

**Memorandum of Due Consideration of Article 32 Factors Related to Contracting Out the
Installation of the Phase 1 Flats Sequencing Systems (FSS)**

I. Purpose

This memorandum presents the due consideration given to the five Article 32 factors with respect to contracting out the installation of one-hundred two (102) Phase 1 Flats Sequencing Systems.

II. Background

The United States Postal Service ("USPS" or "Postal Service") has committed to a new program known as the Flats Sequencing System (FSS). FSS is a program designed to sort flat mail (catalogs, magazines and large first-class mail pieces) into delivery point sequence using a fully automated two-pass sorting process.

The FSS is a very large, complex, integrated series of flat automation technologies comprised of the following components: 1) automated bundle separation unit, 2) bundle distribution system, 3) automated induction preparation stations, 4) dolly loaders, 5) dolly induction, 6) tray management system, 7) input lines with mail feeders, 8) optical character reader camera, labeler, printer and verifier, 9) sorting carousel with 360 sorter output bins, 10) tray storage system, 11) integrated tray converter, 12) street tray dispatch, 13) production control system, and 14) auto-prep. The system (including components) covers approximately 30,000 square feet of facility space.

In Phase 1, 100 production FSS systems are planned to be installed at 33 USPS processing facilities, and 2 training systems to be installed at the National Center for Employee Development in Norman, OK. The FSS will enable the USPS to:

- A. reduce the need, and therefore the cost, of manually sorting flat mail in the delivery unit operations of the Postal Service while providing the same, or improved, level of service,
- B. reduce the number of mis-sorts and mis-deliveries by providing a fully automated end-to-end, first and second pass processing system that ultimately places flat mail vertically in a street tray, labels the tray, and places the tray in a dispatch container for transport to a delivery unit,
- C. improve the overall management of flat processing with sophisticated production control systems based on a real-time view of mail arrival, mail availability, first-in and first-out processing and dispatch.

The USPS plans to use contract construction firms to build facility expansions, install utilities, and perform demolition/construction site preparation to accommodate this large system. Once the facility expansions are constructed and released for occupancy, the local USPS Plant Manager will perform an analysis to decide whether to perform the general equipment site preparation activities, as described in the site preparation guidelines, with postal personnel or to outsource such work. The local USPS Plant Manager will be responsible for issuing local Article 32 memorandums addressing such considerations.

Consideration of Article 32 Factors

A. PUBLIC INTEREST

The FSS program is under a strict completion schedule in order to give the USPS the best flats sequencing system possible, as soon as possible, to process flat mail in delivery point sequence to reduce labor costs, reduce/mitigate facility space requirements, assist in absorbing the costs of delivery growth, assist in providing a stable cost structure for flats, and subsequently, the service arrangements with the mailing industry and our individual customers.

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Each year the USPS adds up to 2 million new deliveries to the network. If the delivery infrastructure were to grow at the same rate, the Postal Service would add over 3,500 new routes each year. Automation efforts such as delivery point sequencing of letters have been successful in controlling rising delivery expenses. However, delivery costs account for 43 percent of all expenses and the expectation is that this trend will continue.

Contracting out the installation of the FSS will enable the USPS to more quickly provide our customers improved service and assist in absorbing our internal costs of delivery growth while contributing to stabilizing the cost structure for flats, both in the near future by deploying rapidly, and long term by providing guaranteed machine performance and reliability.

B. EFFICIENCY

The installation of the FSS consists of hardware, material handling conveyors, structural steel, electrical power, control systems, computer systems, network systems and software; and is a major one-time task requiring a finite amount of work at each location. The deployment schedule requires that this work be completed by the end of 2010. It is estimated that the average FSS installation at any USPS facility will take approximately 7 to 10 weeks to install, commission and test.

Outsourcing the installation of FSS would allow the Postal Service to complete the work in a timely manner. The contractor will provide a high level of expertise and considerable institutional means to install equipment of the size and scope of the FSS project. The contractor will provide a team with a level of expertise developed from formal training and multiple years of hands-on experience in installing the same or similar systems in other businesses.

By engaging a sufficient number of contractor workers, possessing the necessary skills and equipment, the Postal Service will be able to ensure accountability for the accurate completion of the tasks while avoiding unnecessary delays and costs. In addition, the contractor will provide timely and expeditious project completion in accordance with established safety procedures and requirements.

Most importantly, the FSS as installed by the contractor will carry a warranty not available to the Postal Service if the installation work is performed by postal personnel.

C. AVAILABILITY OF EQUIPMENT

Special equipment is required to perform the installation work including customized caster systems, alignment jigs, structural steel assembly cranes and industrial/structural steel assembly tools. Some equipment is available through rental, and some will be custom designed as part of the assembly/integration effort. With respect to the tools available through rental, this factor does not favor one approach over the other, *i.e.*, in-house or subcontracting. However, the special custom tools and alignment jigs do factor in to contracting out the installation, as these tools would not likely be used again once installation is complete.

D. QUALIFICATION OF EMPLOYEES

USPS maintenance technicians are skilled and trained at preventative, predictive or corrective maintenance of existing systems and equipment. Employees hired into the USPS maintenance craft are hired based on specific skill levels using existing qualification standards for each position. The USPS provides technical training to personnel in order to provide the skills necessary to maintain and troubleshoot specific existing equipment and systems. The installation of the FSS does not fall into the category of routine preventive, predictive, or corrective maintenance activities.

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Therefore, using in-house labor would require developing and providing specialized installation training, and in some cases certification in advance of deployment, specific to this system, to bring them to the minimum skill levels required of such a specialized capability.

Control and coordination of the FSS installation across the 34 sites is vital to the success of the entire program and the overall efficiency of postal operations. Most significant in the analysis is that the USPS would lose the benefit of warranty and guaranteed equipment performance if the supplier does not perform the installations, and that the USPS would assume the additional liability of system safety compliance. These issues also negatively affect efficiency and risk management, as well as public interest.

E. COST

Outsourcing the FSS installation work at postal facilities would ensure timely completion of the program with the contractor required to provide the necessary resources to meet the USPS installation schedule.

The contractor will use skilled teams who are experts in performing these specific installations, and therefore can provide the service in a shorter time requiring less workhours per task through higher in-process productivities.

In addition, the contract will be structured as a performance-based contract meaning the contractor would only receive payment if it meets or exceeds contract performance requirements. Contracting out the installation will provide the USPS with guaranteed warranty coverage for a predetermined period and a guaranteed system performance level, which would not be available if postal employees were to perform the FSS installation.

III. Conclusion

Contracting out the installation of the FSS would have no significant impact on bargaining unit work. This Phase 1 installation is a one-time installation, required for a limited period of time, and is not within the scope of the maintenance employee technical skill set maintained by the USPS. Significant added costs to the program would be incurred as a result of longer installation time, development of specialized training and certification, increased safety liability, loss of warranty for components, loss of warranty of performance, and delayed institutional savings and service benefits for our customers if the installation was performed by USPS personnel.

To complete this project in a timely manner, with the least amount of disruption to operations and our customers, outsourcing this installation work to a contractor with experience performing this type of work is in the best interest of the Postal Service.