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

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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 USPS's authority to contract and data on USPS's use of private contractors to deliver mail. It notes that USPS has statutory authority to contract, although the extent of that authority has been contested. It also shows that USPS has increased its use of contractors in recent years, but that USPS employees continue to serve more than 98% of all U.S. homes and businesses. This report will be updated to reflect major legislative action.

### Recent Concerns and Legislation

During the first session of the 110<sup>th</sup> Congress, some Members have expressed concern about 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 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 contract route" (HCR).<sup>4</sup> HCR contracts come in three subtypes. Under "transportation" contracts,

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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, April 2007.

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

<sup>4</sup> HCR contractors are sometimes called "star contractors." In 1845, Congress first mandated that  
(continued...)

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 among USPS 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.

The leaders of some USPS employee unions have suggested that USPS is expanding its use of CDS carriers. For example, John Hegarty, National President of the National Postal Mail Handlers Union (NPMHU), has 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),<sup>8</sup> has called upon Congress to “stop the cancer of contracting out before it spreads.”<sup>9</sup> Both NALC and the National Rural Letter Carriers Association (NRLCA) have alleged that contractors cannot be trusted to deliver the mail.<sup>10</sup> The unions also have alleged that CDS carriers have begun delivering mail in suburban and urban locales.<sup>11</sup>

<sup>4</sup> (...continued)

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, October 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., April 17, 2007, p. 4, available at [<http://oversight.house.gov/documents/20070504093225.pdf>].

<sup>8</sup> City postal delivery carriers are represented by NALC; rural letter carriers are represented by the National Rural Letter Carriers Association.

<sup>9</sup> NALC, “Young Urges Congress to Block USPS Policy of ‘Contracting Out,’” *NALC Bulletin*, April 20, 2007, p.1.

<sup>10</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>]; and William H. Young, President, National Association of Letter Carriers, *ibid.*, pp. 3-4, available at [<http://federalworkforce.oversight.house.gov/documents/20070504093225.pdf>].

<sup>11</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 Contracting Out?* p. 4, available at [<http://federalworkforce.oversight.house.gov/>]  
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USPS, meanwhile, has denied that it is greatly expanding the use of CDS carriers and has argued that contracting mail delivery “is not new.” According to USPS, contractors collect and deliver mail mostly in rural areas. USPS has noted that contractors are less expensive to employ than career delivery carriers, and that using them makes business sense. USPS also has declared that it is not replacing career carriers with contractors. Rather, USPS reports 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. Nearly two months later, the first of two bills that would limit USPS’s authority to contract for mail delivery appeared. S. 1457, introduced by Senator Tom Harkin on May 23, 2007, would forbid 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 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> On July 19, 2007, the House Subcommittee on Federal Workforce, Postal Service, and the District of Columbia held a hearing to examine USPS contracting.<sup>14</sup>

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

## 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 USPS to “maintain

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<sup>11</sup> (...continued)  
documents/20070719145523.pdf].

<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>].

an efficient system of collection, sorting, and delivery of the mail nationwide” (39 U.S.C. 403(b)(1)). PRA provides USPS with considerable discretion over its operations. Among its many authorities, 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 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 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 USPS to replace all career delivery carriers with contractors. USPS has responded that its contracts with the postal unions recognize USPS’s authority to use contractors.<sup>17</sup>

## The Extent of 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, 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, USPS city and rural delivery carriers served the vast majority of delivery points (**Table 3** and **Table 4**). Thus, although USPS has increased its use of CDS carriers to deliver mail, these contractors serve on fewer than 3% of all routes and deposit mail at fewer than 2% of all delivery points.<sup>19</sup>

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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, April 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.

<sup>19</sup> A “delivery point” is the address or location of a dwelling or place of business to which mail is delivered.

**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 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 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 USPS.

**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

The future of USPS's use of CDS contractors to deliver mail is unclear. PRA does not delineate clearly the extent of USPS's contracting authority. If USPS finds that using contractors is less expensive than employing city and rural delivery carriers, it may continue to see an incentive to expand its use of CDS contractors.<sup>20</sup>

On October 9, 2007, NALC and 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 USPS and 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>21</sup> To date, no details about the activities of the joint committee have been released to the public. Should USPS and its delivery carrier unions fail to come to a long-term agreement, Congress again may be asked to intervene.

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<sup>20</sup> USPS receives annual appropriations of about \$100 million each year. Otherwise, it must generate revenue to cover its \$70+ billion annual operating costs. See CRS Report RL33998, *Financial Services and General Government (FSGG): FY2008 Appropriations*, Garrett Hatch, Coordinator.

<sup>21</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.