

DELIVERING FOR AMERICA

First-year Progress Report



APRIL 7, 2022

EXECUTIVE SUMMARY



Our Delivering for America (DFA) plan was published on March 23, 2021, to transform the United States Postal Service from an organization in financial and operational crisis to one that is self-sustaining and high performing.

In the year since, the Postal Service has aggressively advanced core DFA strategies and initiatives. While much work remains to be done in order to address the Postal Service's financial and operational performance, the 10-year DFA transformation plan has already demonstrated that the

path forward is achievable and that the organization can be financially self-sustaining, high performing, and provide excellent service to the nation. This report describes progress toward goals of the plan and reviews activities undertaken to date.

Key Points of this Report:

- **The Postal Service remains on track to achieve break-even operations for the 10-year period from FY 2021 to FY 2030, and to reverse what had been a projected \$160 billion loss for the same period.** Despite recent inflationary impacts to our financial projections, the combined effects of our progress with pricing policies, network transformation, growth initiatives, and enactment of Postal Service Reform Legislation reinforce that the organization should be able to record net profit beginning in the year 2024 and to sustain this financial performance through 2030.
- **On-time national service performance has improved beginning July 2021, with significant gains across all product categories.** We recently had our best last-mile delivery performance ever as a result of our improved operational precision at the unit, route, and delivery point levels. We expect this performance to improve in the coming year as the organization continues to transform operations to achieve a 95 percent or better on-time performance across all products.

- **Completed key steps in the ongoing reorganization and streamlining of Postal Service business units in October 2021.** Achieved greater role clarity and accountability, and improved workforce empowerment and organizational focus across the enterprise.
- **The conversion of close to 63,000 pre-career employees into career positions** has contributed to our objective of stabilizing workplace availability nationally.
- **The Postal Service sought advisory opinions from the Postal Regulatory Commission to amend its service standards for First-Class Mail and certain periodicals and for First Class Package Service.** Mail standard changes were implemented October 1, 2021. These new service standards are enabling the design and implementation of a more efficient and reliable network.
- **While we have made progress in designing a best-in-class processing and delivery operations network connected by a fully optimized surface and air transportation network,** we have not finalized our plans nor begun to implement the significant changes needed across our enterprise. These efforts — impacting all aspects of our operations and infrastructure — are being refined now and will be deployed in stages this year and in the coming years.
- **Nearly \$6.3 billion has been committed from a \$40+ billion commitment to invest in core postal infrastructure over course of the coming decade** — covering delivery vehicles, technology, retail locations, processing equipment, facility buildings and delivery operations.
- **Key elements of our package volume growth strategy under the umbrella of USPS Connect™ were launched through pilot projects and continue to roll out nationally.** This set of offerings aims to broaden network access to next-day delivery capability for businesses of all sizes.
- **After 16 years of pricing policies misaligned with organizational needs, the Postal Regulatory Commission provided a new pricing framework for market dominant products.** The Postal Service has taken judicious advantage of this new authority through pricing strategies that have already generated \$1.9 billion in annualized revenue.
- **Successful implementation of DFA requires partnership from legislative and regulatory stakeholders** as its composition includes: Self-help initiatives to provide billions in new revenue and cost reductions, while improving the predictability and reliability of service; judicious implementation of new and existing pricing authorities; and legislative changes to retiree health benefit funding rules, including requiring Medicare integration, and eliminating the pre-funding requirement. This legislation — The Postal Service Reform Act — was passed with strong bipartisan support by both the House and Senate and enacted on April 6, 2022, and generates a total plan benefit of \$44.5 billion expense reduction.
- **The Postal Service negotiated with the Treasury Department to gain disbursement of \$10 billion in funding from the CARES Act** to offset and reimburse extraordinary costs associated with maintaining service performance during the pandemic in 2020-2021.



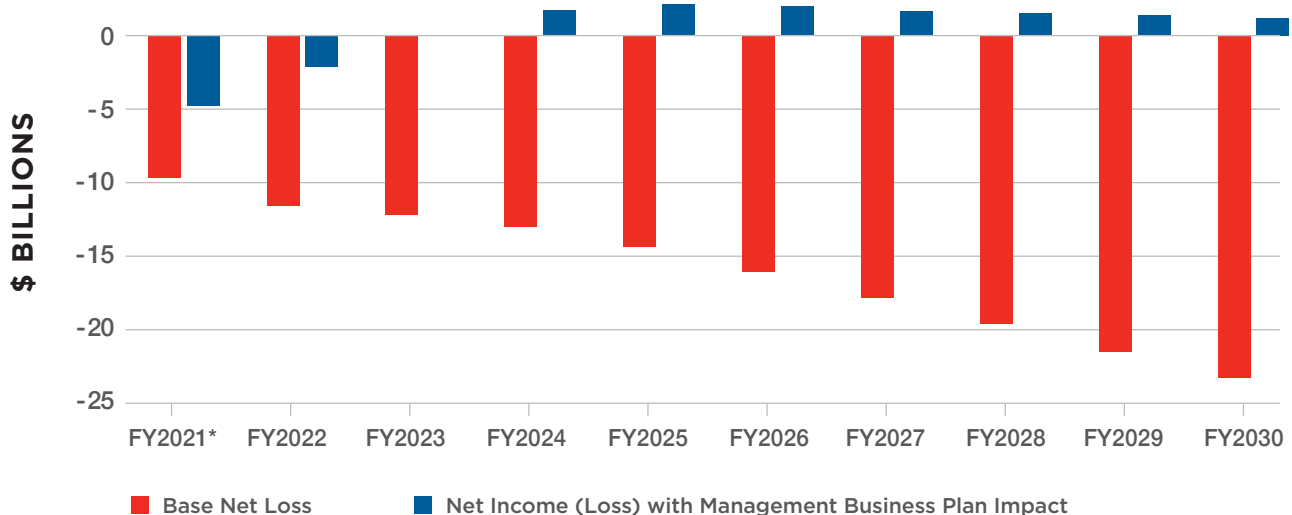
DELIVERING FOR AMERICA: PROGRESS ELEMENTS

Financial Targets and Projections

Prior to the publication of the DFA plan last year, the Postal Service projected it would lose \$160 billion for the decade ending in September 2030. By fully implementing the plan, the Postal Service forecasted break-even financial results over the same period. As of March 2022, despite a significant spike in inflationary pressures throughout the U.S. economy, the Postal Service remains on track to achieve its financial and service performance goals.

The many cost-saving and revenue growth initiatives of the plan are designed to deliver: \$91 billion in operating expense reductions and approximately \$68 billion in revenue improvement over the 10-year period. Aggressive implementation over the past year has kept the organization on track to achieve net positive revenue balance in 2024 and to sustain annually thereafter.

Comparison of the 10-year projected annual USPS net income with and without USPS 10-year plan



*Actual result: \$4.9 billion including non-cash workers' compensation.

Service Performance Improvement

Service performance has improved and stabilized across all product categories, as demonstrated by our 2021 peak holiday season. We moved 13.2 billion pieces of mail and parcels from October 1 through December 31 and achieved the following service performance improvements:

First-Class Mail®:

89.1%

Delivered 89.1 percent of First-Class Mail on time against the USPS service standard.

Improvement of:

↑10.4%

from the 2020 peak season.

Marketing Mail:

92.2%

Delivered 92.2 percent of Marketing Mail on time against the USPS service standard.

Improvement of:

↑7.7%

from the 2020 peak season.

Periodicals:

80.9%

Delivered 80.9 percent of Periodicals on time against the USPS service standard.

Improvement of:

↑11.1%

from the 2020 peak season.

During the holiday period, the Postal Service also achieved strong double-digit performance improvement with First-Class Package Service® and Priority Mail® delivery. Across all mail and package categories, average delivery time was 2.7 days.

These service improvements have been, in part, the result of strategic diversification of volume traveling across the air network among additional air carriers and more reliable surface transportation providers, which is further enabled by the new service standards for First Class Mail (FCM) and Periodicals that went into effect October 1, 2021. As network changes are implemented in the next few years, the Postal Service expects to achieve 95 percent on-time performance across all product categories.

Structural Changes

Over this past year, we aligned our organizational strategy and structure to improve line of sight and drive operational precision, while increasing role clarity and accountability. These actions combined represent key steps in the ongoing reorganization and streamlining of Postal Service business units, which included the following changes:

- **Created three core operating units and aligned Area/District administrative functions to Headquarters.**
- **Consolidated Districts from 67 to 50; created 2 Regions and 13 Divisions for Processing; and created 4 Regions and 13 Divisions for Logistics.**
- **Successfully placed impacted employees through robust workforce repositioning tactics.**

“We are rapidly implementing changes that will transform the United States Postal Service into the high performing organization our customers and the public expect and deserve.”

— **Louis DeJoy**, Postmaster General and Chief Executive Officer

Workforce Improvements

The Postal Service has experienced years of high workforce turnover in our pre-career workforce, as well as availability issues resulting from the COVID-19 pandemic. The conversion of close to 63,000 pre-career into career positions has contributed to our objective of stabilizing workplace availability nationally. To bolster availability during the peak holiday period, the Postal Service additionally hired 40,000 seasonal employees and did so early in the fall to allow adequate time for training, and experience on the job prior to peak volume increases. Additionally, to manage peak workload, we reduced the number of hours that employees worked over 8 hours per day and over 50 hours per week, encouraged employees to take leave prior to peak, and enabled flexible overtime during peak season.

Network Changes

While we have made progress in designing a best-in-class processing and delivery operations network connected by a fully optimized surface and air transportation network, we have not finalized our plans nor begun to implement the significant changes needed across our enterprise. These efforts — impacting all aspects of our operations and infrastructure — are being refined now and will be deployed in stages this year and in the coming years.

We have, nevertheless, taken significant steps in the past year to correct glaring inefficiencies in our network related to space and processing capacity constraints, and certain transportation practices. Among these steps are:

- Intense top-down review of operational metrics and action plans throughout internal organizations and across functions and layers of responsibility to continue to improve visibility, clarify roles, and support greater precision and better identify capability gaps throughout the enterprise that require longer term remediation.
- Investment in processing automation and information technologies, including **136,055 next generation mobile delivery devices**

to improve service and tracking; deployment in our facilities and delivery units of **13 small package sorting systems, 51 single induction package sorters, 60 flex rover sorter systems** consisting of 600 autonomous mobile robots in 40 locations, **25 automated delivery unit sorters, 29 small delivery unit sorters** to accommodate higher volumes and customers' evolving needs; and **238 mail machine moves and disposals** where declining mail volumes can be absorbed elsewhere in our system without service impacts.

- Expanded facility footprint to resolve bottlenecks and improved the flow of mail and packages — this includes **an additional 13 million square feet across 100 locations.**
- A pilot project to enable real-time visibility of surface transportation assets and continued reducing reliance on third party carriers.
- Optimized surface transportation routes.

While these accelerated efforts have yielded immediate benefits regarding improved on-time performance and efficiency across mail and shipping product classes, implementation of our substantial network-wide processing, delivery and transportation changes will be necessary to achieve our 10-year service and financial goals.

Investment

To remedy years of underinvestment, the DFA plan includes over \$40+ billion in capital investments over the next 10 years to modernize the Postal Service, and ensure that we can adapt to the changing needs of our customers. Only through these investments will we achieve financial sustainability, grow our business, meet customer needs in the evolving marketplace, and deliver service excellence over the coming decade. Significant planned investments will include:

- **\$20 billion toward our mail and package processing network**, including USPS facility space upgrades and procurement of new processing equipment.

- **\$19 billion toward our retail and delivery network**, including upgrades to retail lobby spaces and acquisition of a Next Generation Delivery Vehicle fleet. The Postal Service recently ordered an initial 50,000 delivery vehicles for \$3 billion, including 10,019 battery electric vehicles.
- **\$2 billion in technology upgrades**, including upgrades to major IT systems.

Growth Initiatives

Key elements of our package volume growth strategy under the umbrella of USPS Connect™ were launched through pilot projects and continue to roll out nationally. This set of offerings aims to broaden network access to next-day delivery capability for businesses of all sizes. USPS Connect was leveraged to support the Biden Administration's public health initiative to provide free COVID-19 test kits to the public. More than 320 million test kits were rapidly delivered through the USPS Connect destination entry model.

Service Standard Implementation

The Postal Service implemented service standard changes for First-Class Mail and Periodicals on October 1 and completed regulatory steps to proceed with the standard change for First-Class Package Service® (FCPS). Implementation of the new FCPS service standard change is tentatively scheduled for this spring. We have also requested an advisory opinion from the PRC on service standard changes for Retail Ground and Parcel Select Ground, to enhance service standards for those products. These changes were designed to enable redesign of our processing and transportation network to better align with organizational and marketplace needs.

Pricing

Since March 2021, we have taken a more rational pricing approach including the judicious

implementation of new and existing pricing authority. We implemented a Market Dominant product price increase on August 29, 2021. Under this rate change, USPS prices remain among the most affordable in the world. We additionally provided notice that we will review Market Dominant prices twice per year but chose to forego a January 2022 price increase. We have also utilized competitive market pricing to bring rates in line with the marketplace and provide the Postal Service with much needed revenue. Use of new pricing authorities and approach has already generated an annualized revenue increase of \$1.9 billion.

“While we are pleased with our progress in the first year of implementing the Delivering for America plan, we recognize that there is a long road ahead to achieving our goals and that only by fully implementing our plan will we deliver the greatest value to the nation.”

— **Louis DeJoy**, Postmaster General and Chief Executive Officer

Postal Service Reform Legislation

The Postal Service Reform Act of 2022 — passed with strong bipartisan support and enacted April 6, 2022 — eliminates the 2006 Postal Accountability and Enhancement Act (PAEA) pre-funding mandate for retiree health benefits and requires future postal retirees to enroll in Medicare Part A, Part B, and Part D. The net benefit of this legislation is a reduction in postal expenses of \$44.5 billion.

CARES Act — COVID Reimbursement

The Postal Service negotiated with the Treasury Department to gain disbursement of \$10 billion in funding from the CARES Act to offset and reimburse extraordinary costs associated with maintaining service performance during the height of the pandemic in 2020-2021.



CONCLUSION

The Postal Service has aggressively advanced strategies and initiatives necessary to meet the statutory requirement to operate as a self-funding organization that can provide prompt, reliable, secure, affordable, and universal postal services to the nation.

As we continue to implement the DFA plan, we expect to significantly improve on-time delivery performance, operational capacity, precision, and efficiency, and to do so in a financially sustainable manner over the coming decade.

We hope you have found this progress report informative and useful. For additional information,

please review the **Delivering for America** plan (<https://about.usps.com/what/strategic-plans/delivering-for-america>), as well as the **Postal Service Annual Report to Congress** (<https://about.usps.com/what/financials/annual-reports/fy2021.pdf>). Thank you for your interest in the United States Postal Service.

