

July 2003

U.S. POSTAL  
SERVICE

A Primer on Postal  
Worksharing



Accountability \* Integrity \* Reliability

Highlights of [GAO-03-927](#), a report to congressional requesters

## Why GAO Did This Study

The U.S. Postal Service (USPS) faces major financial, operational, and human capital challenges that call for a transformation if USPS is to remain viable in the 21<sup>st</sup> century. Given these challenges, the President established a commission to examine the state of USPS and submit a report by July 31, 2003, with a proposed vision for USPS and recommendations to ensure the viability of postal services. The presidential commission has addressed worksharing (activities that mailers perform to obtain lower postage rates) in the course of its work. About three-quarters of domestic mail volume is workshered. Worksharing is fundamental to USPS operations, but is not well understood by a general audience.

To help Congress and others better understand worksharing, GAO was asked to provide information on the key activities and the rationale for worksharing and the legal basis for worksharing rates. GAO discusses USPS's and the Postal Rate Commission's rationale for worksharing but did not assess the benefits that they claimed for worksharing. GAO will issue a second report later this year on worksharing issues raised by stakeholders.

In commenting on this report, USPS and the Postal Rate Commission reemphasized the benefits of worksharing.

[www.gao.gov/cgi-bin/getrpt?GAO-03-927](http://www.gao.gov/cgi-bin/getrpt?GAO-03-927).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Bernard L. Ungar at (202) 512-2834 or [ungarb@gao.gov](mailto:ungarb@gao.gov).

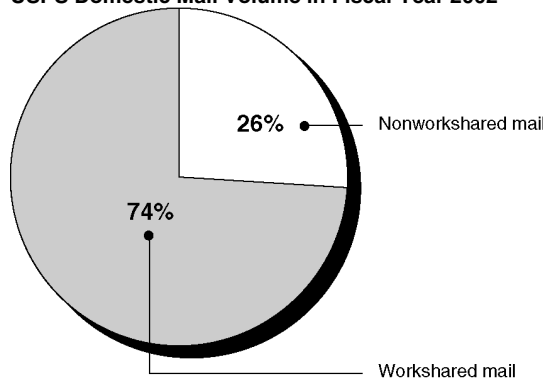
# U.S. POSTAL SERVICE

## A Primer on Postal Worksharing

### What GAO Found

Postal worksharing activities generally involve mailers preparing, sorting, or transporting mail to qualify for reduced postage rates, that is, worksharing rates. These rates are based on what are referred to as worksharing discounts because the rates are reduced based on the costs that USPS is estimated to avoid as a result of mailer worksharing activities. Key activities include (1) barcoding and preparing mail to be sorted by USPS automated equipment, which reduces manual sorting; (2) presorting mail by ZIP Code or specific delivery location, which reduces USPS sorting; and (3) entering mail at a USPS facility that generally is closer to the final destination of the mail. Worksharing also requires mailers to perform numerous other activities, such as updating addresses to improve their accuracy.

**USPS Domestic Mail Volume in Fiscal Year 2002**



Source: Developed by GAO based on USPS mail volume data for fiscal year 2002.

According to USPS and the Postal Rate Commission, the rationale for worksharing is that it benefits USPS, mailers and the mailing industry, and the nation. They said worksharing benefits (1) USPS by enabling it to improve its operations and thereby help minimize its workforce and infrastructure, and by stimulating mail volume growth that generates revenues to cover rising costs; (2) mailers by reducing mail-related costs and improving delivery service, and the mailing industry that performs worksharing activities; and (3) the nation, in part by lowering business costs, and in part by the associated benefits that consumers can realize. While stakeholders generally support the concept of worksharing, they have raised differing concerns in this area. For example, the American Postal Workers Union has asserted that worksharing discounts are too large, but some mailers and members of the mailing industry have asserted that the worksharing discounts are not large enough.

The primary legal basis for worksharing rates is the requirement in law that, when recommending postage rates, the Postal Rate Commission consider mail preparation and its effect upon reducing USPS costs. Postal rate cases have established precedents clarifying the basis for worksharing rates.

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United States General Accounting Office  
Washington, D.C. 20548

July 31, 2003

The Honorable Daniel K. Akaka  
Ranking Minority Member  
Subcommittee on Financial Management, the Budget,  
and International Security  
Committee on Governmental Affairs  
United States Senate

The Honorable Henry A. Waxman  
Ranking Minority Member  
Committee on Government Reform  
House of Representatives

The Honorable Danny K. Davis  
Ranking Minority Member  
Subcommittee on the Civil Service and Agency Reorganization  
Committee on Government Reform  
House of Representatives

As you know, we have recently raised concerns that the U.S. Postal Service (USPS) faces major challenges that collectively call for a structural transformation if USPS is to remain viable in the 21<sup>st</sup> century. We have reported that USPS has experienced financial difficulties, its business model is not well suited to operate efficiently in an increasingly competitive environment, and growth in mail volume has stagnated or declined.<sup>1</sup> About three-quarters of U.S. domestic mail volume is “workshared” by mailers that barcode, sort, or transport mail in ways estimated to reduce USPS’s costs and thus obtain lower postage rates. Although worksharing is fundamental to USPS operations, it is not well understood by a general audience because little information is available that explains its basic concepts. As Congress continues to consider how best to address USPS’s transformation challenges, Members of Congress, their staff, and other interested parties will need a basic understanding of postal worksharing.

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<sup>1</sup>U.S. General Accounting Office, *U.S. Postal Service: Key Postal Transformation Issues*, [GAO-03-812T](#) (Washington, D.C.: May 29, 2003); *Major Management Challenges and Program Risks: U.S. Postal Service*, [GAO-03-118](#) (Washington, D.C.: Jan. 2003); and *U.S. Postal Service: Deteriorating Financial Outlook Increases Need for Transformation*, [GAO-02-355](#) (Washington, D.C.: Feb. 28, 2002).

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Accordingly, you requested that we provide available information on worksharing fundamentals, key issues, and stakeholder views in this area. We agreed with your offices to provide the information in two reports. This first report provides a primer on the fundamentals of worksharing. Specifically, our objectives for this report are to provide summary information on the following questions: (1) What are the key activities included in postal worksharing? (2) What is the rationale for worksharing, according to USPS and the Postal Rate Commission, the independent federal establishment that reviews USPS proposals for changes in domestic postage rates? and (3) What is the legal basis for establishing worksharing rates?

Some postal stakeholders have expressed divergent points of view regarding the rationale for worksharing, raising a series of related detailed technical and policy issues that are beyond the scope of this report. Accordingly, among other things, you requested that we issue a second report later this year to address key worksharing issues and stakeholder views regarding these issues. In this first report, we discuss USPS's and the Postal Rate Commission's rationale for worksharing but do not assess the benefits that they claimed are derived from worksharing.

As you requested, this first report is being issued on July 31, 2003. This date coincides with the expected issuance date of the report by the President's Commission on the United States Postal Service. The commission was mandated to report on its proposed vision for USPS and recommend reforms to ensure the viability of postal services.

To address the three objectives, among other things, we reviewed documents that defined worksharing rates and the rationale for these rates. These documents included materials filed in postal rate cases—Postal Rate Commission proceedings that consider changes to domestic postage rates and fees—by USPS, the Postal Rate Commission, and other postal stakeholders. In addition, we reviewed USPS requirements for mailer worksharing activities and reviewed published papers and analyses on worksharing. To observe the handling and preparation of workshared mail, we visited USPS mail processing facilities in Florida and Maryland that handle workshared mail as well as mailer facilities in Florida that prepare workshared mail. We interviewed representatives of groups that filed material on worksharing issues in the most recent postal rate case that resulted in increases in most postage rates, including the rate for sending a letter via First-Class Mail. These representatives included officials of USPS, the Postal Rate Commission and its Office of the Consumer Advocate,

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mailer groups, and the American Postal Workers Union. We also reviewed material that some of these organizations provided us on worksharing. To obtain information on the legal basis for worksharing rates, we reviewed pertinent laws, regulations, and the Postal Rate Commission's recommended decisions in rate cases that established worksharing rates. Additional information on our objectives, scope, and methodology appears in appendix I. We requested comments on a draft of this report from USPS and the Postal Rate Commission, and their comments are discussed later in this report and reproduced in appendixes III and IV.

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## Results in Brief

Postal worksharing activities generally involve mailers preparing, barcoding, sorting, or transporting mail to qualify for reduced postage rates, i.e., worksharing rates. Worksharing rates are based on what are commonly referred to as worksharing discounts because the rates are reduced based on the costs that USPS is estimated to avoid as a result of mailer worksharing activities. Key worksharing activities include (1) barcoding and preparing mail so it can be sorted by USPS automated equipment, which reduces manual sorting and other USPS handling of the mail; (2) presorting mail, such as by ZIP Code or specific delivery location, to reduce the number of times USPS must sort the mail to route it to the addressee; and (3) entering mail at a USPS facility that is generally closer to the final destination of the mail, which is commonly referred to as entering the mail deeper into USPS's network used to move the mail. In addition, mailers must perform numerous other worksharing activities, such as updating and properly formatting addresses to improve their quality and accuracy, thus reducing the amount of undeliverable and forwarded mail, as well as improving USPS's ability to use its automated equipment to sort the mail. To qualify for worksharing rates, mailers must perform worksharing activities and meet minimum volume requirements for bulk mailings, such as mailings of at least 500 letters sent via First-Class Mail that may include credit card bills, utility bills, advertisements, and bank statements. Aside from First-Class Mail that is workshered, other workshered mail may include bulk mailings of advertisements, magazines, local newsletters, or packages.

USPS and the Postal Rate Commission have said that worksharing benefits USPS, mailers and the mailing industry, and the nation. First, they credit worksharing with benefiting USPS, in part because it enables USPS to improve its operations and thereby helps minimize its workforce and infrastructure. In addition, they said worksharing benefits USPS because it stimulates mail volume growth, which helps USPS achieve economies of

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scale. Historically, mail volume growth has been critical to USPS's business model, which depends on mail volume growth to generate more revenues to help cover rising USPS costs. Second, they credit worksharing with benefiting mailers and the mailing industry. With respect to mailers, USPS and the Postal Rate Commission credit worksharing with reducing the total mail-related costs for mailers who workshare; helping to keep postage rates affordable for all mailers; and improving the quality of delivery service. Regarding the mailing industry, USPS and the Postal Rate Commission credit worksharing with spurring the development of the direct mail industry as well as that of other mail-related companies that perform worksharing activities, enabling more mailers to participate in worksharing. Third, they credit worksharing with benefiting the nation, in part by lowering business costs, and in part by creating associated benefits that consumers can realize. They said consumers benefit if worksharing helps keep postage rates affordable; if mailers pass along lower prices when their mail-related costs are reduced by worksharing; if their workshered mail is delivered in a more expeditious and reliable manner; and if the mail volume growth caused by worksharing results in more mail that consumers consider useful, such as business correspondence or catalogs that some consumers find useful.

While stakeholders generally support the concept of worksharing, they have raised differing concerns in this area. For example, the American Postal Workers Union has asserted that the worksharing discounts are too large and thus worsen USPS's financial situation. In contrast, some mailers and members of the mailing industry have asserted that the discounts are not large enough and thus improve USPS's financial situation. Integral to stakeholder differences are divergent views on technical issues relating to the data, assumptions, and analyses used in rate cases to develop the estimates of costs that USPS is to avoid as a result of mailer worksharing activities. Another issue that has been raised is the extent to which USPS has avoided costs as a result of worksharing activities performed by mailers.

The primary legal basis for worksharing rates derives from the requirement that the Postal Rate Commission consider "the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs" to USPS when recommending domestic postage rates.<sup>2</sup> Worksharing rates have been considered in successive

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<sup>2</sup>39 U.S.C. §3622(b)(6).



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postal rate cases—proceedings in which the Postal Rate Commission considers USPS proposals for changing domestic postage rates—dating back to the 1970s. These proceedings have established precedents that have further clarified the legal basis for worksharing rates. Worksharing rates are implemented through federal regulations issued and updated by the Postal Rate Commission and USPS.

In commenting on a draft of our report, the Postal Rate Commission said that worksharing rates “have provided major impetus for improved productive efficiency in postal services and stimulated the mail volume growth that has had the effect of moderating rate increases for all mail classes and services.” USPS commented that worksharing enhances efficient postal operations and stimulates mail growth and revenue for USPS; reduces overall mailer costs and has encouraged development of the presort and direct mail industries; and “benefits the entire economy because reduced mailing costs increase productivity and efficiency.”

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## Background

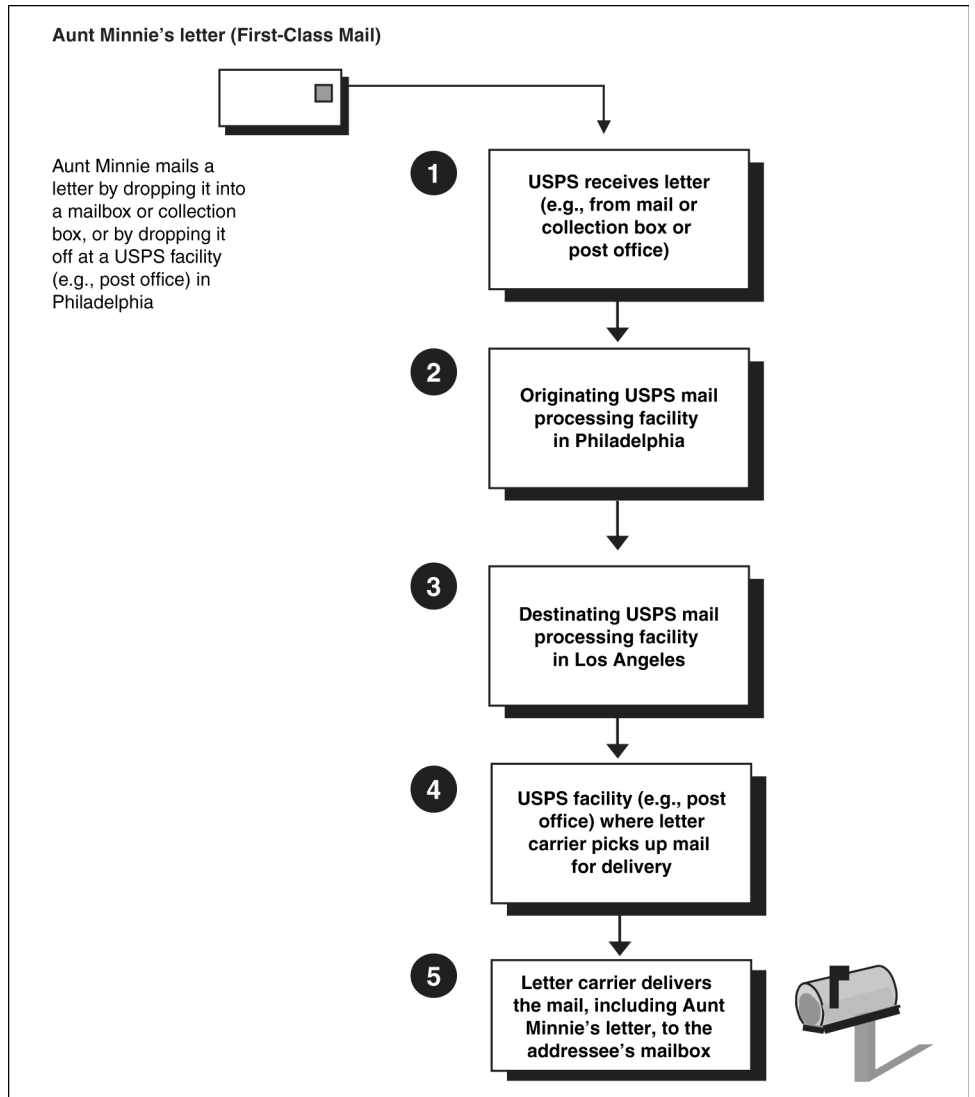
USPS is an independent establishment of the executive branch mandated to provide postal services to bind the nation together through the personal, educational, literary, and business correspondence of the people. Established by the Postal Reorganization Act of 1970,<sup>3</sup> USPS is one of the largest organizations in the nation, with annual revenues of about \$67 billion in fiscal year 2002 and a workforce of about 850,000 full-time and part-time employees.

To fulfill its responsibilities, USPS has a massive infrastructure that, in fiscal year 2002, included about 300,000 collection boxes; 209,000 vehicles that transport and deliver mail; almost 38,000 post offices, post office stations, and post office branches; and about 350 mail processing facilities that sort and route mail across the country and within local areas. USPS delivered mail to the nation’s 139 million addresses, a number that grows by about 1.7 million annually. USPS carried over 40 percent of the world’s mail, and USPS’s total mail volume was nearly 203 billion pieces in fiscal year 2002. A simplified illustration of how USPS handles a single piece of personal correspondence that is mailed cross-country (referred to as “Aunt Minnie” mail) is shown in figure 1.

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<sup>3</sup>The Postal Reorganization Act of 1970 (Pub. L. 91-375) reorganized the U.S. Post Office Department into the U.S. Postal Service.

**Figure 1: Illustration of How USPS Handles “Aunt Minnie’s” Letter Sent from Philadelphia to Los Angeles**



Source: Developed by GAO based on USPS information.

USPS handles a wide variety of mail items ranging from correspondence, bills, and publications to payments and packages. Most mail is generated by businesses, with households generating 11 percent of domestic mail volume—primarily remittance mail and other mail sent to businesses and

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other organizations. Household-to-household mail, such as personal correspondence, represents only 4 percent of domestic mail volume.

Postage rates vary widely, depending on the mail's content, weight, size, destination, and how it is prepared and presented by mailers to USPS, among other things. Mail is organized into groupings called classes. The four main mail classes include (1) First-Class Mail, which includes items such as business and personal correspondence, bills, payments, and advertisements; (2) Standard Mail, which is primarily advertising mail such as catalogs, coupons, and solicitations; (3) Periodicals, which include publications such as mailed newspapers and magazines; and (4) Package Services, which is primarily packages that include merchandise as well as large quantities of printed material.

The Postal Reorganization Act of 1970 shifted postage ratemaking authority from Congress to two presidentially appointed bodies: the USPS Board of Governors and the independent Postal Rate Commission (PRC). The Board of Governors is USPS's governing body, which, among other things, sets policy, directs and controls expenditures, and participates in establishing postage rates and fees. The Board consists of 11 members: (1) 9 Governors who are appointed by the President, with the advice and consent of the Senate, to 9-year staggered terms; (2) the Postmaster General, who is appointed by the Governors; and (3) the Deputy Postmaster General, who is appointed by the Governors and the Postmaster General. By law, Governors are chosen to represent the public interest and cannot be representatives of special interests. They serve part time and may be removed only for cause. Not more than five of the nine Governors may belong to the same political party. No other qualifications or restrictions are specified in law.

PRC is an independent establishment of the executive branch that is composed of five full-time Commissioners, who are appointed by the President, with the advice and consent of the Senate, to 6-year staggered terms. Among other things, PRC Commissioners review proposed changes to domestic postage rates and fees and appeals of USPS decisions to close post offices. By law, Commissioners shall be chosen on the basis of their professional qualifications and may be removed only for cause. Not more than three of the five Commissioners may belong to the same political party. No other qualifications or restrictions are specified in law. In addition to the five Commissioners, PRC has a staff of about 40 full-time employees.

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When USPS wishes to change domestic postage rates and fees, it must submit its proposed changes and supporting material to PRC, which generally must render its recommended decision within 10 months. During that time, interested parties, such as mailer groups, individual mailers, companies that provide mail-related services, USPS competitors, postal labor unions, PRC's Office of the Consumer Advocate,<sup>4</sup> and members of the public, have the opportunity to provide evidence and comments to PRC reflecting their respective concerns. PRC also generally holds public hearings before issuing its recommended decision to the Governors, who may approve, allow under protest, reject, or modify PRC's decision.

USPS has a break-even mandate. Thus, when USPS proposes changes to domestic postage rates and fees, USPS (1) projects its "revenue requirement" for the "test year" (a fiscal year representative of the period of time when the new rates will go into effect), based on the total estimated costs plus a provision for contingencies, and a provision for the recovery of prior years' losses; and (2) proposes rates and fees that are estimated to raise sufficient revenues to meet USPS's revenue requirement. USPS also proposes domestic postage rates and fees that are intended to fulfill the requirement in law that each class of mail or type of service must cover the direct and indirect postal costs that are attributable to that class or type of service plus a portion of its other remaining "institutional" costs, which include all "common" or "overhead" costs.<sup>5</sup>

USPS has raised postage rates several times in recent years. Although these rate increases have contributed to the decline in mail volume, USPS credits the rate increases with adding billions of dollars to USPS revenues. USPS now plans to keep postage rates steady until 2006, largely because recently enacted legislation has reduced USPS's payments for its pension obligations. Although USPS's short-term financial pressures have been alleviated, fundamental issues remain associated with USPS's business model, which relies on mail volume growth to help finance rising costs, including the cost of universal postal service provided through an expanding delivery network. USPS has recognized that its business model is outmoded in today's rapidly changing and increasingly competitive business environment. As growth in mail volume has stagnated or declined,

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<sup>4</sup>PRC's Office of the Consumer Advocate is an office within PRC charged with independently representing the interests of the general public in rate and classification cases, to fulfill the statutory mandate in 39 U.S.C. §3624(a).

<sup>5</sup>39 U.S.C. §3622(b)(3).

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USPS has increasingly relied on rate increases to generate additional revenues.

Congress has debated proposals for comprehensive legislation to address postal transformation issues for the past decade, including USPS's mission, role, business model, and regulation of postage rates. None of these proposals have been enacted to date. When legislative action was not forthcoming, various postal stakeholders and we proposed that a presidential commission be formed to consider postal transformation issues and develop recommendations.

In April 2001, we put USPS's long-term financial outlook and transformation efforts on our high-risk list and recommended that USPS develop a comprehensive plan to address its financial, operational, and human capital challenges.<sup>6</sup> In the fall of 2001, USPS's financial situation became even more complex and critical due to the events of September 11th and the subsequent use of the mail to transmit anthrax. These events, the economic downturn, electronic diversion of mail, and rate increases, among other things, have led to unprecedented declines in total mail volume and continuing declines in the volume of First-Class Mail. This mail class generates more than half of USPS's revenues and covers most of its institutional costs.

USPS issued its Transformation Plan in April 2002 and has begun to implement it. USPS's actions are useful but cannot resolve the fundamental and systemic challenges associated with USPS's current business model. These challenges threaten USPS's ability to carry out its mission of providing affordable, high-quality, universal postal services on a self-financing basis.

Given these challenges, on December 11, 2002, President Bush issued an executive order that established the President's Commission on the United States Postal Service. The executive order stated that the commission's mission shall be to examine the state of USPS and submit a report to the President by July 31, 2003, that articulates a proposed vision for USPS, along with recommendations for the legislative and administrative reforms needed to ensure the viability of postal services. The commission examined many issues that are critical to postal transformation, including the

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<sup>6</sup>U.S. General Accounting Office, *U.S. Postal Service: Transformation Challenges Present Significant Risks*, [GAO-01-598T](#) (Washington D.C.: Apr. 4, 2001).

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worksharing of mail. The commission held seven public hearings during which it received testimony and statements for the record from a wide variety of stakeholders, including USPS, PRC, postal labor unions and management associations, mailers, mailer groups, companies that provide mail-related products and services, USPS competitors, subject matter experts, and others.

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## Worksharing Involves Activities Mailers Must Perform to Qualify for Lower Rates

Postal worksharing activities generally involve mailers preparing, barcoding, sorting, or transporting mail to qualify for reduced postage rates, that is, worksharing rates. Worksharing rates are based on what are commonly referred to as worksharing discounts because the rates are reduced based on the costs that USPS is estimated to avoid as a result of mailer worksharing activities. Key worksharing activities include (1) barcoding and preparing mail so it can be sorted by USPS automated equipment, which reduces manual sorting and other USPS handling of the mail; (2) presorting mail, such as by ZIP Code or specific delivery location, to reduce the number of times USPS must sort the mail to route it to the addressee; and (3) entering mail at a USPS facility that is generally closer to the final destination of the mail, which is commonly referred as entering the mail deeper into USPS's network used to move the mail. In addition, mailers must perform numerous other worksharing activities, such as updating and properly formatting addresses to improve their quality and accuracy, thus reducing the amount of undeliverable and forwarded mail, as well as improving USPS's ability to use its automated equipment to sort the mail. To qualify for worksharing rates, mailers must perform worksharing activities and meet minimum volume requirements for bulk mailings, such as mailings of at least 500 letters sent via First-Class Mail that may include credit card bills, utility bills, advertisements, and bank statements. Aside from First-Class Mail that is workshered, other workshered mail may include bulk mailings of advertisements, magazines, local newsletters, or packages.

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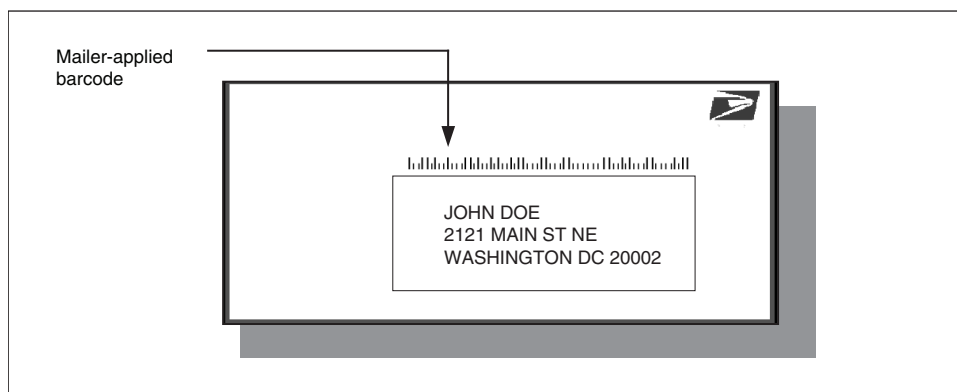
## Key Worksharing Activities

Three key worksharing activities performed by mailers are applying barcodes to mail and preparing it so that the mail can be sorted by USPS automated equipment; presorting mail, such as by ZIP Code or specific delivery location; and entering mail at a USPS facility that is generally closer to the final destination of the mail. Mailers must also perform numerous other worksharing activities. Specifically, worksharing activities include the following:

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- *Applying barcodes:* USPS automation equipment relies heavily on barcodes to sort mail. Barcodes provide machine-readable ZIP Code and delivery point information. When mailers apply barcodes (see fig. 2) and prepare the mail so it is compatible with USPS automated equipment, USPS avoids applying barcodes or sorting the mail manually. Mailer-barcoded mail can go directly to USPS automated equipment for processing.

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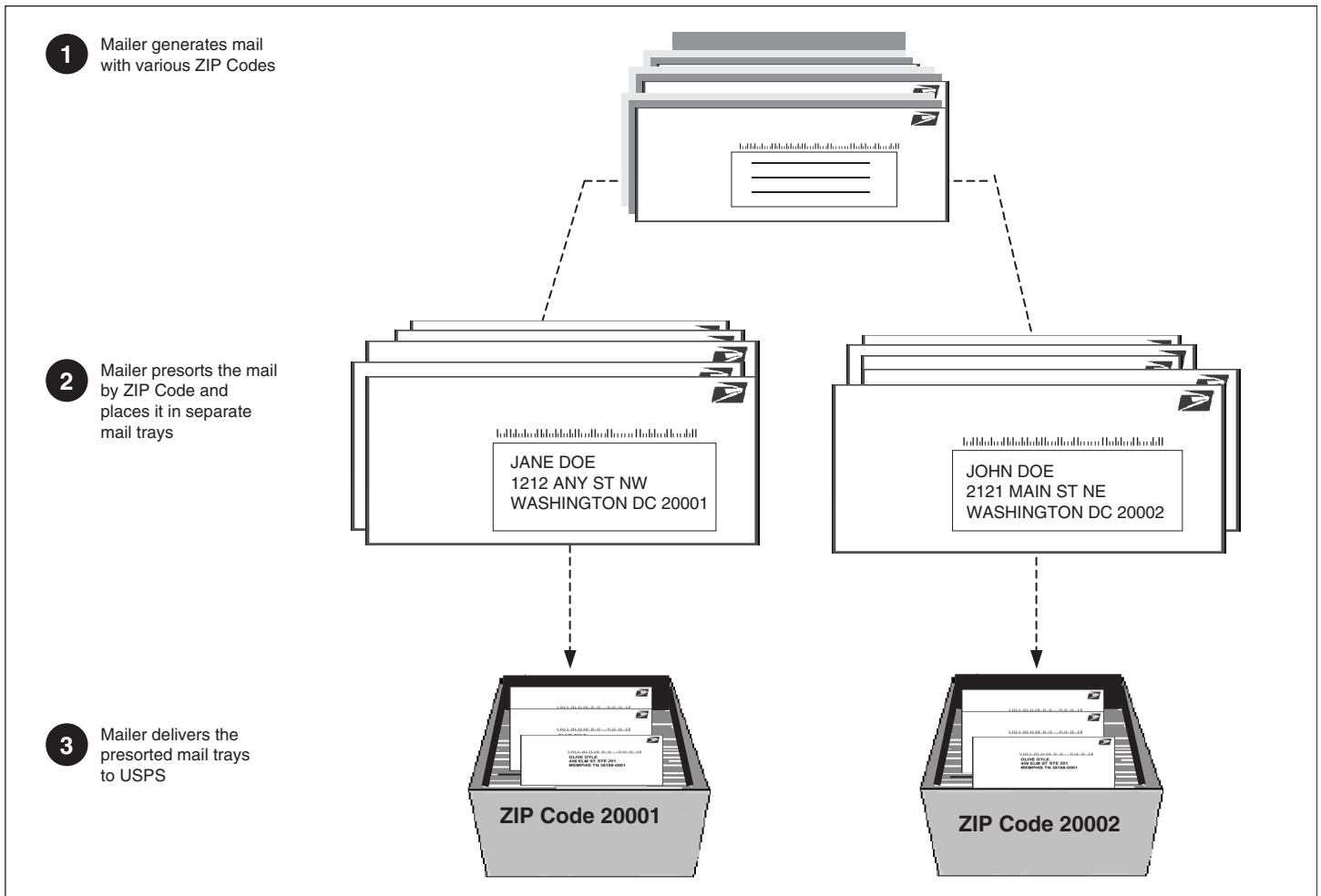
**Figure 2: Sample Envelope with Mailer-Applied Barcode**



Source: USPS.

- *Sorting mail:* Mailers who sort their mail, such as by groupings of ZIP Codes, five-digit ZIP Codes, or specific delivery locations; place their mail in mail trays; and then take their mail to a USPS facility for processing save USPS money by reducing the number of times USPS has to sort the mail to route it to its final destination. Such mailer sorting is called “presorting” because it occurs before USPS receives the mail. Figure 3 illustrates an example of mail sorted by five-digit ZIP Codes.

**Figure 3: Example of Presorting Envelopes in Mail Trays by Five-Digit ZIP Codes**



Source: Developed by GAO based on USPS information.

Note: Figure is a simplified illustration of presorting mail.

- *Destination entry of mail:* Mailers can prepare and transport some mail, such as advertisements, periodicals, and packages, from where the mail is generated to USPS facilities that generally are closer to where the mail will be delivered. Destination entry mail also must meet other worksharing requirements, such as being presorted to qualify for a lower “destination entry” rate that is discounted from the rate for mail



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that is not destination-entered.<sup>7</sup> When destination entry mail meets the worksharing requirements, it is generally expected to (1) bypass the originating USPS mail processing facilities that initially receive and organize mail according to areas where it will be delivered; and (2) be transported by the mailers to USPS's facilities that generally are closer to the final destination of the mail, including USPS's mail processing and delivery unit facilities where carriers pick up their mail for delivery (e.g., post offices). When destination entry mail is transported by mailers to USPS mail processing facilities, USPS processes the mail, such as sorting the mail, and then transports the mail to a destination delivery unit for delivery.<sup>8</sup> In addition, mailers can receive even lower destination entry rates when they transport destination entry mail to USPS delivery unit facilities. For this mail, USPS is generally expected to avoid handling this mail at its mail processing facilities and then transporting it to its delivery unit facilities.<sup>9</sup> Figure 4 provides a simplified illustration of how USPS handles bulk quantities of destination-entered mail sent from Philadelphia to Los Angeles, compared with how USPS handles a single letter sent by an individual ("Aunt Minnie") via First-Class Mail.

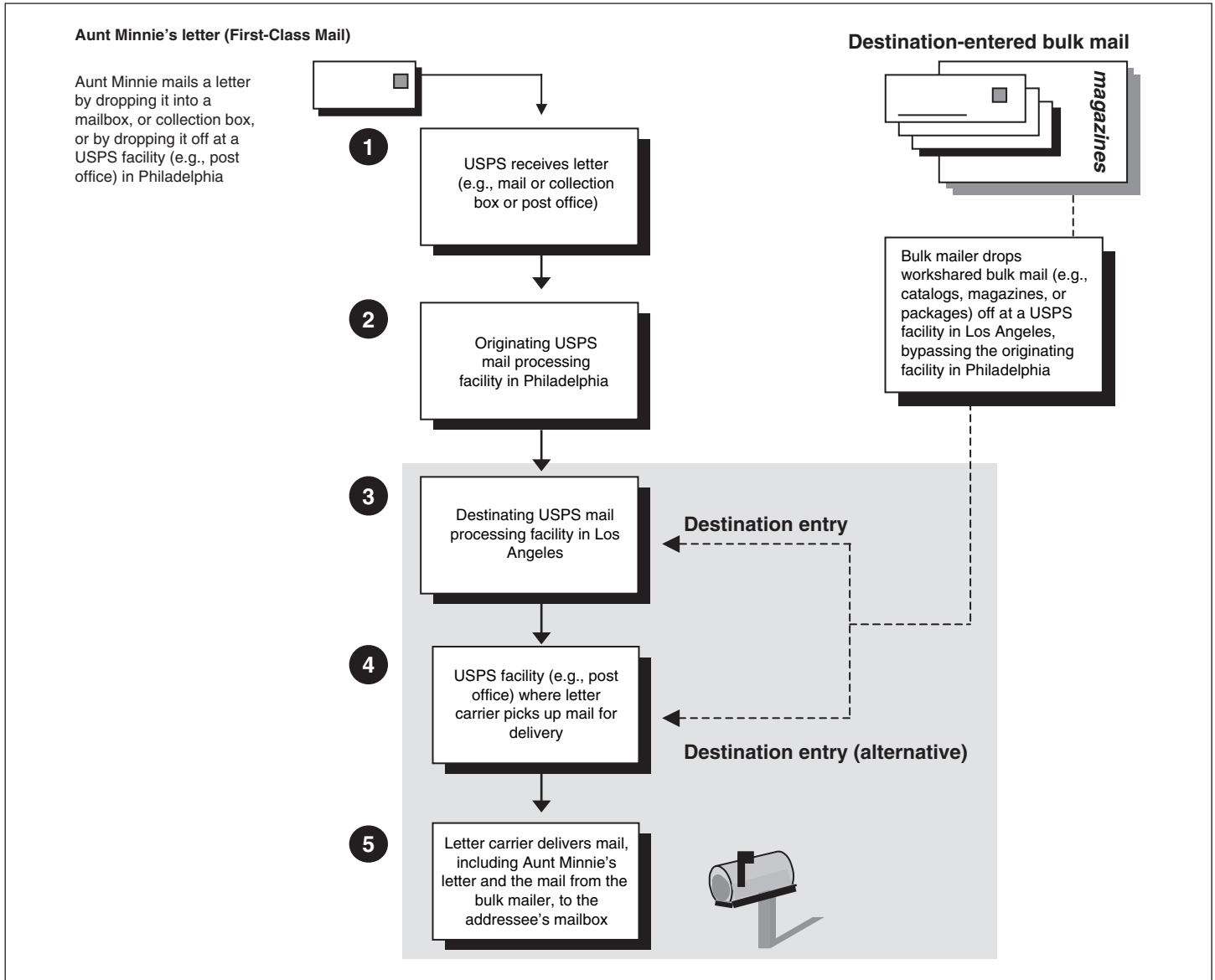
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<sup>7</sup>There are currently no destination entry rates for First-Class Mail.

<sup>8</sup>Delivery units include USPS facilities, such as post offices, post office stations, and branches where USPS letter carriers pick up their mail for delivery.

<sup>9</sup>Concern has been expressed that USPS transports some mail that is destination-entered at post offices to its mail processing facilities for sorting. We will address this concern in a subsequent report.

**Figure 4: Illustration of How USPS Handles Destination-Entered Bulk Mail and Aunt Minnie's Letter, Both of Which Are Sent from Philadelphia to Los Angeles**



Source: Developed by GAO based on USPS information.

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Worksharing rates are based on what are commonly referred to as “worksharing discounts.” For example, for First-Class Mail, the worksharing discounts for workshared mail refer to the difference between the rates for single-piece First-Class Mail weighing up to 1 ounce and the corresponding rates applicable to workshared mail. First-Class Mail discounts vary depending on the worksharing activities that are performed and the degree of presorting, among other things. Mailers can barcode and presort bulk mail in exchange for lower worksharing rates when they meet minimum volume requirements for mail sent to specific areas or locations, which reduces the number of times that USPS sorts the mail to route it to these areas or locations.

Consider the example of letters weighing up to 1 ounce sent via First-Class Mail that are workshared so that they will be compatible with USPS automation equipment. The mailer worksharing activities performed for these letters include barcoding and presorting, among other things. In this example, which could apply to credit card bills and utility bills, the workshared mail can qualify for different discounts and postage rates depending on the extent of worksharing activities that are performed. Specifically, depending on the degree of presorting of this barcoded mail, it can qualify for varying worksharing discounts, such as discounts of either 7.8 cents, 9.2 cents, or 9.5 cents per piece from the single-piece rate of 37 cents (see table 1).

**Table 1: Selected Postage Discounts and Rates for Letters of Up to 1 Ounce That Are Sent via First-Class Mail and Workshared to Be Compatible with USPS Automation Equipment**

Degree of presorting for barcoded, automation-compatible mail	Worksharing discount (per-piece reduction from the 37-cent stamp rate)	Worksharing rate per piece
<i>3-Digit presorting:</i> Mail presorted according to ZIP Codes with the same first 3 digits, which correspond to contiguous geographical areas such as part of a state	7.8 cents	29.2 cents
<i>5-Digit presorting:</i> Mail presorted according to ZIP Codes with the same first 5 digits, which correspond to smaller geographic areas, such as towns or parts of a city	9.2 cents	27.8 cents
<i>Carrier route presorting:</i> Mail presorted according to delivery routes of USPS letter carriers	9.5 cents	27.5 cents

Source: USPS.

Note: Letters sent via First-Class Mail must be barcoded, presorted, and meet numerous other requirements to qualify for worksharing rates that apply to automation-compatible mail.

Mailers must fulfill numerous requirements in addition to barcoding and/or presorting to qualify for worksharing rates that apply to automation-compatible mail. These requirements are intended to reduce USPS's costs of handling mail and can include (1) updating addresses that are intended to reduce the amount of mail that USPS must forward or return to the sender; (2) limiting the maximum weight of each mail piece so workshared mail can be sorted by USPS automated equipment; (3) printing barcodes according to USPS specifications so the barcodes can be read by USPS automated equipment; and (4) packaging mail, placing mail in trays, labeling trays, and performing other activities to enhance USPS's ability to efficiently handle the mail. Highlights of worksharing requirements for letters sent via First-Class Mail that qualify for automation-compatible discounts are shown in table 2.

**Table 2: Highlights of Worksharing Requirements for Automation-Compatible Letters Sent via First-Class Mail**

Aspect of worksharing	Requirements
Addresses	<ul style="list-style-type: none"> <li>• Each letter must have a complete address, including the ZIP Code.</li> <li>• ZIP Codes must be checked for accuracy at least once a year.</li> <li>• Addresses must be periodically checked for accuracy against the USPS address database. USPS-certified software must be used to check the addresses, such as the accuracy of the ZIP Codes and delivery point codes used to barcode the letters.</li> <li>• At least one of the following steps must be taken:               <ul style="list-style-type: none"> <li>- Before the mailing occurs, addresses and associated addressee names must be periodically updated by checking them against USPS's change of address database.</li> <li>- After the mailing occurs, an automated address change service can be used to correct addresses and provide mailers with change of address information in electronic format. Alternatively, envelopes must identify how USPS is to handle undeliverable-as-addressed mail and whether USPS is to provide mailers with information about the addressee's new address and/or reason for nondelivery.</li> </ul> </li> </ul>
Physical characteristics	<ul style="list-style-type: none"> <li>• Mail must be barcoded and presorted according to USPS specifications.</li> <li>• Letters must be proportioned according to USPS standards.</li> </ul>
Other requirements	<ul style="list-style-type: none"> <li>• Mail trays must be labeled according to USPS specifications.</li> <li>• Documentation of each mailing must be submitted to USPS.</li> <li>• Each mailing must include 500 or more pieces.</li> </ul>

Source: USPS.

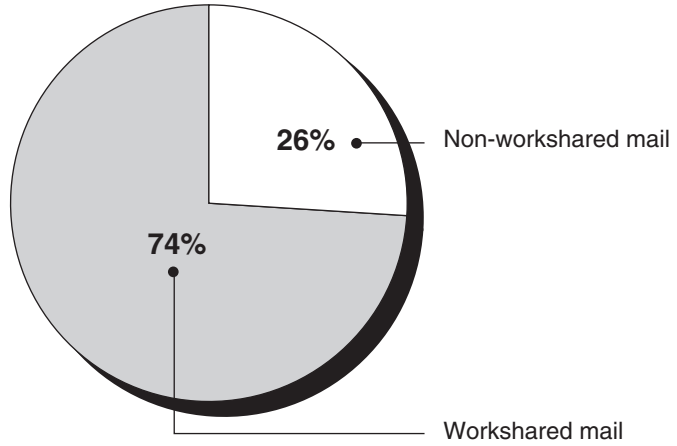
## Recipients of Worksharing Rates

Although all mailers of bulk mail can receive worksharing rates when they meet the worksharing requirements, in practice, for-profit businesses generate most worksharable mail. For-profit businesses send about three-quarters of domestic mail and frequently send enough large-volume mailings that meet the minimum volume requirements to qualify for worksharing rates. In addition, postage costs can represent a significant cost of doing business, providing an incentive for mailers to qualify for the lowest possible worksharing rates. Businesses typically use worksharing to send bulk mailings, including such mail as bills, statements, periodicals, newsletters, advertisements, and packages. Nonprofit entities such as charitable organizations and associations also generate substantial quantities of worksharable mail, such as mailings to raise funds, solicit members, and disseminate information. In fiscal year 2002, nearly three-quarters of domestic mail received worksharing rates (see fig. 5).

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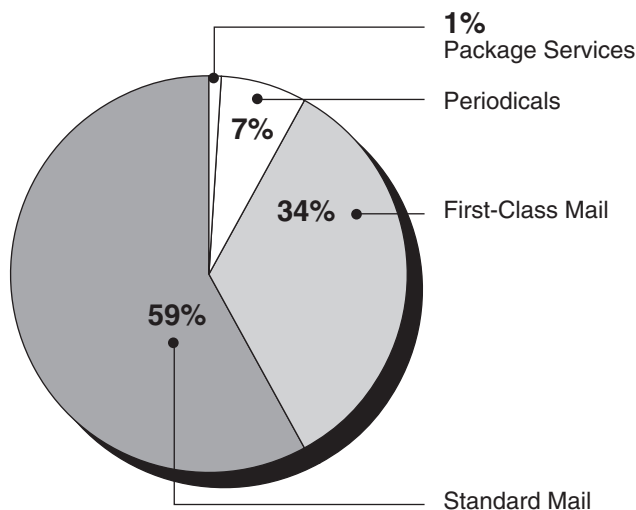
**Figure 5: Percentage of USPS Domestic Mail That Is Workshared and Non-workshared**



Source: Developed by GAO based on USPS mail volume data for fiscal year 2002.

Most domestic workshared mail is either (1) First-Class Mail, primarily business correspondence, bills, advertisements, and financial statements; or (2) Standard Mail, primarily advertisements, such as catalogs, coupons, flyers, and solicitations (see fig. 6).

**Figure 6: Percentage of Workshared Mail by Class**



Source: Developed by GAO based on USPS mail volume data for fiscal year 2002.

Note: Percentages do not add to 100 percent due to rounding.

By way of comparison, most non-workshared mail consists of letters weighing up to 1 ounce sent via First-Class Mail with 37-cent stamps. This mail includes such mail as remittance mail (e.g., checks sent through the mail to pay bills); a variety of business mail (e.g., individual invoices and other business correspondence); and personal correspondence.

## The Rationale for Worksharing Is That It Benefits USPS, Mailers, and the Nation, but Some Concerns Have Been Raised

USPS and PRC have said that worksharing benefits USPS, mailers and the mailing industry, and the nation. First, they credit worksharing with benefiting USPS, in part because it enables USPS to improve its operations and thereby helps minimize its workforce and infrastructure. In addition, they said worksharing benefits USPS because it stimulates mail volume growth, which helps USPS achieve economies of scale. Historically, mail volume growth has been critical to USPS's business model, which depends on mail volume growth to generate more revenues to help cover rising USPS costs. Second, they credit worksharing with benefiting mailers and the mailing industry. With respect to mailers, USPS and PRC credit worksharing with reducing the total mail-related costs for mailers who workshare, helping to keep postage rates affordable for all mailers; and improving the quality of delivery service. Regarding the mailing industry,

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USPS and PRC credit worksharing with spurring the development of the direct mail industry, as well as that of other mail-related companies that perform worksharing activities, enabling more mailers to participate in worksharing. Third, they credit worksharing with benefiting the nation, in part by lowering business costs, and in part by creating associated benefits that consumers can realize. They said consumers benefit if worksharing helps keep postage rates affordable; if mailers pass along lower prices when their mail-related costs are reduced by worksharing; if their workshered mail is delivered in a more expeditious and reliable manner; and if the mail volume growth caused by worksharing results in more mail that consumers consider useful, such as business correspondence or catalogs that some consumers find useful.

While stakeholders generally support the concept of worksharing, they have raised differing concerns in this area. For example, APWU has asserted that the worksharing discounts are too large and thus worsen USPS's financial situation. In contrast, some mailers and members of the mailing industry have asserted that the discounts are not large enough and thus improve USPS's financial situation. Integral to stakeholder differences are divergent views on technical issues relating to the data, assumptions, and analyses used in rate cases to develop the estimates of the costs that USPS is to avoid incurring in the test year as a result of mailer worksharing activities. In this regard, stakeholders have raised issues regarding (1) the quality and accuracy of the estimates of cost avoidance; (2) the extent to which USPS has avoided costs as a result of worksharing activities performed by mailers; and (3) whether data can be generated on what costs USPS has avoided as a result of mailer worksharing activities.

We recognize that stakeholders have raised detailed concerns about worksharing relating to technical and policy issues that are beyond the scope of this report. Among other things, we plan to address other stakeholder views on worksharing in our second report.

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## Worksharing Is Credited with Benefiting USPS

According to USPS and PRC, worksharing benefits USPS by enabling it to improve its operations and help minimize its workforce and infrastructure, and by stimulating mail volume growth. Historically, mail volume growth has been critical to USPS's business model, which depends on mail volume growth to generate more revenues, which helps cover rising USPS costs and also helps USPS achieve economies of scale.



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USPS has noted that worksharing improves its financial situation, in part by stimulating mail volume growth, and in part by enabling USPS to operate more efficiently, thereby helping USPS control its costs. USPS has reported that in response to worksharing discounts, mailers performed worksharing activities that reduced USPS's costs. In addition, USPS reported that worksharing requirements for automation-compatible mail, such as requirements in the areas of address quality and mail preparation, have enabled USPS to make more effective use of its automated equipment, thereby reducing USPS's costs and improving service times. Further, USPS reported that well-prepared and easy-to-process workshared mail has furthered the cost-effective deployment of additional automated equipment.

Specifically, USPS reported that mailer barcoding and presorting of mail help USPS maximize the use of its automated equipment that sorts up to 34,650 letters per hour, avoiding less efficient manual sorting. Also, some workshared mail is presented in mail trays on pallets that can be moved by forklifts, avoiding the need for USPS employees to separately handle each mail tray on the loading dock. USPS has estimated that the worksharing activities performed by mailers, such as barcoding and presorting, will reduce its costs of handling workshared letters that are compatible with its automation equipment and are sent via First-Class Mail. USPS refers to its estimated cost reduction from worksharing activities as "avoided costs." These avoided costs (see fig. 7) were estimated to result from the reduction in USPS's costs associated with:

- manually sorting mail (38 percent of these avoided costs);
- USPS's allied labor activities (22 percent), which are activities performed by USPS employees who prepare mail for processing or dispatch, either on the loading dock or inside the mail processing facility;
- USPS automated operations (20 percent), such as reduced USPS automated sorting of presorted mail; and
- applying barcodes and performing associated operations on the mail (15 percent).<sup>10</sup>

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<sup>10</sup>See app. II for a more detailed description of the estimated avoided costs.

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To put the potential for worksharing-related cost savings into context, USPS has reported that if it can change the processing of letters or flat-sized mail (e.g., large envelopes, catalogs, and magazines) from manual processing to automated processing, “there are tremendous savings opportunities.”<sup>11</sup> According to USPS, “while only about 8 percent of the letter mail we receive each day is processed manually, it accounts for one-half of letter mail processing labor costs.”<sup>12</sup> USPS has also estimated that the “labor processing cost” associated with manually handling letters was about \$56 per thousand letters, which was about 11 times more costly than for automated processing.<sup>13</sup> Thus, even a 1 percent reduction in the percentage of mail that USPS processes manually can result in significant savings.

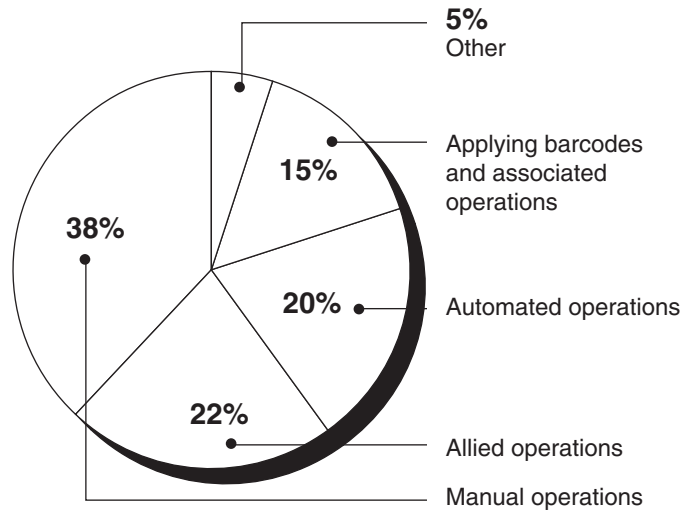
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<sup>11</sup>USPS testimony in the 2001 rate case (PRC Docket No. R2001-1, USPS-T-39).

<sup>12</sup>U.S. Postal Service, *United States Postal Service Annual Report 2001* (Washington, D.C.: Nov. 9, 2001).

<sup>13</sup>USPS submitted this estimate in the 2001 rate case based on data from a 4-week period in the summer of 2001. See PRC Docket No. R2001-1, USPS-T-39.

**Figure 7: Percentage of Costs That USPS Is Estimated to Avoid Because Mailers Perform Worksharing Activities for Automation-Compatible Letters Sent via First-Class Mail, by Type of USPS Cost**



Source: GAO analysis of USPS estimates for fiscal year 2003 prepared according to PRC cost methodology.

Note: See app. II for more detail on the methods and data used to develop this figure.

According to USPS and PRC, worksharing is credited with stimulating mail volume growth over the past three decades, which has helped USPS cover rising costs and achieve economies of scale. USPS has reported that worksharing has been “a primary source of growth” for mail volume, and a PRC staff analysis concluded that mail volume growth was caused by the successive introduction of worksharing rates for different groupings of mail and for different worksharing activities (e.g., mailers barcoding and presorting mail).<sup>14</sup> Over the past three decades, workshared mail has accounted for all of the growth in domestic mail volume. As we have reported, USPS’s business model relies on growth in mail volume to generate revenues to help cover rising costs. Thus, since the Postal Reorganization Act of 1970 was enacted, USPS’s business model has relied on growth in workshared mail volume. The volume of workshared mail increased 365 percent from fiscal years 1972 through 2002, while the volume of non-workshared mail declined 3 percent over the same period

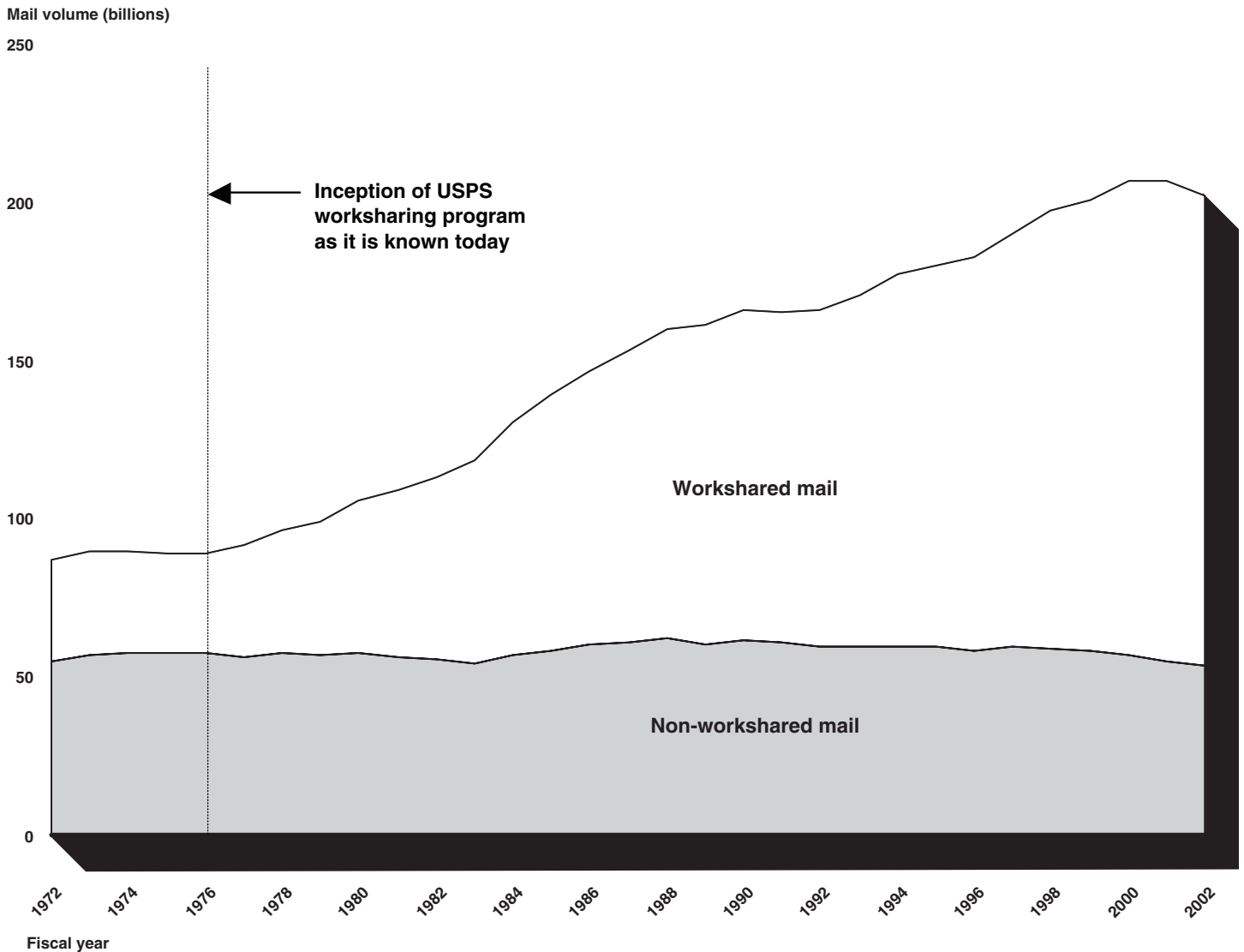
<sup>14</sup>See Robert H. Cohen, et. al., *The Impact of Using Worksharing to Liberalize a Postal Market* (Washington, D.C.: February 2001).

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(see fig. 8). However, as figure 8 shows, the volume of workshared mail declined in fiscal years 2001 and 2002, a period when USPS incurred growing financial difficulties that included deficits of \$1.7 billion and \$676 million, respectively; a freeze on most capital investments in USPS facilities; and rising USPS debt.

Looking back over USPS's history, when mail volume has grown, USPS could realize greater economies of scale, because the additional worksharing mail revenues exceeded the marginal costs of delivering the additional volumes of workshared mail. In fiscal year 2002, USPS employed a letter carrier workforce of about 351,000 full-time and part-time employees who serviced a delivery network of 139 million addresses that operated 6 days each week. USPS's delivery network has considerable fixed costs. For this reason, USPS can become more efficient when the volume of workshared mail increases and USPS realizes the associated economies of scale. Per-piece delivery costs can go down as USPS letter carriers deliver more mail to each address. For example, USPS can deliver mail less expensively, per piece, if a USPS letter carrier delivers a full bag of mail that includes the additional workshared mail volumes rather than a bag of mail that would be partially full if the additional workshared mail volumes were not included.

**Figure 8: Domestic Mail Volume from Fiscal Years 1972 through 2002**



Source: Developed by GAO based on USPS data.

Note: Workshared mail receives a lower rate due to mailer activities, such as mail preparation, barcoding, presorting, and destination entry. Worksharing rates for presorted First-Class Mail were implemented in fiscal year 1976. The implementation of the first worksharing discount for presorted First-Class Mail marked the inception of USPS's worksharing program as it is known today. GAO counted most Standard Mail and Periodicals volume as workshared since fiscal year 1971 in that USPS required presorting of this mail by ZIP Code, and the effect of this presorting on USPS's costs was one of several factors used to help establish rates for this mail.

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A key reason that worksharing contributed to mail volume growth is that mail volume has been sensitive to mailing costs. When worksharing reduced mailing costs, mailers expanded their use of the mail, such as by sending more catalogs and other advertisements to potential customers. Thus, worksharing helped mail compete with other communication and delivery alternatives. For example, some advertisements can be delivered either as mail or as newspaper inserts, or they can be delivered via other media. Also, packages can be delivered by USPS or private delivery companies such as United Parcel Service or FedEx.

The introduction of worksharing rates for First-Class Mail, Standard Mail, and Parcel Post reportedly stimulated growth in their mail volumes. Statistical studies have shown that worksharing discounts resulted in volume growth for these types of mail, in part because price increases were kept smaller than they otherwise would have been. For example, First-Class Mail volume growth increased after the introduction of presorting and barcoding discounts. Further, Standard Mail growth accelerated after the successive introduction of various presorting, barcoding, and destination entry discounts. Standard Mail worksharing rates were the “catalyst for increasing volumes,” according to the PRC staff analysis.

Similarly, the introduction of destination entry rates for workshared Parcel Post mail in fiscal year 1991 reinvigorated mail volume growth for Parcel Post. Specifically, Parcel Post volume, which had declined from 498 million pieces in fiscal year 1972 to 128 million pieces in fiscal year 1990, increased to 373 million pieces in fiscal year 2002. Parcel Post became “a much more competitive product,” according to the PRC staff analysis. The growth in Parcel Post volume generated additional USPS revenue, as well as additional contribution to USPS’s institutional costs, even after taking into account USPS’s costs associated with the additional Parcel Post volume.

After the introduction of destination entry discounts for Parcel Post, companies called consolidators emerged to collect Parcel Post mail from multiple mailers, sort their mail, and transport it to USPS’s destinating facilities. By combining mail from multiple mailers into larger mailings, these consolidators can qualify the mail for lower worksharing rates. Most Parcel Post items are being entered at destinating mail processing facilities, thus reducing “upstream” USPS handling of the parcels at USPS’s originating mail processing facilities. This has enabled what is often referred to as a partnership between USPS and the private sector to provide the complementary set of activities needed to prepare, barcode, sort, transport, and deliver Parcel Post mail.

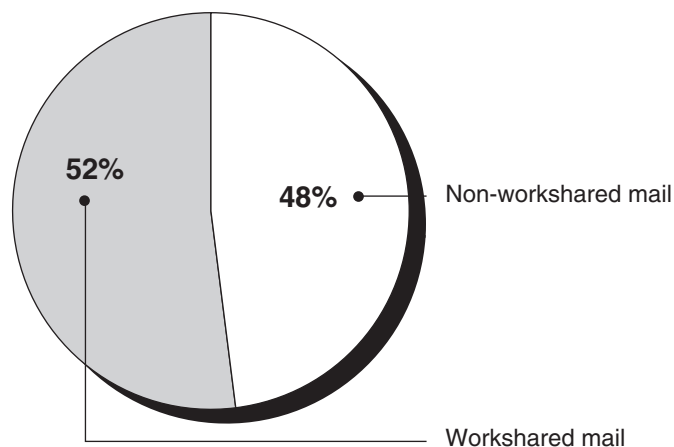
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According to USPS and PRC, the growth in workshared mail volume over the years has generated additional postage revenue to help cover rising USPS costs. These costs include the attributable costs for USPS to process and deliver the mail—that is, the direct and indirect costs that can be attributed to particular groupings of mail—as well as institutional costs, which are costs that are not attributed and are also referred to as common or overhead costs. Institutional costs include fixed costs associated with maintaining a national network of post offices and 6-day delivery of mail and common costs, which are not identified with individual classes of mail. Institutional costs represent more than one-third of all USPS costs and, like attributable costs, have increased over time as the compensation and benefits of USPS employees have increased and other costs have risen, including the costs of financing universally available postal services through an expanding delivery network.

As workshared mail volume has grown, it has accounted for a growing share of domestic mail revenues.<sup>15</sup> In fiscal year 2002, workshared mail accounted for 52 percent of USPS domestic mail revenues (see fig. 9).

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**Figure 9: Share of Domestic Mail Revenue Generated by Workshared and Non-workshared Mail in Fiscal Year 2002**



Source: Developed by GAO based on USPS mail revenue data.

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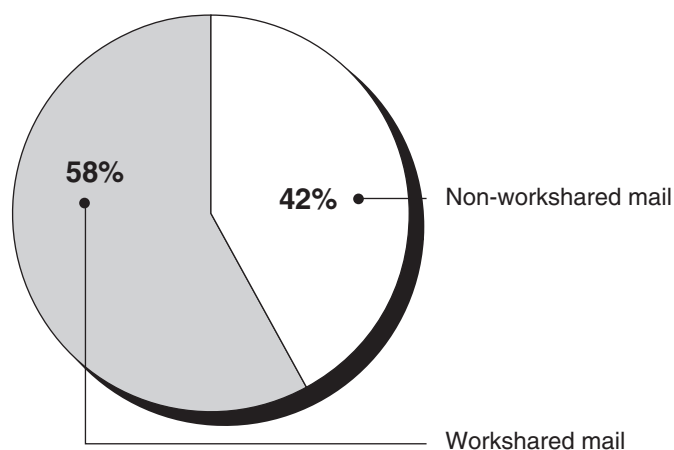
<sup>15</sup>Domestic mail generated nearly all (94 percent) of the contribution toward USPS institutional costs in fiscal year 2002.

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Further, as workshered mail revenues have grown, these revenues have accounted for an increasing proportion of the domestic mail revenues that exceed the attributable costs of domestic mail and thus are applied to help cover USPS institutional costs. In fiscal year 2002, workshered mail accounted for 58 percent of domestic mail revenues that USPS applied to help cover its institutional costs (see fig. 10).

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**Figure 10: Percentage of Domestic Mail Revenues Applied to Help Cover USPS Institutional Costs That Were Generated by Workshered and Non-workshered Mail in Fiscal Year 2002**



Source: Developed by GAO based on USPS data prepared according to PRC cost methodology.

Note: PRC cost methodology is somewhat different from USPS methodology and results in the attribution of a somewhat greater proportion of USPS costs.

First-Class Mail is a particularly important category with respect to USPS institutional costs because it has historically covered most of these costs. Workshered First-Class Mail accounts for a growing proportion of all First-Class Mail volume; revenues; and revenues applied to help cover institutional costs, also referred to as the “contribution to institutional costs.”<sup>16</sup> By fiscal year 2002, workshered First-Class Mail represented 50 percent of First-Class Mail volume, 39 percent of First-Class Mail revenues,

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<sup>16</sup>Most workshered rate reductions for First-Class Mail are based on selected cost differences between workshered mail and bulk metered mail, which is non-workshered First-Class Mail that does not receive a worksharing discount, is provided to USPS in bulk quantities, and has postage applied by a postage meter.

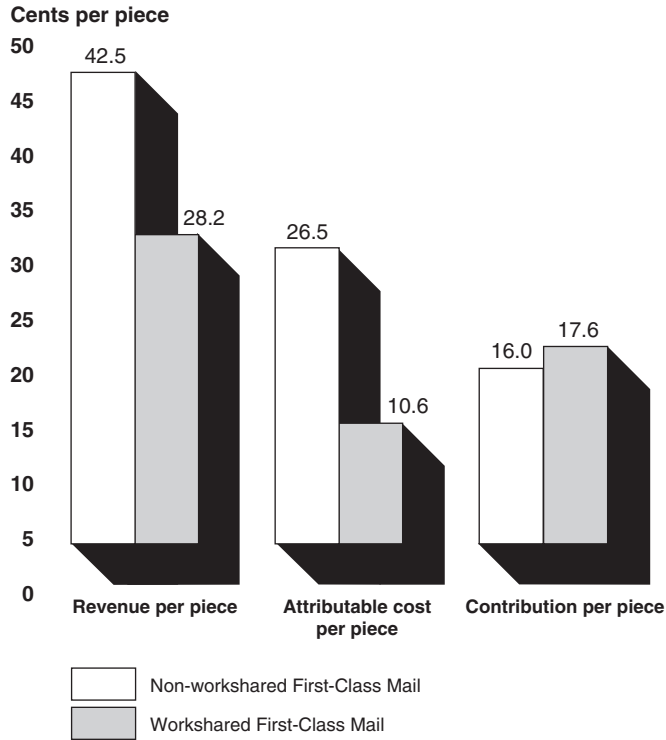


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and 52 percent of First-Class Mail contribution to institutional costs. Workshared First-Class Mail was slightly more profitable, per piece, than non-workshared First-Class Mail. In fiscal year 2002, USPS data compiled according to PRC methodology showed that the average piece of workshared First-Class Mail accounted for slightly more institutional contribution per piece than non-workshared First-Class Mail (see fig 11). The workshared mail was also less costly per piece for USPS to handle than non-workshared First-Class Mail. For example, some non-workshared mail had handwritten addresses, a portion of which could not be barcoded, necessitating costly manual sorting by USPS employees instead of sorting by USPS automated equipment. Other non-workshared mail had typewritten addresses but could not be sorted by USPS automated equipment for a variety of reasons. For example, typewritten mail cannot be barcoded in some cases if the address is incomplete, such as missing the street directional (e.g., North, South), or a street suffix (e.g., St, Rd, Dr).

In total, workshared First-Class Mail accounted for \$9.0 billion in contribution to cover institutional costs in fiscal year 2002, compared with \$8.4 billion for non-workshared First-Class Mail. Aside from First-Class Mail, Standard Mail—virtually all of which has been workshared—accounted for most domestic mail revenues and most of the contribution to institutional costs. In fiscal year 2002, Standard Mail accounted for \$5.1 billion in contribution to institutional costs.

**Figure 11: Financial Data for Workshared and Non-workshared First-Class Mail in Fiscal Year 2002**



Source: USPS data prepared according to PRC cost methodology.

Note: PRC cost methodology is somewhat different from USPS methodology and results in the attribution of a somewhat greater proportion of USPS costs. Contribution per piece is the amount by which revenue per piece exceeds attributable cost per piece, which USPS applies as contribution to help cover USPS institutional costs.

According to USPS and PRC, worksharing is also credited with having important effects on USPS's infrastructure and workforce. USPS and PRC officials have noted that USPS requirements for the preparation of workshared mail furthered USPS investments in automated equipment to handle workshared mail efficiently, which meant that the combination of worksharing and automation helped USPS handle mail in a more efficient manner. For example, increased worksharing incentives were introduced for mailers to barcode letter mail and perform other activities to make it automation compatible when USPS was making major investments in automated equipment that sorts mail by reading barcodes. These worksharing incentives led to a sharp increase in the proportion of

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automation-compatible letter mail with mailer-applied barcodes, which is considered to have reduced the proportion of mail that USPS employees manually sort.

According to USPS, worksharing has significantly reduced USPS compensation costs and the size of the USPS workforce needed to process and handle mail. A 2001 PRC staff study stated that USPS would have required a much larger workforce than it currently has if USPS had to perform all of the worksharing tasks performed by the private sector. The study concluded that worksharing has reduced USPS's size and likely made USPS more efficient and less difficult to manage. Looking ahead, USPS plans to expand automated sorting of flat-sized mail, such as large envelopes, catalogs, and magazines, which is intended to reduce the need for USPS employees to sort this mail manually and help USPS reduce the cost of sorting flat-sized mail. If new USPS automated equipment is deployed, USPS would be expected to propose modified worksharing requirements for flat-sized mail so that it will be compatible with the new automation equipment.

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## Worksharing Is Credited with Benefiting Mailers

USPS and PRC credit worksharing with benefiting mailers by reducing their total mail-related costs—that is, the cost to the mailer to generate mail pieces and pay the postage costs. The underlying rationale is as follows:

- When mailers obtain lower worksharing rates, their postage costs are reduced.
- Mailers' postage savings are partly offset by their costs of performing worksharing activities. However, mailers have an economic incentive to perform worksharing activities when they realize a net savings—that is, the difference between their reduced postage costs and their increased costs associated with performing worksharing activities.

In addition to economic incentives, worksharing is credited by USPS and PRC with helping keep postage rates affordable for all mailers. By stimulating mail volume growth, worksharing has increased the volume of mail that generates revenues that exceed attributable costs and thus helps cover USPS's institutional costs. Further, according to USPS, worksharing has improved the implementation of its automation program and thereby improved mail processing and handling generally. Specifically, USPS stated that because worksharing of bulk mail facilitated the use and further

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installation of automation equipment, it reduced USPS's costs and kept rate increases to a minimum for all mailers, including individuals mailing single pieces of mail like the proverbial Aunt Minnie.

Similarly, USPS has reported that worksharing has improved the speed of delivery by helping facilitate the implementation of USPS's automation program and handling of mail generally. In some cases, mailers reportedly perform worksharing primarily to improve the speed of delivery, such as performing destination entry for periodicals. Other mailers reportedly perform destination entry of packages to improve their speed of delivery and narrow the window when delivery will occur.

According to USPS and PRC, worksharing rates were the catalyst for the development of a \$900 billion mailing industry that includes USPS; providers of mailing services that do worksharing tasks for mailers; and companies that depend on the mail for service fulfillment, customer acquisition, or customer retention, such as catalog companies, printers, and magazine publishers. Worksharing has enabled the mailing industry to perform tasks that USPS once performed exclusively, particularly in the areas of mail preparation, presorting, and transportation. The mailing industry, including USPS, employed nearly 9 million workers in 2001.<sup>17</sup> Some of the companies that provide mail services are known as consolidators because they combine letter mail, flat-sized mail, or parcels from many mailers in order to achieve sufficient mail volumes to qualify for the lowest possible worksharing rates.

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## Worksharing Is Credited with Benefiting the Nation

According to USPS and PRC, worksharing benefits the nation, in part by lowering business costs, and in part by creating associated benefits that consumers can realize. USPS and PRC have concluded that total mail-related costs to the economy—including costs to mailers and to USPS—are reduced by worksharing. Their rationale is that some postal activities can be performed less expensively by mailers who workshare than by USPS, which lowers the total costs of mail. For example:

- Many worksharing mailers can organize mail by ZIP Code more inexpensively than USPS. Mailers can prepare workshared mail by using

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<sup>17</sup>Estimated mailing industry revenues and employment were provided in *Seizing Opportunity: The Report of the 2001 Mailing Industry Taskforce*, Oct. 15, 2001, [www.usps.com/strategicdirection/mitf.htm](http://www.usps.com/strategicdirection/mitf.htm).

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their computers to presort their mailing lists in ZIP Code order and then sequentially printing the addresses on each letter.

- Many worksharing mailers can use computers to barcode letters and print the barcodes on the letters. In comparison, when USPS processes non-barcoded mail, its automated equipment attempts to read the address and print a barcode. When these attempts are unsuccessful, USPS employees become involved in attempting to read the address and apply a barcode, and if a barcode cannot be applied, the mail is manually sorted.

Worksharing rates are designed to create incentives for the lowest-cost provider to perform certain postal activities, which can be either the mailer performing worksharing activities or USPS performing additional activities when mailers do not workshare. The USPS and PRC rationale is as follows:

- When postage rates are set, estimates are prepared of the costs that USPS is to avoid incurring as a result of the mailers' worksharing activities.
- PRC has a guideline for recommending worksharing discounts so that, as a result, the estimated reduction in USPS revenues will equal the estimated reduction in USPS costs. This outcome is often referred to as "100 percent passthrough" of the expected USPS savings to the mailer. That is, the full amount of whatever USPS is expected to save will be passed along to the mailer via the worksharing discount.
- Worksharing discounts with 100 percent passthrough create an incentive for the lowest-cost provider to do the work. This is because mailers have an incentive to workshare when they save money—which happens in this case when the full amount of whatever USPS is expected to save will be passed along to the mailers, and will be enough to fully offset the mailers' cost of performing the worksharing activities.
- Worksharing discounts with less than 100 percent passthrough can still create an incentive for the lowest-cost provider to do the work. This is because some mailers would still have an incentive to save money by worksharing. In this case, the portion of the USPS savings passed along to the mailers would still be enough to fully offset some mailers' worksharing costs. However, some lowest-cost providers may not have an incentive to workshare because the portion of expected USPS

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savings passed along to mailers would not be sufficient to fully offset the mailers' worksharing costs.

- Worksharing discounts with greater than 100 percent passthrough can create incentives for some highest-cost providers to do the work. In this case, some mailers could be the highest-cost providers that have worksharing costs covered only because USPS passed along more than its expected savings. Moreover, mailers who are lowest-cost providers would also have an incentive to workshare.

When the lowest-cost provider performs postal activities, the total cost of mail is reduced. This can reduce the cost of doing business. The economy benefits when the cost of doing business is reduced, whether that entails the cost of sending out bills for merchandise and services rendered or sending out advertisements to generate business. In other words, according to PRC staff, reducing the cost of doing business “increases the economic welfare of the nation.”

Consumers may benefit in several ways from USPS's worksharing program. First, consumers benefit if, as previously discussed, worksharing helps keep postage rates affordable for all mailers. Second, consumers benefit to the extent that lower mail costs are passed along in the form of lower prices for merchandise and services. Third, consumers benefit if their workshared mail is delivered in a more expeditious and reliable manner, as previously discussed. Fourth, consumers benefit if lower mail costs result in more workshared mail, to the extent that this increased mail volume contains information that is useful to the consumer. For example, additional workshared mail could include business correspondence, periodicals, and newsletters that some consumers find useful; catalogs that some consumers respond to; or workshared packages that USPS delivers to consumers at their request.

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## Stakeholders Support Worksharing but Raise Concerns in this Area

A broad array of postal stakeholders generally express support for the concept of worksharing—that is, they express support for the concept that mailers should receive worksharing discounts in exchange for performing worksharing activities that lower USPS's costs. However, stakeholders have raised differing concerns in the worksharing area. APWU has generally criticized the worksharing program, while some members of the mailing industry have made diametrically opposing criticisms. For example, APWU has asserted that worksharing discounts are too large, but some members of the mailing industry have asserted that worksharing

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discounts are not large enough (see table 3). APWU believes that worksharing has eroded USPS's financial position, thus threatening its ability to support universal postal service. However, some members of the mailing industry, USPS, and PRC disagree with APWU's assertions. Integral to stakeholder differences are divergent views regarding technical issues relating to the data, assumptions, and analyses used in rate cases to estimate the costs that USPS is to avoid incurring in the test year as a result of mailer worksharing activities. Such cost avoidance estimates affect the size of worksharing discounts that are established for reasons previously described in this report. Further, stakeholders have raised issues regarding (1) the quality and accuracy of the estimates of cost avoidance; (2) the extent to which USPS has avoided costs as a result of worksharing activities performed by mailers; and (3) whether data can be generated on what costs USPS has avoided as a result of mailer worksharing activities.

**Table 3: Highlights of Opposing Views on Worksharing**

<b>Key aspects of worksharing</b>	<b>APWU views</b>	<b>Views of some mailing industry members<sup>a</sup></b>
USPS cost savings caused by worksharing discounts	Worksharing that mailers perform saves USPS <i>less</i> than the reduction in USPS revenues from the discounted mail.	Worksharing that mailers perform saves USPS <i>more</i> than the reduction in USPS revenues from the discounted mail.
Effect on USPS financial position	Worksharing discounts <i>worsen</i> USPS's financial position, thus <i>threatening</i> its ability to finance universal postal service.	Worksharing discounts <i>improve</i> USPS's financial position, thus <i>improving</i> its ability to finance universal postal service.
Size of worksharing discounts	Worksharing discounts are <i>too large</i> .	Worksharing discounts are <i>not large enough</i> .
USPS role vis-à-vis the private sector	Due to worksharing discounts that are <i>too large</i> , the mailing industry performs <i>too many</i> postal activities.	Due to worksharing discounts that are <i>not large enough</i> , the mailing industry performs <i>too few</i> postal activities.
Establishing worksharing discounts	Worksharing discounts should <i>never</i> be established when the estimated reduction in USPS revenues exceeds the estimated reduction in its costs.	Worksharing discounts should <i>usually not</i> be established when the estimated reduction in USPS revenues exceeds the estimated reduction in its costs, <i>but</i> some exceptions can be justified.

Source: Developed by GAO based on publicly available information as of June 2003.

<sup>a</sup>The views in this table were expressed by some members of the mailing industry, such as mailing groups, individual mailers, and companies that perform worksharing activities for mailers.

## The Legal Basis for Worksharing Rates Is Derived from Title 39 and Is Implemented through Postal Rate Cases and Regulations

The primary legal basis for worksharing rates is derived from one of the nine factors cited in the Postal Reorganization Act of 1970 that PRC must consider in recommending changes to domestic postage rates proposed by USPS. Specifically, the act requires that, in recommending changes to postage rates, PRC consider nine factors, including “the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to USPS.”<sup>18</sup> The nine factors that

<sup>18</sup>39 U.S.C. §3622(b)(6).



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PRC must consider when recommending domestic postage rates and fees are as follows:

- the establishment and maintenance of a fair and equitable schedule;
- the value of mail service actually provided each class of mail or type of mail service to both the sender and the recipient, including, but not limited to, the collection, mode of transportation, and priority of delivery;
- the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type plus that portion of all other costs of USPS reasonably assignable to such class or type;
- the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;
- the available alternative means of sending and receiving letters and other mail matter at reasonable costs;
- the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to USPS;
- simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;
- the educational, cultural, scientific, and informational value to the recipient of mail matter; and
- such other factors as PRC deems appropriate.<sup>19</sup>

By way of background, presorting of Standard Mail and periodicals by ZIP Code was required before the 1970 act reorganized the U.S. Post Office Department into USPS. In the first rate case under the 1970 act, PRC cited this presorting requirement, and the statutory factor regarding the degree of mail preparation and its effect on reducing USPS's costs (39 U.S.C.

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<sup>19</sup>39 U.S.C. 3622(b).

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3622(b)(6)), in its 1972 recommended decision on postage rates, as one of several reasons for recommending lower rates for Standard Mail and Periodicals.<sup>20</sup> In 1976, a unanimous settlement was reached in a reclassification case that recognized the first specific worksharing discount—a 1-cent discount for presorting First-Class Mail by ZIP Code.<sup>21</sup> The implementation of the first worksharing discount for presorted First-Class Mail marked the inception of USPS's worksharing program as it is known today. Subsequent rate cases have expanded worksharing rates to cover most types of mail (see table 4).

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<sup>20</sup>PRC Docket No. R71-1.

<sup>21</sup>PRC Docket No. MC73-1. A reclassification case can alter both domestic mail classifications (i.e., the listing that classifies domestic mail into mail classes, subclasses, and rate categories within subclasses) and the rates applicable to these classifications.

**Table 4: Selected USPS Worksharing Rates Adopted from Fiscal Years 1976 through 2002**

Type of workshered mail	Effective date
Presorted First-Class Mail	1976
Presorted Periodicals	1978
Presorted Carrier Route Standard Mail <sup>a</sup>	1979
Destination entry of Periodicals	1985
Barcoded letters sent via First-Class Mail	1988
Barcoded letters sent via Standard Mail	1988
Destination entry of Standard Mail letters	1991
Saturation Standard Mail <sup>b</sup>	1991
Barcoded Periodicals	1991
Destination entry of Standard Mail	1991
Destination entry of Parcel Post <sup>c</sup>	1991
Barcoded flat-sized <sup>d</sup> First-Class Mail	1992
Barcoded flat-sized Standard Mail	1992
Barcoded flat-sized Periodicals	1992
Barcoded Parcel Post	1999
Periodicals prepared on pallets <sup>e</sup>	2002

Source: USPS and PRC.

Note: Workshered mail receives a lower rate due to such mailer activities as mail preparation, presorting, barcoding, and destination entry. Worksharing rates for First-Class Mail were introduced in fiscal year 1976.

<sup>a</sup>Carrier Route Standard Mail is organized according to letter carrier routes and must meet other worksharing requirements.

<sup>b</sup>Saturation Standard Mail is delivered to a minimum percentage of the addresses on a mail delivery route.

<sup>c</sup>Parcel Post generally consists of packages containing merchandise.

<sup>d</sup>Flat-sized mail includes items such as large envelopes, catalogs, newsletters, and magazines.

<sup>e</sup>Pallets are reusable platforms on which mail is stacked to be moved as a single unit, such as being moved by a forklift.

In addition to the nine factors listed previously, the law specifies that PRC is required to make a recommended decision on domestic postage rates and fees in accordance with the policies of Title 39 of the U.S. Code, which defines policies for USPS.<sup>22</sup> When considering the relevance of Title 39 policies to PRC recommendations on worksharing rates, it is important to

<sup>22</sup>39 U.S.C. §3622.

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keep in mind that these rates represent most of USPS's entire rate structure and generate 74 percent of its domestic mail volume and 52 percent of its domestic mail revenues. Key Title 39 policies include the following:

- USPS shall have as its basic function the obligation to provide postal services to bind the nation together through the personal, educational, literary, and business correspondence of the people. To this end, USPS shall provide prompt, reliable, and efficient postal services to patrons in all areas.<sup>23</sup>
- USPS shall plan, develop, promote, and provide adequate and efficient postal services at fair and reasonable rates and fees. To this end, USPS has the responsibility to maintain an efficient national system of collecting, sorting, and delivering the mail, and to provide types of mail service to meet the needs of different groupings of mail and mail users. However, USPS shall not, except as specifically authorized in Title 39, make any undue or unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preferences to any such user.<sup>24</sup>
- Postage rates and fees shall be reasonable and equitable and sufficient to enable USPS under honest, efficient, and economical management to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States. To this end, postage rates and fees shall provide sufficient revenues so that the total estimated income and appropriations to USPS will equal as nearly as practicable total estimated costs of USPS.<sup>25</sup>
- USPS shall promote modern and efficient operations. USPS should refrain from expending any funds, engaging in any practice, or entering into any agreement or contract (other than an employee-management agreement or contract between USPS and a labor union representing postal employees) that restricts the use of new equipment or devices that may reduce the cost or improve the quality of postal services,

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<sup>23</sup>39 U.S.C. §101(a).

<sup>24</sup>39 U.S.C. §403.

<sup>25</sup>39 U.S.C. §3621. This has been interpreted to mandate that (1) in a rate case, PRC will recommend domestic postage rates that are estimated to generate USPS revenues equal to USPS costs in the test year, and (2) USPS should break even over time.

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except where such restriction is necessary to ensure safe and healthful employment conditions.<sup>26</sup>

Worksharing rates and classifications are implemented through federal regulations issued and updated by PRC and USPS. After each rate and classification case is completed, PRC updates the Domestic Mail Classification Schedule to be consistent with the outcome of the case. This schedule is incorporated into the Code of Federal Regulations and lists the terms and conditions for domestic mail classes, subclasses, and rate categories as well as for domestic special services, such as post office boxes, registered mail, and certified mail.<sup>27</sup> Also, after each rate and classification case, USPS updates its *Domestic Mail Manual*, which is also incorporated into the Code of Federal Regulations, to include the worksharing rates for each specific type of workshared mail as well as the corresponding worksharing requirements.<sup>28</sup>

Worksharing rates have been considered in successive postal rate cases—proceedings in which PRC considers USPS proposals for changing postage rates—dating back to the 1970s. These proceedings have established precedents that have further clarified the legal basis for worksharing rates. Over the years, the structure of worksharing rates has evolved. For example, in a 1995 reclassification case, USPS proposed and PRC recommended numerous changes to workshared rates that were intended to provide greater incentives for mailers to barcode their workshared mail, among other things. In addition, PRC also recommended some changes to the structure of workshared mail classifications, such as adding a new subclass to Standard Mail called the Enhanced Carrier Route subclass. This subclass was distinguished from other types of Standard Mail in that minimum volume requirements apply for each carrier route as well as requirements for including mail preparation, barcoding, and presorting, among other things. Enhanced Carrier Route mail receives lower rates in part because of the estimated cost savings to USPS from worksharing.

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<sup>26</sup>39 U.S.C. §2010.

<sup>27</sup>Appendix A to Subpart C of 39 C.F.R. Part 3001, following 39 C.F.R. §3001.68.

<sup>28</sup>39 C.F.R. §111.1.

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## Niche Classifications and Negotiated Service Agreements Also Provide Lower Rates

On a related matter, there has been long-standing and continuing debate over whether certain types of postage rates can be offered within existing law and, if so, under what circumstances. Recent debate has focused on rate arrangements with reduced rates agreed to by USPS and individual mailers that were intended to enable USPS to reduce its costs. In February 2002, PRC reported to Congress that rate and service adjustments agreed upon by USPS and individual mailers would be legally authorized if certain conditions are met, notably that the proposed agreement is submitted to PRC for prior review, be made available to other mailers willing to meet the same terms of service, and work to the mutual benefit of mail users and the postal system as a whole.<sup>29</sup> PRC noted that USPS had proposed and PRC had subsequently recommended some “niche classifications” that were specialized classifications that included reduced, but cost-justified, rates or fees. Niche classifications make lower rates available to all mailers when they perform the required activities and meet other requirements of the niche classification. However, as a practical matter, these requirements may be tailored in a way that means few mailers would generate mail that would qualify for inclusion in the niche classification.

Recently, USPS proposed and PRC subsequently recommended a negotiated service agreement (NSA) between USPS and Capital One Services, Inc., the nation’s largest-volume mailer of First-Class Mail, on a 3-year contractual basis. According to PRC, “negotiated service agreements are targeted pricing initiatives designed to encourage greater efficiencies and to take advantage of the Postal Service’s existing pricing flexibility.” USPS noted that “NSAs, generally, specify mutual agreements between the Postal Service and customers involving the preparation, presentation, acceptance, processing, transportation and delivery of mailings under particular rate, classification and service conditions and restrictions that go beyond those required of other mailers.” This was the first time that USPS proposed and PRC recommended an NSA covering domestic mail. USPS hopes to reinvigorate mail volume growth through this and other yet-to-be proposed NSAs and also to reduce its costs through NSA requirements applying to qualifying mailers.

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<sup>29</sup>U.S. Postal Rate Commission, *Report to the Congress: Authority of the United States Postal Service to Introduce New Products and Services and to Enter Into Rate and Service Agreements With Individual Customers Or Groups of Customers*, (Washington, D.C.: Feb. 11, 2002).

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The Capital One NSA, which USPS's Governors approved in June 2003, specifies that Capital One is to receive lower rates for bulk First-Class Mail exceeding 1.225 billion pieces of mail annually in each of the next 3 years, with rate discounts increasing from 3 to 6 cents as volumes increase above the annual threshold. During this period, USPS will electronically provide Capital One with information about its undeliverable First-Class Mail solicitations instead of physically returning the mail to Capital One. USPS has stated that this change will result in USPS cost savings, estimating that it will avoid returning approximately 80 million mail pieces per year to Capital One during the term of the NSA. In addition, under the NSA agreement, Capital One has agreed to practices intended to produce accurate address lists, which relate to minimizing the quantity of undeliverable and forwarded mail that USPS must handle.<sup>30</sup> Another provision of the NSA specifies that the total amount of the discounts is limited to \$40.6 million over the NSA's 3-year term. This limit is intended to reduce the risk that the NSA discounts could reduce USPS revenues more than the costs that USPS avoids as a result of the NSA.

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## Agency Comments and Our Evaluation

We received written comments on a draft of this report from the Chairman of the Postal Rate Commission dated July 15, 2003, and the Chief Marketing Officer and Senior Vice President of the Postal Service dated July 16, 2003. The USPS and PRC comments are summarized below and reprinted in appendices III and IV, respectively. In addition, PRC and USPS officials provided technical and clarifying comments. All technical and clarifying comments were incorporated where appropriate.

The Chairman commented that worksharing rates “have provided major impetus for improved productive efficiency in postal services and stimulated the mail volume growth that has had the effect of moderating rate increases for all mail classes and services.” He stated that the approach used to develop worksharing rates means that to the extent practicable, the rates paid by mailers who do not participate in worksharing do not have to increase because worksharing discounts are approved. He also commented that our draft report accurately describes the types of worksharing rates currently available to mailers and fairly

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<sup>30</sup>Capital One agreed to continue its practice of checking its mailing lists against USPS's National Change of Address database more frequently than is typically required. Capital One also agreed to incorporate information from USPS address correction service notifications within 2 days of receipt. See PRC Docket No. MC2002-2.

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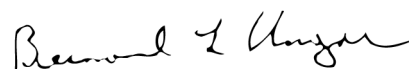
characterizes the major policy reasons justifying current workshare programs.

The Chief Marking Officer and Senior Vice President commented that USPS believes that, overall, worksharing benefits USPS, the mailers, and the entire economy. She stated that worksharing enhances efficient postal operations and stimulates mail growth and revenue for USPS; reduces overall mailer costs and has encouraged development of the presort and direct mail industries; and “benefits the entire economy, because reduced mailing costs increase productivity and efficiency.” She also commented that our draft report appeared to define the scope of worksharing in a slightly different manner than USPS does, and that, within this definition, we seemed to encompass all of the rates within all of the bulk mail classes as well as some NSAs and niche classifications. We clarified our report to address USPS’s comments.

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We are sending copies of this report to the Chairmen of the House Committee on Government Reform and its Subcommittee on Civil Service and Agency Reorganization; the Chairman and Ranking Minority Member of the Senate Committee on Governmental Affairs; the Chairman of its Subcommittee on Financial Management, the Budget, and International Security; the Postmaster General; the Chairman of the Postal Rate Commission; and other interested parties. Copies will be made available to others on request. In addition, this report will also be available on our Web site at <http://www.gao.gov>.

Key contributors to this report are listed in appendix V. If you or your staffs have any questions about this letter or the appendixes, please contact me at (202) 512-2834 or at [ungarb@gao.gov](mailto:ungarb@gao.gov).



Bernard L. Ungar  
Director, Physical Infrastructure Issues



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# Objectives, Scope, and Methodology

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Our objectives for this report were to provide summary information on the following questions: (1) What are the key activities included in postal worksharing? (2) What is the rationale for worksharing, according to the U.S. Postal Service (USPS) and the Postal Rate Commission (PRC), the independent federal establishment that reviews USPS proposals for changes in domestic postage rates? and (3) What is the legal basis for establishing worksharing rates?

To address these objectives, we reviewed documentation of federal laws and regulations pertinent to worksharing, including USPS and PRC regulations; USPS requirements for mailer worksharing activities, such as USPS publications describing these requirements; and documentation of worksharing matters addressed in rate cases, based on publicly available information filed in postal rate cases. The information documented, among other things, USPS proposals for new worksharing rates, PRC recommended decisions, and USPS responses to these recommended decisions.

We reviewed USPS data on workshared mail that had been filed with PRC, such as trend data on the volumes of different types of mail. We compiled the total volumes of workshared mail on the basis of these data. Other data covered workshared mail revenues and the contribution that workshared mail has made to help cover USPS's institutional costs. We compiled data on the estimated USPS savings from mailer worksharing activities for automation-compatible letters sent via First-Class Mail, using the same methodology used by PRC in the 2000 rate case—the most recent rate case in which PRC recommended a methodology for making such projections. We did not independently assess or verify any of the data to determine their accuracy, nor did we assess or evaluate differences between PRC and USPS costing methodologies.

To obtain a better understanding of how USPS processes workshared mail, we visited USPS mail processing facilities in Orlando and Tampa, Florida, and Baltimore and Gaithersburg, Maryland, to observe how USPS processes workshared mail. These facilities were judgmentally selected on the basis of their characteristics and their geographic proximity to our headquarters and to mailer facilities that we also visited. We interviewed USPS officials at those facilities.

In addition, to obtain a better understanding of how mailers prepare workshared mail, we visited mailer facilities in Apopka and Tampa, Florida, where workshared mail is prepared. Specifically, we visited the facilities of

the Apopka facility of Sprint, where it prepares bills and statements; the Tampa facility of Regulus, where it receives remittance mail on behalf of other companies; and the Tampa facility of AOL/Time Warner where bills and statements are prepared. We observed how these facilities prepare workshared mail and interviewed representatives of these companies. These companies and facilities were judgmentally selected, based on their preparation and receipt of different types of workshared mail sent via First-Class Mail, invitations from their officials for GAO to make site visits, and their geographic proximity to each other. First-Class Mail represents a major portion of workshared mail.

We also reviewed documentation of the rationale for worksharing, including rate case materials; published papers and analyses; testimony in 2003 to the President's Commission on the United States Postal Service; and material provided to us by representatives of USPS, PRC, mailer groups, and the American Postal Workers Union (APWU). We interviewed representatives of groups that filed material on worksharing issues in the most recent rate case that resulted in increases in most worksharing rates, including representatives of USPS, PRC, PRC's Office of the Consumer Advocate, the American Bankers Association, APWU, the Association of Postal Commerce, the Direct Marketing Association, the Mail Order Association of America, the Mailing and Fulfillment Services Association, the Major Mailers Association, the National Association of Presort Mailers, and the Saturation Mail Coalition. Some of these groups provided us with analyses and other material pertaining to worksharing rates and issues. In addition, we reviewed published books, articles, and other communications written by these groups and other postal experts on worksharing rates and issues. We did not assess the benefits that USPS and PRC claimed are derived from worksharing. We also did not assess any of the documentation provided by stakeholders or any of the statements made by stakeholders that we interviewed.

To obtain information on the legal basis for worksharing, we reviewed pertinent laws, decisions in postal rate cases interpreting legal criteria for worksharing rates, and pertinent USPS and PRC regulations.

We conducted our review from June 2002 through June 2003 in Apopka, Tampa, and Orlando, Florida; Baltimore and Gaithersburg, Maryland; and Washington, D.C., in accordance with generally accepted government auditing standards.

# Estimated USPS Avoided Costs for Automation-Compatible Letters That Are Workshared and Sent via First-Class Mail

Type of USPS worksharing-related savings	Percentage of the estimated costs that USPS is expected to avoid
1. <u>Automated barcoding</u> : If letters were not workshared, they would not be barcoded and USPS automated equipment would try to read the address and apply a barcode. When this is unsuccessful, an electronic image of the letter would be sent to a facility where a USPS clerk would try to read the address and key in data so that a barcode could be applied.	15
2. <u>Manual operations</u> : If the letters were not workshared, USPS would engage in more costly manual processing of the mail. For example, the letters would be sorted manually when USPS automated equipment could not apply a barcode or sort the mail. Worksharing requirements attempt to minimize such problems by limiting the dimensions and thickness of letters, specifying requirements for updating of addresses, and mandating how the address and barcode are printed, among other things.	38
3. <u>Automated operations</u> : If the letters were not workshared, they would not be presorted and thus would require more sorting by USPS automated equipment. Also, very large workshared mailings are organized on pallets with each pallet containing mail sent to only one area. In such cases, the mail would generally not need to be sorted by USPS automated equipment at the originating mail processing facility to organize it according to the area where it is to be delivered. Instead, the mail can be handled on the loading dock and dispatched to the area where it is to be delivered.	20
4. <u>Allied operations</u> : If the letters were not workshared, they would generate more USPS “allied labor” costs to prepare mail for processing or dispatch, either on the loading dock or inside the mail processing facility. As in the above example of very large workshared mailings organized on pallets sent to only one area, each pallet can be handled in the loading dock and dispatched to the destinating facility without having allied labor separately handle each mail tray stacked on the pallet.	22
5. <u>Other</u> : If the letters were not workshared, USPS would incur more costs to distribute them to post office boxes and prepare them for delivery, among other things.	5
<b>Total</b>	<b>100</b>

Source: GAO analysis of USPS estimates for fiscal year 2003, which were prepared according to PRC cost methodology used in the 2000 rate case.

Note: PRC did not recommend cost estimation methods in the 2001 rate case because the parties agreed to a negotiated settlement that was subsequently approved.

# Comments from the U.S. Postal Service

ANITA J. BIZZOTTO  
CHIEF MARKETING OFFICER  
SENIOR VICE PRESIDENT



July 16, 2003

Mr. Bernard L. Ungar  
Director, Physical Infrastructure Issues  
United States General Accounting Office  
Washington, DC 20548-0001

Dear Mr. Ungar:

Thank you for providing the Postal Service the opportunity to review and comment on the GAO draft report, U.S. Postal Service: A Primer on Postal Worksharing (GAO-03-927).

The Postal Service and GAO appear to define "worksharing" in a slightly different manner. The draft report states, "Postal worksharing activities generally involve mailers preparing, sorting, or transporting mail to qualify for reduced postage rates, i.e., worksharing rates." Within this definition, GAO seems to encompass all of the rates within all of the bulk mail classes as well as some Negotiated Service Agreements (NSAs) and "niche" classifications. The Postal Service generally uses the term "workshare" to refer specifically to mail pieces that are assessed rates discounted from base rates for various mail preparation, prebarcoding, sortation, or transportation activities.

The genesis of the workshare discount is the recognition that certain activities performed by the mailer avoid costs of the Postal Service and, therefore, the mailer should receive a portion of that cost avoidance. NSAs and "niche" classifications, on the other hand, can, but may or may not, contain worksharing attributes.

The Postal Service and the Postal Rate Commission (PRC) first recognized worksharing in 1976 with the introduction of a discount for bulk presorted First-Class Mail. From the inception of worksharing discounts, the Postal Service and the PRC have been concerned with both equity and economic efficiency. Consequently, workshare discounts are typically, but not exclusively, less than or equal to the cost avoidance estimates measured by the Postal Service. When setting discounts for workshare mail, however, all of the appropriate factors contained in the Postal Reorganization Act must be considered. Therefore, the workshare discounts may satisfy the requirements of the Act, even if they exceed 100 percent of the cost avoidance estimates measured by the Postal Service. Both the Postal Service and the PRC have agreed that there are instances where passthroughs greater than 100 percent are appropriate, for example, to mitigate large increases in adversely affected rate categories. Given the uniquely operational aspects of workshare rates, it is not surprising that the underlying costs change more frequently than the discounts themselves, as the operating environment is constantly refined. The current rate-making mechanism does not provide the flexibility to adequately address these cost changes.

We believe that overall, worksharing benefits the Postal Service, the mailers and the entire economy. Worksharing enhances efficient postal operations and stimulates mail growth and revenue for the Postal Service. Worksharing reduces overall mailer costs and has encouraged development of the presort and direct mail industries. Worksharing benefits the entire economy because reduced mailing costs increase productivity and efficiency.

Sincerely,

A handwritten signature in black ink that reads "Anita Bizzotto".

Anita J. Bizzotto

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# Comments from the Postal Rate Commission



POSTAL RATE COMMISSION

Washington, DC 20268-0001

George A. Omas  
Chairman

July 15, 2003

Bernard L. Ungar  
Director, Physical Infrastructure Issues  
United States General Accounting Office  
Washington, DC 20548

Dear Mr. Ungar:

Thank you for the opportunity to review your proposed report entitled *U.S. Postal Service: A Primer on Postal Worksharing*. The report accurately describes the types of worksharing rates currently available to mailers, and fairly characterizes the major policy reasons justifying current workshare programs.

Workshare rates have been available for 25 years, and during that time they have provided major impetus for improved productive efficiency in postal services, and stimulated the volume growth that has had the effect of moderating rate increases for all mail classes and services.

A key element in the success of workshare initiatives has been the adoption of *efficient component pricing* as the means for developing workshare rates. Mailers are offered discounts if they present their mail prepared so that the Postal Service avoids certain identifiable costs. Efficient component pricing limits discounts to the costs that the Postal Service would have incurred had it performed the avoided functions. This means that to the extent practicable, each rate category within a subclass provides the same unit (per piece) contribution to offset institutional costs, and the rates paid by non-participating mailers do not have to increase when workshare discounts are approved. As a result, neither the Postal Service nor any identifiable segment of the mailing public is disadvantaged by this program.

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Bernard L. Ungar  
July 15, 2003  
Page 2

This report does not attempt to assess the benefits of worksharing, and you indicate that GAO plans a second, follow-up report to present other issues and views on this general topic. In the meantime, the descriptive material you provide in this report should greatly facilitate understanding of current postal worksharing.

Sincerely,



George Omas

# GAO Contact and Staff Acknowledgments

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## GAO Contact

Gerald P. Barnes, (202) 512-2834 or [barnesgp@gao.gov](mailto:barnesgp@gao.gov)

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## Acknowledgments

Kenneth E. John, Charles W. Bausell, Jr., Alan N. Belkin, Frederick T. Evans, Eric Fielding, Latesha A. Love, Mark F. Ramage, Jill P. Sayre, and Walter K. Vance made key contributions to this report.

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