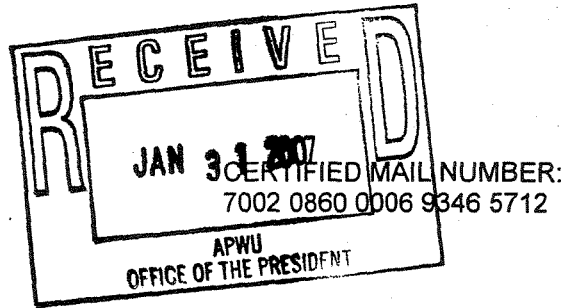




January 26, 2007

Mr. William Burrus
 President
 American Postal Workers Union,
 AFL-CIO
 1300 L Street NW
 Washington, DC 20005-4304



Dear Bill:

This letter is intended to provide you with a further update as to the status of the ongoing consideration of the proposed outsourcing of tender and receipt of mail operations at 43 Air Mail Centers (AMCs).

Postal representatives have met with representatives from both the APWU and the National Postal Mail Handlers Union (NPMHU), and have received input concerning the proposed subcontracting. The input received from each union has been carefully considered and has assisted the Postal Service in this ongoing consideration process. In fact, the comparative financial model and the draft comparative analysis have been updated to reflect the changes made as a result of union input. A summary of the changes follows:

Model	Table	Line	Description of Change
All	Various	Various	Removed 29 Sites from Proposed Subcontracting Model
Labor	109	7 - 22	Updated Non-USPS Benefit Rates for Material Handling Laborers Source: Department of Labor (http://www.wdol.gov/)
Labor	111	7 - 22	Updated Non-USPS Benefit Rates for Material Expeditors Source: Department of Labor (http://www.wdol.gov/)
Other Cost	309	7 - 22	Updated Non-USPS Benefit Rates for Custodial Source: Department of Labor (http://www.wdol.gov/)
Other Cost	309	7 - 22	Added Overtime, Holiday, and Vacation to Custodial Fully Loaded Rate
Labor	Inputs	36 -40	Added Contractor Overtime Wage Premium to Benefits

We have enclosed a copy of the updated draft comparative analysis, on compact disc and in hard copy.

The model utilized by the Postal Service in the subject comparative analysis is the "most efficient operation" model, pursuant to which the costs of what would be the most efficient in-house operation are compared with those of the most efficient contractor operation. In determining the in-house labor costs attributable to the most efficient in-house model, the Postal Service utilized the national average-employee wage rates, rather than the higher *actual* wage rates of the more senior AMC employees who would staff an in-house postal operation. Therefore, not only is the Postal Service's model a reasonable one, the wage rates selected by the Postal Service to populate the model were conservatively-selected.

Two national level awards authored by Arbitrator Mittenenthal are instructive here (USPS and APWU, Case No. A8-NA-0481 (April 2, 1981) and Case No. H8C-NA-C 25 (November 9, 1981)). Although both cases dealt with the contractual obligations of the Postal Service under Article 32,

Section 4, Highway Movement of Mail (as opposed to the more general subcontracting obligations of Article 32, Section 1), each section requires the Postal Service to give "due consideration" to the five Article 32 factors – public interest, cost, efficiency, availability of equipment and qualification of employees.

In each case, the Postal Service's costing of postal mail transportation service was questioned by the APWU, whose own methodology resulted in lower postal cost estimates. The cost differences were attributable to differing underlying methodologies. Ultimately, Arbitrator Mittenthal denied the grievances, concluding the Postal Service gave "due consideration" to the five factors. With regard to the differing costing models, the Arbitrator concluded he was not in a position to give a "blanket approval of any single method of cost calculation. Absent any clear direction in the National Agreement and absent any mutual understanding as to how employee hours are to be measured, the arbitrator's inquiry is limited."

That the Union has a different view of the methodology which should be used does not establish that the methodology utilized by the Postal Service is flawed. The mandate of Article 32 is that the Postal Service give "due consideration" to the five factors, including cost, and the Postal Service is confident of its analysis in that regard. The methodology utilized by the Postal Service is sound, reasonable and consistent with good business practice. Additionally, the Postal Service has meaningfully considered the Unions' input, including examining the NPMHU's suggested cost avoidance methodology within the context of the proposed initiative. The Postal Service's position, however, remains that the model utilized by the Postal Service is reasonable and appropriate.

Of the original 43 sites, 29 sites have been removed from consideration for outsourcing, leaving the following 14 sites remaining in the outsourcing consideration process:

Baltimore, MD (BWI)	Indianapolis, IN (IND)
Charlotte, NC (CLT)	Las Vegas, NV (LAS)
City of Industry (ONT)	Los Angeles, CA (LAX)
Denver, CO (DEN)	Milwaukee, WI (MKE)
Detroit, MI (DTW)	San Antonio, TX (SAT)
Hartford, CT (BDL)	Seattle, WA (SEA)
Humble/Houston, TX (IAH)	St. Paul, MN (MSP)

One of the 29 sites removed from the outsourcing consideration – Flushing, NY (LGA) -- has been removed from the subcontracting consideration process because it is no longer a point of service within the CAIR Network. The remaining 28 sites will terminate the tender and receipt of air mail operations, and any resulting movement of employees will be accomplished in accordance with Article 12 of the National Agreement. No determination of the Article 12 impact to the bargaining unit has been made at this time; however, site specific information about employee impact will be developed in each area and district, and when available, will be shared with area and district union designees. The 28 sites are:

Albuquerque, NM (ABQ)	Memphis, TN (MEM)
Arlington, VA (DCA)	Nashville, TN (BNA)
Birmingham, AL (BHM)	Norfolk, VA (ORF)
Boise, ID (BOI)	Oakland, CA (OAK)
Cincinnati, OH (CVG)	Oklahoma City (OKC)
Cleveland, OH (CLE)	Omaha, NE (OMA)
Columbus, OH (CMH)	Portland, OR (PDX)
Dayton, OH (DAY)	Raleigh, NC (RDU)
Des Moines, IA (DSM)	Reno, NV (RNO)
Dulles, VA (IAD)	Richmond, VA (RIC)
Greensboro, NC (GSO)	Salt Lake City (SLC)
Greenville, SC (GSP)	San Diego, CA (SAN)
Jacksonville, FL (JAX)	Tulsa, OK (TUL)
Louisville, KY (SDF)	West Columbia, SC (CAE)

As additional information, the Postal Service will also terminate the tender and receipt of air mail operations at the following locations, and any resulting movement of employees at these locations will also be accomplished in accordance with Article 12, as described above:

Albany, NY (ALB)
Austin, TX (AUS)
Buffalo, NY (BUF)
El Paso TX (ELP)
Fort Myers, FL (RSW)
Jackson, MS (JAN)
Little Rock, AR (LIT)
Pensacola, FL (PNS)

Rochester, NY (ROC)
Syracuse, NY (SYR)
San Jose, CA (SJC)
Santa Ana, CA (SNA)
Sacramento, CA (SMF)
Spokane, WA (GEG)
Tucson, AZ (TUS)
West Palm Beach, FL (PBI)

If you have any questions or concerns, please contact Patrick Devine at (202) 268-5421.

Sincerely,



John W. Dockins
Manager
Contract Administration (APWU)

Enclosures