 2014	800,017	9,489
Customer Care Center	June 2014-September 2014	202,227	11,362

Source: February 10 Response to CHIR No. 5, question 2a.

Table III-5 illustrates that the Postal Service received Business Service Network and Point of Sale surveys throughout most of FY 2014. In contrast, the Postal Service received both Delivery (Residential) and Delivery (Small/Medium Business) surveys for only a two-month period in August and September of FY 2014. Customer Care Center surveys were received for a four-month period between June and September of FY 2014.

The Postal Service believes results of the Delivery (Residential) and Delivery (Small/Medium Business) surveys are representative of the entire fiscal year. Response to CHIR No. 15, question 10. However, the Postal Service also asserts that severe winter weather caused service performance issues in FY 2014. See Chapter 3, section A, *supra*. If the Delivery surveys had been conducted during the winter months (December 2013 through February/March 2014), customer satisfaction results would presumably have been lower than those received between August and September 2014.

The Commission recommends that the Postal Service provide FY 2015 results for each new CI performance indicator based on surveys received throughout FY 2015. In its FY 2015 Report, the Postal Service should compare the FY 2015 Delivery performance indicator result for those surveys received for August through September 2015 with results for Delivery surveys received for August through September 2014. Likewise, the Postal Service should compare the FY 2015 Customer Care Center performance indicator result for those surveys received for June to September 2015 with results for those Customer Care Center surveys received for June to September 2014.

⁵⁴ See February 10 Response to CHIR No. 5, question 2e.; "CI Question Response Counts FY2014" Excel file in Library Reference USPS-FY14-38.

C. Ensure a Safe Workplace and Engaged Workforce

1. Background

The Postal Service relies on two performance indicators to evaluate progress toward its performance goal to Ensure a Safe Workplace and Engaged Workforce. The Occupational Safety and Health Administration Illness & Injury frequency rate (OSHA I&I Rate) measures performance toward ensuring a safe workplace. The Voice of the Employee (VOE) survey performance indicator is intended to measure the Postal Service's performance in creating an engaged workforce.

The OSHA I&I Rate represents the annual number of recordable injuries and illnesses per 100 employees.⁵⁵ In FY 2014, the Postal Service's OSHA I&I Rate was 6.32, which did not meet the FY 2014 target of 5.55. *Id.* at 39; *see* Table I-1, *supra*. The OSHA I&I Rate increased by 12 percent from FY 2013. *Id.* at 40. The Postal Service explains that the increase was "due primarily to severe winter weather" during the first two quarters of FY 2014. *Id.* Specifically, the Postal Service states:

"[E]xtreme temperatures and weather events occurred both in locations that ordinarily experience such weather events and in locations that do not normally experience such extremes, and these weather events increased the frequency and severity of motor vehicle accidents. The cold, ice and snow conditions resulted in an increase of motor vehicle accidents arising from collisions with stationary objects. In addition, the extreme weather led to a significant increase in the frequency and severity of frost bite claims and accidents resulting from slips, trips and falls. Between the months of November through March, there was a large spike in these recordable accidents."⁵⁶

⁵⁵ The Postal Service calculates the OSHA I&I Rate using an industrywide formula recommended by OSHA: total number of OSHA injuries and illnesses (multiplied by 200,000 hours divided by the number of exposure hours worked by all employees). FY 2014 *Annual Report* at 39 n.4.

⁵⁶ March 13 Response to CHIR No. 13, question 6. In FY 2013 (the most currently available complete fiscal year), the United States Department of Labor Statistics fatal occupational injury data report that 20 Postal Service workers were killed. Sixteen fatalities were caused by transportation incidents; fourteen of the fatalities in these incidents were mail carriers. *See* United States Department of Labor, Bureau of Labor Statistics, *2013 Census of Fatal Occupational Injuries (revised 4-22-15)* (Department of Labor accessed May 26, 2015) at 28, <http://www.bls.gov/iif/oshwc/cfoi/cftb0277.pdf>; United States Department of Labor, Bureau of Labor Statistics, *Fatal Occupational Injuries by Occupation* (Department of Labor accessed May 26, 2015) at 11, <http://www.bls.gov/iif/oshwc/cfoi/cftb0281.pdf>.

The Postal Service also attributes the OSHA I&I Rate increase to newer employees who are less familiar with safety practices as well as ergonomic stressors from sorting and delivering a greater volume of packages. *FY 2014 Annual Report* at 40.

The FY 2015 OSHA I&I Rate target is 5.1, which is better than the missed FY 2014 target of 5.55. The Postal Service asserts that it will ensure a safer workplace in FY 2015 by doing three things. First, it will focus on at-risk employees and new employees who are less familiar with safe work practices. *FY 2014 Annual Report* at 40. Second, it will tailor safety programs to address concerns at the local facility level. *Id.* Third, it will address ergonomic impacts associated with lifting, handling, and repetitive motions required for delivery. *Id.*

The VOE survey performance indicator is based on results from the VOE survey. The VOE survey provides Postal Service employees the opportunity to provide their opinion about their work environment and the Postal Service's policies and strategies for success. *Id.* Third-party vendors administer VOE surveys, tabulate the results, and report them back to the Postal Service in summary form. *FY 2013 Review* at 27. The VOE survey performance indicator is an aggregated measure of responses to eight VOE survey questions addressing strategic direction, trust, contribution to Postal Service growth, communication, diversity and respect, commitment, personal safety, and work effort and quality.⁵⁷ The Postal Service filed under seal the VOE survey questionnaire and summary statistics of the employee responses to each question.⁵⁸

In FY 2014, the VOE survey result (65.01) fell slightly short of the FY 2014 target (65.1). *FY 2014 Annual Report* at 39; *see* Table I-1, *supra*. Although the Postal Service did not explain why it did not meet the FY 2014 target, it noted that the FY 2014 result was "a shortfall in meeting the goal by 0.09." *FY 2014 Annual Report* at 40 n.1. It asserts that its employees continue to express high levels of commitment. *Id.* at 40. It reports that scores for questions concerning employee pride and personal responsibility increased by a full percentage point in FY 2014. *Id.*

The FY 2015 VOE survey target is 65.1, which is the same as the FY 2014 target. *Id.* at 39. To promote increased levels of employee engagement in FY 2015, the Postal Service states that it will redesign the VOE survey program by partnering with an employee-engagement leader to promote increased levels of employee engagement. *Id.* at 40. In FY 2015, the Postal Service will replace the VOE survey with a simpler Postal Pulse survey that was developed in conjunction with Gallup.⁵⁹

⁵⁷ Docket No. ACR2013, Response to CHIR No. 12, question 7a.

⁵⁸ Responses of the United States Postal Service to Questions 6 and 7 of Chairman's Information Request No. 5, February 18, 2015, question 6 (February 18 Response to CHIR No. 5); Library Reference USPS-FY14-NP36, February 18, 2015.

⁵⁹ Response to CHIR No. 15, question 13a.

2. Comments

The Public Representative asserts that the FY 2014 OSHA I&I Rate not only failed to meet the FY 2014 target, but also was the worst since FY 2010. PR Comments at 10. She notes that the OSHA I&I Rate reported by the Postal Service in the *FY 2014 Report* and *FY 2015 Plan* differs from the Total Case Rate reported by OSHA for the Postal Service for the same period. *Id.* at 10-11. She contends that the FY 2015 OSHA I&I Rate target is unrealistic because it is better than the lowest OSHA I&I Rate in the last 5 years and substantially better than the FY 2014 result. *Id.* at 11.

The Public Representative observes that the VOE survey result improved in FY 2014, but did not meet the FY 2014 target. *Id.* at 12. She argues that the FY 2015 VOE survey target, which is the same as the FY 2014 VOE survey target, indicates that the Postal Service does not expect employee engagement to improve significantly in FY 2015. *See id.*

3. Commission Analysis

The Postal Service failed to meet FY 2014 targets for both the OSHA I&I Rate and VOE survey performance indicators. *As a result, the Commission finds that the Postal Service did not meet the Ensure a Safe Workplace and Engaged Workforce goal in FY 2014.* In this section, the Commission evaluates why FY 2014 targets were not met for each performance indicator and recommends actions for achieving targets in future years.

a. OSHA Illness & Injury Rate Performance Indicator

The Postal Service asserts that the FY 2014 OSHA I&I Rate increased “due primarily to severe winter weather” during the first two quarters of FY 2014. *FY 2014 Annual Report* at 40. Illness and injury statistics collected by the Department of Labor also show that Postal Service employees filed new work-related illness or injury claims at higher rates during this time period. Table III-6 shows the approximate number of Postal Service employee cases initiated with the Department of Labor in each fiscal quarter of fiscal years 2011-2014. The total number of cases each quarter was derived from the Total Case Rates by quarter published on the Department of Labor’s website.⁶⁰ In fiscal years 2012 and 2013, cases were most often initiated during the first and fourth quarters. This result differs for fiscal years 2011 and 2014, when more new cases were filed during the first and second quarters.

⁶⁰ See United States Department of Labor, Office of Workers' Compensation Programs, Division of Federal Employees' Compensation, *POWER Performance US Postal Service*, (Department of Labor accessed May 26, 2015), <http://www.wageandhour.dol.gov/owcp/dfec/power/getxls.htm?id=1040000>.

**Table III-6
Newly Initiated Postal Service Cases by Fiscal Quarter*
Department of Labor**

FY 2014			
4th QTR	3rd QTR	2nd QTR	1st QTR
9,899	9,313	12,593	11,539
FY 2013			
4th QTR	3rd QTR	2nd QTR	1st QTR
10,167	8,816	9,580	10,285
FY 2012			
4th QTR	3rd QTR	2nd QTR	1st QTR
9,725	9,421	8,874	10,211
FY 2011			
4th QTR	3rd QTR	2nd QTR	1st QTR
9,569	8,867	11,419	10,211

*Total number of cases initiated by fiscal quarter was derived algebraically from the Total Case Rate by fiscal quarter. Because publicly available fiscal quarterly case rate data are cumulative, the difference between each quarter's total number of cases was taken to determine the number of cases initiated for each fiscal quarter. The sum of the fiscal year quarterly cases may not equal the total number of fiscal year cases shown in Table III-7 due to rounding.

Source:

Number of Postal Service Employees (used in algebraic formula to decompose Total Case Rate by Quarter): United States Department of Labor, Occupational Safety & Health Administration, *Federal Agency Programs: Federal Agency Injury and Illness Statistics by Year*, (Department of Labor accessed May 26, 2015), <https://www.osha.gov/dep/fap/fap-inj-ill-stats.html>.

Total Case Rate by Fiscal Year:

United States Department of Labor, Office of Workers' Compensation Programs, Division of Federal Employees' Compensation, *POWER Performance*, (Department of Labor accessed May 26, 2015), <http://www.wageandhour.dol.gov/owcp/dfec/power/getxls.htm?id=1040000>.

Although the Total Case Rate and the OSHA I&I Rate are calculated differently, the Total Case Rate is an important illness and injury performance indicator that is tracked for all Federal agencies.⁶¹ Table III-7 illustrates that new Postal Service cases and the associated lost time per case increased in FY 2014.

⁶¹ There have been several presidential initiatives directing federal agencies to establish goals and track performance in four major areas. One of these is to reduce the number of total cases reported to the Office of Workers' Compensation Programs. See, e.g., United States Department of Labor, Office of Workers' Compensation Programs, Division of Federal Employees' Compensation, *POWER Initiative* (Department of Labor accessed May 26, 2015), <http://www.dol.gov/owcp/dfec/power/>; United States Department of Labor, Office of Workers' Compensation Programs, Division of Federal Employees' Compensation, *Safety, Health And Return-to-Employment (SHARE) Initiative* (Department of Labor accessed May 26, 2015), <http://www.dol.gov/owcp/dfec/share/>.

Table III-7
Postal Service Total Case Rate and Lost Time Case Rate by Fiscal Year

Fiscal Year	Number of Postal Service Employees*	Total Number of New Cases**	Total Case Rate**	Lost Time Case Rate***
2014	585,735	43,372	7.40	3.77
2013	587,713	38,847	6.61	3.11
2012	607,814	38,206	6.29	3.30

*The Office of Personnel Management provided OSHA with the most recent available data on the average number of Postal Service employees from December through March for FY 2012 and FY 2013 and October 2013 through June 2014 for FY 2014.

**The Total Case Rate and Lost Time Case Rate numbers are derived from claims submitted to the Office of Workers' Compensation Programs with "case create" dates of October 1 through September 30 for each fiscal year (not including denied cases). The Total Case Rate is the total number of new cases divided by the number of Postal Service employees, multiplied by 100 for a rate per 100 employees.

***The Lost Time Case Rate is calculated by dividing the total number of lost time cases by the total number of employees. The resulting number is then multiplied by 100, for a rate per 100 employees.

Source: United States Department of Labor, Occupational Safety & Health Administration, Federal Injury and Illness Statistics for Fiscal Year End of Year Totals (Department of Labor accessed May 26, 2015).

FY 2012: https://www.osha.gov/dep/fap/statistics/fedprgrms_stats12_final.html.

FY 2013: https://www.osha.gov/dep/fap/statistics/fedprgrms_stats13_final.html.

FY 2014: https://www.osha.gov/dep/fap/statistics/fedprgrms_stats14_final.html.

The total cost of new workers' compensation cases for Postal Service employees increased from approximately \$1.8 billion in FY 2013 to approximately \$1.96 billion in FY 2014.⁶² Table III-8 illustrates one component of total workers' compensation costs: continuation of pay for a traumatic job-related illness or injury.⁶³ In FY 2014, total continuation of pay costs increased by about 17 percent over FY 2013, but the size of the increase varied widely by craft.

⁶² United States Postal Service, *2014 Report on Form 10-K*, December 5, 2014, at 29 (FY 2014 Form 10-K).

⁶³ Officers and directors of the United States Postal Service are covered by federal laws relating to compensation for work injuries under 5 U.S.C. §§ 8101 *et seq.* 39 U.S.C. § 1005(c).

Table III-8
Continuation of Pay Costs for a Traumatic Job-Related Illness or Injury
by Selected Employee Craft and Fiscal Year

	FY 2014	FY 2013	FY 2012	% Change	
Selected Employee* Craft	Continuation of Pay Costs (\$)			2014/2013	2013/2012
City Carriers	27,706,541	22,561,555	21,546,790	22.8%	4.7%
Rural Carriers	9,218,087	7,785,814	6,847,527	18.4%	13.7%
Clerks	4,984,648	4,774,102	5,321,868	4.4%	(10.3%)
Mail Handlers	3,289,023	3,221,312	3,485,015	2.1%	(7.6%)
Vehicle Service Drivers	865,296	840,841	786,421	2.9%	6.9%
Equipment/Building Maintenance and Support	729,326	617,972	770,274	18.0%	(19.8%)
Building Service	614,095	474,993	464,070	29.3%	2.4%
Operating Equipment	482,196	371,109	474,187	29.9%	(21.7%)
Vehicle Maintenance	228,949	147,344	155,850	55.4%	(5.5%)
USPS Total	48,374,636	41,190,875	40,043,829	17.4%	2.9%

*Consolidated employee craft costs.

Source: USPS Periodic Report-National Payroll Hours Summary Report, Pay Period 20, FY 2014, September 26, 2014; USPS Periodic Report-National Payroll Hours Summary Report, Pay Period 20, FY 2013, February 14, 2014; USPS Periodic Report-National Payroll Hours Summary Report, Pay Period 20, FY 2012, December 3, 2012.

In a Government Accountability Office (GAO) report, the Postal Service described employees' injuries as largely due to the nature of their work: physically demanding, industrial, and highly repetitive.⁶⁴ Yet based on GAO's analysis, in FY 2012, only about 36 percent of all Postal Service injuries occurred during mail delivery. *Id.* at 3.

The Commission recommends that in its FY 2015 Report and FY 2016 Plan, the Postal Service discuss the most common types of illnesses and injuries by employee activity and describe its efforts to prevent each type of injury. To determine the efficacy of the Postal Service's FY 2015 health and safety programs, the Commission also suggests that the Postal Service disaggregate its illness and injury data and consider tracking the effectiveness of its safety programs by types of illnesses and injuries and employees affected. Examining the trends for specific types of injuries should enable the Postal Service to better gauge the success of particular safety plans targeted at reducing each type of injury.

During FY 2014, the Postal Service promoted workplace safety through increased outreach and education efforts. For example, in an employee newsletter related to what the Postal Service calls "Polar times," it included special messaging to keep

⁶⁴ See U.S. Government Accountability Office, *U.S. Postal Service: Information on Workforce Injuries Arising During Mail Delivery*, September 26, 2013, at 3, 5, <http://www.gao.gov/assets/660/658174.pdf>. Based on its analysis of delivery-related injuries that occurred between 2009 and 2012, the most common injuries were caused by falls and dog bites. For rural routes, because delivery is most often conducted in a vehicle, vehicular collisions were the most frequently reported cause of injury.

employees informed about the hazards of severe winter weather conditions.⁶⁵ In another employee newsletter it advised, “Employees should always dress appropriately for the weather and notify supervisors immediately if they experience any weather-related issues.”⁶⁶

In some circumstances, safety education efforts alone may be insufficient to prevent all illnesses and injuries because obtaining necessary cold-weather gear may be delayed, or gear may be unavailable when needed. For example, city carrier assistants may not be eligible to receive a postal uniform allowance until they complete a 90-day probationary period.⁶⁷ *The Postal Service should consider other mitigation and prevention efforts in addition to safety education for new carriers and other employees who may not have acquired the appropriate cold-weather gear for the weather in their geographic areas.* These efforts might include lending carriers necessary cold-weather gear in places where winter weather is most severe.

In the Postal Service’s FY 2014 *Climate Change Adaptation Plan* it states that “all employees are continuously educated on a number of topics each year and this includes issues relevant to a changing climate, such as dealing with extreme heat and cold, and emergency planning.”⁶⁸ Further, the Postal Service states it “is evaluating its extreme temperature-related policies for delivery and employee safety.” *Id.* at 16. *The Commission recommends that the Postal Service include more information about its extreme temperature-related policies for delivery and employee safety—including motor vehicle safety and heat stroke deaths— in its FY 2015 Report and FY 2016 Plan.*

The Postal Service states that in FY 2015 it will increase its safety focus for at-risk employees who have fewer than 2 years of on-the-job experience in an effort to improve its progress toward meeting the Ensure a Safe Workplace and Engaged Workforce goal.⁶⁹ *The Commission recommends that in its FY 2015 Report and FY 2016 Plan, the Postal Service provide performance results and targets for performance indicators that specifically measure progress toward meeting its safety goal of reducing injuries for at-risk employees.*

⁶⁵ United States Postal Service, *Polar times: Service continues during frigid temperatures, high winds* (News Link January 10, 2014); <https://liteblue.usps.gov/news/link/2014/01jan/news10s1.htm>.

⁶⁶ United States Postal Service, *It's cold outside: Dress Warmly for cold weather* (News Link January 16, 2014); <https://liteblue.usps.gov/news/link/2014/01jan/news07s3.htm>.

⁶⁷ United States Postal Service, *ELM 38 - Employee and Labor Relations Manual* (March 2015) § 935.11; http://about.usps.com/manuals/elm/html/elmc9_013.htm.

⁶⁸ *United States Postal Service Climate Change Adaptation Plan*, June 2014, at 17, http://about.usps.com/what-we-are-doing/green/pdf/CCAP_FINAL_2014.pdf. The Postal Service considers the relevant main climate change impact categories to be changes in the severity of damages related to extreme storm events, sea level changes, precipitation changes, and temperature changes that lead to temperature-related health risks and infrastructure damage. *Id.* at 8. The Postal Service evaluates policies and actions that strengthen the entire postal network, including routes, fleet vehicles, facility locations, and the supply chain. *Id.* at 14.

⁶⁹ March 13 Response to CHIR No. 13, question 7.

b. Voice of the Employee Performance Indicator

The Postal Service relies on the VOE survey performance indicator to measure employee engagement. In FY 2014, in an effort to engage its entire workforce, the Postal Service extended the VOE survey to non-career employees such as postal support employees, city carrier assistants, mail handler assistants, rural carrier assistants, and casuals. *FY 2014 Annual Report* at 40. The Postal Service states that its VOE survey results improved quarter-over-quarter in FY 2014. *Id.* Nevertheless, the FY 2014 result of 65.01 fell 0.09 short of meeting its FY 2014 target. *Id.* at 40 n.1.

In FY 2015, the Postal Service will replace the VOE survey with the Postal Pulse survey.⁷⁰ The Postal Service asserts that the new survey “will create more robust reporting, analytics and innovative action planning tools to help managers respond to their survey results.” *FY 2014 Annual Report* at 40. However, the Postal Service does not expect Postal Pulse survey results to be comparable to VOE survey results because “[t]he Postal Pulse survey questions are very different than the 2014 VOE survey questions.” Response to CHIR No. 15, question 13a.

The proposed methodology change may impact the Postal Service’s compliance with 39 U.S.C. § 2804 in FY 2015 in two ways. First, the results expressed in program performance reports must be comparable with targets for that fiscal year. *See* 39 U.S.C. § 2804(b)(1); Chapter 2, section C.3, *supra*. *To comply with 39 U.S.C. § 2804(b)(1), the Postal Service must develop FY 2015 targets using the Postal Pulse performance indicators to ensure that the results presented in the FY 2015 Report are comparable with FY 2015 targets.*

Second, as previously discussed, the *FY 2015 Report* must include actual results comparable across fiscal years 2012, 2013, 2014, and 2015. 39 U.S.C. § 2804(c); *see* Chapter 2, section C.3, *supra*. The change in performance indicator from the old VOE survey to the new Postal Pulse survey will likely affect comparability of results across those fiscal years. Response to CHIR No. 15, question 13a. *If this occurs, to ensure that the FY 2015 Report fulfills the requirements of section 2804(c), the Postal Service must either provide the FY 2015 result from a VOE survey conducted in FY 2015 (if available) or provide the FY 2015 result for the new Postal Pulse survey performance indicator and explain how to compare results of the old VOE survey and new Postal Pulse survey performance indicators.*

The Commission recommends that the Postal Service describe any methodology changes in the Annual Report to Congress and analyze the impact of methodology changes on results. The Postal Service should evaluate its FY 2015 results to determine whether changes in employee engagement are due to differences between the VOE and Postal Pulse surveys, or actual employee engagement changes. The Commission

⁷⁰ Response to CHIR No. 15, question 13a.

*encourages the Postal Service to file the FY 2015 Postal Pulse survey results in a public library reference along with its FY 2015 Annual Compliance Report.*⁷¹

D. Sustain Controllable Income

1. Background

The Postal Service uses two performance indicators to measure progress toward its Sustain Controllable Income goal: Deliveries per Work Hour (DPWH) and Net Controllable Income (Loss).

The Postal Service explains that DPWH summarizes the effectiveness of its productivity improvement efforts. *FY 2014 Annual Report* at 40. DPWH compares the total number of deliveries of all types with the total number of work hours used in all employee categories. *FY 2013 Review* at 23. The total number of deliveries is calculated by multiplying the total number of delivery points by the annual number of delivery days. *Id.* This number is then divided by the total number of work hours used in all employee categories, including managers and executives. *Id.* The result is the DPWH, which represents the number of annual deliveries completed per employee work hour. *Id.*

In the *FY 2014 Plan*, the Postal Service initially set the FY 2014 DPWH target at 43.3. *FY 2013 Annual Report* at 39. Later, in the *FY 2014 Report*, the Postal Service lowered the target to 42.9 to reflect the deferral of Phase 2 of the Network Rationalization Initiative. *FY 2014 Annual Report* at 39. In FY 2014, DPWH was 42.0, falling short of the revised FY 2014 target of 42.9. *Id.*; see Table I-1, *supra*. The Postal Service explained that it did not meet its DPWH performance target for a number of reasons:

- Overrun of an aggressive work hour plan.
- Failure to capture all planned savings from Phase I of the Network Rationalization Initiative.
- Additional work hours from Sunday package delivery and the holiday season.
- Extra work hours due to the hiring and training of city carrier assistants.⁷²
- Delay in implementing Phase 2 of the Network Rationalization Initiative.⁷³

FY 2014 Annual Report at 41; February 10 Response to CHIR No. 5, question 8.

⁷¹ In Docket No. ACR2010, the Postal Service filed the VOE survey results in Responses of the United States Postal Service to Questions 1-22, 24-26 of Chairman's Information Request No. 4, February 28, 2011, question 21b. (Docket No. ACR2010, Response to CHIR No. 4).

⁷² The annual turnover rate for city carrier assistants exceeds 40 percent. *FY 2014 Annual Report* at 41.

⁷³ After comments were filed, the Postal Service announced that it will defer Phase 2 of the Network Rationalization Initiative to 2016 to ensure prompt, reliable, and predictable service. See n.27, *supra*.

The FY 2015 DPWH target is 42.4, a decrease from the FY 2014 target of 42.9.⁷⁴ The Postal Service asserts that the FY 2015 DPWH target reflects cost-savings opportunities and anticipated growth in package workload. *FY 2014 Annual Report* at 40. It contends that barring further external delays, there are initiatives in place to achieve FY 2015 planned savings. *Id.* These initiatives include implementing Phase 2 of the Network Rationalization Initiative and continuing the POSTPlan, load leveling, and voluntary centralized delivery programs. Response to CHIR No. 15, question 5.

Net Controllable Income (Loss) is a modified version of Net Income (Loss).⁷⁵ The Net Controllable Income (Loss) value is calculated as Revenue minus (Expenses + Other Costs).⁷⁶ It excludes expenses from workers' compensation discount rate changes, actuarial changes of the price of goods or products, and the Postal Service Retiree Health Benefit Fund prefunding payments. *FY 2014 Annual Report* at 41.

The Postal Service initially set the FY 2014 Net Controllable Income (Loss) target in the *FY 2014 Plan* at \$1.1 billion. *FY 2013 Annual Report* at 39. But as with the DPWH performance indicator, the Postal Service lowered the target in the *FY 2014 Report* (to \$0.9 billion) to reflect the deferral of Phase 2 of the Network Rationalization Initiative. *FY 2014 Annual Report* at 39.

In FY 2014, Net Controllable Income (Loss) was \$1.37 billion, which was almost \$0.4 billion better than the FY 2014 revised target of \$0.9 billion. *Id.* The Postal Service explains that revenue increased from the prior year primarily due to the exigent surcharge on Market Dominant products implemented in January 2014. *Id.* at 41. It reports that Competitive products revenue increased by 9.1 percent while Standard Mail revenue increased by 3.0 percent. *Id.* It notes, however, that overall volume declined by 2.8 billion pieces. *Id.*

The Net Controllable Income (Loss) target for FY 2015 is \$0.5 billion. *Id.* at 39.

2. Comments

The Public Representative observes that in FY 2014, DPWH increased slightly from 41.6 to 42, which is consistent with increases in previous years. PR Comments at 13. Nonetheless, she notes that the Postal Service did not meet the lowered FY 2014 target of 42.9. *Id.* She also points out a discrepancy of 491,169 delivery points between the FY 2014 numbers reported in the *FY 2014 Annual Report* and the Postal Service's Response to CHIR No. 5. *Id.* She concludes that the Postal Service has fallen

⁷⁴ In a note included in its DPWH worksheet, the Postal Service stated that the DPWH FY 2015 target published in the *FY 2014 Annual Report* is misstated as 43.3 and should actually be 42.4. See February 18 Response to CHIR No. 5, question 7, "CHIR5.Q7.DPH FY15" Excel file, worksheet "FY 15 DPWH Summary" Notes section.

⁷⁵ In previous years, the Postal Service has also called this performance indicator "Operating Income (Loss)." See, e.g., *FY 2013 Annual Report* at 39.

⁷⁶ Other costs include Interest Income minus Interest Expense plus separation costs in FY 2012 and FY 2013.

slightly short of the DPWH target in each year since it changed the performance indicator in FY 2011 from Total Factor Productivity to DPWH. *Id.* at 14.

The Public Representative observes that the Net Controllable Income (Loss) FY 2014 result of \$1.37 billion is a significant improvement compared to the \$1 billion loss incurred in FY 2013. *Id.* at 12. She asserts that the primary reason for increased FY 2014 revenue is the \$1.3 billion exigent surcharge on Market Dominant products, as well as revenue from higher volumes of Competitive products. *Id.* at 12-13. She notes that despite this increase, the FY 2015 Net Controllable Income (Loss) target of \$0.5 billion is lower than the FY 2014 target, even after including expected cost savings from delayed implementation of Phase 2 of the Network Rationalization Initiative. *Id.*; see n.27, *supra*.

In its reply comments, the Postal Service explains that the discrepancy in the number of delivery points identified by the Public Representative arises because the delivery point data in the FY 2014 *Annual Report* are limited to active delivery points and exclude Post Office Box delivery routes. USPS Reply Comments at 4-5.

3. Commission Analysis

In FY 2014, the Postal Service exceeded the Net Controllable Income (Loss) target, but missed the DPWH target. *For this reason, the Commission finds that the Postal Service partially met the Sustain Controllable Income performance goal in FY 2014.*

During FY 2014, the Postal Service lowered FY 2014 targets for both the DPWH and Net Controllable Income (Loss) performance indicators to reflect its deferral of Phase 2 of the Network Rationalization Initiative. In May 2015, the Postal Service announced that it will *again* defer Phase 2 of the Network Rationalization Initiative to FY 2016. See n.27, *supra*. The Commission is concerned that the Postal Service will also lower FY 2015 DPWH and Net Controllable Income (Loss) targets to reflect the additional delay. *If the Postal Service revises FY 2015 targets for either the DPWH or Net Controllable Income (Loss) performance indicator to reflect the delay in implementing Phase 2 of the Network Rationalization Initiative, the Postal Service should state this in the FY 2015 Report and explain other methods employed to improve progress toward the Sustain Controllable Income goal.*

In this section, the Commission analyzes the DPWH and Net Controllable Income (Loss) performance indicators in more detail.

a. Deliveries per Work Hour Performance Indicator

DPWH compares the total number of deliveries of all types with the total number of work hours used in all employee categories. FY 2013 *Review* at 23. In FY 2014, DPWH improved compared to FY 2013 because total work hours decreased in FY 2014. Despite this improvement, the Postal Service did not meet its revised FY 2014 target.

As the Public Representative observes, the Postal Service has never met the DPWH target. However, by reducing work hours annually since DPWH was introduced as a performance indicator in FY 2011, the Postal Service has made incremental DPWH increases and moved closer to its performance target.

For FY 2014, the Postal Service set a target of reducing total work hours by 24 million by implementing the Network Rationalization Initiative. However, it reduced work hours by only 6.7 million.⁷⁷ Including all work hour reduction initiatives, the FY 2014 *Integrated Financial Plan* projected a total work hour reduction of 36 million.⁷⁸ However, the Postal Service overran its work hour projections for other functions, partially offsetting the savings from the Network Rationalization Initiative. May 15 Response to CHIR No. 17, question 3. As a result, the net reduction in total work hours was only about 3 million hours. *Id.*

This decrease in the total number of work hours between FY 2013 and FY 2014 is broken down by function in Table III-9.⁷⁹ Larger work hour reductions in mail processing, customer service operations, and postmasters were partially offset by increased work hours in city delivery, rural delivery, vehicle maintenance, vehicle operations, building services, Customer Care Center, and supervisor customer service support.

⁷⁷ May 15 Response to CHIR No. 17, question 3.

⁷⁸ United States Postal Service, *Fiscal Year 2014 Integrated Financial Plan*, November 25, 2013, at 5 (FY 2014 *Integrated Financial Plan*).

⁷⁹ The "Total Work Hours" row in Table III-9 shows a reduction of about 3 million work hours between FY 2013 and FY 2014 because it includes work hour overruns from other functions. See May 15 Response to CHIR No. 17, question 3.

**Table III-9
Work Hours by Function**

Function	FY 2014	FY 2013	FY 2012	% Change	
	Work Hours (in thousands)			2014/2013	2013/2012
City Delivery	397,989	393,986	389,219	1.0%	1.2%
Mail Processing	199,133	203,802	210,170	(2.3%)	(3.0%)
Rural Delivery	179,466	176,697	177,715	1.6%	(0.6%)
Customer Service Operations*	136,267	138,477	144,309	(1.6%)	(4.0%)
Postmasters	52,171	56,028	58,429	(6.9%)	(4.1%)
Other**	141,915	140,841	142,309	0.8%	(1.0%)
Total Work Hours	1,106,941	1,109,830	1,122,151	(0.3%)	(1.1%)

*Customer Service Operations includes window service at Post Offices.

**Includes Vehicle Maintenance, Vehicle Operations, Building Services, Customer Care Center, Supervisor Customer Service Support, Plant Maintenance, Operational Support, and Administration.

Source: February 18 Response to CHIR No. 5, question 7, "ChIR 5 Q 7 NWHR" Excel file.

Table III-10 illustrates work hours for selected functions included under "Other" in Table III-9. Work hours for Customer Care Center and supervisor customer service support increased because the Postal Service launched its fourth Customer Care Center in FY 2014 and transitioned from an outside supplier to internally operated centers. FY 2014 *Annual Report* at 58. Work hours from the vehicle maintenance, vehicle operations, and building services functions also increased between FY 2013 and FY 2014.

**Table III-10
Work Hours for Selected "Other" Functions**

Function	FY 2014	FY 2013	FY 2012	% Change	
	Work Hours (in thousands)			2014/2013	2013/2012
Vehicle Maintenance	7,519	6,956	6,546	8.1%	6.3%
Vehicle Operations	13,935	13,800	13,206	1.0%	4.5%
Building Services	27,385	26,219	25,434	4.4%	3.1%
Customer Care Center	2,502	1,406	514	78.0%	173.5%
Supervisor Customer Service Support	1,241	1,177	1,116	5.4%	5.5%

Source: February 18 Response to CHIR No. 5, question 7, "ChIR 5 Q 7 NWHR" Excel file.

Table III-11 shows selected city and rural delivery work hours. Most types of delivery work hours increased between FY 2012 and FY 2014. See FY 2014 *Annual Report*

at 41. In contrast, work hours for City Delivery (Office Time) declined between FY 2012 and FY 2014.

Table III-11
Selected City and Rural Delivery Work Hours

	FY 2014	FY 2013	FY 2012	% Change	
Type of Delivery Work Hours	(Work Hours in thousands)			2014/2013	2013/2012
City Delivery (Street Time)	272,645	270,328	268,454	0.9%	0.7%
Rural Delivery	179,466	176,697	177,715	1.6%	(0.6%)
City Delivery (Office Time)	75,397	76,482	78,547	(1.4%)	(2.6%)
Overtime	56,024	55,897	51,406	0.2%	8.7%
Supervisor Delivery Services	29,910	29,026	26,961	3.0%	7.7%
Other City Delivery*	9,311	7,862	7,248	18.4%	8.5%
Training – Delivery Services	3,866	3,468	1,184	11.5%	192.9%

*Includes work hours for Sunday delivery of Parcel Post routes.

Source: February 18 Response to CHIR No. 5, question 7, "ChIR 5 Q 7 NWHR" Excel file.

As shown in Tables III-9 and III-12, despite reductions in mail volume, both combined city and rural delivery work hours increased between FY 2012 and FY 2014 while total delivery costs decreased. While rural delivery costs increased each year during this time period, city delivery costs decreased each year.⁸⁰ The largest factor in the reduction in city delivery costs was savings from the lower work hour wage of city carrier assistants. *See FY 2013 Annual Report* at 42.

⁸⁰ Between FY 2013 and FY 2014, the number of rural routes increased. Between FY 2012 and FY 2014, rural delivery points made up the largest portion of new delivery points. *See id.* at 55.

Table III-12
Total Rural and City Delivery Costs by Fiscal Year

Type of Cost	Reconciled Total Costs (\$ Billions)			Cost per mail piece (Cents)		
	FY 2014	FY 2013	FY 2012	FY 2014	FY 2013	FY 2012
Rural Delivery Cost	6.98	6.78	6.75	0.0449	0.0428	0.0422
City Delivery Cost	15.21	15.63	15.83	0.0979	0.0988	0.0990
Total Delivery Cost	22.19	22.41	22.58	0.1428	0.1416	0.1412
				FY Mail Volume (Billions)		
				155.37	158.30	159.86

Source: Costs—Library Reference USPS–FY14–5, December 29, 2015; Docket No. ACR2013, Library Reference USPS–FY13–5, December 27, 2013; Docket No. ACR2012, Library Reference USPS–FY12–5, December 28, 2012. Indirect costs are not included in reconciled total costs.

Mail Volumes—FY 2014 *Financial Analysis* at 75; Postal Regulatory Commission *Analysis of United States Postal Service Financial Result and 10-K Statement for Fiscal Year 2013*, March 18, 2014, at 44 (FY 2013 *Financial Analysis*); Docket No. ACR2012, Library Reference PRC–ACR2012–LR–1, March 28, 2013, in the “12 Summary_LR1” Excel file in the “Previous Classification” worksheet.

The Postal Service identifies higher work hour totals than planned as one reason why it did not meet the FY 2014 DPWH target. FY 2014 *Annual Report* at 41. It asserts that it has initiatives in place for it to meet the FY 2015 target. *Id.* However, the Postal Service projects that the magnitude of work hour reductions will diminish because major efficiency gains have already been achieved. FY 2015 *Integrated Financial Plan* at 4. The Postal Service anticipates a limited improvement of only 5 million work hours, which includes savings from Phase 2 of the Network Rationalization Initiative and the continuation of the POSTPlan and load leveling initiatives. *Id.* These savings will be further offset by the delay in implementing Phase 2 of the Network Rationalization Initiative, the effects of the expected increase in package volume, and the expansion of the Customer Care Center.

The Commission finds that DPWH is not an ideal performance indicator for the Sustain Controllable Income goal. Costs are more relevant than work hours to financial performance because actual expenses (costs for those work hours) are used and grouped into the expenses portion of the Net Controllable Income (Loss) calculation.⁸¹ Due to the simplicity of the DPWH components and calculation, its continued utility as a financial performance indicator appears limited. Moreover, the Postal Service has never achieved its DPWH target despite incremental increases

⁸¹ Generally, the Net Controllable Income (Loss) calculation is a simple subtraction of revenue minus expenses and other costs, which include Interest Income minus Interest Expense plus separation costs in FY 2012 and FY 2013.

each year since DPWH replaced Total Factor Productivity in FY 2011 as a financial performance indicator.⁸²

The Postal Service identified completing Phase 2 of the Network Rationalization Initiative as a key component of its plan to meet the FY 2015 DPWH target. Thus, the Postal Service is unlikely to meet the FY 2015 DPWH target due to the delay in implementing Phase 2 of the Network Rationalization Initiative. *The Commission recommends that the Postal Service replace DPWH or add other financial and productivity performance indicators to measure progress toward the Sustain Controllable Income goal.* For example, the Postal Service states that it plans to invest \$0.8 billion in mail processing equipment to “[focus] on improving existing equipment and projects that will improve productivity and reduce operating costs.” FY 2015 *Integrated Financial Plan* at 5. The Postal Service could add a performance indicator that measures how equipment investments improve productivity and reduce costs.

b. Net Controllable Income (Loss) Performance Indicator

Net Controllable Income (Loss) is calculated as Revenue minus (Expenses + Other Costs).⁸³ As the Postal Service states in its *Five-Year Business Plan*,⁸⁴ labor costs are 79 percent of its total cost base, and Federal benefits are in turn 48 percent of total labor costs. *See Five-Year Business Plan* at 12. The Postal Service projects rising labor costs and asserts that it has limited flexibility in reducing them. *Id.* at 5. In FY 2015, the Postal Service expects employee compensation and benefits to increase by \$1.8 billion, mainly due to contractually-required wage increases and cost of living adjustments. FY 2015 *Integrated Financial Plan* at 4. It also projects \$0.3 billion in additional costs due to an increase in the Federal Employment Retirement System contribution, as well as a \$0.4 billion increase in health care premiums. *Id.*

Table III-13 illustrates the components used to calculate Net Controllable Income (Loss) for fiscal years 2012 through 2014 and the target for FY 2015. Despite a planned increase in FY 2015 revenue, increased expenses in FY 2015 are projected to reduce Net Controllable Income (Loss). As a result, the FY 2015 target for Net Controllable Income (Loss) is \$0.5 billion, which is \$0.4 billion less than the FY 2014 target.

⁸² In previous years, the Commission recommended using the TFP index rather than DPH as a measure of productivity because DPH does not recognize major workload components, such as collecting, processing, transporting, and sequencing of mail for delivery. FY 2013 *Review* at 26; FY 2012 ACD at 41; FY 2011 ACD at 57-58; FY 2010 ACD at 54.

⁸³ Other costs include Interest Income minus Interest Expense plus separation costs in FY 2012 and FY 2013.

⁸⁴ United States Postal Service, *Five-Year Business Plan*, April 16, 2013 (*Five-Year Business Plan*); <https://about.usps.com/strategic-planning/five-year-business-plan-2012-2017.pdf>.

Table III-13
Statement of Operations, Fiscal Years 2012-2015

In Billions (\$)	FY 2015 Target	FY 2014 Result	FY 2013 Result	FY 2012 Result
Revenue	69.6	67.8	66.0	65.2
Expenses	69.0	66.3	66.7	67.5
Other Costs*	0.1	0.1	0.3	0.1
Net Controllable Income (Loss) **	0.5	1.4	(1.0)	(2.4)

*Other costs include Interest Income minus Interest Expense plus separation costs in FY 2012 and FY 2013.

**Net controllable income (Loss) excludes retiree health benefits pre-funding and non-cash adjustments to workers' compensation.

Net Controllable Income (Loss) = Revenue – (Expenses + Other Costs)

Source: FY 2015 *Integrated Financial Plan* at 1; FY 2014 *Integrated Financial Plan* at 1; United States Postal Service, Fiscal Year 2013 *Integrated Financial Plan*, November 23, 2012, at 1; FY 2014 *Financial Analysis* at 7; FY 2013 *Financial Analysis* at 3.

As part of its effort to regain financial self-sufficiency, the Postal Service proposed initiatives in its *Five-Year Business Plan* to help it achieve greater cost savings. Some of these initiatives focus on mail delivery, its largest labor expense, representing 49 percent of the Postal Service's total labor costs. *Five-Year Business Plan* at 12. For example, "Expand centralization of delivery points" is a key item for addressing its financial challenges.⁸⁵ The Postal Service contends that it can improve delivery efficiency by increasing the number of deliveries per carrier stop. *FY 2014 Annual Report* at 56. It asserts that converting deliveries to a more centralized mode reduces transportation costs, increases efficiency, and lowers operational work hours. *Id.*

In FY 2013, the Postal Service implemented voluntary centralization of new business delivery points. *Id.* at 16. It partly attributed its failure to meet its DPWH target that year to the fact that the centralization was voluntary, rather than mandatory. *FY 2013 Annual Report* at 42. Table III-14 illustrates the number of existing business door delivery points voluntarily converted to centralized delivery during fiscal years 2013 and 2014, as well as targets for fiscal years 2013, 2014, and 2015.

⁸⁵ In FY 2012, the Postal Service updated delivery mode costs. It estimated that the average annual costs for delivery points is \$380 for door-to-door, \$240 for curblines, and \$170 for centralized delivery such as cluster boxes and apartment building mailboxes. United States Government Accountability Office, *U.S. Postal Service Delivery Mode Conversions Could Yield Large Savings, but More Current Data Are Needed*, May 2014, at 11, 13 (GAO-14-444) (GAO Delivery Mode Conversions Report). However, according to GAO, these estimates have limitations because they rely on cost estimates and data from a 1994 study. *Id.* at 13. GAO recommended that the Postal Service collect updated data on delivery mode costs and the potential savings of converting to less costly modes of delivery. *Id.*

Table III-14
Voluntary Conversion of Existing Business Door* Delivery Points to Centralized Delivery

	FY 2015 Target	FY 2014 Target	FY 2014 Results	FY 2013 Target	FY 2013 Results
Number of Business Door* Delivery Points Converted to Centralized Delivery	81,988	34,652	48,787	279,718	43,333

*In the GAO Delivery Mode Conversions Report, the Postal Service referred to these converted delivery points as “Door” delivery points and in a FY 2014 ACR information request, it referred to these as delivery points with a mode other than centralized or curblines delivery.

Source: United States Postal Service Responses to Questions 8, 11, and 15-19 of Chairman’s Information Request No. 13, March 19, 2015, questions 15b., 16b. (March 19 Response to CHIR No. 13); GAO Delivery Mode Conversions Report at 16-17.

The Postal Service recently revised the Postal Operation Manual (POM) procedures for serving new delivery points added to the delivery network.⁸⁶ It also updated procedures on centralized delivery equipment that may apply to current delivery points as well. *Id.* These revisions give the Postal Service autonomy in determining modes of delivery when adding new delivery points. *Id.* New business areas receive centralized delivery unless the Postal Service approves an exception. *Id.* Further, the default modes for new residential delivery points are curblines delivery and sidewalk delivery unless an exception is made or the new homes or businesses are within an established block.⁸⁷ In that case they may receive the same type of delivery service as the older homes or businesses in that block. *Id.*

The Postal Service states that “Postal Service representatives are still required to meet with builders and developers early in the process to ensure the best choices are made and to assess if the mode of delivery directed to be put in place conforms to the policies of the Postal Service.” POM Modes of Delivery Revision. Despite these changes, the Postal Service notes that in FY 2014, it “did not set goals for new residential and business delivery points because the establishment of new delivery points reflects decisions of the construction industry which are not part of the Postal Service’s business strategies.”⁸⁸ Nonetheless, the Postal Service did set a FY 2015 target of 112,721 new centralized delivery points, which includes both business and residential delivery points. March 19 Responses to CHIR No. 13, question 15c.i.

In FY 2014, the Postal Service states it established 61,624 new centralized business delivery points and 751,029 new centralized residential delivery points.⁸⁹ In

⁸⁶ United States Postal Service, *POM Revision: Modes of Delivery and Delivery Equipment*, April 5, 2012, http://about.usps.com/postal-bulletin/2012/pb22334/html/updt_001.htm (POM Modes of Delivery Revision).

⁸⁷ See *id.*; GAO Delivery Mode Conversions Report at 15-16.

⁸⁸ March 19 Response to CHIR No. 13, question 15c.

⁸⁹ May 20 Response to CHIR No. 17.

addition, it converted 0.54 percent of all established residential door-to-door delivery points and 1.27 percent of all established business or other door-to-door delivery points to centralized delivery.⁹⁰

The Postal Service's goal of increasing reliance on centralized delivery is incorporated into its *Five-Year Business Plan*, which lists the savings achieved from converting curblines and door-to-door delivery points to centralized delivery. *Five-Year Business Plan* at 21. In contrast, in the FY 2014 *Annual Report*, the Postal Service states that it voluntarily converted deliveries to a "more efficient delivery mode" instead of to centralized delivery. FY 2014 *Annual Report* at 56; see also Response to March 19 CHIR No. 13, questions 16a., 16b. "More efficient delivery mode" means that the Postal Service converted delivery points to modes other than centralized delivery, such as curblines. Because the *Five-Year Business Plan* highlighted centralized delivery as a key component to it achieving its delivery cost savings, the Postal Service should discuss how and whether it will achieve its expected delivery cost savings identified in its *Five-Year Business Plan*. *In its FY 2015 Report and FY 2016 Plan, the Postal Service should compare the number of new and existing delivery points converted to centralized delivery, discuss the differences between "more efficient" delivery modes and centralized delivery modes, and explain how this aligns with its expected delivery cost savings in its Five-Year Business Plan.*

⁹⁰ March 19 Response to CHIR No. 13, question 18.

CHAPTER 4: STRATEGIC INITIATIVES

A. Background

1. Strategic Initiatives

Strategic initiatives are temporary projects designed to help the Postal Service achieve its performance goals. Reviewing the results of these projects clarifies the connection between performance goals and performance indicators, as well as the actions necessary to achieve performance goals. USPS Reply Comments at 4; FY 2013 *Review* at 31. The Postal Service introduced strategic initiatives in FY 2010 to respond to the Commission’s request that the Postal Service provide more information on the performance of individual programs and how they relate to the performance goals.⁹¹

Strategic initiatives support the performance goals. FY 2014 *Annual Report* at 72. Tables IV-1 and IV-2 link each strategic initiative to the performance goal it supports. For example, the Optimize Network Operations initiative helps achieve the Deliver High-Quality Services goal. *Id.* at 73. Some strategic initiatives have “cross-portfolio performance indicators” that measure the performance of strategic initiatives. FY 2013 *Review* at 35; *see* Tables IV-4 and IV-5.

Strategic initiatives have evolved since the Postal Service introduced them in FY 2010. In FY 2010 and FY 2011, the Postal Service focused on nine strategic initiatives it selected based on their strategic importance and degree of attention required over the next few years. FY 2010 *Comprehensive Statement* at 51. In contrast, in FY 2012, the Postal Service developed 23 new strategic initiatives “to close the gap between revenue and cost over the next five years.”⁹² The Postal Service explains that the portfolio of strategic initiatives “is dynamic and will change as priorities and resources require, and as programs are completed or adjusted based on external events.” *Id.*

Although the strategic initiatives have changed each year since FY 2012, there are some similarities that can be compared across years. For example, in its FY 2014 *Annual Report*, the Postal Service provides a table listing each FY 2014 strategic initiative, the performance goal it supports, and its relationship to the FY 2013 strategic initiatives. FY 2014 *Annual Report* at 73. This table is reproduced below in

⁹¹ Docket No. ACR2010, Library Reference USPS–FY10–17, December 29, 2010; United States Postal Service, *2010 Comprehensive Statement on Postal Operations*, December 29, 2010, at 51 (FY 2010 *Comprehensive Statement*).

⁹² FY 2012 Annual Report at 38. In FY 2012, the Postal Service began using the term “strategic change initiatives” instead of “strategic initiatives.” However, it reverted to using “strategic initiatives” in FY 2013 and FY 2014. In its FY 2013 *Review*, the Commission concluded that “strategic change initiatives” and “strategic initiatives” appear to have the same meaning. FY 2013 *Review* at 31, n.79. To ensure consistency and clarity in this chapter, this Analysis uses the term “strategic initiatives.”

Table IV-1. The “Change From Prior Year” column identifies any changes to strategic initiatives from the prior fiscal year. These changes are:

- New — Strategic initiative was newly created to address an emerging business need.
- Continued — Strategic initiative continued with minimal changes from the prior fiscal year.
- Closed — Strategic initiative was closed as a result of a completed activity or change in business need.
- Refined — Strategic initiative was refined to reflect the current business situation and achieve greater alignment with organizational goals.
- Combined — Strategic initiative was combined with a similar initiative(s) to more accurately reflect the current business situation and provide greater alignment organizationally.

FY 2014 *Annual Report* at 72; March 30 Response to CHIR No. 13, question 28.

**Table IV-1
FY 2013 and FY 2014 Strategic Initiatives Comparison**

Performance Goal	FY 2013 Strategic Initiatives	Change From Prior Year	FY 2014 Strategic Initiatives
Deliver High-Quality Services (% on-time)	Optimize Network Operations	Continued	Optimize Network Operations
	Optimize Delivery Operations	Continued	Optimize Delivery Operations
	Transform Access	Continued	Transform Access
	Optimize Facility Footprint	Continued	Optimize Facility Footprint
	Build a World-Class Package Platform	Continued	Build a World-Class Package Platform
Provide Excellent Customer Experiences	Improve Customer Experience	Continued	Improve Customer Experience
	Streamline Commercial Mail Acceptance and Enterprise Payment	Continued	Streamline Commercial Mail Acceptance and Enterprise Payment
	Achieve 6-Sigma IT System Reliability	Refined	Business Innovation Through IT
	Achieve 100% Product Visibility	Continued	Achieve 100% Product Visibility
Ensure a Safe Workplace and Engaged Workforce	Analyze Workforce Needs and Manage the Change	Combined	Building the Workforce of the Future
	Develop Labor Agreements to Build the Future Workforce		
	Improve Employee Availability		
	Resolve Disputes Effectively		
	Establish Postal Service Health Care Plan		
	Leadership Identification and Development		
Sustain Controllable Income	Build Funnel and Launch Innovation	Refined	Manage Funnel and Launch Innovations
	Acquire, Grow, and Retain Customers	Refined	Customer Growth and Retention
	Market New and Existing Products	Refined	Market New and Existing Services
	Grow Small Business Revenue	Continued	Grow Small Business Revenue
	Integrate Costing and Pricing for Profitable Growth	Refined	Greenfield Costing
	Establish the Digital Platform	Continued	Establish the Digital Platform
	Obtain Payment Card Industry Compliance	Continued	Obtain Payment Card Industry Compliance
	Achieve 100% Customer and Revenue Visibility	Continued	Achieve 100% Customer and Revenue Visibility
	Enhance Enterprise Risk Management Capabilities	Continued	Enhance Enterprise Risk Management Capabilities
		New	Revenue Assurance

Source: FY 2014 Annual Report at 73.

In response to an information request, the Postal Service provided a similar comparison of the FY 2014 and FY 2015 strategic initiatives. Table IV-2 illustrates the comparison for those two fiscal years.

**Table IV-2
FY 2014 and FY 2015 Strategic Initiatives Comparison**

Performance Goal	FY 2014 Strategic Initiatives	Change From Prior Year	FY 2015 Strategic Initiatives
Deliver High-Quality Services (% on-time)	Optimize Network Operations	Continued	Optimize Network Operations
	Optimize Delivery Operations	Continued	Optimize Delivery Operations
	Transform Access	Continued	Transform Access
	Optimize Facility Footprint	Continued	Optimize Facility Footprint
	Build a World-Class Package Platform	Continued	Build a World-Class Package Platform
		New	Modernize Delivery
Provide Excellent Customer Experiences	Improve Customer Experience	Continued	Improve Customer Experience
	Streamline Commercial Mail Acceptance and Enterprise Payment	Combined	Leverage Technology and Data to Drive Business Value
	Business Innovation Through IT		
	Achieve 100% Product Visibility		
Ensure a Safe Workplace and Engaged Workforce	Building the Workforce of the Future	Continued	Building the Workforce of the Future
		New	Building an Integrated Human Resource System
Sustain Controllable Income	Manage Funnel and Launch Innovations Establish the Digital Platform	Combined	Accelerate Innovation
	Customer Growth and Retention	Refined	Sales Excellence
	Market New and Existing Services	Closed	
	Grow Small Business Revenue	Closed	
		New	International Competitiveness
	Obtain Payment Card Industry Compliance	Closed	
	Achieve 100% Customer and Revenue Visibility	Continued	Achieve 100% Customer and Revenue Visibility
	Enhance Enterprise Risk Management Capabilities	Continued	Enhance Enterprise Risk Management Capabilities
	Revenue Assurance	Continued	Revenue Assurance
Greenfield Costing	Continued	Greenfield Costing	

Source: March 30 Response to CHIR No. 13, question 28b.

2. Cross-Portfolio Performance Indicators

In FY 2012, the Postal Service developed 10 cross-portfolio performance indicators to measure strategic initiative performance. FY 2013 *Review* at 35. Most cross-portfolio performance indicators have remained the same since FY 2012. Table IV-3 compares targets and results for the cross-portfolio performance indicators from FY 2012 through FY 2015 Planned.

**Table IV-3
Cross-Portfolio Performance Indicators**

Cross-Portfolio Performance Indicator	FY TARGET		FY RESULT			FY TARGET	
	2015	2014	■ FY Target Not Met			2013	2012
			2014	2013	2012		
Total DRIVE* Revenue (\$ Billions)	n/a	\$5.4	\$6.5	\$5.1	\$0.81	\$4.2	\$0.94
Estimated Value of Closed Sales and Churn Reduction (\$ Billions)	\$5.45	n/a					
Total DRIVE* Cost Savings (\$ Billions)	\$0.75	\$1.13 [#]	\$0.84	\$0.87	\$0.35	\$1.0	\$0.58
Total Work Hours Reduced (Millions)	**	24	6.7	9.8	1.9	12.7	6.0
Total Headcount Reduction (Full-Time Equivalents)	n/a	67,000 [#]	n/a	36,535	29,390	43,000	67,080
Total Facility Square Feet Reduced (Millions)	n/a	2.2	2.2	3.0	3.3	1.2	2.2
Gross Consideration (Facilities) (\$ Millions)	\$175	n/a					
Commercial Mail in Full Service IMb (%)	85.0%	80.0% [#]	79.3%	64.0%	45.0%	60.0%	48.0%
IMb Adoption Rate (%)	n/a	94.0% [#]	97.0%	95.1%	81.0%	95.0%	80.0%
Package Scanning Rate (%)	**	97.0% [#]	96.2%	95.1%	94.0%	98.0%	94.0%

■ Shaded result denotes target not met in fiscal year under review. Note: For ease of multi-year review, figures in Table IV-3 have been rounded. In the FY 2012 Annual Report, the CEM Composite Metric was included with the cross-portfolio performance indicators. In this Analysis, the CEM Composite Metric is shown in Chapter 1, Table I-1 rather than Table IV-3.

n/a – not available; no fiscal year performance result or target.

*Delivering Results, Innovation, Value, and Efficiency (DRIVE) is a structured management process for improving business strategy development and progress toward performance goals. FY 2014 Annual Report at 72. DRIVE incorporates measurement, analysis, and evaluation of a portfolio of strategic initiatives. *Id.*

[#]Target changed (or later identified) from that originally provided in ACR filing. The Postal Service indicated in its FY 2013 ACR that some FY 2014 targets may change due to legislative activity. See Docket No. ACR2013, Response to CHIR No. 15. However, in its FY 2014 ACR, the Postal Service states it eliminated the Total Headcount Reduction cross-portfolio performance indicator rather than change its target. Some FY 2014 targets did change, and Table IV-3 reflects those updates provided in its FY 2014 ACR. The original FY 2014 targets provided in its FY 2013 ACR were: \$1.53 billion for Total DRIVE Cost Savings, 97.0% for both Commercial Mail in Full Service IMb and IMb Adoption Rate, and 96.5% for Package Scanning Rate. Compare Docket No. ACR2013, Response to CHIR No. 15, question 5 with March 11 Response to CHIR No. 13, question 1.

**In its February 10 Response to CHIR No. 5, question 9, the Postal Service initially stated that these cross-portfolio performance indicators were “Not in DRIVE for FY15.” However, in its March 11 Response to CHIR No 13, question 3, Library Reference USPS–FY14–NP39, March 11, 2015, it provided FY 2015 targets under seal.

Sources: February 10 Response to CHIR No. 5, question 9; March 11 Response to CHIR No. 13, questions 1, 3, Library Reference USPS–FY14–NP39; March 30 Response to CHIR No. 13, question 28c.; May 15 Response to CHIR No. 17, question 3 (corrected FY 2014 Total Work Hours Reduced from 7.7 to 6.7 million); Docket No. ACR2013, Response to CHIR No. 15, question 5; Docket No. ACR2013, Response to CHIR No. 10, question 6; FY 2012 Annual Report at 39.

Tables IV-4 and IV-5 list the FY 2014 and FY 2015 strategic initiatives, respectively, with their corresponding cross-portfolio performance indicators.

Table IV-4
FY 2014 Strategic Initiatives and Cross-Portfolio Performance Indicators

Performance Goal	FY 2014 Strategic Initiatives	FY 2014 Cross-Portfolio Performance Indicator(s)
Deliver High-Quality Services (% on-time)	Optimize Network Operations	Total DRIVE Cost Savings; Total Work Hours Reduced
	Optimize Delivery Operations	Total DRIVE Cost Savings
	Transform Access	Total DRIVE Cost Savings
	Optimize Facility Footprint	Total DRIVE Revenue; Total Facility Square Feet Reduced
	Build a World-Class Package Platform	None Provided
Provide Excellent Customer Experiences	Improve Customer Experience	None Provided
	Streamline Commercial Mail Acceptance and Enterprise Payment	None Provided
	Business Innovation through IT	None Provided
	Achieve 100% Product Visibility	Commercial Mail in Full Service IMb; Package Scanning Rate; IMb Adoption Rate
Ensure a Safe Workplace and Engage Workforce	Building the Workforce of the Future	None Provided
Sustain Controllable Income	Manage Funnel and Launch Innovations	None Provided
	Customer Growth and Retention	Total DRIVE Revenue
	Market New and Existing Services	None Provided
	Grow Small Business Revenue	None Provided
	Greenfield Costing	None Provided
	Establish the Digital Platform	None Provided
	Obtain Payment Card Industry Compliance	None Provided
	Achieve 100% Customer and Revenue Visibility	None Provided
	Enhance Enterprise Risk Management Capabilities	None Provided
Revenue Assurance	None Provided	

Source: March 11 Response to CHIR No. 13, question 26.

Table IV-5
FY 2015 Strategic Initiatives and Cross-Portfolio Performance Indicators

Performance Goal*	FY 2015 Strategic Initiatives	FY 2015 Cross-Portfolio Performance Indicator(s)
Service	Optimize Network Operations	Total Work Hours Reduced; Total DRIVE Cost Savings
	Optimize Delivery Operations	Total DRIVE Cost Savings
	Transform Access	None Provided
	Optimize Facility Footprint	Gross Consideration (Facilities)
	Build a World-Class Package Platform	None Provided
	Modernize Delivery	Total DRIVE Cost Savings
Customer Experience	Improve Customer Experience	None Provided
	Leverage Technology and Data to Drive Business Value	Commercial Mail in Full Service IMb; Package Scanning Rate
Workplace	Building the Workforce of the Future	Total DRIVE Cost Savings
	Building an Integrated Human Resource System	None Provided
Financial	Accelerate Innovation	None Provided
	Sales Excellence	Estimated Value of Closed Sales and Churn Reduction
	International Competitiveness	None Provided
	Achieve 100% Customer and Revenue Visibility	None Provided
	Enhance Enterprise Risk Management Capabilities	None Provided
	Revenue Assurance	None Provided
	Greenfield Costing	None Provided
<p>*The naming convention of the Postal Service's performance goals vary slightly from year to year in its <i>Annual Reports</i>. The Postal Service identifies the FY 2015 strategic initiatives and cross-portfolio performance indicators by performance goal in its response to the information request below. Thus, the performance goal names listed in Table IV-5 differ from the performance goal names listed in other tables in this Analysis.</p>		
<p>Source: March 30 Response to CHIR No. 13, questions 28b., 28c.</p>		

B. Comments

The Public Representative asserts that the Postal Service's presentation of strategic initiatives improved from last year. PR Comments at 16. However, she criticizes the Postal Service for including the strategic initiatives in its FY 2014 *Annual Report* rather than in the *FY 2014 Report* and *FY 2015 Plan*. *Id.* She concludes that the strategic initiatives "do little to enlighten the reader of the overall intended improvement sought by the initiative or the progress of each initiative." *Id.* at 17.

The Postal Service responds that the strategic initiatives are designed to help the Postal Service achieve its performance goals. USPS Reply Comments at 4. It contends that they are part of a broader strategic plan to achieve these goals and should not be included in performance plans and program performance reports. *Id.* The Postal Service argues that because strategic initiatives function as projects rather than performance indicators, they are appropriately presented and discussed in the FY 2014 *Annual Report* but not as part of the *FY 2014 Report* and *FY 2015 Plan*. *Id.*

C. Commission Analysis

1. Purpose of Strategic Initiatives

The Postal Service argues that strategic initiatives are not part of performance plans and program performance reports. Notwithstanding this assertion, the relationship among strategic initiatives, performance plans, and program performance reports is well established. Since the Postal Service introduced strategic initiatives in FY 2010, the Commission has consistently reviewed them to facilitate its evaluation of performance goals under 39 U.S.C. § 3653(d).⁹³

Strategic initiatives are intertwined with performance plans and program performance reports. The Postal Service created them for the specific purpose of addressing the Commission's concerns about the sufficiency of performance plans and program performance reports. FY 2010 *Comprehensive Statement* at 51. Strategic initiatives were originally "designed to help clarify the connection between performance goals and the actions necessary to achieve them." FY 2013 *Review* at 31. The Postal Service acknowledges that they are the focus of its efforts to meet its performance goals. FY 2014 *Annual Report* at 72. Thus, the Commission evaluates strategic initiatives as part of its review of performance plans and program performance reports and uses the strategic initiatives to inform its evaluation of whether performance goals were met.

Moreover, strategic initiatives cannot stand alone. They lack context if they do not relate back to a performance goal, which are part of performance plans and program performance reports. *For these reasons, the Commission finds that strategic initiatives should be evaluated in conjunction with performance plans and program performance reports.*

2. Observations and Recommendations

The Commission finds that the presentation of strategic initiatives in FY 2014 improved compared to FY 2013. Strategic initiatives are difficult to compare from one year to the next because they have regularly changed. In the FY 2014 *Annual Report*, the Postal Service includes a table similar to Table IV-1, *supra*. See FY 2014 *Annual Report* at 73. This table links each strategic initiative to the performance goal it

⁹³ See FY 2010 ACD at 55; FY 2011 ACD at 58; FY 2012 ACD at 44-46; FY 2013 *Review* at 31, 37.

supports and compares FY 2013 and FY 2014 strategic initiatives. The “Change from Prior Year” column is a substantial improvement over the strategic initiative presentations in past *Annual Reports* because the column illustrates how strategic initiatives changed from FY 2013 to FY 2014. *See id.* The Postal Service provided a similar table comparing FY 2014 and FY 2015 strategic initiatives in response to an information request.⁹⁴ *The Commission recommends that the Postal Service include updated versions of the same tables in the FY 2015 Annual Report. These tables should compare strategic initiatives between FY 2014 and FY 2015 as well as FY 2015 and FY 2016.*

The Public Representative asserts that the Postal Service should have discussed strategic initiatives in its *FY 2014 Report* and *FY 2015 Plan* rather than the *FY 2014 Annual Report*. Because strategic initiatives are part of performance plans and program performance reports, the Postal Service should discuss them in those documents. Nevertheless, discussing strategic initiatives in the *FY 2014 Annual Report* did not impede the Commission’s review. The Commission is able to evaluate whether performance goals were met as long as the information on strategic initiatives is available and complete.

The Commission notes that cross-portfolio performance indicators may not be the best way to measure the performance of each strategic initiative. As Tables IV-4 and IV-5 illustrate, many strategic initiatives do not have a corresponding cross-portfolio performance indicator. Also, some cross-portfolio performance indicators are linked to multiple strategic initiatives, which may mask outcomes for those strategic initiatives.

For example, the “Total DRIVE Cost Savings” cross-portfolio performance indicator will measure performance for four strategic initiatives in FY 2015: Optimize Network Operations, Optimize Delivery Operations, Modernize Delivery, and Building the Workforce of the Future. *See* Table IV-5. However, it is unclear how cost savings are to be distributed among the four strategic initiatives. This reduces the utility of the “Total DRIVE Cost Savings” cross-portfolio performance indicator.

The Commission recommends that the Postal Service establish performance measures for each strategic initiative. Otherwise, the Postal Service may have difficulty measuring progress for strategic initiatives that do not have a corresponding performance measure. The Commission also suggests that the Postal Service replace cross-portfolio performance indicators with performance measures that link to only one strategic initiative. In the FY 2015 Annual Report, it would be helpful to include tables similar to Tables IV-4 and IV-5 for the FY 2015 and FY 2016 strategic initiatives that link each strategic initiative with a unique performance measure.

⁹⁴ March 30 Response to CHIR No. 13, question 28b.