

An hourglass-shaped graphic with a globe inside. The top bulb is dark blue, and the bottom bulb is light blue. The globe is centered in the narrow neck of the hourglass. The top bulb is filled with a dark blue color, and the bottom bulb is filled with a light blue color. The globe is centered in the narrow neck of the hourglass.

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*The U.S. Postal Service's Use of Contractors to Deliver Mail*

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**Abstract.** During the 110th Congress, three measures, H.Res. 282, S. 1457, and H.R. 4236, have been introduced to address the U.S. Postal Service's (USPS's) use of private contractors to deliver mail. This report provides information on the USPS's authority to contract and data on the USPS's use of private contractors to deliver mail. It notes that the USPS has statutory authority to contract, although the extent of that authority has been contested. It also shows that the USPS has increased its use of contractors in recent years, but that the USPS employees continue to serve more than 98% of all U.S. homes and businesses.

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## CRS Report for Congress

# The U.S. Postal Service's Use of Contractors to Deliver Mail

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### Summary

During the 110<sup>th</sup> Congress, three measures, H.Res. 282, S. 1457, and H.R. 4236, have been introduced to address the U.S. Postal Service's (USPS's) use of private contractors to deliver mail. This report provides information on the USPS's authority to contract and data on the USPS's use of private contractors to deliver mail. It notes that the USPS has statutory authority to contract, although the extent of that authority has been contested. It also shows that the USPS has increased its use of contractors in recent years, but that the USPS employees continue to serve more than 98% of all U.S. homes and businesses. This report will be updated as developments warrant.

### Recent Concerns and Legislation

Some members of the 110<sup>th</sup> Congress have expressed concern about the USPS's practice of contracting with private individuals and firms, often called "contractors" and "subcontractors," for the collection and delivery of mail.<sup>1</sup>

Contractors have transported mail between postal facilities since at least 1792 (1 Stat. 233), and according to the USPS, contractors have delivered mail to homes since 1900.<sup>2</sup> Today, contractors transport mail between postal facilities via land, air, water, and rail.<sup>3</sup> One type of land (i.e., "surface") mail transportation contract is the "highway

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<sup>1</sup> For example, see the Statement of Representative Albio Sires, U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, *Inquiring Minds Want to Know: What Is the Postal Service Contracting Out?*, hearing, 110<sup>th</sup> Cong., 1<sup>st</sup> sess., July 19, 2007, p. 1, available at [<http://federalworkforce.oversight.house.gov/documents/20070719145045.pdf>].

<sup>2</sup> USPS, "Contracting by the U.S. Postal Service — Not New!," press release, Apr. 2007.

<sup>3</sup> USPS, *Mail Transportation Contracting Guide* (Washington: USPS, June 2004).

contract route” (HCR).<sup>4</sup> HCR contracts come in three subtypes. Under “transportation” contracts, private “suppliers”<sup>5</sup> transport mail between postal facilities. “Combination” contracts require suppliers to make a small number of mail deliveries in the course of transporting mail between the USPS’s facilities. “Contract delivery service” (CDS) contracts compensate suppliers for collecting and delivering mail in rural areas.<sup>6</sup> This latter subtype of contract has been the focus of recent controversy.

In 2007, the leaders of some of the USPS employee unions suggested that the USPS was expanding its use of CDS carriers. For example, John Hegarty, National President of the National Postal Mail Handlers Union (NPMHU), claimed that, “From all indications, there is a contracting-out virus that seems to be infecting Postal Service Headquarters.”<sup>7</sup> William Young, President of the National Association of Letter Carriers (NALC), which represents city carriers, called upon Congress to “stop the cancer of contracting out before it spreads.”<sup>8</sup> Both the NALC and the National Rural Letter Carriers Association (NRLCA) alleged that contractors cannot be trusted to deliver the mail.<sup>9</sup> The unions also claimed that CDS carriers were delivering mail in suburban and urban locales.<sup>10</sup>

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<sup>4</sup> HCR contractors are sometimes called “star contractors.” In 1845, Congress first mandated that the Postmaster General openly bid mail transportation contracts and award them to the lowest bidders who tendered “sufficient guarantees for faithful performance, without other reference to the mode of such transportation than may be necessary to provide for the due celerity, certainty, and security of such transportation” (5 Stat. 738). To save time and effort, postal clerks often substituted asterisks for the words “celerity, certainty, and security” when they recorded these postal contracts in ledgers; hence, the terms “star contracts” and “star contractors.” National Postal Museum, “What Is a Star Route?” available at [[http://www.postalmuseum.si.edu/starroute/sr\\_02.html](http://www.postalmuseum.si.edu/starroute/sr_02.html)].

<sup>5</sup> A “supplier” is a person or private firm that has a contract with USPS.

<sup>6</sup> USPS, *Highway Contract Routes — Box Delivery Service, Handbook P-5* (Washington: USPS, Oct. 2004).

<sup>7</sup> Statement of John Hegarty, National President, National Postal Mail Handlers Union, U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, *The U.S. Postal Service: 101*, hearing, 110<sup>th</sup> Cong., 1<sup>st</sup> sess., Apr. 17, 2007, p. 4, available at [<http://oversight.house.gov/documents/20070504093407.pdf>].

<sup>8</sup> NALC, “Young Urges Congress to Block USPS Policy of ‘Contracting Out,’” *NALC Bulletin*, Apr. 20, 2007, p.1.

<sup>9</sup> See Statement of Donnie Pitts, President, National Rural Letter Carriers Association, U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, *The U.S. Postal Service 101*, pp. 4-5, available at [<http://federalworkforce.oversight.house.gov/documents/20070504093314.pdf>]. CRS has not located any data to substantiate this claim. On the USPS’s screening and oversight of its employees and contractors, see U.S. Government Accountability Office, *U.S. Postal Service: Data Needed to Assess the Effectiveness of Outsourcing*, GAO-08-787 (Washington: GAO, July 2008), pp. 24-30.

<sup>10</sup> Statement of William H. Young, President, National Association of Letter Carriers, House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, *Inquiring Minds Want to Know: What Is the Postal Service*

(continued...)

USPS, meanwhile, denied that it was greatly expanding the use of CDS carriers and argued that contract mail delivery was “not new.” According to the USPS, contractors collect and deliver mail mostly in rural areas. The USPS noted that contractors are less expensive to employ than career delivery carriers, and that using them makes business sense.<sup>11</sup> The USPS also declared that it is not replacing career carriers with contractors. Rather, the USPS reported that it considers assigning only new delivery routes to contractors.<sup>12</sup>

On March 28, 2007, Representative Albio Sires introduced H.Res. 282, which expressed “the sense of the House of Representatives that the United States Postal Service should discontinue the practice of contracting out mail delivery services.” H.Res. 282 was referred to the House Committee on Oversight and Government Reform (HCOGR). Nearly two months later, the first of two bills that would limit the USPS’s authority to contract for mail delivery appeared. S. 1457, introduced by Senator Tom Harkin on May 23, 2007, would forbid the USPS from entering “into any contract ... with any motor carrier or other person for the delivery of mail on any route with 1 or more families per mile.” The bill would permit all existing CDS contracts to remain in effect and to be renewed. S. 1457 was referred to the Senate Committee on Homeland Security and Governmental Affairs. A second bill, H.R. 4236, was introduced by Representative Stephen F. Lynch on November 15, 2007. The bill would curtail the USPS’s contracting authority by requiring it to bargain with postal unions before entering into any “contract providing for mail processing, mail handling, or surface transportation of mail, if such contract would, for any 12-month period, involve the equivalent of 50 or more workyears of work that would otherwise be performed by career postal employees.”<sup>13</sup> H.R. 4236 was referred to the HCOGR’s Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, which held a hearing to examine the issue on July 19, 2007.<sup>14</sup>

The controversy over the USPS’s contracting of mail delivery raises two basic questions: (1) by what authority may the USPS contract for mail delivery; and (2) to what extent is the USPS using CDS carriers to deliver mail? The answers follow in the next sections.

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<sup>10</sup> (...continued)

*Contracting Out?* p. 4, available at [<http://federalworkforce.oversight.house.gov/documents/20070719145523.pdf>].

<sup>11</sup> In 2007, the average annual cost of delivery by a city carrier was nearly twice that of a CDS carrier. U.S. Government Accountability Office, *U.S. Postal Service: Data Needed to Assess the Effectiveness of Outsourcing*, p. 10.

<sup>12</sup> Statement of Alan Kessler, Vice Chairman, Board of Governors, U.S. Postal Service, *ibid.*, available at [<http://federalworkforce.oversight.house.gov/documents/20070719145301.pdf>]. See also Statement of Postmaster John E. Potter, U.S. Postal Service, *ibid.*, p. 3, available at [<http://federalworkforce.oversight.house.gov/documents/20070719145344.pdf>].

<sup>13</sup> A “workyear” is the number of hours a full-time worker works in one year. A workyear is tabulated as 2080 hours, or 40 hours per week for 52 weeks.

<sup>14</sup> U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, *Inquiring Minds Want to Know: What Is the Postal Service Contracting Out?* Witnesses’ submitted statements, available at [<http://federalworkforce.oversight.house.gov/story.asp?ID=1416>].

## The USPS's Authority to Contract

The Postal Reorganization Act of 1970 (PRA; P.L. 91-375; 84 Stat. 725) replaced the U.S. Post Office Department with the U.S. Postal Service, an independent establishment of the executive branch (39 U.S.C. 201). PRA requires the USPS to “maintain an efficient system of collection, sorting, and delivery of the mail nationwide” (39 U.S.C. 403(b)(1)). PRA provides the USPS with considerable discretion over its operations. Among its many authorities, the USPS has the power to (1) “enter into and perform contracts” (39 U.S.C. 401); (2) “provide for the collection, handling, transportation, delivery, forwarding, returning, and holding of mail” (39 U.S.C. 404(a)(1)); and (3) “establish mail routes and authorize mail transportation service thereon” (39 U.S.C. 5203(a)).<sup>15</sup>

Some postal unions have contended that the USPS's use of CDS instead of career delivery carriers “violates the spirit of the nation's basic postal law.”<sup>16</sup> PRA states,

It shall be the policy of the Postal Service to maintain compensation and benefits for all officers and employees on a standard of comparability to the compensation and benefits paid for comparable levels of work in the private sector of the economy (39 U.S.C. 1003(a)).

Career delivery carriers are civil servants and, under PRA, are entitled to wages established through contracts collectively bargained by the USPS and postal unions (39 U.S.C. 1001(b) and 39 U.S.C. 1201 et seq.). Using contractors, the unions argue, circumvents the collective bargaining process and opens the door for the USPS to replace all career delivery carriers with contractors. The USPS has responded that its contracts with the postal unions recognize USPS's authority to use contractors.<sup>17</sup>

## The Extent of the USPS's Use of CDS Carriers to Deliver Mail

Between 1998 and 2007, the number of carrier routes<sup>18</sup> served by CDS carriers rose from 5,424 to 6,531, or 20.4% (**Table 1**). However, throughout this period, the USPS career city and rural carriers delivered mail on the vast majority of postal carrier routes (**Table 1** and **Table 2**). Similarly, between 1997 and 2006, the USPS city and rural delivery carriers served the vast majority of delivery points (**Table 3** and **Table 4**). Thus, although the USPS has increased its use of CDS carriers to deliver mail, these contractors

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<sup>15</sup> On USPS's power to contract with private carriers for the transportation of mail, see 39 U.S.C. 5001 et seq. and 39 U.S.C. 5201 et seq.

<sup>16</sup> NALC, “Contracting Out, Collective Bargaining and the NALC Contract,” press release, Apr. 18, 2007.

<sup>17</sup> USPS, “Contracting by the U.S. Postal Service — Not New!,” press release, April 2007, p. 1. For example, see *Collective Bargaining Agreement between American Postal Workers Union AFL-CIO, and U.S. Postal Service, November 21, 2006-November 20, 2010* (Washington: APWU, 2006), pp. 148, 152.

<sup>18</sup> A “carrier route” consists of the addresses to which a delivery carrier delivers mail.

serve on fewer than 3% of all routes and deposit mail at fewer than 2% of all delivery points.<sup>19</sup>

**Table 1. Who Delivers on Postal Carrier Routes, 1998-2007**

Year	City Carriers	Rural Carriers	CDS Carriers	Total
1998	167,262	62,338	5,424	235,024
1999	166,455	64,706	5,500	236,661
2000	167,470	67,372	5,648	240,490
2001	167,762	69,066	5,760	242,588
2002	165,816	69,361	5,857	241,034
2003	164,652	69,697	5,953	240,302
2004	164,412	70,792	6,026	241,230
2005	164,419	72,658	6,127	243,204
2006	163,412	74,937	6,346	244,695
2007	163,530	76,008	6,531	246,069

Source: CRS analysis of data provided by the USPS.

**Table 2. Who Delivers on Postal Carrier Routes (%), 1998-2007**

Year	City Carriers	Rural Carriers	CDS Carriers	Total
1998	71.2%	26.5%	2.3%	100%
1999	70.3%	27.3%	2.3%	100%
2000	69.6%	28.0%	2.3%	100%
2001	69.2%	28.5%	2.4%	100%
2002	68.8%	28.8%	2.4%	100%
2003	68.5%	29.0%	2.5%	100%
2004	68.2%	29.3%	2.5%	100%
2005	67.6%	29.9%	2.5%	100%
2006	66.8%	30.6%	2.6%	100%
2007	66.5%	30.9%	2.7%	100%

Source: CRS analysis of data provided by the USPS.

**Table 3. Who Serves Delivery Points, 1997-2006**

Year	City Carriers	Rural Carriers	CDS Carriers	Total
1997	81,795,164	27,557,772	1,743,651	111,096,587
1998	82,253,861	28,584,565	1,828,257	112,666,683
1999	82,751,573	29,710,113	1,903,926	114,365,612
2000	83,329,025	30,928,654	1,987,629	116,245,308
2001	83,761,600	32,075,719	2,057,084	117,894,403
2002	84,211,501	33,273,630	2,128,507	119,613,638
2003	84,698,811	34,516,943	2,211,395	121,427,149
2004	85,152,346	34,990,114	2,220,856	122,363,316
2005	85,804,626	36,189,631	2,304,748	124,299,005
2006	86,292,173	37,365,860	2,410,317	126,068,350

Source: CRS analysis of data provided by the USPS.

<sup>19</sup> These figures comport with GAO's analysis. See U.S. Government Accountability Office, *U.S. Postal Service: Data Needed to Assess the Effectiveness of Outsourcing*, pp. 22-23. A "delivery point" is the address or location of a dwelling or place of business to which mail is delivered.

**Table 4. Who Serves Delivery Points (%), 1997-2006**

Year	City Carriers	Rural Carriers	CDS Carriers	Total
1997	73.6%	24.8%	1.6%	100%
1998	73.0%	25.4%	1.6%	100%
1999	72.4%	26.0%	1.7%	100%
2000	71.7%	26.6%	1.7%	100%
2001	71.0%	27.2%	1.7%	100%
2002	70.4%	27.8%	1.8%	100%
2003	69.8%	28.4%	1.8%	100%
2004	69.6%	28.6%	1.8%	100%
2005	69.0%	29.1%	1.9%	100%
2006	68.4%	29.6%	1.9%	100%

**Source:** CRS analysis of data provided by USPS.

## Outlook

For the time being, it appears that the USPS and the NALC have settled their dispute over the use of contractors to deliver mail.

On October 9, 2007, the NALC and the USPS signed a new collective bargaining agreement. The agreement included memoranda of understanding that instituted a six-month moratorium “on any new subcontracting of delivery in offices in which city letter carriers are currently employed.” The agreement also committed the USPS and the NALC to establishing a “joint committee” to study “the problems” of the contracting out of mail delivery that will lead “towards a meaningful evolutionary approach to the issue of subcontracting.”<sup>20</sup> The NALC has reported that it and the USPS drew up a list of 3,600 post offices that will be “protected” from contracting. According to the NALC, the USPS is obliged to terminate any CDS contracts at these offices.<sup>21</sup>

The moratorium was extended by the two parties until September 30, 2008. The next month, the USPS and the NALC announced that they had signed two memoranda of agreement that extend the moratorium until 2011 and set up processes by which the two parties can reach decisions over the use of contractors in some areas.<sup>22</sup>

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<sup>20</sup> For example, see *Agreement between United States Postal Service and National Association of Letter Carriers AFL-CIO 2006-2011* (Washington: NALC, 2007), pp. 125-126.

<sup>21</sup> Frederic V. Rolando, “CDS, DOIS and Intervention,” *Postal Record* (Washington: NALC, May 2008), p. 34.

<sup>22</sup> “Memoranda of Understanding Between the United States Postal Service and the National Association of Letters Carriers, AFL-CIO, M-01694 and M-01695,” Oct. 22, 2008.