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THE THREE R'S OF THE POSTAL NETWORK PLAN: REALIGNMENT, RIGHT-SIZING, AND RESPONSIVENESS

HEARING

BEFORE THE

SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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THE THREE R'S OF THE POSTAL NETWORK PLAN: REALIGNMENT, RIGHT-SIZING, AND RESPONSIVENESS

THURSDAY, JULY 24, 2008

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 3:55 p.m., in room 2154, Rayburn House Office Building, Hon. Danny K. Davis (chairman of the subcommittee) presiding.

Present: Representatives Davis, Kucinich, and Marchant.

Staff present: Lori Hayman, counsel; Marcus A. Williams, clerk/press secretary; Alex Cooper, minority professional staff member; and Janice Spector, minority senior professional staff member.

Mr. DAVIS. I have just been informed that the ranking member is on his way, so given the fact that we have been waiting and waiting and waiting, we are going to go ahead and proceed.

The subcommittee will now come to order.

Welcome, Ranking Member Marchant, members of the subcommittee, hearing witnesses, and all of those in attendance, to the Subcommittee on the Federal Workforce, Postal Service, and the District of Columbia's oversight hearing, "The Three R's of the Postal Network Plan: Realignment, Right-Sizing and Responsiveness."

The Chair, ranking member and subcommittee members will each have 5 minutes to make opening statements. And all Members will have 3 days to submit statements for the record. Hearing no objection, such is the order.

Let me, first of all, thank all of you for your patience and indulgence. Of course, we always take the position that democracy requires a great deal of time, effort and involvement. That is sort of the price that we pay for the opportunity to participate, be engaged, be involved and have a democratic form of government.

Today's hearing will examine the network's plans and potential impact on the public, the postal work force, the mailing industry and the future economic health of the Postal Service.

The Postal Service accepts and processes over 200 billion pieces of mail annually and delivers to nearly 148 million addresses 6 days per week. In order to provide this universal service throughout the United States and its territories, the Postal Service utilizes

a vast network of more than 400 mail processing plants and 37,000 post offices.

Much of this complex network was developed in the 1970's and 1980's when our Nation was experiencing significant increases in mail volume. Today, however, we face declining mail volume, a new price cap restriction on rate increases, and the mailing industry conducting more of the mail processing operation.

These structured changes require the Postal Service to revise its distribution network to meet these changing conditions, while at the same time addressing its operational needs. All this must be done in a way that maintains and improves service.

The Postal Accountability and Enhancement Act of 2006 required the Postal Service, in consultation with the Postal Regulatory Commission, to submit a plan for meeting modern service standards. As required, the Postal Service submitted this Network Plan to Congress last month, in which they laid out a long-term vision for rationalizing the infrastructure and work force and how they intend to implement this vision.

The Postal Service has identified excess capacity in its retail systems and mail processing and distribution facilities as an area of potential savings. The Service plans to reduce excess capacity, increase efficiency and reduce expenses by consolidating operations and facilities.

For this effort to be successful, the Postal Service must do a better job of realigning its processing and transportation networks, improve the data used in its computerized and statistical modeling, and minimize service disruptions. Failure to prevent and predict service problems will result in poor mail delivery, which in turn will anger the public and trigger political considerations.

We all want a Postal Service that continues to be a world leader in the mail industry and one that provides universal access and high-quality service at affordable prices. Therefore, I think it is critical that we in Congress consider implementing the changes in the Network Plan as quickly as possible. After all, Congress made it clear in the Postal Act that the Postal Service has continued authority to change its network.

I look forward to hearing your views on the Network Plan. And I want to thank all of the witnesses for your testimony.

Before we begin, I will just indicate, should our ranking member have opening comments to make once he arrives, we will suspend with the witnesses and give him the opportunity to do so, and we will return.

With that in mind, let me welcome panel one.

Mr. Phillip Herr, who is the Director of Physical Infrastructure Issues at the Government Accountability Office. Mr. Herr currently focuses on programs at the U.S. Postal Service and the Department of Transportation.

Thank you very much, Mr. Herr.

Mr. David Williams was sworn in as the second independent inspector general for the U.S. Postal Service on August 30, 2003. Mr. Williams is responsible for a staff of more than 1,100 employees that conducts independent audits and investigations of a work force of about 700,000 career employees and nearly 37,000 retail facilities.

Gentlemen, thank you so much.

Of course, you know that it is our tradition that witnesses be sworn in before this committee. Will you raise your right hands?

[Witnesses sworn.]

Mr. DAVIS. The record will show that the witnesses answered in the affirmative.

Gentlemen, before you start, let me welcome our ranking member, Mr. Marchant. We have been all doing a lot of different things today and trying to get ready to leave sometime before the end of tomorrow and also hoping we are going to be in a position to recess at the end of the next week.

Let me just ask Mr. Marchant if you have some opening comments.

Mr. MARCHANT. In the interest of time, Mr. Chairman, I am going to submit my statement for the record. Thank you.

[The prepared statement of Hon. Kenny Marchant follows:]

Ranking Member Kenny Marchant
Opening Statement
July 24, 2008

"The Three R's of the Postal Network Plan: Realignment, Right-Sizing, and Responsiveness"

Good afternoon, Mr. Chairman and thank you for holding today's Hearing on "The Three R's of the Postal Network Plan: Realignment, Right-Sizing and Responsiveness."

One provision of the Postal Accountability and Enhancement Act requires the Postal Service, after consultation with the Postal Regulatory Commission, to submit a Network Plan to Congress establishing performance goals and the necessary network

changes necessary to meet those goals. The new law also requires the Postal Service to detail how these new performance goals change any previous submissions to Congress and provide Congress with a long-term vision for the infrastructure and workforce of the Postal Service. The new Network plan was also to include detailed information on the costs, cost savings, impacts, time frames and processes for rationalizing its facilities network.

The impetus behind mandating these new performance goals was to allow the Postal Service to design new service standards which will ensure the long term financial stability of the Postal Service and the mailing industry. The Postal Service appears to

have complied with the law and submitted a new Network Plan to Congress in June of this year. I want to thank the Office of the Postmaster General and the Postal Regulatory Commission for meeting the deadline stipulated in the legislation.

Today we will hear four panels testify about the newly proposed realignment measures in the Network Plan. Although the Postal Service tackled many difficult issues in its new Network Proposal, it is still a draft plan and I am eager to hear from our witnesses today.

Nonetheless, I want to recognize that significant progress has been made by the Postal Service in

dealing with these very difficult issues. The Postal Commission has informed Congress that the Postal service has asked for additional time to develop the fully realized plan envisioned in the PAEA. I look forward to hearing what our panels of experts recommend in that regard as we continue to go forth in this process toward a newly designed and revitalized Postal Service.

Mr. DAVIS. Well, thank you very much. Then we will begin with our witnesses.

Mr. Herr, we will start with you.

STATEMENTS OF PHILLIP HERR, DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; AND DAVID WILLIAMS, INSPECTOR GENERAL, OFFICE OF INSPECTOR GENERAL, U.S. POSTAL SERVICE

STATEMENT OF PHILLIP HERR

Mr. HERR. Thank you, Chairman Davis, for your invitation to appear today at this hearing on the Postal Service's June 2008 Network Plan.

There is broad agreement on the Service's need to realign its processing network going back to the 2003 President's Commission and the Postal Reform Act. GAO has also issued several reports on the importance of realigning the Postal Service's processing network. As we previously discussed, several trends have created excess network capacity and impeded potential efficiency gains.

As most of you know, mail volume is declining, especially first-class mail. Further, much of the commercial mail now bypasses the Postal Service's mail processing and transportation to qualify for discounts. Likewise, the Service's processing facilities may not be optimally located, due to population shifts. Finally, these trends, along with the projected financial deficit, lead to the conclusion that the Postal Service needs to effectively realign its network.

My remarks focus on the Postal Service's actions to address prior GAO recommendations in three areas: first, strengthening network realignment planning and accountability; second, improving delivery performance information; and, third, improving community indication with stakeholders.

Turning first to network realignment planning and accountability, the Postal Service has taken steps to address GAO's prior recommendations. One key step is developing the Network Plan, being discussed today, that lays out an overall vision, goals and major strategies.

Our view of the plan found that it generally addresses topics required by the Postal Reform Act and included in our recommendations. However, the Network Plan contains limited specific information on performance targets or the resulting costs and savings related to realignment. Additionally, the plan provides little contextual information about its future network configuration and how its realignment goals will be met.

Two upcoming reports due at the end of the year offer opportunities for the Postal Service to provide additional information on realignment costs and savings. The Postal Service's annual reports to Congress and the PRC are opportunities to make its goals and results more transparent and provide additional information about the effectiveness of its realignment efforts.

With regard to my second objective, improving delivery performance information, the Postal Service has partially responded to GAO's prior recommendations and legislative requirements. The Service has established performance standards and committed to developing targets against these standards by fiscal year 2009. The

Service has also submitted a proposal to the PRC for measuring service performance, but full implementation is not yet complete.

Delivery service performance is a critical area that may be affected by realignment initiatives. Mail delivery standards are essential to allow the Postal Service and mailers to effectively plan their activities. Delivery performance information is also critical to understanding how well the Service is providing prompt and reliable mail delivery.

Turning to my third and last objective, improved communication with stakeholders, the Postal Service has taken steps to address our recommendations to improve communication as it consolidates its area mail processing operations.

It modified its communication plan to improve public notification, engagement and transparency. Notably, the Postal Service has moved to keep public meeting to an earlier point, and plans to post related information on its Web site 1 week before the public meeting. To increase transparency, the Service has clarified its processes for addressing public comments and plans to make additional information available on its Web site as well.

Going forward, the Service will have the opportunity to assess the effectiveness of these changes to its communication plan.

Mr. Chairman, in conclusion, GAO has previously discussed the difficulties the Postal Service has faced when it tries to close facilities and how delays may affect its ability to achieve further cost reductions and improve efficiency. Part of the problems stem from the Postal Service's limited communication with the public about these activities.

Since 2005, we believe the Service has made progress toward improving the communications process linked to area mail processing realignment. Going forwarded with needed realignment efforts, it will be crucial for the Postal Service to establish and maintain open and ongoing dialog with its various stakeholders, as well as congressional oversight committees and Members of Congress.

Mr. Chairman, this concludes my statement. I am happy to answer questions.

[The prepared statement of Mr. Herr follows:]

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, House of Representatives

For Release on Delivery
Expected at 2:00 p.m. EDT
Thursday, July 24, 2008

U.S. POSTAL SERVICE

USPS Has Taken Steps to Strengthen Network Realignment Planning and Accountability and Improve Communication

Statement of Phillip Herr, Director
Physical Infrastructure Issues

GAO-08-1022T

July 24, 2008

GAO
Accountability · Integrity · Reliability

Highlights

Highlights of GAO-08-1022T, a testimony before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, House of Representatives

U.S. POSTAL SERVICE

USPS Has Taken Steps to Strengthen Network Realignment Planning and Accountability and Improve Communication

Why GAO Did This Study

GAO has issued reports on the U.S. Postal Service's (USPS) strategy for realigning its mail processing network and improving delivery performance information. These reports recommended that the Postmaster General (1) strengthen planning and the overall integration of its realignment efforts, and enhance accountability by establishing measurable targets and evaluating results, (2) improve delivery service standards and performance measures, and (3) improve communication with stakeholders by revising its Area Mail Processing (AMP) Communication Plan to improve public notice, engagement, and transparency. The 2006 postal reform act required USPS to develop a network plan by June 2008 that described its vision and strategy for realigning its network; the anticipated costs, cost savings, and other benefits of its realignment initiatives; performance measures for its delivery service standards, and its communication procedures for consolidating AMP operations.

This testimony discusses USPS's actions toward addressing GAO recommendations to (1) strengthen network realignment planning and accountability, (2) improve delivery performance information, and (3) improve communication with stakeholders. This testimony is based on prior GAO work, a review of USPS's 2008 Network Plan and revised AMP Communication Plan, and updated information from USPS officials. USPS did not have comments on this testimony.

www.gao.gov/cgi-bin/getrpt?GAO-08-1022T. To view the full product click on the above link. For more information, contact Phillip Herr at (202) 512-2834 or herrp@gao.gov.

What GAO Found

USPS has taken steps to respond to most of GAO's prior recommendations to strengthen planning and accountability for its network realignment efforts. In its June 2008 Network Plan, USPS clarified how it makes realignment decisions, and generally addressed how it integrates its realignment initiatives. However, USPS has not established measurable performance targets for its realignment initiatives. USPS believes that its budgeting process accounts for the cost reductions achieved through these initiatives. The Deputy Postmaster General explained that such performance targets are captured in USPS's overall annual goal of achieving $1 billion in savings. While these measures are not as explicit or transparent as GAO had recommended, USPS is required to report annually by the end of December to Congress on, among other matters, its realignment costs and savings. Also, USPS's annual compliance reports to the Postal Regulatory Commission (PRC) will provide opportunities for further transparency of performance targets and results. USPS's Network Plan notes that to respond to declining mail volumes, USPS must increase efficiency and decrease costs across all its operations. Given USPS's challenging financial situation, effective implementation of network realignment is needed; and USPS's annual reports could help inform Congress about the effectiveness of its realignment efforts.

USPS has partially responded to GAO's recommendations to improve its delivery performance standards, measurement, and reporting, but full implementation of performance measures and reporting is not yet completed. USPS established delivery performance standards in December 2007. USPS's Network Plan stated that USPS would develop targets and measures to assess performance against these standards by fiscal year 2009. In addition, USPS has recently submitted a proposal for measuring and reporting on delivery service performance to the PRC. The PRC has requested public comment on USPS's proposal, which depends upon USPS and mailers implementing new technology. Delivery service performance is a critical area that may be affected by the implementation of the realignment initiatives.

USPS has also taken steps to address GAO's recommendations to improve communication with its stakeholders as it consolidates its AMP operations by

- modifying its Communication Plan to improve public notification and engagement,
- increasing transparency by clarifying its processes for addressing public comments, and
- making additional information available on its Web site.

Going forward, it will be crucial that USPS establishes and maintains an ongoing and open dialogue with stakeholders, including congressional oversight committees and Members of Congress who have questions or are concerned about proposed realignment changes.

Mr. Chairman, Representative Marchant, and Members of the Subcommittee:

I am pleased today to participate in this oversight hearing on actions taken by the U.S. Postal Service (USPS) to address concerns about its network realignment initiatives and communication with stakeholders. In July 2007, we testified before this committee on issues we identified and recommendations we made regarding USPS's strategy for realigning its mail processing operations.[1] We previously recommended that the Postmaster General

1. strengthen planning and accountability by ensuring that USPS's network realignment plans include
   - a discussion of how the various network realignment initiatives will be integrated with each other to achieve network realignment goals and
   - measurable targets for the anticipated cost savings and benefits associated with network rationalization; and
2. improve the way USPS communicates with stakeholders about its realignment plans and proposals, particularly its proposals for consolidating Area Mail Processing (AMP) operations[2], by ensuring that its revised communication plan includes steps to
   - improve public notice,
   - improve public engagement, and
   - increase transparency.[3]

[1]GAO, *U.S. Postal Service: Progress Made in Implementing Mail Processing Realignment Efforts, but Better Integration and Performance Measurement Still Needed*, GAO-07-1083T (Washington, D.C.: July 26, 2007).

[2]The area mail processing consolidation initiative is designed to better use the network's capacity by consolidating mail processing operations into facilities with excess machine capacity, thereby increasing the use of automation in mail processing.

[3]GAO, *U.S. Postal Service: Mail Processing Realigmment Efforts Under Way Need Better Integration and Explanation*, GAO-07-717 (Washington, D.C.: June 21, 2007).

Last year, we also reported on USPS's progress in improving delivery performance information.[4] We recommended to the Postmaster General that USPS develop complete delivery performance information for all major types of mail by:

- modernizing delivery standards,
- committing to developing delivery performance measures,
- implementing representative delivery performance measures, and
- improving the transparency of delivery performance standards, measures, and results.

Congress has also addressed USPS's network realignment efforts, as reflected in the *Postal Accountability and Enhancement Act of 2006* (PAEA), which required USPS to develop a comprehensive Facilities Plan.[5] This plan was to include USPS's long-term vision and strategy for realigning its network; a description of the anticipated costs, costs savings, and other benefits associated with the infrastructure realignment alternatives discussed in the plan; and USPS's communication procedures related to AMP consolidations. In response, USPS issued a plan in June 2008 titled *"Postal Accountability and Enhancement Act §302 Network Plan,"* which we refer to as USPS's "Network Plan" in this testimony. PAEA also required USPS to report to Congress 90 days after the end of each fiscal year on how postal decisions or actions taken during the preceding year have impacted or will impact rationalization plans, including overall estimated costs and cost savings. Further, PAEA required USPS to establish modern delivery service standards by December 20, 2007, and submit annual reports to the Postal Regulatory Commission (PRC) on the quality of service provided, including the speed and

[4]GAO, *U.S. Postal Service: Delivery Performance Standards, Measurement, and Reporting Need Improvement*, GAO-06-733 (Washington, D.C.: July 27, 2006).

[5]Section 302 of the Postal Accountability and Enhancement Act (Pub. L. No. 109-435) was enacted on December 20, 2006. Whereas the act refers to network "rationalization," in our previous products we have used the term "realignment" for analogous purposes, which we use throughout this testimony.

reliability of delivery for most types of mail (market-dominant products[6]), according to specific requirements to be established by the PRC.

My comments today will focus on USPS's actions toward addressing our prior recommendations related to network realignment and delivery performance. Specifically, I will cover USPS's progress in (1) strengthening planning and the overall integration of USPS's realignment efforts, and enhancing accountability by establishing measurable targets and evaluating results, (2) improving delivery service standards and performance measures, and (3) improving communication with stakeholders by revising its AMP Communication Plan to improve public notice, engagement, and transparency. My statement is based on our prior work, listed at the end of this document, and updated information on the actions USPS has taken related to our recommendations. We reviewed the Network Plan USPS issued in June 2008 and the revised AMP guidelines and revised Communication Plan issued in March 2008. We also met with the Deputy Postmaster General and Acting Senior Vice President for Operations to discuss USPS's Network Plan and its decision-making process related to its network realignment initiatives. We asked USPS to comment on the results of our new work and USPS officials did not have any comments. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary

USPS has taken steps to address our prior recommendations to strengthen planning and accountability for its network realignment efforts, which are important as USPS moves from planning to implementing its network realignment initiatives. One key step is that USPS has developed a Network Plan that discusses its overall vision and goals and the major strategies or initiatives for meeting its goals. Our review of USPS's Network Plan found that it generally addresses topics required by PAEA

[6]PAEA defines market-dominant products to include: First-Class Mail—single-piece mail (e.g., bill payments and letters) and bulk mail (e.g., bills and advertising); Standard Mail (mainly bulk advertising and direct mail solicitations); Periodicals (mainly magazines and local newspapers); some types of Package Services (i.e., single-piece parcel post, media mail, bound printed matter, and library mail); and single-piece International Mail.

and included in our recommendations. However, it contains limited specific information on performance targets or goals or the resulting costs and savings related to various realignment initiatives. The Network Plan describes an overall goal to create an efficient and flexible network that results in lower costs for both USPS and its customers, improves the consistency of mail service, and reduces USPS's environmental footprint. According to the Deputy Postmaster General, the measurable performance targets related to realignment initiatives that we recommended USPS establish are captured in USPS's overall annual goal of achieving $1 billion in savings, which USPS will present in more detail as part of its internal budget. While these measures are not as explicit or transparent as we had recommended, USPS is required to report annually to Congress on, among other things, its realignment costs and savings; and USPS's annual compliance reports to the PRC will provide opportunities for USPS to further clarify its performance targets and results. Additionally, although the Network Plan generally describes how USPS's key realignment efforts are integrated, it provides little contextual information about what its future network will look like and how its realignment goals are being met. USPS's Network Plan notes that to address declining mail volumes, USPS must increase efficiency and decrease costs across all its operations. Further, USPS's financial report for the 2nd quarter of this fiscal year stated that slow economic growth will continue to negatively affect revenue and volume, especially if fuel prices remain at their current high levels and inflation in other sectors of the economy begins to increase. Given USPS's challenging financial situation, we recognize that effective implementation of network realignment is needed. USPS's annual reports to Congress are an opportunity to make its goals and results more transparent and provide information about the effectiveness of its realignment efforts.

USPS has also taken steps to improve its delivery performance standards, measurement, and reporting, but full implementation of performance measures and reporting is not yet completed. USPS is required under PAEA to develop modernized delivery standards, and to measure and report annually to the PRC on its performance in delivering market-dominant products. In December 2007, USPS established delivery service standards with input from the public. USPS's Network Plan stated that USPS will establish delivery service standard targets before the end of fiscal year 2008. In addition, USPS has recently submitted a proposal for measuring and reporting on delivery service performance to the PRC, and the PRC has requested public comment on USPS's proposal. USPS's successful implementation of this proposal depends on USPS and mailers adopting new technology.

Further, USPS has taken steps to address our recommendations to improve communication with its stakeholders as it consolidates its AMP operations. USPS has modified its AMP Communication Plan to improve public notification, engagement, and transparency. Notably, USPS has moved the public input meeting to an earlier point in the AMP process and plans to post a meeting agenda, summary brief, and presentation slides on its Web site 1 week before the public meeting. To increase transparency, USPS has clarified its processes for addressing public comments and plans to make additional information available on its Web site. Going forward, as USPS implements its AMP consolidations, it will have the opportunity to gather stakeholders' feedback on the updated Communication Plan and to assess the effectiveness of these modifications.

USPS Has Taken Steps to Improve Realignment Planning and Accountability, but Measurement of Most Realignment Efforts Is Limited to the Budget Process

USPS has taken steps to respond to most of our prior recommendations to strengthen planning and accountability for its network realignment efforts. It has clarified how it makes realignment decisions and generally addressed how it integrates its realignment initiatives, but it has not established measurable performance targets for these initiatives. USPS believes that its budgeting process accounts for the cost reductions achieved through these initiatives.

Realignment Measures Are Generally Limited to USPS's Budget Process

In our 2007 report we stated that without measurable performance targets for achieving its realignment goals, USPS remains unable to demonstrate to Congress and other stakeholders the costs and benefits associated with its network realignment initiatives.[7] We also reported that although USPS had made progress on several of its realignment initiatives, it remained unclear how the various initiatives were individually and collectively contributing to the achievement of realignment goals because the initiatives lacked measurable targets. Appendix I provides a brief description and identifies the status of USPS's key realignment initiatives. Appendix II provides updated status information for all AMP consolidations through July 2008.

[7]GAO-07-717.

PAEA calls for USPS to, among other matters, establish performance goals and identify anticipated costs, cost savings, and other benefits associated with the infrastructure realignment alternatives in its Network Plan. The Network Plan describes an overall goal to create an efficient and flexible network that results in lower costs for both the Postal Service and its customers, improves the consistency of mail service, and reduces the Postal Service's overall environmental footprint. In addition, the plan states that USPS's goals are continuous improvement and savings of $1 billion per year through realignment and other efforts. According to the plan, USPS will achieve these savings, in part, through three core realignment initiatives, including Airport Mail Center (AMC) closures, AMP consolidations, and Bulk Mail Center (BMC) transformations.[8] The specificity of the expected savings and other benefits related to the core initiatives varies in the plan's discussion of measurable goals, targets, and results achieved.

- *Overall program targets:* USPS estimated total savings of $117 million for AMC closures—including savings of $57 million in 2008 and $21 million in 2009—but provided no such figure for the AMP consolidations. Postal officials told us USPS is developing an overall program target for transforming the BMCs.

- *Evaluation of results:* USPS has measured the results of its AMP consolidations through a post-implementation review. In 2007, we identified data consistency problems with this review. USPS has addressed these problems in an updated handbook issued in 2008, by revising its data calculation worksheets. No analogous process exists for measuring the results of USPS's AMC closures, which included outsourcing some operations conducted at these facilities, relocating some operations to other postal facilities, and closing some facilities. We are issuing a report today on USPS's outsourcing activities, which discusses USPS's realignment decisions related to its AMCs.[9] As part of this review, we concluded that USPS does not track and could not

[8]AMCs are postal facilities that have traditionally been operated for the purpose of expediting the transfer of mail to and from commercial passenger airlines. AMP consolidations of mail processing operations are intended to reduce costs and increase efficiency by eliminating excess capacity at USPS's more than 400 processing plants. USPS is evaluating its BMC network, where parcels and bulk mail shipments are processed, because they are aging and underused. USPS recently issued a proposal related to transforming its BMC network, but has not yet implemented this proposal.

[9]GAO, *U.S. Postal Service: Data Needed to Assess the Effectiveness of Outsourcing*, GAO-08-787 (Washington, D.C.: July 24, 2008).

quantify the results of its outsourcing activities. We recommended that USPS establish a process to measure the results and effectiveness of those outsourcing activities that are subject to collective bargaining, including the AMCs. USPS agreed to establish a process for future outsourcing initiatives subject to collective bargaining, in which it would compare the financial assumptions that supported its outsourcing decision with actual contract award data 1 year after project implementation.

When we met with USPS officials in June 2008, we asked why they did not have measurable performance goals and targets for the individual realignment initiatives. The Deputy Postmaster General explained that the realignment targets are captured in USPS's goal of saving $1 billion per year. Specifically, he explained that USPS will present its overall goals and targets in more detail as part of its internal budget, which will be presented to the Board of Governors in July 2008. USPS will have additional opportunities to provide information about its estimated costs and cost savings related to its realignment efforts in its annual report to Congress, which is required by the end of December. Developing and implementing more transparent performance targets and results can help inform Congress about the effectiveness of USPS's realignment efforts.

USPS Has Generally Addressed the Integration of Its Various Network Realignment Initiatives

In 2007, we found there was little transparency into how USPS's efforts were integrated with each other. We recommended that USPS explain how it will integrate the various initiatives that it will use in realigning the postal facilities network. In its Network Plan, USPS identifies three major realignment efforts: (1) Airport Mail Center closures, (2) consolidations of Area Mail Processing operations and (3) transformations of Bulk Mail Centers. USPS briefly addresses the integration of its network initiatives, stating that their overall impact and execution are tightly integrated, and provides a few examples, but little contextual information about what its future network will look like and how its realignment goals are being met.

In a recent meeting, senior USPS officials provided more information that helps to put the integration of USPS's three network realignment initiatives in context. They said this integration is expected to reduce USPS's network and shrink its mail processing operations. After integrating these three efforts, they said, USPS will continue to be the "first and last mile"—the "first mile" being the point of entry for mail into the system, and the "last mile" being the delivery of mail to customers nationwide, as required to meet USPS's universal service mission. They

expect to lower costs and achieve savings by reducing excess processing capacity and fuel consumption, as well as by working with the mailing industry to implement new technologies such as delivery point sequencing, flats sequencing, and Intelligent Mail.®[10] Going forward, USPS has opportunities, in its annual report to Congress and in other reports and strategic plans, to further articulate how it plans to integrate these three initiatives and to what extent they are helping USPS meet its goals.

USPS Has Established Delivery Service Standards

USPS has partially responded to our prior recommendations related to improving delivery performance information by establishing delivery performance standards and committing to develop performance targets against these standards and provide them to the PRC in August. However, full implementation of performance measures and reporting is not yet completed. Delivery service performance is a critical area that may be affected by the implementation of the realignment initiatives. Delivery standards are essential for setting realistic expectations for mail delivery so that USPS and mailers can plan their mailing activities accordingly. Delivery performance information is critical for stakeholders to understand how USPS is achieving its mission of providing universal postal service, including requirements for the prompt, expeditious, and reliable delivery of mail throughout the nation. Delivery performance data are also necessary for USPS and its customers to identify and address delivery problems and to enable Congress, the PRC, and others to hold management accountable for results and to conduct independent oversight.

Our July 2006 report found that USPS's delivery performance standards, measurement, and reporting needed improvement.[11] We recommended that USPS update its outdated delivery standards, which did not reflect postal operations and thus were unsuitable for setting realistic expectations and measuring performance. We also recommended that the Service implement representative measures of delivery performance for all major types of mail because only one-fifth of mail volume was being

[10]Delivery Point Sequencing is the automated rather than manual sorting of letters in the exact order carriers deliver them. Flats sequencing is a system that fully automates the processing and delivery sequencing of flat-size mail, which generally consists of catalogs, envelopes, large cards, magazines and newspapers. Intelligent Mail® uses barcodes which are read by scanning devices to allow postal managers and customers to track mail as it moves through the postal network.

[11]GAO-06-733.

measured and there were no representative measures for Standard Mail, bulk First-Class Mail, Periodicals, and most Package Services. Furthermore, we recommended that USPS improve the transparency of its delivery standards, measurement, and reporting. In December 2006, Congress enacted postal reform legislation that required USPS to modernize its delivery standards and measure and report to the PRC on the speed and reliability of delivery for each market-dominant product. Collectively, market-dominant products represent 99 percent of mail volume.

In December 2007, USPS issued its new delivery standards and has committed to measuring and reporting on delivery performance for market-dominant products starting in fiscal year 2009. Moreover, USPS provided a specific proposal for measuring and reporting its delivery performance to the PRC, which has requested public comment on USPS's proposal. Full implementation of delivery performance measures and reporting for all major types of mail will require both mailers and USPS to take actions to barcode mail and track its progress—a system referred to as Intelligent Mail®.

USPS Has Improved Its AMP Communication Plan

USPS has taken steps to respond to our recommendations that it improve its communication of realignment plans and proposals with stakeholders. For key realignment efforts such as AMP consolidations, we found it is critical for USPS to communicate with and engage the public. Stakeholder input can help USPS understand and address customer concerns, reach informed decisions, and achieve buy-in. In our 2007 report, we concluded that USPS was not effectively engaging stakeholders and the public in its AMP consolidation process and effectively communicating decisions. For example, USPS was not clearly communicating to stakeholders what it was planning to study, why studies were necessary, and what study outcomes might be. In addition, USPS did not provide stakeholders with adequate notice of the public input meeting or materials to review in preparation for the meeting. Furthermore, according to stakeholders, USPS offered no explanation as to how it evaluates and weighs public input in its decision-making process.

To help resolve these and other issues concerning how USPS communicates its realignment plans with stakeholders, we recommended that USPS take the following actions:

- *Improve public notice.* Clarify notification letters by explaining whether USPS is considering closing the facility under study or

consolidating operations with another facility, explaining the next decision point, and providing a date for the required public meeting.

- *Improve public engagement.* Hold the public meeting during the data-gathering phase of the study and make an agenda and background information, such as briefing slides, available to the public in advance.
- *Increase transparency.* Update AMP guidelines to explain how public input is considered in the decision-making process.

USPS has incorporated into its 2008 AMP Communication Plan several modifications aimed at improving public notification and engagement. Most notably, USPS has moved the public input meeting to an earlier point in the AMP process and plans posts a meeting agenda, summary brief, and presentation slides on its Web site 1 week before the public meeting. USPS has increased transparency, largely by clarifying its processes for addressing public comments and plans to make additional information available to the public on its Web site.

Improving Public Notice

In 2007, we found that stakeholders potentially affected by AMP consolidations could not discern from USPS's initial notification letters[12] what USPS was planning to study and what the outcomes of the study might be. This lack of clarification led to speculation on the part of stakeholders, which in turn increased public resistance to USPS's realignment efforts. The initial notification letters were also confusing to stakeholders because they contained jargon and lacked adequate context to understand the purpose of the study. Furthermore, in 2007 we reported that stakeholders were not given enough notice about the public meeting, and we recommended that USPS improve public notice by providing stakeholders with a date for the public meeting earlier in the AMP process.

In its 2008 AMP Communication Plan, USPS has eliminated most of the jargon from its notification letters and has generally provided more context as to why it is necessary for USPS to conduct the feasibility studies. For example, letters now name both facilities that would be affected by a proposed consolidation, whereas previously, only one facility

[12]USPS provides for notification letters at multiple points during the AMP process, e.g., initial notification of intent to perform a study, notification of a public meeting, and notification to consolidate facilities.

was named. USPS also added a requirement that the public be notified at least 15 days in advance of a public meeting.

Improving Public Engagement

In 2007, we found that public meetings required for AMP consolidations were occurring too late in the decision-making process for the public to become engaged in this process in any meaningful way. At that time, the meetings were held after the area office[13] and headquarters had completed their reviews of the AMP consolidation studies and just before headquarters had made its final consolidation decisions. Stakeholders we spoke with were not satisfied with the public input process and told us that USPS solicited their input only when it considered the AMP consolidation a "done deal." We also found that USPS did not publish agendas in advance of public meetings or provide the public with much information about the proposed studies. The only information available was a series of bullet points posted on USPS's Web site several days before the meetings. This lack of timely and complete information further inhibited the public's ability to meaningfully participate in the process. To make the meetings more focused and productive, and to give the public an opportunity to adequately prepare for them, we recommended that USPS make an agenda and background information available to the public in advance of the public meetings.

Although USPS still holds the public meetings after the data-gathering phase of the study has been completed, the meeting now occurs earlier in the AMP review process. Currently, before the meeting, the study has been approved only at the district level—the area office and headquarters have not yet completed their reviews or validated the data by the time of the meeting. When we asked USPS why it did not move the meeting to the data-gathering phase of the study, USPS officials responded that it would be difficult to hold the meeting during the data-gathering phase because at that point, they do not know what operations could potentially be consolidated. However, to ensure that the public meeting is held within a reasonable amount of time after the study's completion, USPS included a requirement in its 2008 AMP Communication Plan that the public meeting take place within 45 days after the District Manager forwards the study to the area office and headquarters. In addition, the initial notification letter now includes contact information for the local Consumer Affairs Manager, to whom the public can submit written comments up to 15 days after the

[13]USPS manages its field operations by dividing the nation into nine geographic areas.

public meeting; previously, this contact information appeared in the second notification letter. To help stakeholders better prepare for the public meeting, USPS plans to post a meeting agenda, presentation slides, and a summary brief of the AMP proposal on its Web site 1 week before the meeting. In addition, USPS plans to inform stakeholders in the public meeting notification letter that these materials will be posted on its Web site 1 week before the meeting.

Improving Transparency

In our 2007 report, we found that stakeholders and the public were unclear as to how public input factored into USPS's consolidation decisions. They wanted to know precisely how USPS took their input—letters, phone calls, public meeting results—into consideration when it made its decisions. We recommended that USPS increase the transparency of its decision-making process by explaining how it considers public input in the decision-making process.

In a recent interview, senior USPS officials identified two additions to the 2008 AMP Communication Plan that address stakeholders' concerns about how USPS considers public input. First, USPS considers written comments from stakeholders before the public input meetings and addresses these comments as part of the public input meetings. Second, USPS has modified its public input review process so that officials at the district, area, and headquarters levels consider, and are responsive to, public concerns. Senior USPS officials told us that they weigh public input primarily by considering the impact of any consolidations on customer services and service standards. Additionally, USPS officials told us that as AMP consolidations go forward, USPS will post standard information about each consolidation on its Web site and update this information regularly. Specifically, USPS plans to post initial notifications, a summary brief of the proposed AMP consolidation, specifics about the scheduled public meeting, a summary of written and verbal public input, and the final decision and implementation plans if an AMP consolidation is approved.

Congress has also addressed USPS's communication process. PAEA required USPS to describe its communication procedures related to AMP consolidations in its Network Plan. In response, the Network Plan discusses how USPS will publicly notify communities potentially affected by realignment changes and how it will obtain and consider public input. In addition, PAEA directed USPS to identify any statutory or regulatory obstacles that have prevented it from taking action to realign or consolidate facilities. Accordingly, USPS's Network Plan identified delays related to implementing AMP consolidations. For example, USPS was

directed not to implement certain consolidations until after GAO has reported to Congress on whether USPS has implemented GAO recommendations from its report issued in July 2007 to strengthen planning and accountability in USPS's realignment efforts. These directions were included in the joint explanatory statement accompanying the Consolidated Appropriations Act for fiscal year 2008. We have previously discussed the difficulties that stakeholder resistance poses for USPS when it tries to close facilities and how delays may affect USPS's ability to achieve its cost-reduction and efficiency goals. Part of the problem stemmed from USPS's limited communication with the public. We believe that USPS has made significant progress toward improving its AMP communication processes since 2005. Now, it will be crucial for USPS, in going forward, to establish and maintain an ongoing and open dialogue with its various stakeholders, including congressional oversight committees and Members of Congress who have questions or are concerned about proposed realignment changes.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions that you or Members of the Subcommittee may have.

Contact and Acknowledgments

For further information about this statement, please contact Phillip Herr, Director, Physical Infrastructure Issues, at (202) 512-2834 or at herrp@gao.gov. Individuals making key contributions to this statement included Teresa Anderson, Kenneth John, Summer Lingard, Margaret McDavid, and Jaclyn Nidoh.

Appendix I: Description and Status of USPS's Key Realignment Initiatives as of July 2008

Key realignment initiative	Description	Status
Realignment of Airport Mail Centers (AMC)	AMCs are postal facilities that have traditionally been operated for the purpose of expediting the transfer of mail to and from commercial passenger airlines.	USPS's Network Plan stated that USPS had terminated operations at 46 AMCs during fiscal years 2006 and 2007, and another 8 AMCs in fiscal year 2008.
Consolidation of Area Mail Processing (AMP) operations	AMP consolidations of mail processing operations are intended to reduce costs and increase efficiency by eliminating excess capacity at USPS's more than 400 processing plants.	From 2005 through July 2008, USPS implemented 11 AMP consolidations, decided not to implement 35 studies (5 placed on indefinite hold), was continuing to consider 7 consolidations, and had closed 1 facility after consolidation.
Bulk Mail Centers (BMC) transformations	Because mailers have increased their sorting and transport of mail shipments to postal facilities near mail destinations, mailers have been bypassing BMCs and the centers are underused. Also, increased highway contract expenses and an aging postal distribution infrastructure have prompted USPS to evaluate its BMC network to determine how it can best support future postal operations.	In July 2008, USPS issued a Request for Proposal to obtain input on a proposal to outsource some of its BMC workload so that USPS can use its 21 BMCs for alternative postal work.
Regional Distribution Centers transformations	The Regional Distribution Centers were expected to perform bulk processing operations and act as Surface Transfer Centers and mailer entry points.	The Network Plan stated that this initiative has been discontinued because USPS determined that it would not generate the benefits originally anticipated.

Source: GAO analysis of USPS data

Appendix II: Status of AMP Consolidations

Table 1: Status of AMP Consolidations Approved from 2005, as of July 2008

Facilities involved in consolidation (facility losing operations/facility gaining operations)	Implemented	Subsequent decision not to implement
Bridgeport, CT/Stamford, CT	•	
Greensburg, PA/Pittsburg, PA	•	
Kinston, NC/Fayetteville, NC		•
Marina, CA/Los Angeles, CA	•	
Marysville, CA/Sacramento, CA		•
Mojave, CA/Bakersfield, CA	•	
Monmouth, NJ/Trenton, NJ & Kilmer, NJ	•	
Newark, NJ/Kearny, NJ	•	
Northwest Boston, MA/Boston, MA	•	
Olympia, WA/Tacoma, WA	•	
Pasadena, CA/Santa Clarita, CA & Industry, CA	•	
Saint Petersburg, FL/Tampa, FL	•	
Waterbury, CT/Southern Connecticut, CT	•	
Total	**11**	**2**

Source. USPS

Table 2: Status of Proposed AMP Consolidations Initiated in 2006 or 2007, as of July 2008

AMP package under review by headquarters	Proposed AMP review on hold	Decision not to implement proposed AMP
Total AMP Proposals		
7	**5**	**33**
Aberdeen, SD/Dakotas Central, SD *Public meeting held 2-23-06*	Alamogordo, NM/ El Paso, TX	Beaumont, TX/ Houston, TX
Bronx, NY/Morgan, NY *Public meeting planned, not scheduled*	Batesville, AR/ Little Rock, AR	Binghamton, NY/ Syracuse, NY
Canton, OH/Akron, OH *Public meeting held 10-30-07*	Carbondale, IL/ Saint Louis, MO	Bloomington, IN/ Indianapolis, IN
Detroit, MI/Michigan Metroplex, Pontiac, MI *Public meeting held 10-23-07*	Centralia, IL/ Saint Louis, MO	Bryan, TX/ Houston, TX

AMP package under review by headquarters	Proposed AMP review on hold	Decision not to implement proposed AMP
Flint, MI/Michigan Metroplex, Pontiac, MI *Public meeting held 10-22-07*	Las Cruces, NM/ El Paso, TX	Burlington, VT/ White River Jnt, VT
Kansas City, KS/ Kansas City, MO *Public meeting held 6-27-07*		Cape Cod, MA/ Brockton, MA
Sioux City, IA/Sioux Falls, SD *Public meeting held 4-20-06*		Carroll, IA/ Des Moines, IA
		Cumberland, MD/ Frederick, MD
		Dallas, TX/ North Texas, TX
		Daytona Beach, FL/ Mid-FL, FL
		Fox Valley, IL/ South Suburban, IL
		Gaylord, MI/ Traverse City, MI
		Glenwood Springs, CO/ Grand Junction, CO
		Helena, MT/ Great Falls, MT
		Hutchinson, KS/ Wichita, KS
		Jackson, TN/ Memphis, TN
		LA Crosse, WI/ Rochester, MN
		McAllen PO TX/ Corpus Christi, TX
		McCook & N. Platte, NE/ Casper, WY
		Oshkosh, WI/ Green Bay, WI
		Plattsburg, NY/ Albany, NY
		Portsmouth, NH/ Manchester, NH
		Rockford, IL/ Palatine, IL
		Sheridan, WY/ Casper, WY

AMP package under review by headquarters	Proposed AMP review on hold	Decision not to implement proposed AMP
		Springfield, MA/ Hartford, CT
		Staten Island, NY/ Brooklyn, NY
		Twin Falls, ID/ Boise, ID
		Utica, NY/ Syracuse or Albany, NY
		Waco, TX/ Fort Worth/Austin, TX
		Watertown, NY/ Syracuse, NY
		Wheatland, WY/ Cheyenne, WY
		Yakima, WA/Pasco, WA
		Zanesville, OH/ Columbus, OH

Source. USPS

Note: This table includes the facilities involved in proposed consolidations, both the facility losing operations and the facility gaining operations.

Related GAO Products

GAO. U.S. Postal Service: Data Needed to Assess the Effectiveness of Outsourcing. GAO-08-787. Washington, D.C.: July 24, 2008.

GAO. U.S. Postal Service: Progress Made in Implementing Mail Processing Realignment Efforts, but Better Integration and Performance Measurement Still Needed. GAO-07-1083T. Washington, D.C.: July 26, 2007.

GAO. U.S. Postal Service: Mail Processing Realignment Efforts Under Way Need Better Integration and Explanation. GAO-07-717. Washington, D.C.: June 21, 2007.

GAO. U.S. Postal Service: Delivery Performance Standards, Measurement, and Reporting Need Improvement. GAO-06-733. Washington, D.C.: July 27, 2006.

GAO. U.S. Postal Service: The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability. GAO-05-261. Washington, D.C.: April 8, 2005.

GAO. U.S. Postal Service: USPS Needs to Clearly Communicate How Postal Services May Be Affected by Its Retail Optimization Plans. GAO-04-803. Washington, D.C.: July 13, 2004.

GAO. U.S. Postal Service: Bold Action Needed to Continue Progress on Postal Transformation. GAO-04-108T. Washington, D.C.: November 5, 2003.

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Mr. DAVIS. Thank you very much, Mr. Herr.

We will proceed to Mr. Williams.

STATEMENT OF DAVID WILLIAMS

Mr. WILLIAMS. Thank you, Mr. Chairman and Mr. Merchant. I appreciate the opportunity to discuss the Postal Service's network realignment plans.

The Postal Act of 2006 mandated that the Postal Service continue streamlining its network to eliminate costs and required a facilities plan for rationalizing it. Planning and implementing changes to one of the world's largest networks has been challenging.

Planning strategies for such large-scale projects can vary from long-range, detailed plans with elaborately sequenced steps to short-range, incremental approaches. The Postal Service has chosen the incremental approach, which uses an order-of-battle-type strategy that incorporates flexibility and anticipates frequent change throughout the process.

The Postal Service has used several strategies in its network realignment, and each has had its challenges. For example, the Postal Service had success with local facility consolidations. In the last 5 years, they have closed approximately 50 airport mail centers and remote encoding centers and consolidated mail at 12 processing and distribution centers, and they have outsourced 13 airport mail centers.

While some of these changes involve communications with external stakeholders, many involve smaller facilities and internal operations that had no impact on communities. Still, concerns from stakeholders did delay larger proposed changes, such as those at Mansfield, OH, and Pasadena, CA.

Our audits have assisted with the network realignment initiative. Our work has shown that the Postal Service could improve the accuracy of data used to support these initiatives, improve communications with stakeholders, and enhance guidance for measuring results. The Postal Service has now improved its processes and guidance.

Looking to the future, the recently issued Network Plan describes the Postal Service's vision for rationalizing its infrastructure and work force. It focuses on a number of major areas, including the need to continuously improve Service performance measurement, software initiatives to improve the consistency of mail flow and machine efficiency, plans for network downsizing, and work force rationalization and support for employees, and plans to expand customer access to products and services.

The Network Plan is more of a strategy document than a tactical plan. Consequently, implementation plans that detail the locations and times and final network integration and cost savings are going to be critical.

Some important steps have already been successfully undertaken, while, for others, risks remain to be addressed. For example, management established a rigorous and comprehensive process of monitoring mail flows and machine utilization across the entire network. The process, which includes weekly calls to local man-

agers to discuss performance, has contributed to the increased productivity and record service scores.

The Postal Service is considering improving efficiency and service in the bulk mail center network through outsourcing, and issued a draft request for proposal on July 1st. Risks that must be addressed in this approach include reporting requirements of misconduct by the contractors, work stoppages, and conflicts of interest from contracting with parent or subsidiary companies of mailers.

Some Postal Service network realignment plans depend on a specific sequence of events. For example, the BMC outsourcing initiative may provide the space needed for future Flats Sequencing System equipment deployments. However, if the BMC facilities are not vacated timely, plans for this equipment placement may be negatively impacted.

The Postal Act of 2006 was designed to force dramatic cost reforms and streamlining actions. If the reforms undertaken are not timely and substantial, there will be serious and rapid financial and operational consequences for the Nation's mail system. Imbalances may be created, resulting in a protracted, anemic staffing of an oversized network, mail processing efficiency gains and cost savings may be deferred, and mailers and other stakeholders may be confused by stops and starts in the process. Finally, the Postal Service may have to borrow substantial funds if they cannot generate sufficient savings.

Postal Service management, the Postal Regulatory Commission, Congress and stakeholders must work together during this period of substantial and rapid change to ensure that network realignment has the energy needed to propel it forward in spite of resistance and other obstacles. We continue to support the Postal Service's efforts and keep Congress fully and currently informed.

I am pleased to answer any questions that you have.

[The prepared statement of Mr. Williams follows:]

Hearing before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia Committee on Oversight and Government Reform United States House of Representatives

Oral Statement On the Three R's of the Postal Network Plan: Realignment, Right-Sizing, and Responsiveness

July 24, 2008

David C. Williams
Inspector General
United States Postal Service

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to discuss the Postal Service's network realignment plans. The Postal Act of 2006 mandated that the Postal Service continue streamlining its network to eliminate costs, and required a Facilities Plan for rationalizing it.

Planning and implementing changes to one of the world's largest networks has been challenging. Planning strategies for such large-scale projects can vary from long-range, detailed plans with elaborately sequenced steps, to short-range, incremental approaches. The Postal Service has chosen the incremental approach, which uses an "order of battle" strategy that incorporates flexibility and anticipates frequent change throughout the process.

The Postal Service has used several strategies in its network realignment and each has its challenges. For example, the Postal Service had success with local facility consolidations. In the last 5 years, they have closed approximately 50 airport mail centers and remote encoding centers, consolidated mail at 12 processing and distribution centers, and outsourced 13 airport mail centers. While some of these changes involved communications with external stakeholders, many involved smaller facilities and internal operations that had no impact on communities. Still, concerns from stakeholders did delay larger proposed changes such as those in Mansfield, Ohio, and Pasadena, California.

Our audits have assisted with the network realignment initiatives. Our work has shown that the Postal Service could improve the accuracy of data used to support these initiatives, improve communications with stakeholders, and enhance guidance for measuring results. The Postal Service has now improved its processes and guidance.

Looking to the future, the recently issued Network Plan describes the Postal Service's vision for rationalizing its infrastructure and workforce. It focuses on a number of major areas, including:

- The need to continuously improve service performance measurement;
- Software initiatives to improve the consistency of mailflow and machine efficiency;
- Plans for network downsizing;
- Workforce rationalization and support for employees; and
- Plans to expand customer access to products and services.

The Network Plan is more of a strategy document than a tactical plan. Consequently, implementation plans that detail the locations, times, final network integration and cost savings will be critical. Some important steps have already been successfully undertaken, while for others, risks remain to be addressed. For example:

- Management established a rigorous and comprehensive process of monitoring mailflows and machine utilization across the entire network.

This process, which includes weekly calls to local managers to discuss performance, has contributed to increased productivity and record service scores.

- The Postal Service is considering improving efficiency and service in the bulk mail center (BMC) network through outsourcing, and issued a draft request for proposal on July 1, 2008. Risks that must be addressed in this approach include reporting requirements of misconduct by contractors; work stoppages; and conflicts of interest from contracting with parent or subsidiary companies of mailers.
- Some of the Postal Service's network realignment plans depend upon a specific sequence of events. For example, the BMC outsourcing initiative may provide the space needed for future Flats Sequencing System equipment deployments. However, if BMC facilities are not vacated timely, plans for this equipment placement may be negatively impacted.

The Postal Act of 2006 was designed to force dramatic cost reforms and streamlining actions. If the reforms undertaken are not timely and substantial, there will be serious and rapid financial and operational consequences for the nation's mail system. Imbalances may be created, resulting in the protracted anemic staffing of an oversized network. Mail processing efficiency gains and cost savings may be deferred, and mailers and other stakeholders may be confused by starts and stops in the process. Finally, the Postal Service may have to borrow substantial funds if they cannot generate sufficient savings.

Postal Service management, the Postal Regulatory Commission, Congress and stakeholders must work together during this period of substantial and rapid change to ensure that network realignment has the energy needed to propel it forward, in spite of resistance and other obstacles. We will continue to support Postal Service efforts and keep Congress fully and currently informed. I am pleased to answer any questions.

Mr. DAVIS. Thank you very much, Mr. Williams.

Let me thank both of you gentleman.

Why don't I just begin? And I will start with you, Mr. Herr. You made a number of recommendations in 2007 for the Postal Service to improve planning, accountability and communications. Would you say that your expectations were met in those areas?

Mr. HERR. I think generally the answer is yes. One of the areas I highlighted in my testimony today is that we think there could be further specificity with regard to targets and goals going forward. But we also identified the opportunity in the report to Congress due at the end of the year as a place where that could happen.

But in the area of communication, the communication manual that was released this spring, we saw some substantial changes there in terms of transparency, putting some meetings at a better time so people can have public input. So we see some good movement there.

Mr. DAVIS. You talked about the need to realign the networks. How urgent do you see that, or how critical do you see that function?

Mr. HERR. I think, in concurring with my colleague, the IG, I think it is a matter of urgency.

One of the things I mentioned in my opening statement, mail volume has declined, and, as such, revenues from that mail has declined as well. We all are very much aware of the unprecedented rise in gas prices this year, and with an organization with a fleet of 200,000 vehicles, there is a number of challenges there in terms of those operating expenses.

The other thing we are seeing is the pace of technological change. As the Postal Service begins to roll out new equipment, their processing facilities are able to do a better job of processing mail, flats, equipment of that type. So there are also efficiencies possible there.

Mr. DAVIS. If you were to give additional recommendations to the Postal Service relative to what you think it needs to do in order to be as much in compliance with the recommendations that have already been made, what would you suggest that they do?

Mr. HERR. Rather than suggesting going back to doing another version of the plan, we think there is a good opportunity coming in December in the report to the Congress and also the report to the PRC to lay out additional progress that has been made with regard to the Network Plan, what some of the goals are for the coming year, what may have been accomplished in this intervening period. That seems like a good opportunity, and that is also what was required in the Postal Reform Act.

Mr. DAVIS. Thank you very much.

Mr. Williams, let me ask you, your office has done significant audit work concerning network realignment and initiatives, and you have done a good job of detailing the cost savings or potential savings associated with consolidations.

What do you feel are the most significant challenges facing the Service as it attempts to consolidate, in some instances, or make greater use of facilities and, at the same time, be able to meet levels of efficiency and customer satisfaction?

Mr. WILLIAMS. Probably the things I worry about most going forward, and there is a lot to feel good about, but the things that concern me the most are, well, first of all, on a general level, there has been a dismal record in Government for successfully executing this kind of very large-scale planning. Before this, I was at the IRS, and I saw their modernization effort stall and collapse under its own weight. So I worry about that in general.

As I said in my testimony, they have selected a kind of incremental approach, which is sort of area by area, and they certainly have expertise in that. The vulnerability there is that the broad architecture, the highways that mail moves on, will somehow be diverted because the plan has been fractionalized. I don't think that will happen, and it doesn't look like it, but it is worth a very close watch. And I know that kind of watch is being made, and I will do the best I can.

We did see some failures in the area of early detection of service degradation and decline. We certainly felt bad about Chicago and how that went. During this kind of a massive initiative, we needed to detect very early service declines, and we need to mitigate those as quickly as we can, more quickly than we have in the past.

Another area would be savings. This is all about trying to pull costs down. We need to watch those very closely, and we need to pull those out the moment the savings has occurred. It is a sort of force in Government that those savings are reinvested if they are not watched closely by the local managers. That is an area. Actually, you have Pat Donahoe coming up later. That is an area where the Postal Service has been very effective and very good, and Pat is much of the reason.

Probably the greatest worry is working with the stakeholders. There is a little chance that something that is going to save this much money is going to make everybody happy and we are going to have a broad agreement that everyone has won, coming out of this. Stakeholders can either hold the Postal Service's feet to the fire, or they can tie the Postal Service's hands. My fear is that if they try to do both, we won't have much beyond just a burn victim. We are not going to save anything.

And those are the concerns, those are the things I am watching as closely as I can, and I know my colleague is.

Mr. DAVIS. Well, let me ask you, to make sure I understood. Did I understand you to indicate that there might be the need for the Postal Service to look for or find a way to generate additional resources?

Mr. WILLIAMS. No, I did not mean to say that. I think we probably, because of all the points that you raised in your opening statement, we probably have a surplus of resources, given the conditions today. We are more concerned about debt, on the one side, and saving costs. And, on the other side, this new reorganization is all about marketing and focusing on customer needs and expanding the base.

Mr. DAVIS. Did I hear you mention borrowing in any kind of way?

Mr. WILLIAMS. Yes. I think that has been a concern. We recently were able to remove the borrowing, and then we immediately headed back into it, borrowing from the Treasury, of course.

I think that there is probably going to be borrowing this year, and if conditions don't improve, there will be borrowing in the future. And as I said the last time I was before you, we have that rain-or-shine debt of $5 billion a year, and it is likely to require borrowing as well.

Mr. DAVIS. And I guess the reason I raised that is because when I think of borrowing, I also think of paying back. If somebody says, give me whatever, and I say OK. But if they say, let me borrow whatever, I expect at some point a payback.

So if there is some borrowing, how do we get to the point, or do we get to the point through these efficiencies and consolidations, that would put us in a position to repay the Treasury?

Mr. WILLIAMS. Recently, the Postal Service was able to completely pay back the Treasury. And I think that the plan is a good one, and that could certainly prevent us from going into debt and allow the repayment again.

Also, I am very hopeful of the new reorganization that was just made. We brought in some top-flight professionals that are very good at marketing and sales and studying customer segments that are out there building on the base.

Those are the two tools we have. We have this one, and then we have the new initiative to expand marketing and sales.

Mr. DAVIS. Thank you very much.

Mr. Marchant.

Mr. MARCHANT. Thank you, Mr. Chairman.

The intent of the Postal Accountability and Enhancement Act was to ensure the post office functioned more efficiently. Which one of the conceptual plans has posed the most real-world application problems? Which one of the concepts has been the most difficult to implement in the field?

I would like an answer from both of you.

Mr. WILLIAMS. In my mind, the ones that have collapsed under their own weight have been the same ones that the other departments of Government have attempted and failed. We see the FBI, the FAA, and the IRS. Usually the ones that are very long-term and very elaborately sequenced are impossible to turn. It is like trying to turn a battleship in a river. It is very, very difficult. Where it becomes more hopeful is where you have a general idea of where you are headed and the near-term planning is very specific.

I also mentioned savings. I have seen a lot of savings lost because, after the reform, no one goes in to take those savings and send them to the bottom line. That happens to be a strength of the Postal Service. Since my arrival, that is one thing I feel they excel at.

Mr. HERR. Mr. Marchant, one of the things I observed is that GAO has done some prior work on organizational transformation. One of the things that we emphasized in this statement today is the importance of setting some of these targets and goals. They can help provide a sense of momentum. They can provide a sense of progress. They can help stakeholders know that something is being accomplished.

I think that is important, when you are looking at something this large. If you think it is going to last forever or it is going to last

for 4 or 5 years, one would like to have some sense of where they are after a year or two or where they hope to be.

So we think those annual reports to Congress would be a place to provide some of that transparency and clarity for folks in your position.

Mr. MARCHANT. The Postal Service's plan to reduce work force by attrition, is that working?

Mr. WILLIAMS. Just before my arrival, there was a very successful effort to downsize. That has continued. I think the current numbers are 785,000.

The career number is 684,000, which is the one that is very difficult and very stable to suddenly reduce, has reduced greatly since my arrival. That has been a very successful part of what has gone on. As a matter of fact, it has been so successful, that trailing behind it has been the network downsizing, and it has left some of our plants understaffed. And I think this staff has suffered as a result of a slow start in the build-down.

As you know, there has been stakeholder resistance to some of the initiatives, and that has left some of the employees working very hard, very, very long hours, and in a very intense environment.

Mr. HERR. My understanding is, I think, in the last 8 years, through attrition, they have gone down about 100,000 employees. So that would suggest that they have made some very significant efforts in that regard.

Mr. MARCHANT. Thank you, Mr. Chairman.

Mr. DAVIS. Well, thank you very much, gentleman. I don't have any additional questions. We appreciate your patience, and thank you very much. You are excused.

We will transition to our second panel. While we are setting up for them, I will just go ahead and introduce them.

Our second panel will consist of Mr. Patrick Donahoe. Mr. Donahoe was named Deputy Postmaster General and chief operating officer in April 2005. Mr. Donahoe is the second-highest-ranking postal executive and the 19th Deputy Postmaster General. He is a 33-year Postal System veteran.

And we welcome you, Mr. Donahoe.

We also have Dr. John Waller, who has been director of the Office of Rates Analysis and Planning of the Postal Regulatory Commission since February 2005. His primary responsibilities are directing the technical advisory staff of the Commission and supporting the commissioners in all proceedings and the development of reports.

Gentlemen, if you would stand and raise your right hands and be sworn in.

[Witnesses sworn.]

Mr. DAVIS. The record will show that the witnesses answered in the affirmative.

Gentlemen, thank you so very much.

We will begin with you, Mr. Donahoe.

STATEMENTS OF PATRICK DONAHOE, DEPUTY POSTMASTER GENERAL, U.S. POSTAL SERVICE; AND JOHN WALLER, DIRECTOR, OFFICE OF ACCOUNTABILITY AND COMPLIANCE, POSTAL REGULATORY COMMISSION

STATEMENT OF PATRICK DONAHOE

Mr. DONAHOE. Good afternoon, Chairman Davis, Ranking Member Marchant and members of the subcommittee. I am Patrick Donahoe, Deputy Postmaster General and chief operating officer for the U.S. Postal Service. It my pleasure to be here today to discuss the Postal Service's Network Plan.

The Postal Service manages one of the world's most complex distribution and transportation networks. Today's mail processing network consists of more than 400 processing plants and features 37,000 post offices. We handle 200 billion pieces of mail annually and deliver to nearly 148 million addresses on a daily basis.

Congress recognized that we need flexibility in order to continue developing an effective and efficient network. Moreover, current economic conditions highlighting the importance of the Postal Service utilizing such flexibility, such as a weak economy, continues to put a strain on our finances.

Through the first two quarters of this fiscal year 2008, total mail volume has declined 3.4 billion pieces compared to last year, resulting in a loss of over $700 million. This trend is worsening. Under such conditions, flexibility to manage the network is even more vital in meeting the challenges facing the U.S. Postal Service.

The Postal Accountability and Enhancement Act of 2006 has changed the way the Postal Service is regulated. However, it does not change our basic mission, which is to bind the Nation together through the correspondence of the people and provide prompt, reliable and efficient mail service.

The postal law of 2006 charts a new course for us as we continue to fulfill this commitment in relation to service standards for our market-dominant products. The first objective was to establish a set of modern service standards for the market-dominant products. In December 2007, the Postal Service published our new standards.

The second objective was to provide a system of objective performance measurements for each market-dominant product. Measurement systems for many products, such as single-piece first-class mail, have been in existence for a long time. We are now in the process of implementing expanded systems and/or introducing new measurement systems.

The third objective required by the law was to establish goals and submit a plan to Congress for meeting our modern service standards. Since February 2008, I, along with other senior postal officials, have met monthly with Chairman Dan Blair, the PRC Commissioners and the PRC staff to discuss postal network rationalization. As you know, the Postal Service submitted its Network Plan to Congress on June 19, 2008. The Postal Service is grateful to the commissioners and to their staff for their valuable insights.

The Network Plan establishes continuous improvements as the overarching performance goal, and it describes timetables to establish baselines for 2009 fiscal year performance targets for various market-dominant products. We embrace this enhanced trans-

parency and accountability, and look forward to sharing our performance targets, successes and targets with Members of Congress and all of our postal stakeholders.

The key element to the Postal Service moving forward on the service standards was to ensure that the voice of the customer was heard. Numerous meetings with commercial groups, large and small, have been held, and some of these work groups continue today. Incorporating concerns of our customers was critical.

I would now like to highlight three elements of the network rationalization which all support our bottom line of either meeting or exceeding our existing service standards and maintaining efficiency. They are: the continued consolidation of our postal airport centers; a review of the mail processing network to identify facilities where outgoing or incoming operations could be consolidated; and the transportation of our postal bulk mail network.

On July 1, 2008, we issued a draft request for proposal for the BMC network. We are now in the process of receiving comments from various vendors able to provide the type of network reach and capacity necessary. We expect to consolidate mail processing operations at some locations, but we are always reluctant to implement network changes that could result in diminished service. Accordingly, the Postal Service will implement changes that promote efficiency but that also aggressively minimize any diminution of service.

Our dedicated employees do a great job on a daily basis, providing excellent service at the best prices in the world. We are sensitive to the impact that network rationalization could have on our employees, and we have held numerous consultations with our unions. We are proud of the fact that we have relied on employee attrition to reduce well over 100,000 people over the last 7 years. By using attrition, we have minimized adverse impact on our employees.

We are also pleased to announce that we have requested authority from the OPM to offer certain crafts voluntary early retirement options. This action helps our bottom line in these times of tight finances and, just as importantly, benefits our employees by giving them the option to retire early without facing undue financial penalties.

The Postal Service Accountability Enhancement Act acknowledged the need for the Postal Service to streamline its distribution network. To achieve this vision, the Postal Service will need the support of this subcommittee and of the Congress.

We ask you to understand that the consolidations or closures are a part of a strategy designed to serve the overall needs of the Postal System and our customers nationwide. We will also to continue to work very closely with our employee unions and our associations.

The Network Plan that we have submitted to Congress is not the last word on these programs. In accordance with the new law and in keeping with our goal of continuous improvement, the Postal Service will submit annual progress reports to Congress.

I will now be pleased to discuss the elements of the plan in more detail or answer any other questions you might have. Thank you.

[The prepared statement of Mr. Donahoe follows:]

UNITED STATES
POSTAL SERVICE

STATEMENT OF
DEPUTY POSTMASTER GENERAL/CHIEF OPERATING OFFICER
PATRICK R. DONAHOE
BEFORE THE
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE,
AND THE DISTRICT OF COLUMBIA
OF THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES
WASHINGTON, DC

July 24, 2008

Good morning Chairman Davis, Ranking Member Marchant, and members of the Subcommittee. I am Patrick Donahoe, Deputy Postmaster General and Chief Operating Officer for the U.S. Postal Service. It is my pleasure to be here today to discuss the Postal Service's Network Plan.

It may be helpful if I provide some context for the discussion of the Postal Service's processing and distribution network. Our network has evolved over more than two centuries to serve the nation's growing population as it continued to expand across the continent. We adapted our infrastructure to meet the nation's changing demographics as it has shifted from a largely rural base to one that became increasingly urban and suburban.

To provide universal service throughout the United States and its territories, the Postal Service must manage one of the largest, most complex distribution and transportation networks in the world. Today's mail processing network is comprised of more than 400 mail processing plants and related logistics and transfer facilities, and distributes mail to and from some 930 3-digit ZIP Code service areas, which contain over 37,000 post offices and other retail units. The Postal Service accepts and processes over 200 billion pieces of mail annually and delivers to nearly 148 million addresses, six days a week. Mail of various product categories and shapes is entered at a number of acceptance points in the network and flows through complex, often highly automated processing streams, which take into account different product-based dispatch priorities and service standards.

The Postal Accountability and Enhancement Act (PAEA) of 2006 has changed the way that the Postal Service is administered and regulated. However, it does not change the basic mission of the Postal Service. As stated in the Postal Reorganization Act of 1970, our basic mission is to bind the nation together through the personal, educational, literary and business correspondence of the people and to provide prompt, reliable and efficient services in all areas and to all communities.

Since its creation in 1970 as an independent establishment of the Executive Branch, the Postal Service has become financially self-sufficient while continuing its long-standing commitment of providing products and services that meet the needs of households, businesses and other institutions throughout the United States. The PAEA charts a new course for the U.S. Postal Service to follow as it continues to fulfill this commitment. And, as recognized by that Act, an effective and efficient mail processing network is critical to accomplishing this mandate.

Upon passage of the new law in December 2006, the Postal Service began the work of complying with its provisions, which included numerous amendments to the Postal Service's charter, title 39 of the United States Code.

Among its many provisions, the PAEA specified three requirements which, after consultation with the Postal Regulatory Commission (PRC), the Postal Service had to fulfill in relation to service standards for its market-dominant products.

The first objective required the Postal Service to establish, by regulation, a set of modern service standards for its market-dominant products. In December 2007, the Postal Service published its new service standards in Parts 121 and 122 of title 39, U.S. Code of Federal Regulations.

The second objective required of the Postal Service was to provide a system of objective external performance measurements for each market-dominant product, or seek the Commission's approval of internal measurement systems. Measurement systems for many products, such as Single-Piece First-Class Mail, have long been in existence. The Postal Service is now in the process of implementing either expanded measurement systems or introducing new measurement systems. The Intelligent Mail barcode, which will provide reliable and objective information about mail preparation acceptance, processing and delivery, is an integral component of these systems. The Postal Service conducted extensive consultations throughout 2007 and 2008 with the PRC, as well as commercial mailers who will be expected to utilize the Intelligent Mail barcodes. In June 2008, the Postal Service submitted a refined measurement system plan to the Commission for review. The Commission solicited public comment through the Federal Register.

The third objective required by the PAEA was that, as soon as the service standards were published in December 2007, the Postal Service had six months to establish performance goals and to submit a plan to Congress for meeting its modern service standards. This plan was required to include a description of changes to the Postal Service's processing, transportation, delivery and retail networks necessary to meet those performance goals.

Since February 2008, I, along with other senior postal officials, have met monthly with Chairman Blair, PRC Commissioners and PRC staff to discuss postal network rationalization and related issues. Network-related consultations were completed in June, and the Postal Service submitted its Network Plan to Congress on June 19, 2008. The Postal Service is grateful to the Commissioners for their insight and to the Commission's technical advisory staff for sharing their expertise during these consultations.

The Network Plan establishes continuous improvement as the Postal Service's over-arching performance goal and describes the timetable by which the USPS Board of Governors and senior postal management will establish baseline FY 2009 performance targets for various market-dominant

products. These performance targets will be based on the global Postal Service objectives set by the Board of Governors, who give senior management strategic direction, guidance and vision. These "percentage on-time" targets will be shared with the Commission and will serve as the basis for its annual review of our service standards compliance. Postal management embraces this enhanced transparency and accountability, and we look forward to sharing our performance targets, successes and progress with the public, the Board, Members of Congress, and all postal stakeholders.

The Network Plan also describes a variety of postal management initiatives that have been implemented, or that are being implemented, to ensure that mail processing operations managers can meet the service standards established in December 2007. Collectively, these initiatives are referred to as "operationalizing" the service standards. They are intended to improve the consistency of internal mail flow-management practices so that the service standards can be met.

A key element to the Postal Service moving forward on service standards was to ensure that the voice of the customer was heard. Numerous meetings with commercial customer groups, large and small, were held and some of these work groups continue today. Incorporating the concerns of our customers was critical as commercial mail preparation requirements would be changing, and solving the logistic issues for affected commercial customers was of primary importance to the Postal Service. All facets of operations were evaluated to ensure that the Postal Service either met or exceeded customer expectations. We also felt it was appropriate to involve the PRC in these discussions, and shared customer feedback and proposals with the PRC as we moved forward.

An operations team with dedicated resources is in place to provide the appropriate training to our 600,000-plus workforce to help the field implement these changes.

I would like to now highlight three integrated core elements of network rationalization, which all support our bottom line of either meeting or exceeding our existing service standards. These are:

- Continuation of the ongoing consolidation of postal Airport Mail Centers, in conjunction with changes in air mail transportation operations;
- A review of the mail processing network to identify facilities where outgoing and/or incoming operations could be consolidated; and
- The transformation of the postal Bulk Mail Center (BMC) network, whose capacity is underused due to price incentives for mailer presortation and the marked increase in mailers' destination entry of Standard Mail and Package Services over the past several decades.

We have stated on a number of occasions that the Postal Service was considering issuing a Request for Proposal for a Time-Definite Surface Network. On July 1, 2008 the Postal Service did, indeed, issue a draft Request for Proposal. We are now in the process of receiving comments from various vendors able to provide the type of network reach and capability necessary.

As we implement the Network Plan, we expect to consolidate mail processing operations at some locations. This could involve transferring some operations from one facility to another facility. When it considers potential operational consolidations, the Postal Service carefully evaluates the impacts on both service standards and customer service. We are always reluctant to implement network changes that could result in diminished service to the American public. Accordingly, as outlined in the Network Plan submitted to Congress, as it consolidates mail processing operations and transforms its Bulk Mail Center network, the Postal Service will implement changes that promote efficiency, but that aggressively minimize any diminution in service to the American public.

The PAEA recognized that network rationalization would likely impact postal employees. Moving forward on these necessary network changes would be impossible without the commitment of our employees, the Postal Service's most valuable resource. We are sensitive to the impact that network rationalization could have on our employees who work in affected mail processing plants, and we have held numerous consultations with our unions. We are proud of the fact that we have

relied upon employee attrition to reduce 100,000 employee positions since fiscal year 2000. By using attrition, we have had a minimal adverse impact on employees.

Accordingly, we adhere to a number of policies and collective bargaining agreements that are designed to provide advance notice to potentially affected employees. The Postal Service has long-standing practices in place to minimize employee impact and the potential disruption resulting from organizational change. Our personnel policies and procedures are designed to treat employees in a fair, equitable and objective manner.

We are also pleased to announce that the Postal Service has requested authority from the Office of Personnel Management to offer certain crafts a Voluntary Early Retirement Option. This action helps our bottom line, but more importantly provides our employees with the option of retiring early.

Finally, the Act directed the Postal Service to outline its plans for expanding and promoting the availability of alternate retail access channels. Retail postal customers have traditionally purchased postal products and services at post offices. Over time, the Postal Service has developed alternate retail-access channels to improve customer convenience. In our Plan, we describe each of the retail-access alternatives that have been implemented or that are being tested. The Postal Service is committed to continually improving the quality, accessibility, and ease-of-use of its retail network. In addition to the traditional post office retail outlets, we offer a variety of easy-to-use alternate retail options close to where customers live, work and shop. We will develop further retail network initiatives based on an assessment of customer needs through market research, and will monitor and encourage the development of new alternatives and technologies that enhance customer access.

The PAEA acknowledged the need for the Postal Service to streamline its distribution network and to rationalize the postal facilities network. The PAEA encourages the Postal Service to expeditiously

move forward in its streamlining efforts. To achieve this vision and sustain its ability to provide the nation with affordable universal service, the Postal Service will need the support of this Subcommittee, and of the Congress.

We ask you to understand that operational consolidations or mail processing facility closures are a component of a strategy designed to serve the overall needs of the postal system and its customers nationwide. As this effort progresses, you may be assured that we will keep all postal stakeholders informed, including our employees through their unions and management associations, Members of Congress, mailers, local elected officials, the news media and others, and provide opportunities for public input. We also will continue to work closely with our employee unions and associations.

The Network Plan that we have submitted to Congress is not the last word on these programs. In accordance with the PAEA, and in concert with our goal of continuous improvement, the Postal Service will submit annual progress reports to Congress on actions taken to improve efficiency, the impact of various other postal initiatives on rationalization plans, and how statutory and regulatory obstacles may impede realignment plans.

The Postal Service must continually assess and adapt to changes in the marketplace, to its competitors and to the economy. The Network Plan is a fluid approach, one that must be responsive to changing conditions. The Plan serves as our roadmap, but we must have the flexibility to make adjustments as necessary.

Congress recognized the need for such flexibility in order for the Postal Service to continue developing an effective and efficient network. Moreover, current economic conditions highlight the importance to the Postal Service of utilizing such flexibility as a weak economy continues to put a strain on our finances. Weakness in the financial, credit, and housing sectors, which are traditionally heavy users of mail, has affected mail volume. Through the first two quarters of

2008, total mail volume declined by 3.2 percent over last year, resulting in a net loss of over $700 million. This decline continued in the third quarter. Under such conditions, flexibility to manage the network is even more vital in meeting the challenges facing the Postal Service.

I would be pleased to discuss elements of the plan in more detail and answer any questions that you may have. Thank you.

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Mr. DAVIS. Thank you very much, Mr. Donahoe.

We will go to you, Mr. Waller.

STATEMENT OF JOHN WALLER

Mr. WALLER. Good afternoon, Chairman Davis and Ranking Member Marchant. Thank you for the opportunity to testify.

The Postal Accountability and Enhancement Act requires that the Postal Service consult with the Commission in the development of a modern system of delivery performance standards, the establishment of a system that measures achievement of those standards, the adoption of performance goals, and the realignment of the postal network to meet those goals.

This consultive process started in 2007 with monthly meetings of the commissioners and a Postal Service team headed by the Deputy Postmaster General. The Service has provided presentations to the Commission on the key elements of the Network Plan that has been submitted to the Congress.

Through this consultation process, the Commission has had the opportunity to provide independent review and feedback on many of the Service's proposals. Conversely, the process has also allowed the Postal Service to understand the Commission's requirements as a regulator.

On June 9th, the Service presented to the Commission for comment its final draft of the Network Plan. On June 16th, the Commission submitted its comments in a letter to the Deputy Postmaster General. At the request of the Commission, the letter was submitted to Congress, along with a final version of the Network Plan.

As background, the PAEA requires the Postal Service's June plan to establish performance goals, describe network changes necessary to meet those goals, describe how the new performance goals change previous submissions to Congress, and describe the Postal Service's long-term vision for its infrastructure and work force. Additionally, the Postal Service plan is to include detailed information on the cost savings, impacts, timeframes and processes for rationalizing its facilities network.

In its letter to the Postal Service, the Commission noted that the draft of the Network Plan lacked specific performance goals for individual postal products and the vision of how those activities described in the plan would contribute specifically to meeting those goals. During the consultive meetings with the Service, the Commission made known its view that the goals expressed as specific percentages of on-time delivery should be part of the June plan. Corporate goals already exist for first-class single-piece mail, such as 95 percent on-time delivery for such mail, subject to overnight delivery standards. The Commission has consistently urged the Service to expand such explicit goal statements to all classes of mail and include them in the Network Plan submitted to Congress.

The draft plan given to the Commission 10 days before delivery to Congress stated that such specific goals would not appear until early 2009, and these would be targets to be improved annually. The Commission is pleased to see, however, that the final version of the plan presented to you adopts a more aggressive schedule, and the Commission now expects to see proposed percentage goals

for all services before the end of the fiscal year. Such changes exemplify the progress and results that can be achieved via the consultive process that is now a major attribute of the new regulatory environment, as envisioned by the PAEA.

The plan presented to Congress does describe many of the processes by which the postal network will change: for example, the improved guidelines for area mail processing consolidations that several of the witnesses have identified. These guidelines address many of the concerns raised in the past by the Commission and discussed in my testimony before this subcommittee last year. These process descriptions are useful statements of how the Service will implement realignment.

Once performance goals are established, the Commission expects more details on the Service's vision for its network, what the new facility configuration and transportation links will involve, and a quantification of the cost and performance benefit.

The Commission will carefully review the impact that network changes have on delivery service, using data from the Service's proposed hybrid measurement system currently under Commission review. Of course, this presumes broad adoption of the intelligent mail barcode in 2009.

In addition, network realignments that can have significant nationwide impact on delivery performance must be subject to review by the Commission through a request for an advisory opinion, as required by the both the new and former postal laws. Service impacts will also be included in the annual reports of the Commission.

The Commission takes very seriously the consultation role tasked to it by Congress. It does understand that the Postal Service faced a tight deadline for the development of the performance goal and Network Plan this June. Thus, the Commission looks forward to continuing the consultation with the Service on both these issues as additional specificity develops.

Thank you. And I welcome the opportunity to answer any questions members of the subcommittee may have.

[The prepared statement of Mr. Waller follows:]

Testimony of

John Waller, Director of Office of Accountability and Compliance

On Behalf of the

Postal Regulatory Commission

Before the

U.S. House of Representatives

Committee on Oversight

And Government Reform

Subcommittee on Federal Workforce,

Postal Service, and the District of Columbia

July 24, 2008

Good afternoon.

Chairman Davis, Ranking Member Marchant, and members of the Subcommittee, thank you for the opportunity to testify. I am pleased to discuss the Commission's views on the Postal Service's Network Plan.

To the Commission's benefit, we have had previous involvement in the Service's plans for network realignment. Under section 3661 of title 39 of the U.S. Code, the Postal Service is required to seek the Commission's advice before implementing nationwide service changes. In 2006, the Service requested an advisory opinion from the Commission on its planned nationwide realignment, then known as the "Evolutionary Network Development" (END) process.

When the Commission's proceeding started as Docket No. N2006-1, very little was known publicly about the overall END process, and the Service's vision of its future network was unclear. The Commission believed then, and continues to believe now, that the Postal Service should have the flexibility and authority to adjust its operations and networks to meet its business needs and create cost savings and efficiencies. However, the Postal Service must be accountable and transparent to postal customers and be sensitive to the needs of the communities it serves.

The Commission's proceeding brought transparency to the Postal Service's network development plans. Questioning by Commissioners and participants in the case shed needed light on the END program. The opening of the END program to outside scrutiny identified several areas of concern some of which have been addressed in the network realignment process incorporated in the current Network Plan. In particular, the public participation process seems to have been clarified and expanded.

In early 2007, the Postal Service and the Commission entered into what has become a monthly consultation between the two agencies. This process implemented a major initiative of the Postal Accountability and Enhancement Act (PAEA) to ensure that the Commission is involved in the development of certain required improvements in Postal Service operations. Specifically, the Act directs the Postal Service and Postal Regulatory Commission to consult with each other on the development of a modern system of performance standards, the measurement of actual performance, the setting of performance goals, and the adjustment of the postal network to meet those goals in light of changing mailer demands.

The Commission appreciates the Service's ongoing commitment to the consultation requirement. The Service has been most forthcoming with information on current operations and planned changes. They have been responsive to questions from the Commission and considerate of observations by the Commission.

Much of the success of this process goes to the involvement of top Postal Service management in the main activity of the consultative process. These monthly meetings include the five Commissioners and a team headed by Deputy Postmaster General Patrick Donahoe. Over the past months, the Service has provided presentations on the key elements contained in the Network Plan submitted to the Congress. Through this process, the Commission has had the opportunity to make suggestions, some of which are incorporated into the final version of the Network Plan. The process has also allowed the Postal Service to understand the Commission's requirements as a regulator.

On June 9, 2008, the Service presented to the Commission, for formal comment, its final draft of the Network Plan. On June 16, 2008, the Commission submitted its formal comments on the draft plan in a letter to Deputy Postmaster

General Donahoe. At the request of the Commission, the letter was submitted to Congress along with the final version of the Network Plan.

As background to reviewing the document presented to Congress, it should be noted that the Postal Accountability and Enhancement Act section 302(b) requires the Postal Service's Network Plan to: (1) establish performance goals; (2) describe network changes necessary to meet those goals; (3) describe how the new performance goals change previous submissions to Congress; and (4) describe the Postal Service's long-term vision for its infrastructure and workforce. Additionally, the Postal Service's plan must include detailed information on the costs, cost savings, impacts, time frames, and processes for rationalizing its facilities network.

In its letter to Deputy Postmaster General Donahoe, the Commission stated that the final draft of the Network Plan lacked specific performance goals for most postal products, and thereby lacked a vision of how the activities described in the plan would meet certain performance goals. During the consultative meetings with the Service, the Commission has made clear its view that the PAEA requires that service performance goals, expressed as specific percentages of on-time achievement of service standards, should be part of the June network plan. Corporate goals already exist for First-Class single-piece mail, such as 95 percent achievement of on time delivery for all First-Class Mail subject to overnight delivery standards. The Commission has consistently urged the Service to adopt such explicit percentage goals for all classes of mail and urged the Service to include such goals in the plan submitted to Congress. During the course of consultations this spring, however, the Service indicated development of such goals would be delayed. The draft Network Plan - given to the Commission 10 days before the delivery date to Congress - stated that such goals would not appear until early 2009.

The Commission is pleased to see, however, that the final version of the document presented adopts a more aggressive schedule and the Commission now expects to see proposed achievement percentage goals for all services before the end of the fiscal year. Such changes in the final document exemplify the progress and results that can be achieved via the consultative process that is a major component of the new regulatory environment envisioned by the PAEA.

Consultations with the Service also involve service performance measurement. The PAEA requires that the Service develop a system of external measurement of delivery performance for all mail products unless the Commission gives permission for the use of internal, Postal Service-generated data, such as can be obtained from scans of barcodes on mail pieces. The steps described by the Postal Service in its Network Plan under the heading of "Operationalizing Service Standards" are examples of the diagnostic benefits that can be gained from a robust internal performance measurement system that tracks the progress of mail through the postal network. Such information is not as available with external measurement systems that just captures the times of mailing and delivery. Also, a full external system would be significantly more expensive than an internal system. Thus, the Commission is being patient with the Service's evolution of the internal system but still expects expanded measurement results to begin to appear with the start of the next fiscal year.

In the final version of the Network Plan, the Commission sees evidence that the Postal Service responded to concerns raised in the Commission's review of the previous realignment effort in the 2006 docket, and discussed in my testimony before this Subcommittee on July 26 last year. For example, a criticism of the previous network modeling, and possibly still present in the current efforts to consolidate processing facilities, is the use of national average productivities. As demonstrated in Government Accountability Office (GAO) reports and Commission documents, the productivities of mail processing equipment vary widely among facilities.

Another assumption not supported by available data is that productivity necessarily improves as the size of processing facilities increases. If network planning decisions are based on flawed productivity assumptions they can produce costly reductions in service and efficiency. Thus, the efforts described in the Service's current network realignment document to standardize processing plant operations are a hopeful sign. The Commission will monitor the results of these standardization efforts if assumptions of standardized productivity are to be a basis of consolidation analysis. Also, it is a challenge for the Service to maintain delivery performance and control transportation costs as consolidations expand the distance between processing plants and delivery locations.

The document presented to the Congress describes many of the processes by which the network will change. These include the revamped Area Mail Processing (AMP) guidelines for analyzing potential processing plant consolidations, obtaining community inputs and eventually assessing impacts when consolidations do occur. Also, the document describes recent changes in the airport facilities and how employees will be impacted. Once performance goals are established, the Commission expects to see more details of the Service's vision for its network, what the facility configurations and transportation links will involve, and a quantification of the cost and performance benefits.

Since the late 1990s, the Commission has been concerned about the costs of handling flat mail and, in particular, Periodicals. Despite numerous automation attempts, productivity results achieved from letter mail automation have been elusive for flats. The Flats Sequencing System (FSS) now being implemented is intended to increase productivity and reduce carrier costs. The FSS holds great promise, yet continued oversight is required in order to verify the impact on costs and delivery performance. The Commission hopes to be able to see the projected benefits verified.

The Service makes a case that the Bulk Mail Center (BMC) network, as currently structured, may not efficiently meet the future needs of the Service. The Service's transportation outsourcing plan as outlined in the Network Plan and in the draft Request for Proposals for a Time-Definite Surface Network may have merit. However, the Commission is cognizant of the problems experienced outsourcing Priority mail operations a few years back with the Emery contract. This demonstrates the need for continued Commission oversight.

The Commission will continue to monitor the progress as the Service fills in the details of its network realignment plan. Further, we intend to review carefully the impacts on delivery performance. Any proposed network realignments by the Service that may have significant nationwide impacts on delivery standards will be subject to review by the Commission through an advisory opinion per section 3661 of title 39 of the U.S. Code. A full report on these service impacts will be included in the annual reports of the Commission.

In closing, the Commission takes very seriously this consultation role tasked to it by Congress. We do understand that the Postal Service faced a tight deadline for development of performance goals and a network plan. We look forward to continuing our consultation with the Service on both issues as the Service provides more details on the network realignment.

The Commission appreciates the continuing interest of the Committee in these areas and is prepared to regularly present results to the Congress either through annual reports, special studies or hearings such as this. Again, thank you Chairman Davis for inviting me to testify. I welcome the opportunity to answer any questions members of the Subcommittee may have.

Mr. DAVIS. Thank you very much, gentlemen. We appreciate, again, your being here.

Mr. Donahoe, let me begin with you. Recently I talked with panel one about the urgency of realignment. How urgent would you say that the need for realignment is with the networks? And if that alignment is not taking place perhaps as envisioned or scheduled, what would be the cost to the Postal Service? And what safeguards do you have in place, as you make the realignments, to give assurance that it is going to work?

Mr. DONAHOE. Thank you, Mr. Chairman. Let me address that in a number of ways.

First of all, our major concern today in the very short term, as I outlined in my statement, is our finances. We have lost $700 million to plan this year. Things do not look any better in quarter three, which we are just finishing up. There is a chance we could lose over $1.5 billion this year.

The problem with that, of course, is, the way the law is structured, our prices need to remain at or below the rate of inflation. So making up that difference, short of cutting costs, is left to the other side of the ledger, the balance sheet, to increase revenues.

Now, we have some great people in the organization doing a wonderful job, but in these tight economic times, you can see what has happened with FedEx, UPS, other people in that whole area, be it package delivery or advertising. So the upside on revenue generation probably isn't going to be here for the next couple of years. That presses us to move on with this network realignment plan.

As you know, we recently put out a request for proposal on our BMC network, and that is one of the three areas we are looking at. We think there are large benefits there to be able to move, hear what the industry says from a standpoint of being able to give us some idea of the savings through a competitive process and allow us to start transforming the network.

The other thing that we plan to do with the BMC network, is not just walking away from that network and walking away from the employees. What we were planning to do with the BMC, as we move the work that is being done out of there presently and into an outsource network, we are going to move quickly to use those BMCs for our second phase of the flat sequencing. That allows us to be more efficient in delivering mail and also gives us that opportunity to keep the cost lines down on that side of the ledger.

Every month that we wait on these opportunities to work on our network, that delays us and puts us in great peril going forward.

Mr. DAVIS. You talked about your early retirement program. Who are the employees who are eligible for it? And how effective would you suggest that it has been?

Mr. DONAHOE. We have used the VERA retirement approach a couple of times already. We used it in 2005, and we are going to use it this year in 2008.

The employees that will be offered that VERA would be our clerks, our mail handlers, our city carriers, our rural carriers, supervisors, postmasters, and a number of other people within the organization, including headquarters and our area offices.

Now, we will restrict it at this point: We are not going to offer that to our, what we call, ETs, electronic technicians. They are the

top-notch maintenance people we have in the organization. The reason we are not is that they are very hard to recruit and train, so it would be irresponsible on our part to let somebody with that kind of training walk out the door.

The idea behind that is to give people the option to take that early retirement. We think it is a wonderful benefit. So if a person is close to retirement, they might lose a couple percent but they can move on with life, either to take up a new career or stay at home and take care of family members.

Mr. DAVIS. I know that any time a consolidation occurs, there has to be a great deal of hue and cry from any number of sources. What are the collective bargaining issues that come into play with the work force representatives in a consolidation?

Mr. DONAHOE. First of all, we have an outstanding collective bargaining process. It is probably the best you could see from a standpoint of any industry. Our unions work very well with us. I am very proud to say that if you look at some of the things we have been able to accomplish as a team over the last few years, it has really gone a long way to help the Postal Service stay strong in a time when we could already be under great stress.

If you go back to, say, 2000–2001, Mr. Chairman, our revenue and our volume at that point pretty much leveled out. Our ability to work with the unions to continue to increase productivity, to be able to shed a number of employees, has given us the opportunity to keep our head above that financial water.

Now, looking forward, like I say, we have some excellent processes in place. We have sat down and talked with the unions about some of the plans with the BMCs. The BMC is not a done deal at this point, one way or another. Concurrent with the request for proposal to look at the network, at the same time we have what is called Article 32, which is part of the collective bargaining process where we still continue to talk with the unions, listen to their concerns and listen to their recommendations. We value that. We think it has been a good thing for the Postal Service, it has been a great thing for the employees.

You know, as we look around this United States, there are a lot of people who have lost jobs, and lost jobs because of responsibility that was not taken up with the leadership in management and the leadership in the union. We think we have great leaders. Everybody understands the importance of a strong Postal Service, because it is not just helping employees, it is also keeping the entire industry strong.

Mr. DAVIS. Your mail processing staff has actually been significantly reduced since 2000 without consolidation. Can that trend continue and not necessarily get into as much consolidation as might be necessitated otherwise? I mean, why do we have to consolidate if we are able to reduce the work force through attrition?

Mr. DONAHOE. The attrition has worked great, and what that has allowed us to do, to a large extent, is take out operations and improve productivity across the country. We have done some consolidations, as you heard Dave Williams mention a little bit earlier.

As we look forward, the major problem that we face is a slow-declining first-class mail volume. It has been running at about 3

to 4 percent. This year it is about 5 percent. Single-piece mail volume pays a lot of bills in the Postal Service.

So, as that declines, a couple things happen. First of all, it hits the revenue line. The second thing, it leaves substantial capacity in the rest of our system. So when you start to look around, you see facilities that are somewhat close that you can do these consolidations and not affect service negatively. In fact, in many cases, it improves service because you might have better reach to two and three areas. So we are looking at those types of consolidations.

The technology that is out there today, within our mail processing plants, has allowed us to make some consolidations around airport mail facilities and, at the same time, improve service. So, looking out at a network that we have, the overhead to run these buildings, heat, light—everybody knows what is happening with costs that way, too—taking a look across the entire cost structure, it is very responsible on our part to continue to take a look at everything, looking at those consolidations, to help bottom-line finances in the organization.

Mr. DAVIS. What has been the stakeholder's response with some of these—especially coming from elected officials in the areas where the consolidations have taken place?

Mr. DONAHOE. Well, as the GAO mentioned earlier, in the past we had a process that we have definitely improved and that is that communication process. And we've worked through the communication process with the local stakeholders, and that is political and employees and customers. We have seen some success. We have had some situations, as you know—and there are some bills right now that are pretty much holding us up from doing some consolidations that we know would be the right thing to do. It would not have a detrimental effect on our employees nor would it hurt our customers.

So what we're looking for, as we said earlier, the law was passed, we think it is a great law. It gives us flexibility to manage our systems, and our networks. It also keeps postage rates affordable, which of course keeps a strong industry. But what we're asking for is that you let us have that flexibility to act on what we know is the right thing to do.

Mr. DAVIS. Thank you very much. And let me go to Mr. Marchant. I will be back to you, Dr. Waller.

Mr. MARCHANT. Thank you, Mr. Chairman. I have a large bulk mail facility in my district. So I think I will ask some questions about the bulk mail, the Network Plan as it discusses the network and the concept of consolidation and outsourcing of the bulk mail. That is the question I'll ask both of you to respond to.

Mr. DONAHOE. Sure. In the Fort Worth—Dallas/Fort Worth area, we've got a number of facilities. We have a facility—a plant——

Mr. MARCHANT. This is the one out by the airport?

Mr. DONAHOE. In that network we have a large facility in Fort Worth, two in Dallas and of course one out at the airport. What has happened, Congressman, over the years is this. If you go back 25, 30 years ago when we opened the bulk mail facilities, at the time they were great facilities that really met the needs of the Postal Service because the way the mail flowed, mailer behavior, you had substantial volume in your mail that started in facilities,

say, like Dallas and was transported across the country and our network say to San Francisco for delivery. Over the course of these last 25 to 30 years, there has been a substantial change in mailer behavior. Mailers today—and you'll hear from some of the mailers coming up later on—drop a substantially larger portion of mail at destinations. So rather than have mail go from Dallas to San Francisco, let's say 100 percent, today standard mail or advertising mail, over 80 percent of it is dropped at the destination.

So what that has done over the years is left us with a big network with great big buildings and a lot of equipment but nothing in them. Our plan is to look at who can provide what is left of that network end to end in a network, transport the mail between Point A and Point B, give it back to us for our employees to work and deliver and at the same time take advantage of these facilities, great facilities, great locations, to go in, clean them out, take out all the antiquated equipment and put state-of-the-art flat sequencing equipment in there which will improve service and at the same time reduce our costs.

Mr. MARCHANT. We do have some industry people that are coming up later. But, you know, the first time I heard about it, was from the people that are doing the mailing in my area. And I guess in my instance, there is a lot of it dropped directly in Dallas, like you said, and in San Francisco. So what you are saying is that those facilities will be used, they will just be retooled and made more efficient for another kind of service?

Mr. DONAHOE. Yes, sir. That's our plan. The way mail is entered into our system today, mailers have the choice of either dropping it at origin, it goes through our network, or they can drop it at a destination facility, say, like the Dallas main post office or even deeper in like a newspaper. A newspaper chooses a lot of times to deliver mail right to the local post office where the letter carriers are that morning so that they can make sure that they have the latest news getting in the letter carrier's hand and we get that delivered that same day. They get the best rates, the postage rates to do that and that allows them too within their own network to stay with the latest news getting out there for delivery on that same day.

Mr. MARCHANT. Tell me what time definite surface network means.

Mr. DONAHOE. Time definite surface networks would say that if you were taking mail from Dallas to San Francisco, it should take you 3 days or 4 days, whatever the service standard is. Now, the way we built the service standards is right off of the time definite surface network. First-class mail, standard mail, periodical mail, first-class advertisement and newspapers travel on a lot of similar networks. They have different service standards. We fly mail—if you were taking mail from Dallas to San Francisco, we'd fly that mail if it was first class. If it is standard or periodical, we run that across a network. Our network today, the way it is set up, we run our trucks at substantially less capacity and in a lot of the cases we move mail across the country and consolidated points in order to be more efficient. We're not as timely as we would like to be. We know that there are providers in the network out there that have systems that move mail around the country much quicker.

We're looking to take advantage of a system like that to cut costs and improve service at the same time.

Mr. MARCHANT. So these 18-wheelers that have—I think there is a major contractor north of Dallas, Ritchie, that has——

Mr. DONAHOE. Al Ritchie.

Mr. MARCHANT. I pass by his facility every Sunday afternoon when I drive up to the ranch. And he goes from Dallas—I mean, on the back of each trailer has Point A to Point B. This mail comes from the bulk mail center to another bulk mail center?

Mr. DONAHOE. Yes, sir. Or to another processing facility. Nationally, we have about 17,000 of these highway contract drivers that haul mail between plants. We call them processing plants or bulk mail centers. And even a handful of them deliver mail at mailboxes across generally the more rural areas.

Mr. MARCHANT. Yeah, Mr. Chairman, I'll stop with that question. But these guys are—have to be hurting right now.

Mr. DONAHOE. I tell you, gasoline is expensive.

Mr. MARCHANT. So at some point, and I'm sure that somebody will answer that question, at some point this has to have a high impact on the cost to get that mail from Point A to Point B.

Mr. DONAHOE. Yes.

Mr. MARCHANT. Thank you.

Mr. DAVIS. Thank you very much, Mr. Marchant. And maybe the Postal Service will help us figure out how to get gas prices down.

Mr. DONAHOE. We're trying to buy a couple of hydrogen cell vehicles. We'll give those a try.

Mr. DAVIS. But, Mr. Kucinich, thank you for joining us. Do you have some questions?

Mr. KUCINICH. Yes, Mr. Chairman. Thank you for holding this hearing. As always, you're the person who the people can count on to protect the Postal Service as an ongoing service to the people of this country. So I appreciate it.

For Mr. Donahoe, welcome and thank you for being here. And as well as Mr. Waller, thank you.

The U.S. Postal Service is one of the most heavily utilized and underappreciated branches of the Federal Government as a service. And as a major supporter of the U.S. Postal Service, I understand the difficult financial constraints under which you're currently operating. The Postal Service Network Plan uses all the right buzzwords like right sizing, optimization and euphemisms for closing facilities and laying off workers in order to make the case for closing various facilities in the Nation, including airport facilities and processing facilities. But you're going to have to forgive me if I'm skeptical of any nationwide plans for facility closings. There are questions about the accuracy of the information that drives these closings. In the past, the amount that was supposed to be saved by a closing was not achieved. Predictions of the effects on service have also been erroneous.

I have already made clear to you and to the Postal Service in letters that I oppose the privatization of U.S. postal services, not just in Cleveland, but around the country. It is my concern about the long-term financial well-being of the U.S. Postal Service that drives my concern about privatization. And with me, it is not just about the Postal Service, it is any public services, whether they are mail

delivery, water or electricity. It has been my experience they really don't yield the gains that are hoped for.

For example, concluding, Mr. Chairman, we had an A–76 on DFAS, Defense Finance Administration, and it has turned out to be a fiasco over a period of years. Service goes down, price of operating goes up.

So I want to start with questions about the Cleveland facility that might be partially closed. On July 8, 2008, I wrote to the Postmaster General, John Potter, with my concerns about the proposed shutdown of the Cleveland Airport Mail Center [AMC]. Yesterday I received a response that made a distinction between the AMC operations and AMC retail facility. The letter says retail services will continue to be provided at this facility for the foreseeable future. That is a quote. And retail is a concern. And for my constituents and me, this is in my district. The AMC is the only place a mail customer can go if they need to get a date stamp on a letter or package if it is later than usual business hours. I can tell you having been to this facility hundreds of times over a period of a many years, because I live nearby, there are always lines here.

So will the Cleveland AMC under the current planning retain its late hours and what services will definitely remain at the facility? That's the first question I have. And the second question—you can probably address these at once. I want to know how this is playing out nationwide.

Of the 54 AMCs the U.S. Postal Service has already shut down, how many facilities have retained retail services like late hours that were unique to the facilities and would you be willing to furnish that information to the committee?

Mr. DONAHOE. Sure. Let me answer that in a couple of different ways. First of all, Congressman, we have never laid anyone off. I take that very personally.

Mr. KUCINICH. I know there is a ban.

Mr. DONAHOE. There is a contractual agreement, but it doesn't cover everyone. But nonetheless, as leader of the organization, it is my responsibility to make sure we make the right decisions so that when somebody comes to work for the Postal Service, we never have to tap them on the shoulder like somebody from General Motors, Ford or U.S. Steel and say you don't have a job here anymore. So we take that very seriously.

In terms of Cleveland, at the airport mail facility, we have no plans of shutting that down. As a matter of fact, we own the building. What we would like to do is take that airport mail facility retail unit, keep that going and outlease the space in there to make some money to put against some of the operating costs that we have in the organization.

At our airport mail facilities, we have great employees working there. What has happened with those to a large extent is they become obsolete with the way we transport mail. I was a manager at an airport mail facility many years ago in Pittsburgh, PA. The way we transport mail today is on the ground predominantly and what we fly goes to either FedEx, UPS or one of seven airlines. It used to be 55 airlines. And the work done at the airport mail center was to sort through the mail for 55 airlines. We no longer have to do that any more. So we're able to move the mail back up into

our facility in Cleveland, assign it to the air carriers from there and the service has gone nowhere but up.

So we're going to keep that facility open from a retail perspective. We're looking to outlease the rest of it because we do own that building.

Mr. KUCINICH. You're saying the retail facility. You made that clear. But there are two functions here: One is kind of a general operation as a mail center. Now is that going to be maintained? I just want to make sure I understand that clearly? At the Cleveland Hopkins Airport, that AMC is that going to be retained as a mail center or a retail center and do you make a distinction in that or is any of its status going to be changed?

Mr. DONAHOE. The retail facility will remain. The mail processing that we can move back into the Cleveland's main processing plant, we are going to do that.

Mr. KUCINICH. You're going to move the mail processing back to where?

Mr. DONAHOE. Cleveland, OH and to the main post office down not too far from Jacobs Field.

Mr. KUCINICH. See, one of the things, Mr. Chairman, that I'm concerned about and to my friend, Mr. Marchant, here is, you have these facilities by these airports that are really convenient to the public and in Cleveland, right down the street, less than 100 yards, just a few minutes walk, if a minute walk, from the post office is a FedEx. So if the people are used to coming out there, you know, late at night to get things processed, there might be more of a tendency to want to go to choose FedEx. And I don't want to lose customers here. I want to make sure that the money that is being invested here and that Congress makes sure that, you know, we want to see this post office fortified, we don't want to lose any business.

And I'd like, Mr. Chairman, I would really appreciate it if this subcommittee, could work together—I'm chairman of Domestic Policy, and I'd look forward to working with you to see if this change in the status of mail centers, which are at airports, are in any way aimed at facilitating a kind of privatization. You know, this is something that I think this committee ought to look at. You know, this is what our responsibility is. Mr. Donahoe, you have your responsibility. I'm very concerned that this could be a way to try to facilitate privatization which would result in greater costs for a service for our constituents, and frankly I don't think there are many areas where you can beat the U.S. Postal Service.

So I'm a fan of yours, but at the same time, I don't want to see any change in that Hopkins airport facility. I'm not interested in running the post office, but I am interested in saving that facility. So we'll have further discussion on this, but I appreciate your cooperation with this subcommittee because we'll be talking some more.

Mr. Chairman.

Mr. DAVIS. Thank you. Yes. We'll work with you without a doubt.

Mr. KUCINICH. That would be kind.

Mr. DONAHOE. Could I clarify? Maybe I'm not explaining the retail facility. The retail facility, that is the post office. That will not close. In fact, if that is the one you're talking, I'm thinking we

probably should keep it opened later to compete with FedEx. That will not close. All we're doing in the rest of the building is moving some equipment that we can get better utilization that delivers and sorts mail for the entire Cleveland area back up to the Cleveland facility.

Mr. KUCINICH. Mr. Chairman, I thank the gentleman. Mr. Chairman, thank you for your indulgence here. I would look forward to perhaps looking at what it is you're talking about moving. I don't live too far away, so maybe we can work out something with your staff.

Mr. DONAHOE. I'd come up and visit you myself.

Mr. KUCINICH. Let's do it. Let's chat. I thank the gentleman.

Mr. Chairman, thank you so much.

Mr. DAVIS. Thank you very much, Mr. Kucinich. And Dr. Waller, let me get back for a minute. Are you satisfied that the Postal Service has made sufficient progress to address the recommendations that the PRC has made?

Mr. WALLER. Of the ones that we made last year and then the end case that we had specific ones on? I think we are much like the GAO, we're very pleased at what has happened with the AMP guidelines, which were a series of improvements there, both in their public interactions and the getting of information out to the community. We also are hopeful that the descriptions that are in the handbook of the changes and actually the worksheets where the devil is in the detail of actually calculating the expected savings because you do as much as you can to get an accurate picture of how the change will be after the consolidation. But when we looked at the AMPs from the previous set, the ones that a lot of them are still pending, they were all over the place. There was a lot of inconsistency. Now, the new worksheets are there to do it, but we are going to have to see actually how when new AMPs are done, that they'll actually reflect real productivities, because you can't just make assumptions about how machines are going to operate because they vary so much between facilities. Now, that aspect is one that we are very pleased with.

Mr. DAVIS. OK. The Postal Service recently submitted a proposal for measuring and reporting on delivery service performance. What is your general assessment of this proposal at this time? And when do you expect to complete the regulations related to the Postal Service's annual compliance report to the PRC?

Mr. WALLER. A very good question. The first on the measurement plan. I'm a big fan of data, the more data the better and the fact that we can get a lot of this through machine reads and then complement it with external measurements like the XFC thing for the final mile of delivery, I think holds great promise. I think we would have liked to have seen more progress there moving quicker, but we recognize that it is a big task and that the future does hold a lot of hope. The Commission there has to make an actual decision if this is OK to use this internal or hybrid type system instead of an external measurement system to get accurate measurements of what the performance service is on delivery.

The Commission put the plan out for public comment because that's the way we operate when we have to make some decision and have gotten back a lot of interesting criticisms, but also gen-

eral endorsement of it. I think the industry is in favor of it. But there is a lot of tweaking they want to do. I must say that through this consultation process, that measurement system has evolved a lot from when we first started talking about it. It has gotten much more granular in reporting and giving greater transparency. So that has been very good, I think, part of the consultative process, probably where most effect has been had.

Mailers would like a few more things in it. We're looking at that and we hope to make a decision on that in a month or so as the Commission really considers it. And we'll issue an order to make a formal assessment of what the performance measurement system is.

Now, to your second question. When do we get out those data rules? I want to say soon, very soon and certainly I think before the end of the fiscal year when they have to start processing the data to put out the reports for next year. Now, again there is where we've had the, I think, value of a consultative process that is a two-way street, where we've been able to work with the technical staff over there and refine what can be done very quickly in this coming year, what is a longer term thing.

So I hope to say this year and that the chairman wants them out very much, too. But we don't want to put something out that is just going to cause extra expense and somebody starts yelling, "hey, too much data" because it does cost money. So that is why we are carefully crafting them.

Mr. DAVIS. Thank you very much. And let me just ask you one last question, Mr. Donahoe. If mail volume continued to decline at the current rates, if these rates should accelerate, how do you see that affecting the Network Plan?

Mr. DONAHOE. One of the things that we are very concerned about is this decline in volume, Mr. Chairman. This year we knew it would probably be a bad year from an economic standpoint and the fact that the Postal Service today has a lot more exposure to the economy because 10, 15 years ago with a large percentage of our mail first class, people paying bills, the economy went up and down, it didn't affect us that much. With over 50 percent of our mail being advertising mail today, that is definitely a concern. One of the changes we made recently, our Postmaster General has made some operational changes within the organization to focus on the growth side. We know that the law has given us opportunities to compete in the package business. We plan in competing in the package business. We also know that there are a lot of small businesses, home businesses that are out there that are growing today even in a slow economy that don't use the mail. So we're going to focus on the revenue generation side. We're not ready to throw the towel in yet and say we can't improve that side.

With the continued financial pressures, you know, we're asking just to let us please work through, be flexible. Let's work with the union, let us work without any additional constraints so we can figure out as a team what we need to do to continue to watch the cost side of this organization. You know, we've got an excellent working relationship in this room with the Commission, with the unions, with our employees, and with the mailers. We're asking for the flexibility to continue that and we'll be successful in the long run.

Thank you.

Mr. DAVIS. Thank you very much. Mr. Marchant, do you have any other questions? Well, gentlemen, thank you very much. We appreciate your testimony. And you're excused.

We will transition to our next panel, which will be Panel III. And while we're doing so, we'll move ahead with the introductions. Panel III will consist of Mr. Michael Winn, who has served as the Director of Postal Operations for RR Donnelly, who is a member of the Association for Postal Commerce. Mr. Winn has been a member of the graphic arts industry for over 30 years and has been very active in many other print and industry associations. Mr. Winn, thank you very much for being here.

Mr. Robert E. McLean has been the executive director of the Mailers Council since 1996. He furnishes management service for the nonprofit advocacy organizations, serves as its public spokesman and represents the Council on Capital Hill. Thank you very much, Mr. Mclean.

And Mr. Jerry Cerasale has been the senior vice president of Government Affairs at the Direct Marketing Association since 1995. He is in charge of the DMA's contact with Congress, all Federal agencies and State and local governments. Thank you very much, Mr. Cerasale.

And rounding out the group, Mr. Anthony Conway. Mr. Conway was named the executive director of the Alliance of Non-Profit Mailers in July 2007. In leaving the Alliance, he represents nonprofit mailer interests before Congress, the Postal Regulatory Commission and the Postal Service.

Gentlemen, as you know, it is our tradition that witnesses be sworn in. So if you'd stand and raise your right hands.

[Witnesses sworn.]

Mr. DAVIS. Thank you very much. And we'll begin with Mr. Winn. And let me just say, Mr. Winn, that we're always proud to say to people that one of the corporate headquarters that exists in the congressional district that I represent in the great downtown area of Chicago is RR Donnelly and Sons, and we're delighted that you're here. You may proceed.

STATEMENTS OF MICHAEL WINN, DIRECTOR OF POSTAL OPERATIONS, ASSOCIATION OF POSTAL COMMERCE ACCOMPANIED BY GIAN-CARLO PERESSUTTI, VICE PRESIDENT FOR GOVERNMENT RELATIONS AT RR DONNELLY; ROBERT E. McLEAN, EXECUTIVE DIRECTOR, MAILERS COUNCIL; JERRY CERASALE, SENIOR VICE PRESIDENT, GOVERNMENT AFFAIRS, DIRECT MARKETING ASSOCIATION, INC.; AND ANTHONY CONWAY, EXECUTIVE DIRECTOR, ALLIANCE OF NONPROFIT MAILERS

STATEMENT OF MICHAEL WINN

Mr. WINN. Thank you, Mr. Chairman. Chairman Davis, members of the subcommittee, my name is Michael Winn, and I——

Mr. DAVIS. You may need to pull it a little closer or hit the button.

Mr. WINN. There. That is it. Got it.

I'm here before you today in my capacity as a member of the Board of Directors of the Association for Postal Commerce and as director of Postal Operations for RR Donnelly. I am accompanied today by Gian-Carlo Peressutti, who has recently assumed the position of vice president for Government Relations at RR Donnelly.

Neither the Association for Postal Commerce, PostCom nor RR Donnelly are strangers to this committee. However, for the record, I'd briefly like to summarize who we are and why we appreciate the opportunity to testify at this oversight hearing concerning the three Rs of the Postal Network Plan, realignment, right sizing and responsiveness.

PostCom is the leading trade association in the United States devoted exclusively to the interests of commercial businesses and nonprofit organizations who depend upon the U.S. Postal Service to communicate with the public. Our membership, comprised of more than 300 companies and not-for-profit organizations, has a particular interest in mailers, in matters affecting standard mail subclasses. But our membership uses all classes of mail, and PostCom represents their interests in virtually all matters affecting the Postal Service.

As a result, PostCom has been actively involved in the development and enhancement of the Postal Accountability Enhancement Act of 2006 And in the work both of the Postal Service and the Postal Regulatory Commission implementing that statute. The Network Plan is a key element of the postal statute and vital to the economic viability not only of the Postal Service, but also of PostCom's members.

RR Donnelly, headquartered in Chicago, is one of the leading integrated print and logistic solution providers to companies and government organizations throughout the United States and abroad. Our network of consolidation facilities is designed to aggregate mail and to deliver it to points in the Postal Service's network, providing our customers with the greatest efficiency and lowest cost.

We, and I speak for all of the PostCom membership, endorse the goals and objectives of the Network Plan that the Postal Service has submitted to this committee pursuant to section 302 of the Postal Accountability and Enhancement Act.

There is a compelling need for the rationalization, integration and coordination of the Postal Service's processing and distribution facilities. That need was recognized in the 2003 report of the President's Commission on the Postal Service which lays the foundation for the postal statute. Indeed, many of the goals and purposes embodied in the Network Plan were anticipated by the Postal Service transformation plan which was submitted to Congress in April 2002 and updated last year.

The Postal Service began its 2002 report to Congress with this sentence: We live in challenging times. And that is doubly true today. Overall mail volume is at best stagnant or declining for a number of reasons, including the volatility of the American economy. The unprecedented increase in the cost of diesel fuel particularly affects the Postal Service and companies like RR Donnelly that support and serve the Postal Service's commercial and nonprofit customers. This is because the Postal Service network as it exists today and in the future is critically dependent on work shar-

ing. A key component of work sharing, as the plan itself recognizes, involves the destination entry of mail as deep into the postal system as is economically feasible. However, given the combined costs of diesel fuel and postage, we are rapidly approaching the point at which the incentives in the form of discounts that the Postal Service provides for drop entry and other forms of work sharing are no longer adequate to the task.

We are at or very perilously close to the point at which catalog companies, magazine publishers and other mailers are seeking alternate, usually electronic means of communicating with their customers or they are electing to forego the discounts provided for work sharing in order to shift mail preparation and transportation costs back to the Postal Service. The Postal Service can ill afford either outcome.

Indeed, we do live in challenging times. The goals of the Network Plan looking toward realignment and right sizing of the Postal Service facilities are not only merely important, they are indispensable to the preservation of universal service.

In its report, the Postal Service has laid out its performance goals in terms of continuous improvement in both service and in efficiency. It has described the purposes of the three integrated elements of its network rationalization plans. They are elimination of redundant airport mail centers, realignment of the mail processing network as a whole, and the transformation of the bulk mail network.

In our view, these objectives are fundamentally sound. At the same time, the establishment of these goals serves to underscore the central importance of the role of the mailing industry. Mailers and mail service providers must play a significant role in the development of the specific measures that are needed to successfully achieve these objectives.

For example, in explaining the rationale for transformation of the bulk mail centers the plan points out quite correctly that the increase in destination entry of periodical standard mail and packages over the past several decades has resulted in underutilization of the existing BMC network. That will remain true only so long as the price incentives are made adequate to induce mailer behavior in ways that serve both the mailer and the Postal Service.

The overriding objective of the Postal Service Accountability and Enhancement Act is, of course, to maintain a commercially and financially viable Postal Service which is capable of providing universal service throughout the country. That objective can only be achieved if the plan yields the lowest combined cost to the Postal Service and the industry.

The Postal Service states in its plan that it values the ongoing cooperation of the mailing community in implementing the service performance standards it has developed, but the need for the mailing community involvement in rationalization and alignment goes far beyond service. If the only outcome or the principal result of the plan is to shift more costs from the Postal Service to the private sector, the plan will quite frankly fail.

Put another way, we believe that when the postal statute speaks of affordable rates based on efficient network operations, that

means the entire production and delivery train, including the work sharing, address hygiene and undertakings of the private sector.

Efficiency and cost shifting are not the same thing. Now that the goals and objectives of the modernization plan have been defined, the need for the mailing community involvement with the Postal Service in the refinement of the steps outlined in the plan and in its implementation is more critical than ever. Realignment and right sizing cannot be accomplished overnight, especially in a system as large and complex as that operated by the U.S. Postal Service. Still there are incremental changes that can be made as the Postal Service advances its goals of continuous improvement service, both in terms of quality and cost.

The report, for example, specifically notes that the Postal Service is committed to establishing full year 2009 service standard targets, although the measurement systems necessary to produce the baselines are still in development. While we are pleased to see the Postal Service move forward with service performance measurement, this is an example of the need for the Postal Service to understand and to respond to the needs of its customers.

As PostCom has pointed out to both the Postal Service and to the Regulatory Commission, the availability to the industry of realtime, reliable service performance data is imperative to the industry's ability to make the most efficient possible use of the system and to thereby achieve the lowest combined cost of service. With performance service data available to mailers and service providers on a realtime bases, the industry will be able to react to specific problems and maintain efficiency throughout the value chain and therefore achieve the lowest combined cost.

The Postal Service is to be commended with respect to its commitment to—concerning service performance standards and the measurement of actual performance under those standards. But it also must recognize that this data must be available to industry in a timely and meaningful fashion. PostCom looks forward to working with the Postal Service as it proceeds to operationwise its service standards and service performance measurements. But there is more that can be done by the Postal Service and industry, working together toward the common goal of maintaining and enhancing the value of mail as a communication system.

In its opening address at this year's National Postal Forum, Postmaster General Potter specifically pointed out that the Postal Service cannot be timid in the implementation of change. It must also learn to share risk with the industries that it serves if it is to remain commercially and financially viable. These steps cannot be taken by the Postal Service alone in a silo or in a series of unconnected silos. The view, concerns and interests of industry must be factored into the plan at each step during the process of implementation, and it is equally critical that industry interests be included in the development and refinement of the broad and general objectives that the Postal Service has laid out in the plan that it has submitted to Congress.

The devil is in the details in how the objectives and principles set forth in the 2008 plan and its precursors are refined and put into actual practice. It is in this respect that, in our view, the Postal Service's performance to date needs to be improved at the strate-

gic level. The development and implementation of the intelligent mail bar code is an example of this issue of inadequate responsiveness to the industry needs and input.

The IMB is generally recognized by industry to be of value to both industry and the Postal Service. It is the long-term basis for service performance measurement, increased operational efficiency and right sizing within the postal system. However, until recently, the Postal Service's service communications concerning this major objective have been at best confusing and incomplete and at worst entirely in conflict with the needs and capacity of industry. The result is an enormous cost to the industry, costs that could have been better devoted to the actual production, printing and preparation of mail.

I am happy to report that in recent weeks the senior management of the Postal Service has come to recognize that there is a need for a high level coordination of all the elements that go into IMB. This includes the creation of mechanisms through which industry can express its views and concerns regarding consistent, reliable and meaningful information about the IMB plan, its pricing and its requirements. There are, however, other aspects of the plan where the Postal Service's responsiveness to the needs and interests of the industry must be improved. This is especially true at the tactical level.

We in the industry understand the incremental changes in operations and the use of facilities will result in changes of the routing of mail. This may occur with more frequency as the Postal Service moves to a network redesign and redeployment. However, too often mailers and the logistics companies that they employ do not learn of operational changes in a particular region or at a particular facility until a truck carrying the mail actually arrives at the facility only to be told by local officials that routing has been changed. This occurs when processing equipment has been moved and a truck has to be routed to the newly designated acceptance site. Whether or not these unannounced changes in operations produce savings to the Postal Service, it misses the point. The added cost to industry, especially in times of high fuel costs, defeat the goal of the lowest combined cost and therefore the objectives which underlie the Postal Accountability Act.

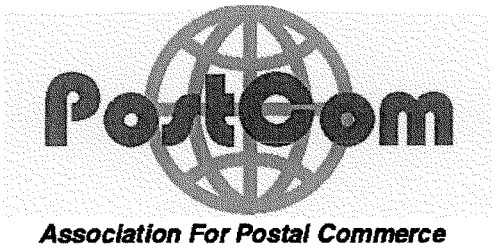
Accordingly, as to the tactical and strategic matters in the Postal—the Postal Service's communication of information and responsiveness to input from the industry can be and must be improved.

In conclusion, PostCom and RR Donnelly believe that the basic objectives and purposes in the Network Plan which the Postal Service has submitted to Congress are sound. There are aspects of the plan that need to be worked through, developed more fully and perhaps modified. That task must not be left to the Postal Service. That task must be left to the Postal Service working closely with the associations that represent the industry and with companies like RR Donnelly that are in the trenches every day. Only through direct interaction between the Postal Service and the mailing community, which speaks in this context for your constituents, can realignment and right sizing take place in a rational and orderly fashion. The mutual effort is to produce results that are responsive to and serve the needs and best interests of all the Postal Service's

stakeholders. The Network Plan advanced by the Postal Service lays the foundation for the realization of these goals.

We thank the subcommittee for this opportunity to present our views on this critically important Postal Service initiative. Thank you, Mr. Chairman.

[The prepared statement of Mr. Winn follows:]



Testimony of
Michael J. Winn
Director of Postal Operations
RR Donnelley

On Behalf of the
Association for Postal Commerce

Before the
U.S. House of Representatives
Committee on Oversight and Government Reform
Subcommittee on Federal Workforce,
Postal Service, and the District of Columbia

July 24, 2008

Testimony of Michael J. Winn

On behalf of
Association for Postal Commerce
And
RR Donnelley

Chairman Davis, Members of the Subcommittee, I am Michael J. Winn, and I appear before you today in my capacity as a Member of the Board of Directors of the Association for Postal Commerce and as Director of Postal Operations for RR Donnelley. I am accompanied today by Gian-Carlo Peressutti, who has recently assumed the position of Vice President for Government Relations at RR Donnelley.

Neither the Association for Postal Commerce (" PostCom") nor RR Donnelley are strangers to this Committee, but I will briefly, for the record, summarize who we are and why we appreciate the opportunity to testify at this Oversight Hearing concerning the three Rs of the Postal Network Plan: "Realignment, Rightsizing and Responsiveness." PostCom is the leading trade association in the United States devoted exclusively to interests of commercial businesses and nonprofit organizations who depend upon the United States Postal Service to communicate with the public. Our membership, comprised of more than 300 companies and not-for-profit organizations, has a particular interest in matters affecting the Standard mail sub-classes but uses all classes of mail, and PostCom represents their interests in virtually all matters affecting the Postal Service. As a result, PostCom has been actively involved in the development and enactment of the Postal Accountability and Enhancement Act of 2006 ("PAEA") and in the work of both the Postal Service and the Postal Regulatory Commission in implementing that statute.

The Network Plan is a key element of the PAEA and vital to the economic viability, not just of the Postal Service, but of PostCom's members

RR Donnelley, headquartered in Chicago, is one of the largest leading integrated print and logistics solution providers to companies and governmental organizations throughout the United States and abroad. Our network of consolidation facilities is designed to aggregate mail, and to deliver it to points in the Postal Service's network providing our customers with the greatest efficiency, and lowest cost.

We – and I speak for all of the PostCom membership – endorse the goals and the objectives of the Network Plan the Postal Service has submitted to this Committee pursuant to Section 302 of the PAEA.

There is a compelling need for rationalization and integration and coordination of the Postal Service's processing and distribution facilities. That need was recognized in the 2003 Report of the President's Commission on the Postal Service, which lays the foundation for the PAEA. Indeed, many of the goals and purposes embodied in the Network Plan were anticipated by the Postal Service Transformation Plan that it submitted to Congress in April 2002 and updated last year.

The Postal Service began its 2002 Report to Congress with this sentence, "We live in challenging times." And that is doubly true today. Overall mail volume is at best stagnant or declining for a number of reasons including the volatility of the American economy. The unprecedented increases in the cost of diesel fuel particularly afflicts the Postal Service and the industries and companies, like RR Donnelley, that support and serve the Postal Services' commercial and nonprofit customers. This is because the Postal Network as it exists today and, in the future, is critically dependent on work

sharing. A key component of work sharing — as the Plan itself recognizes -- involves the destination entry of mail as deep into the postal system as is economically feasible. However, given the combined costs of diesel fuel and postage we are rapidly approaching the point at which the incentives (in the form of discounts) the Postal Service provides for drop entry and other forms of work sharing are no longer adequate to the task. We are at, or perilously close, to the point at which catalog companies, magazine publishers, and other mailers are either seeking alternative – usually electronic – means of communicating with their customers, or are electing to forego the discounts provided for work sharing in order to shift mail preparation and transportation costs back on to the Postal Service. The Postal Service can ill afford either outcome. We do indeed "live in challenging times." The goals of the Network Plan -- looking toward realignment and rightsizing of its facilities -- are not merely important; they are indispensible to the preservation of universal service.

In its report the Postal Service has laid out its performance goals in terms of "continuous improvement" of both service and efficiency. It has described the purposes of the three integrated elements of its network rationalization plan involving the elimination of redundant airport mail centers, the realignment of the mail processing network as a whole and the transformation of the bulk mail network. In our view, these objectives are fundamentally sound.

At the same time, the establishment of these goals serves to underscore the central importance of the role the mailing industry — mailers and service providers alike — must play in the development of the specific measures needed to successfully achieve these objective and ends. For example, in explaining the rationale for transformation of

the BMCs, the Plan points out correctly that "the increase in destination entry" of periodicals, standard mail and packages over the past several decades has resulted in underutilization of existing BMC network capacity. That will remain true only so long as the price incentives remain adequate to induce mailer behavior in ways that serve mailer and Postal Service interests. The overriding objective of the PAEA is, of course, to maintain a commercially and financially viable Postal Service that is capable of providing universal service throughout the country. That objective can, however, only be achieved if the Plan yields the lowest *combined* costs to the Postal Service and industry.

The Postal Service states in its Plan that it "values the ongoing cooperation of the mailing community" in relation to operationalizing the Service Performance Standards it has adopted. But the need for mailing community involvement in rationalization and realignment goes far beyond service. If the only outcome — or the principal result — of the Plan is to shift more cost from the Postal Service to the private sector, the Plan will, quite frankly, fail. Put another way, we believe that, when the PAEA speaks of "affordable" rates based on "efficient" network operations it means the entirety of the production and delivery chain, including the work sharing, address hygiene and other undertakings of the private sector; efficiency and cost shifting are not the same thing. Now that the goals and objectives of the modernization plan have been defined, the need for mailing community involvement with the Postal Service in the refinement of the steps outlined in the Plan and in its implementation is more critical than ever.

Realignment and rightsizing cannot be accomplished overnight especially in the system as large and complex as that operated by the United States Postal Service. Still, there are incremental changes that can be made as the Postal Service advances toward its

goal of continuous improvement service both in terms in of quality and cost. The Report, for example, specifically notes that the Postal Service is committed to establishing FY2009 Service Standard Targets although the measurement systems necessary to establish baselines are still in development for expansion. While we are pleased to see the Postal Service move forward with service performance measurement, this is an example of the need for the Postal Service to understand and respond to the needs of its customers. As PostCom has pointed out to both the Postal Service and the Regulatory Commission the availability to the mailing industry of real time, reliable service performance data is imperative to the industry's ability to make the most efficient possible use of the system and to thereby achieve the lowest combined cost of service. With service performance data available to mailers and service providers on a real time basis, the industry will be able to react to specific problems to maintain efficiency throughout the value chain and thereby achieve the lowest combined cost. The Postal Service is to be commended, with respect to its commitment concerning service performance standards and the measurement of actual performance under those standards, but it must also recognize that this data must be made available to the industry in a timely and meaningful fashion. PostCom looks forward to working with the Postal Service as it proceeds to "operationalize" its service standards and service performance measurements.

But there is more that can be done through the Postal Service and industry working together toward the common goals of maintaining and enhancing the value of mail as a communications system. In his opening address at this year's National Postal Forum, Postmaster General Potter specifically pointed out that the Postal Service cannot be "timid" in the implementation of change and that it must learn to share "risk" with the

industries that it serves if it is to remain commercially and financially viable. These steps cannot be taken by the Postal Service alone in a silo or series of unconnected silos. The views, concerns and interests of the industry must be factored at each step in the process of implementation and, equally, in the development, refinement and filling in of the broad and general objectives that the Postal Service has laid out in the Plan it has submitted to Congress.

The devil is in the details in the manner in which the objectives and principles set forth in the 2008 Plan and its precursors are refined and put into actual practice. It is in this respect that in our view, the Postal Service's performance to date needs to be improved. At the strategic level, the development and implementation of the Intelligent Mail Bar Code (IMB) is an example of this issue of inadequate responsiveness to industry. The IMB is generally recognized by industry to be of value to both industry and the Postal Service; it is the long-term basis of service performance measurement and of increased operational efficiency and rightsizing within the postal system. However, until recently the Postal Service's communications concerning this major initiative has been at best confusing and incomplete and at worst entirely in conflict with the needs and capacities of industry resulting in enormous cost to the industry -- cost that could much better have been devoted to the actual production, printing and preparation of mail I am happy to report that in recent weeks, the senior management of the Postal Service has come to recognize that there is a need for high-level coordination of all of the elements that go into the IMB and of the creation of mechanisms through which industry can express its views and concerns regarding consistent, reliable and meaningful information about the IMB Plan, pricing and requirements.

There are, however, other aspects of the Plan where the Postal Service's responsiveness to the needs and interests of the industry need to be improved. This is especially true at the tactical level. We in the industry understand that incremental changes in operations in the use of the facilities and in the routing of mail will occur with some frequency as the Postal Service moves to a network redesign and redeployment. However, too often mailers and the logistic companies they employ do not learn of operational changes at a particular region or at a particular facility until the truck carrying mail actually arrives at the mail facility only to be told by local officials that routing has been changed or processing equipment has been moved and the truck has to be re-routed to the newly designated acceptance site. Whether or not these unannounced changes in operations produce savings to the Postal Service misses the point. The added costs to the industry, especially in times of high fuel costs, defeat the goal of lowest combined cost and, therefore, the objectives which underline the PAEA. Accordingly, as to tactical and strategic matters, the Postal Services' communication of information and responsiveness to input from the industry can and must be improved.

In conclusion, PostCom and RR Donnelley believe that the basic objectives and purposes the Network Plan that the Postal Service has submitted to Congress are sound. There are aspects of that Plan that need to be worked through, perhaps modified and more fully developed. That task must be left to the Postal Service working closely with the associations that represent the industry and with companies like Donnelley that are in the trenches every day. Only through direct interaction between the Postal Service and the mailing community -- which speaks in this context for your constituents—can realignment and rightsizing take place in a rational and orderly fashion with results that

are responsive to and serve the needs and best interests of all of the Postal Service's stakeholders. The Network Plan advanced by the Postal Service lays the foundation for realization of these goals. We thank the Subcommittee for this opportunity to present our views on this centrally important Postal Service initiative.

Mr. DAVIS. Thank you very much. And we'll go to Mr. McLean.

STATEMENT OF ROBERT E. McLEAN

Mr. MCLEAN. Good afternoon, Mr. Chairman, Mr. Marchant. My name is Bob McLean, and for the past 12 years I have been the Mailers Council's executive director. The Mailers Council is the largest group of mailers and mailing associations in the country. Collectively, the Council accounts for approximately 70 percent of the Nation's mail volume. We welcome this opportunity to testify on the Postal Service's operational network and the need to realign it.

This reduction is a difficult but necessary response to the unprecedented changes in mail volume the Postal Service is experiencing and will continue to experience for years to come. Reducing the network size is essential if the Postal Service is to provide affordable, reliable and universal Postal Service to your constituents.

As we testified 1 year ago this month, the Postal Service is working diligently to implement the many changes required by the reform bill signed into law in December 2006. Working with the support of and direction of the Postal Regulatory Commission, the Postal Service has made tremendous progress in such important areas as modernizing the ratemaking system and developing new delivery standards.

Despite these successes, however, the Postal Service faces many unprecedented changes in how the Nation communicates and conducts commerce. Collectively, these changes are largely irreversible and include no worthy statistics. Overall mail volume is declining. Revenue from first-class mail, the most profitable class delivered, continues to decline as does first-class mail volume. Revenue from standard mail continues to increase but at a much slower pace than in the past decade. Higher fuel costs are adding millions in unprecedented costs every day, a problem that is likely to increase for the foreseeable future. Higher inflation will also mean significantly higher cost of living allowances for postal employees. That along with higher health insurance costs will add millions in costs in fiscal year 2009.

Because of these challenges, it will become increasingly important for the Postal Service to operate as efficiently as possible. Starting now, to avoid significant annual postage increases that will only accelerate the decline in total mail volume or if such increases are precluded by the PAEA's price cap provisions to avoid serious service declines that will have the same effect.

In its efforts to improve delivery performance and in response to ongoing and future changes in mail volume and composition, the Postal Service must be allowed to reduce the size of its operations network, much of which was designed 40 or more years ago when there was more mail that was processed quite differently and less competition from delivery and communication alternatives. More specifically, the Postal Service must move now to realign and reduce its delivery network which will lead eventually to the closing and consolidating of some mail processing facilities, especially in cities where there are multiple plants.

There are several reasons why we encourage you to allow the Postal Service to move forward with realignment. First, the Postal

Service has more capacity for processing mail than it needs because technology has allowed more mail to be processed faster, with fewer employees and in less time than was in the case years before. Also, the Postal Service has used the utmost care regarding its employees during the transition toward automation. It has reduced its work force, as you heard earlier today, by more than 100,000 employees without layoffs, which I think is a remarkable achievement.

Second, mail volume is expected to continue to decline, but mail delivery points will increase. The Postal Service adds from 1.2 to 1.8 million new delivery points every year. That means they have to add more facilities for letter carriers, hire more carriers and buy more vehicles that have more expensive fuels in it. All of this will add billions to the cost of processing the mail.

Third, unless the Postal Service is allowed to control its cost, the Postal Service will be unable to live within the price gap imposed by the reform law. This inability will in turn lead to either a relaxation of the cap followed by extraordinary rate increases or major service reductions. Either way, more customers will be driven from the mail, further reducing mail volume and leading to even higher prices. And we're back to the much discussed death spiral that, Mr. Chairman, we discussed often in 2006 before passage of the postal reform bill.

We recognize that any decision to close a postal facility is a difficult one. It affects the lives of many individuals, including employees in your districts. However, the right sizing of the postal network as the mail stream changes is essential to keeping postage affordable for all of your constituents. Higher postage affects everyone and could eventually hasten the demise of the Postal Service, which the Mailers Council seeks to avoid. We depend on a reliable postal system that is affordable. Higher postage and a bloated network will in the long run be devastating to more than just postal employees. And unless Congress allows the Postal Service to consolidate these facilities, we could be talking about a lot of employee layoffs. This is a dire prediction, but one that we can state without equivocation because the Postal Service's potential financial losses are so large and so unavoidable given the current overhead.

Congress has given the Postal Service a mandate to deliver excellent service to every person in every State without government financial support, which it has done for the past several decades. We want this situation to continue.

Let's avoid layoffs, let's avoid having the Postal Service become a burden on the taxpayer and allow the postal managers to manage the agency. Give the Postal Service the opportunity to respond without encumbrances to these profound changes that it faces now and will face in the coming years. Please let postal management reduce the size of the postal operational network because it is essential to improving the efficiency of the Postal Service.

Congress has demanded that the Post Office operate more like a successful business than in the past. It should not simultaneously prevent it from doing so.

Mr. Chairman, thank you again. I would welcome your questions.

[The prepared statement of Mr. McLean follows:]

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MAILERS COUNCIL

TESTIMONY

BEFORE THE

HOUSE SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA

JULY 24, 2008

TESTIMONY OF

ROBERT E. MCLEAN, CAE

ON BEHALF OF THE

MAILERS COUNCIL

Good afternoon, Mr. Chairman, and members of the subcommittee. The Mailers Council appreciates the opportunity to testify on postal issues. My name is Bob McLean, and for the past 12 years I have been the Council's executive director.

BACKGROUND

The Mailers Council is the largest group of mailers and mailing associations in the nation. We represent for-profit and nonprofit mailers (large and small) that use the United States Postal Service to deliver correspondence, publications, parcels, greeting cards, advertising, and payments. Collectively the Council accounts for approximately 70% of the nation's mail volume.

The Mailers Council believes that the Postal Service can be operated more efficiently, supports efforts aimed at containing postal costs, and has the ultimate objective of keeping rates below the Consumer Price index without compromising service. We believe that the Postal Service should be given the discretion it needs, and which it received under the Postal Accountability and Enhancement Act (PAEA), to operate in a way that will allow it to maintain high-quality service at the lowest possible rates.

We welcome this opportunity to testify on the Postal Service's operational network and the need to realign its network. This reduction is a difficult but necessary response to the unprecedented changes in mail volume the Postal Service is experiencing and will continue to experience for years to come. Reducing the network size is essential if the USPS is to provide affordable, reliable universal postal service to your constituents.

FUNDAMENTAL CHANGES IN MAIL DELIVERY

As we testified one year ago this month, the Postal Service is working diligently to implement the many changes required by the PAEA, the postal reform bill signed into law in December 2006. Working with the support and direction of the Postal Regulatory Commission (PRC), the Postal Service has made tremendous progress in such important areas as modernizing its rate-making system and developing new delivery standards.

Despite these successes, the Postal Service faces many unprecedented changes in how we as a nation communicate and conduct commerce. Collectively these changes are largely irreversible and include:

- overall mail volume is declining;
- revenue from First-Class mail, the most profitable class delivered, continues to decline, as does First-Class mail volume;
- revenue from Standard mail continues to increase, but at a much slower pace than in the past decade;
- higher fuel costs are adding millions in unprecedented costs every day, a problem that is likely to increase in the next year; and
- higher inflation will mean significant cost of living allowances for postal employees that, along with higher health insurance costs, will add millions in costs in FY 2009.

Because of these multiple, daunting challenges, it will become increasingly important for the Postal Service to operate as efficiently as possible—starting now—to avoid significant annual postage increases that would only accelerate the decline in total mail volume or, if such increases are precluded by PAEA's price cap provisions, to avoid serious service declines that will have the same effect.

CLOSING AND CONSOLIDATING POSTAL FACILITIES

In its efforts to improve delivery performance, and in response to ongoing and future changes in mail volume and composition, the Postal Service must be allowed to reduce the size of its opera-

tions network, much of which was designed 40 or more years ago when there was more mail that was processed quite differently, notably more First-Class mail, and less competition from delivery and communication alternatives. More specifically, the Postal Service must move now to realign and reduce the delivery network, which will lead to the closing and consolidating of some mail processing facilities, especially in cities where there are multiple plants.

The Mailers Council fully supports the Postal Service's plans for realigning its mail processing and delivery network. Given the number of new deliveries in many cities, and the changes underway in the mailing industry, reducing the size of the network is the best possible way of containing postal costs without compromising service—which is the Mailers Council's mission.

We can appreciate the implications of these changes on postal employees who are understandably concerned about closing postal facilities. These employees have pleaded with you and other members of Congress to prevent facility closings for fear that they will lose their jobs. There are three reasons why we encourage you to allow the Postal Service to move forward with realignment.

First, the Postal Service has more capacity for processing mail than it needs, because technology allows more mail to be processed faster, with fewer employees, and in less time than was the case even a decade ago. Also, the Postal Service has used the utmost care regarding its employees during this transition toward automation. It has reduced its workforce with attrition and has provided relocation and/or retraining options for affected employees. There have been no employee layoffs under PMG Jack Potter, a striking difference compared to large private sector companies in the United States that are also facing the need to downsize or change their operations.

Second, although mail volume is expected to decline, mail delivery points will continue to increase at an astounding level. While the Postal Service is delivering fewer pieces of mail to each address, the number of addresses to which it delivers mail is increasing at historically unprecedented levels. For many years, the Postal Service has added one million or more new delivery points annually, requiring the construction of new delivery units (not mail processing plants), the

hiring of additional letter carriers, the purchase of more delivery vehicles, and the purchase of more fuel—all adding billions to operational costs.

Third, and most importantly, unless the Postal Service is allowed to control its costs, especially those now incurred to sustain an outdated, outsized mail processing network, the Postal Service will no doubt be unable to live within the price cap imposed by Congress in the PAEA. This inability will in turn lead to either a relaxation of the cap, followed by extraordinary rate increases, or major service reductions. Either way, more customers will be driven from the mail, further reducing mail volume and leading to even higher prices and the much discussed death spiral that led to passage of the 2006 postal reform law.

As we said to you in 2007, we recognize that any decision to close a postal facility is a difficult one, because it affects the lives of many individuals. However, right-sizing the postal network as the mailstream changes is essential to maintaining affordable postage rates. Higher postage will affect every one of your constituents now and could eventually hasten the demise of the Postal Service. Higher postage and a bloated operational network will, in the long run, be much more devastating to postal employees. The Postal Service is hoping for the authority to offer early retirement to 40,000 employees in the next year. Unless Congress allows the Postal Service to consolidate facilities now, we soon will be talking about more than 40,000 layoffs. This is a dire prediction but one we can state without equivocation, because the Postal Service's potential financial losses are so large, and so unavoidable given the current overhead costs.

Congress has given the Postal Service a mandate to deliver excellent service to every American in every state without government financial support, which it has done for the past several decades. We want that situation to continue, as I'm sure members of this committee do as well. Let's avoid having the Postal Service become a burden on taxpayers and allow the Postal Service to manage itself. Give the Postal Service the opportunity to respond without encumbrances to the many profound, and in some cases unprecedented, changes it faces now and will face in the coming years. Let postal management reduce the size of the postal operational network, because it is essential to improving the efficiency of the Postal Service. Congress has demanded that the

Postal Service operate more like a successful business. It should not simultaneously prevent it from doing so.

Mr. Chairman, thank you again for the opportunity to present our view on network realignment. I would gladly answer any questions you and your colleagues may have.

Mr. DAVIS. Thank you very much, and we'll go to Mr. Cerasale.

STATEMENT OF JERRY CERASALE

Mr. CERASALE. Chairman Davis, Ranking Member Marchant, thank you very much for giving us the opportunity to be here. I'm Jerry Cerasale, senior VP for the Direct Marketing Association, which is an association of 4,000 companies reaching—using all channels of marketing, all channels of communication to try and reach citizens in this country and throughout the world. The.

Postal Accountability and Enhancement Act maintains the focus of the old Postal Reorganization Act that the Postal Service run as a business. And just as any legislation we have seen, it has compromise in it. There are CPI limited rates. At the same time, the Postal Service is given the opportunity and the flexibility to run itself as a business. Both the Postal Service and its customer, the mailers, face a changing marketplace right at the moment. And to survive, the Postal Service must constantly adjust to meet that marketplace. Just as my members are constantly adjusting how they try to reach customers and potential customers, changing their advertising dollar mix between the many channels that are available to them and the number of channels are only going to grow as time goes on.

Change itself, however, can be very difficult for both the Postal Service, for the mailers and their employees, for postal employees and for your constituents and the constituents of your colleagues, as we change facilities, change processing, as things move across geopolitical lines. But we have to allow the Postal Service to adjust. We cannot simply oppose change for change's sake.

And we applaud the Postal Service for establishing a framework to implement changes in network and a design that can be used as we go forward into the future.

In the same light, however, change for change sake is not what we are seeking. It is here where the PRC, the GAO, the IG and, most importantly, this Congress has to hold the Postal Service accountable for any change that it implements. Is that change working financially? Has it improved productivity? Has it improved service? Has it destroyed employee morale? Oversight is what we need; oversight very often is what we need.

DMA simply asks, allow the Postal Service to adjust its network within the framework it has provided you, but hold it accountable that those adjustments are working. And if they are not, have them adjusted again and make that adjustment swiftly. DMA and I'm sure all Postal Service customers stand ready to assist you, the Postal Service, the PRC, the GAO and the IG in getting that done.

Thank you and I am ready for any questions.

[The prepared statement of Mr. Cerasale follows:]

BEFORE THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA
UNITED STATES HOUSE OF REPRESENTATIVES

HEARING ON

"THE THREE R'S OF THE POSTAL NETWORK PLAN: REALIGNMENT, RIGHT-SIZING, AND RESPONSIVENESS"

JULY 24, 2008

TESTIMONY OF

JERRY CERASALE
SENIOR VICE PRESIDENT, GOVERNMENT AFFAIRS

DIRECT MARKETING ASSOCIATION, INC.

Jerry Cerasale
Senior Vice President, Government Affairs
Direct Marketing Association, Inc.
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202/861-2423

Good morning, Chairman Davis and members of the Subcommittee, I am Jerry Cerasale, Senior Vice President for Government Affairs of the Direct Marketing Association, and I thank you for the opportunity to appear today on behalf of the Direct Marketing Association concerning the Postal Service's June 2008 Network Plan required by section 302 of the Postal Accountability and Enhancement Act (PAEA).

The Direct Marketing Association, Inc. ("DMA," www.the-dma.org) is the leading global trade association of businesses and nonprofit organizations using and supporting multichannel direct marketing tools and techniques, including the U.S. Mail. Founded in 1917, DMA today represents more than 3,600 companies from dozens of vertical industries in the U.S. and 50 other nations, including a majority of the Fortune 100 companies, as well as nonprofit organizations. Included are catalogers, financial services, book and magazine publishers, retail stores, industrial manufacturers, Internet-based businesses, and a host of other segments, as well as the service industries that support them, such as printers.

DMA and our members appreciate this Committee's and Subcommittee's continued outreach to the business community on important issues involving the Postal Service. The DMA fully supported the Postal Accountability and Enhancement Act. One of the major goals of the PAEA was to enable the Postal Service to meet the 21st century market needs of individual and business mailers. To that end, the Postal Service must create the most efficient mail transportation and delivery network possible. The PAEA provides postal management with the tools it needs to create that network, but the tools alone do not guarantee success – it falls back to the Postal Service to provide the blueprint and carry through on the implementation.

Although I suspect the DMA's position on right-sizing of our nation's postal infrastructure is not unique, the perspective from which it reaches this position is. Not only do the mailpieces—some 70 percent of the total mail volume—that DMA's member companies send encompass the entire range of shapes, sizes and weights, but also DMA and its members utilize virtually every marketing channel. Thus, the views and business decisions of these companies take into account the competitive nature of the marketplace

and the importance of maintaining a postal system that will provide consistent and affordable service.

Over my career I have had the opportunity to view the issue of right-sizing the postal network from several different vantage points beyond just the DMA—as an attorney for the USPS, a senior staff assistant at the then-Postal Rate Commission, and as Deputy General Counsel of the former House Post Office and Civil Service Committee. I have come away from each of these positions having an appreciation for the potential consequences that every network change brings to one party or another. The Presidential Commission gained a sense of this from its deliberations and noted in its 2003 report,

> The defining challenge, however, remains significant—the willingness of interested parties (employees, customers, partners, regulators and members of Congress) to support strategic realignment that will dramatically alter not *what* the Postal Service does, but *how* it provides its vital services to the nation. (at Chapter 5, page 7.)

The report that is the focus of today's hearing is one of many required by the PAEA on a multitude of complex and important issues. In many respects, implementing the PAEA in a manner that will ensure that the needs of the nation are met now and in the future is akin to working a jigsaw puzzle in which a number of key pieces are changing shape. The Service's report is in effect a template for how it will go about realigning its network but actual decisions will, for example, need to comport with (1) the universal service obligation and postal monopoly currently under study by the Postal Regulatory Commission and (2) the Service's standards established for market dominant products.

Several years ago the Postal Service tagged its network right-sizing effort with an acronym, END, that may seem ironic but which stood for a sound concept—Evolutionary Network Design. The need for that evolution is now readily apparent. The mix of mail is and will continue to change. New technologies such as flat sequencing sorters and Intelligent Mail Barcodes are and will be brought online. Airlift capacity available to the Postal Service will change, and in the short term it may change dramatically. Environmental concerns will take greater prominence. Each of these changes will introduce new challenges to marketers and the Postal Service—new vectors into network realignment decisions.

These decisions will likely result in job and plant changes not only within the Postal Service but also for its customers, both large and small. We understand that change, in many instances, is difficult. DMA, nevertheless, is confident that the Service will continue to work closely with industry as it moves forward. I am equally confident that industry will react quickly should network changes result in either shifting cost burdens or any deterioration in service. Realignment may also move postal operations among different geo-political jurisdictions. Those moves may create difficulties for your constituents or the constituents of your colleagues. But for the Postal Service to succeed under the PAEA, it must have the ability to streamline its operations. That is the counterbalance to the CPI annual rate changes in the PAEA. Let the Service succeed. When it enacted the PAEA in December of 2006, the Congress reinforced the concept first introduced in the 1970 Postal Reorganization Act of a business-like Postal Service. By virtue of requiring the report that is the focus of this hearing and periodic follow-up reports, the Congress has formalized a common sense mechanism to oversee what over time may be a substantial overhaul of the Service's legacy network. The DMA hopes to be a partner in this ongoing effort aimed at ensuring a viable, predictable and affordable postal system to important to individuals and to commerce.

Oversight by the Congress and the Postal Regulatory Commission (PRC) on the effectiveness of any adjustment to the Postal Service network is necessary to the success of any realignment. Congress and the PRC should require periodic updates on the efficacy of the network changes along with an update on the effect of those changes in service for all service offerings, not just First-Class letter mail. Those changes must also comport with any labor agreement between the Postal Service and its employees. But mailers believe that if the Postal Service cannot create an efficient network, the result will be a shift of marketing resources to other channels leading to greater challenges for the Postal Service, its employees and its customers.

In conclusion, DMA urges this Subcommittee to support the Postal Service in its efforts to right-size its network today and in the future. We also urge that you continue strong oversight requiring the Postal Service to report often on the effectiveness of its right-sizing on costs, service and employees. DMA looks forward to future oversight hearings both here and at the PRC on this subject. It is important that the Postal Service

succeed and be able to react quickly should the need arise to shift course if not succeeding.

I thank you and look forward to any questions you may have.

Mr. DAVIS. Thank you very much, Mr. Cerasale. And we'll go to Mr. Conway.

STATEMENT OF ANTHONY CONWAY

Mr. CONWAY. Mr. Chairman, Congressman Marchant, my name is Anthony Conway. I'm the executive director of the Alliance of Non-Profit Mailers, a coalition of over 300 nonprofit organizations and commercial service providers that have an interest in nonprofit mailing interests. Thank you for inviting me to testify here today.

The U.S. Postal Service provides a vital service that is critical to the American economy and society. It provides universal service to all through a network of postal facilities and mail delivery routes that has grown as America has grown. The Postal Service's monopoly product, first-class mail, has provided much of the funding for this infrastructure growth. Year after year, first-class mail volume would increase and provide more revenue needed to help pay for the Nation's growing postal system.

Unfortunately, first-class mail stopped growing about 5 years ago and growth appears unlikely to resume. That means the Postal Service must find other services of revenue growth and at the same time must pursue unprecedented cost control measures to keep costs and revenue in balance.

The days of business as usual are over. The Postal Service's mail processing delivery network provides a tremendous opportunity for streamlining and cost saving. Designed largely since the Postal Reorganization Act of 1970, the network has remained fairly constant while mail flows have radically changed. The result is a network in need of major overhaul to reduce excess capacity and enhance operational efficiencies. Rationalizing the Postal Service network is no easy chore, but it must go forward. Without the financial and operational benefits a redesigned network offers, the Postal Service will be hard pressed to meet the business challenges it faces.

We agree that an open dialog should occur among stakeholders to ensure that all voices are heard as a needed network realignment plan is designed and implemented. At the same time, however, it is crucial that process not become an obstacle to progress and that stakeholder input not be used to create paralysis by analysis.

Thank you for your attention and time, and I'll be pleased to answer your questions.

[The prepared statement of Mr. Conway follows:]

TESTIMONY OF ANTHONY CONWAY
ALLIANCE OF NONPROFIT MAILERS
BEFORE THE
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA
OF THE
HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

JULY 24, 2008

Mr. Chairman and members of the Subcommittee, my name is Anthony Conway. I am the Executive Director of the Alliance of Nonprofit Mailers. Thank you for inviting me to testify on behalf of the Alliance about the importance of network realignment of the United States Postal Service.

The Alliance is a coalition of nonprofit organizations that is dedicated to the preservation of affordable postage rates and dependable mail service. Established in 1980, the Alliance is comprised of over 300 nonprofit organizations and commercial service providers that have an interest in nonprofit mailing issues. Our members include many of the Nation's best-known charitable, religious, educational, scientific and other nonprofit organizations. These members rely heavily on Nonprofit Standard Mail and Nonprofit Periodicals Mail to generate necessary support and to communicate with existing and potential members, beneficiaries, and other stakeholders.

The United States Postal Service provides a vital service that is critical to the American economy and society. It provides universal service to all through a network of postal facilities and mail delivery routes that has grown as America has grown. The Postal Service's monopoly product, First-Class Mail, has provided much of the funding for this infrastructure growth. Year after year First-Class Mail volume would increase and provide more revenue needed to help pay for the Nation's growing postal system.

Unfortunately, First-Class Mail stopped growing five years ago, and growth appears unlikely to resume. That means the Postal Service must find other sources of revenue growth and, at the same time, must pursue unprecedented cost control measures to keep costs and revenue in balance. The days of business as usual are over.

The Postal Service's mail processing and delivery network provides a tremendous opportunity for streamlining and cost saving. Designed largely since the Postal Reorganization Act of 1970, the network has remained fairly constant while mail flows have radically changed. The result is a network in need of major overhaul to reduce excess capacity and enhance operational efficiencies. Rationalizing the Postal Service network is no easy chore, but it must go forward. Without the financial and operational benefits a redesigned network offers, the Postal Service will be hard pressed to meet the business challenges it faces.

In Docket No. N2006-1, the Postal Rate Commission criticized the Postal Service for failing to consult sufficiently with its customers to ensure that network realignment optimizes the combined costs of the network for both the USPS and its customers. We agree that an open dialogue should occur among stakeholders to ensure that all voices are heard as a needed network realignment plan is designed and implemented. At the same time, however, it is crucial that process not become an obstacle to progress, and that stakeholder input not be used by some to create paralysis by analysis.

Thank you for your time and attention. I would be pleased to answer any questions you may have.

Mr. DAVIS. Thank you very much, gentlemen. And let me just ask one question. The Postal Service officials have stated that they want to help mailers reduce their costs, that they do not want to simply pass their costs on to mailers when undertaking the realignment efforts.

Do you have any suggestions as to how the Postal Service and the mailers can better interact to accomplish this mutual goal? Anybody.

Mr. CERASALE. Well, the first thing that has to happen is dialog and communication, which I think we have heard before with GAO and the IG discussing that and Deputy Postmaster Mr. Donahoe said the same. We need to have input. I also think, however, that the Postal Service and mailers have to both be willing, and the onus is on both of us, willing to accept change, to change our process, and there may be some difficulty and even some costs in initially starting that change. But the answer is going to be simple. If the Postal Service doesn't cut costs or if they only cut costs by throwing more costs onto the mailers, my members are going to look to other channels. And so this cooperation has to happen constantly, immediately and change has to start.

I like the idea that the Postal Service is going step by step in this change process because that gives you an opportunity to adjust and potentially adjust rapidly without having established a huge amount of investment by both the mailers and the Postal Service in it. But it only comes through discussions.

Now, we clearly have MTAC and I think that we have to strengthen MTAC. I think we need more input from the Postal Service into MTAC to listen to what mailers are saying and to make changes, and I think that's where I would start.

Mr. DAVIS. Anyone else?

Mr. MCLEAN. I think that clearly the biggest opportunity right now is for the consolidation of facilities. The Postal Service has more capacity than it needs and that situation is going to continue. It will continue to have more capacity than it needs. So consolidating facilities allows the Postal Service to reduce its costs in the largest most substantial way possible. As Jerry mentioned, however, this is not going to be a painless process. It can be less painful when the Postal Service talks with its mailers about which facilities it will close because if closing of one facility means that mailers have to truck mail another 60 miles, that creates a problem, not just savings in terms of consolidating the facilities, but we believe that is the single biggest opportunity they should address immediately.

Mr. WINN. The Postal Service was a monopoly. The rules of a monopoly are very simple. The monopoly sets the rules and you conform. Under the Postal Accountability Enhancement Act we're changing that. We're changing that to be a model that is to be run like a business. To run a business you have to understand your customer's business. So the Postal Service must take into consideration total combined costs and understand the business of the mailers and the mail service providers.

This is an integrated system all the way from creative to actual delivery to a customer. Compliments to the Postal Service on this one. They have been reaching out and actually have been coming

to our plants and trying to learn how our business runs and our customers' business runs. Mr. Bill Galligan, senior vice president of operations, has actually come to our plants and has been a student of our business, and it has helped a great deal. That's how they are going to do it.

Mr. CONWAY. Yes, sir. We are concerned about the prospect of costs being passed along to mailers, nonprofit mailers, particularly since the establishment of a CPI price cap which limits the Postal Service's ability to raise prices. To protect against that, another provision that was established in the Postal Accountability and Enhancement Act I think will help guard against that, and that is the creation of a postal regulatory body that has beefed up ability to observe and to take input and to get into that kind of thing, to help protect mailers against that prospect.

But ultimately, I agree with Jerry Cerasale. Ultimately, it is the benefit to the Postal Service and to all of us if there is greater dialog, greater transparency, greater openness because there is going to have to be some compromise probably on both sides. And I think an even greater openness will help enhance that and make it happen in a positive way.

Mr. DAVIS. Thank you very much.

Mr. Marchant.

Mr. MARCHANT. Thank you, Mr. Chairman. This is for Mr. Winn. You discussed the intelligent mail bar code as one area which the industry and Postal Service collaborated with very good results. Can you tell me a little bit about that?

Mr. WINN. Yes, I can. The intelligent mail bar code, as I said in my testimony, is the foundation of the entire concept of service measurement and reporting and tracking of the mail. It is something that we of industry see as great value and I know the Postal Service sees as great value to their compliance with the new statute. The intelligent mail bar code has been worked on for 4 years, mostly starting with the technical folks, just trying to be able to reproduce it and develop specifications. Now we're moving into areas of content of the bar code and procedures and service levels and all of that. We have recognized, both the Postal Service and industry, that this is a major, major undertaking. When I talk of technology, sometimes I talk about evolutionary technology and sometimes I talk about revolutionary technologies. This is a revolutionary technology. It will fundamentally change the way we do business.

We have had our challenges, both on the industry side and the Postal Service side. We are working through them. There have been periods where communications were not all that well organized, nor understandable. The senior management team has recognized that and has reaffirmed their commitment to industry to listen to our needs, and understand our capabilities as we go forward.

So we have had some challenges, but there is a new day in town. There are definitely mountains to be climbed with this one and we're going to have to do it together. RPTS COCHRAN DCMN HOFSTAD [5:50 p.m.]

Mr. MARCHANT. Mr. McLean, is there a regular apparatus set up where, instead of when a problem develops, the industry contacts

the Postal Service and then you try to work it out, is there another structure that is in place where, on a regular basis, you talk about proactive cooperation and try to identify areas that are not problems yet or that you can be working on?

Mr. MCLEAN. There are actually a number of ways that the Postal Service works with its customers. Let's start at the district level where you live.

There are a number of businesses in your district that belong to PCCs, Postal Customer Councils, business owners and mailers that meet with postal officials on a regular basis; oftentimes it is as frequently as monthly. In Washington, there is MTAC, the Mailers Technical Advisory Committee, that deals with very technical, very detailed operational issues. And then there are the Mailers Council and our member organizations that meet with postal officials frequently; typically, meetings are issue-based. We have an excellent rapport with Postmaster General Potter, who meets with us at anytime we need to, as well as with his senior officials, whether they are policymakers or operational managers, on postal issues.

I would tell you also the level of communication, not just the frequency, is much better than it was 10–15 years ago with mailers. I think there are much better lines of communications with us. The Postal Service understands it faces difficult times and that it needs to talk with its mailers on issues.

The Intelligent Mail Project is a good example of that. It has been an up-and-down process over the last 4 years, but I think that the Postal Service is to be commended, not only for adopting a technology that is very progressive, but also working with its customers when it realized there were problems with the project and delaying it by several months to ensure that it would be taking off in the right direction and it would be a successful program.

Mr. MARCHANT. Postal officials have stated that they want to help mailers reduce their costs and do not want to simply pass their cost to the mailers. Do you have suggestions as to how the Postal Service and mailers can better accomplish this, Mr. Cerasale?

Mr. CERASALE. The first thing is efficiencies. I think that is one of the things the network realignment is looking to try, to make the Postal Service more efficient within its own operations. If they improve efficiency and improve productivity, that is a win-win for the Postal Service and for the mailers in holding down costs and going forward.

However, another suggestion is—and it has started, as Mr. McLean has said—if the Postal Service talks with its customers on how they are looking at trying to create a realignment or to adjust costs or adjust processing, and then we work together to get a new system, a processing system, with our input into it, then you have something where the mailers have the ability to enter into this new system without picking up a significant amount of costs.

You can't have it where you have zero costs going to the mailer. You can still get the plus, of when you look at total costs, if the Postal Service can do something efficiently and it shifts some costs over to the mailer, but the overall cost, the savings to the Postal Service is far greater than the cost shifted to the mailers, then in fact we do have a lower-cost system. And the rates would hopefully

then reflect that, so that the cost to the mailer, a little bit more before it goes into the Postal Service but less once it is in the Postal Service, comes out to a plus for them.

So I think as we look at this, we can't think no change and no increase in cost to the mailers. We have to look at the overall costs in the long run. We are looking at postage and what is happening to what I have to do to prepare the mail.

Mr. MARCHANT. Thank you very much, Mr. Chairman.

Mr. DAVIS. Gentlemen, thank you very much. We appreciate your testimony and your replies to our questions. And you are dismissed.

We will move to our last panel, and while we are transitioning, I will introduce them.

Our witnesses for panel four are Mr. Myke Reid. Mr. Reid is the legislative and political director for the American Postal Workers Union, the largest postal union in the world, with over 300,000 members. Mr. Reid works as a lobbyist for APWU, as well as a member of the union's political action committee.

We have also Mr. John Hegarty. Mr. Hegarty was sworn into office as the National Postal Mail Handlers Union national president on July 1, 2002, and was re-elected to that position in 2004. For the 10 years prior to becoming national president, Mr. Hegarty served as president of Local 301 in New England.

And, gentlemen, we thank you very much.

If you would stand and be sworn in.

[Witnesses sworn.]

Mr. DAVIS. The record will show that the witnesses answered in the affirmative.

Gentlemen, we are delighted you are here with us, and we thank you for your patience.

Of course, you have done this any number of times, so you know the process. We would hope that you would summarize your testimony in 5 minutes, and we will then have some questions.

We will begin with you, Mr. Reid.

STATEMENTS OF MYKE REID, LEGISLATIVE AND POLITICAL DIRECTOR, AMERICAN POSTAL WORKERS UNION, AFL–CIO; AND JOHN HEGARTY, PRESIDENT, NATIONAL POSTAL MAIL HANDLERS UNION

STATEMENT OF MYKE REID

Mr. REID. Thank you, Mr. Chairman.

Good evening, Mr. Chairman and Mr. Marchant. My name is Myke Reid. I am the legislative director for the American Postal Workers Union.

I apologize. President Burrus notified me while I was in the room waiting for the hearing to begin and waiting for his arrival that he couldn't be here. So I appreciate the indulgence of the Chair and the ranking member giving me this opportunity to testify on behalf of APW members.

Network realignment is a subject of critical importance to the American people, who are entitled to reasonably priced access to postal services, and to postal workers, whose lives are affected when postal facilities are consolidated or closed.

Unfortunately, the USPS plan for realignment is based upon a faulty premise. The stated objective of the USPS network plan is to promote efficiency by eliminating redundancy. But the fallacy of this plan is that it artificially limits the definition of the postal network.

By design, the plan considers only the 400-plus USPS mail processing facilities to be the network, while in reality the network consists of both public and private facilities that prepare mail for delivery by USPS employees. Facilities owned and operated by Pitney Bowes and RR Donnelley, as well as many other private entities, perform many of the same functions as those performed at USPS facilities.

The most significant distinction between the two systems is that the postal processing system must accept single pieces of mail, while the private system processes only commercial mailings. These two systems are inseparable, and any effort to redesign the location of processing activities must include a review of the entire mail processing network.

In a fundamental way, the USPS financed the creation of the private network and continues to subsidize it to this day. The research and development costs of the technology used to modernize processing have been borne almost entirely by the Postal Service, in amounts totaling billions of dollars. But once the technology has been proven to be effective, it has been adopted by the private system.

The work-share discounts that are applied to the private system represent a transfer of funds from the Postal Service to a private processor. Each dollar in work-share discounts that is granted to private processors represents a direct loss in postal revenue.

To make matters worse, an increase in the share of volume in the private system has an adverse effect on the postal network. The cost of processing mail in the Postal Service increases as mail is diverted to the private system. Equipment is not used to capacity, and, as a result, the USPS per-piece cost increases.

By encouraging the growth of the private-sector network, the Postal Service is creating redundancy, rather than eliminating it. Any effort to review the network and improve efficiency must examine both the public and private systems.

The Postal Service's plan for network realignment has passed through many stages. Each of the previous proposals lacked transparency, and the current plan continues that unfortunate tradition.

One glaring example is that the USPS fails to consider later delivery times or earlier pick-up times as degradations in service. But to businesses or individuals who depend on timely mail delivery, time of delivery and time of pickup can be of substantial consequence.

As further evidence of the lack of transparency, I ask members of the subcommittee a simple question: After reading the plan, do you have a clear idea of which facilities will be consolidated and what criteria will be used to make the decisions?

In recent years, the APW has developed its own plan to address previous attempts at network realignment. And whenever we alerted citizens that their postal facilities were threatened with closure

or their postal services would be degraded, they and their elected representatives have responded vigorously.

The Postal Service has expressed frustration at the efforts of elected officials to protect the postal services of their constituents. But that advocacy by legislators is as it should be. Members of Congress and State and local leaders are elected to serve their constituents by advocating their interests.

Pretending that the postal network consists solely of USPS facilities does not make it true. The fact is that public and private, for-profit networks comprise the postal processing system. Any review of the network must consider the combined system. The logistics of the network demand that it be coordinated into a national network, which only the USPS, a public service, is willing and able to provide.

Mr. Chairman, I thank you for the opportunity and your indulgence. I would be happy to answer any questions and even happier if you would refer them to President Burrus for an answer at some later time. [Laughter.]

Thank you, Mr. Chairman.

[The prepared statement of Mr. Burrus follows:]

APWU CONGRESSIONAL TESTIMONY

American Postal Workers Union, AFL-CIO

WILLIAM BURRUS
PRESIDENT

Before The

SUBCOMMITTEE ON FEDERAL WORKFORCE,
POSTAL SERVICE AND THE DISTRICT OF COLUMBIA

The Three R's of the Postal Network Plan: Realignment, Right-Sizing, and Responsiveness

TESTIMONY OF WILLIAM BURRUS
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Mr. Chairman and Members of the Subcommittee:

I am William Burrus, President of the American Postal Workers Union, AFL-CIO – the APWU. Thank you for providing me this opportunity to testify about network redesign on behalf of more than 300,000 members. Network realignment is a subject of critical importance to the American people, who are entitled to reasonably-priced access to postal services, and to postal workers, whose lives are affected when postal facilities are consolidated or closed.

The stated objective of the USPS Network Plan is to promote efficiency by eliminating redundancy. But the fallacy of the plan is that it artificially limits the definition of the postal network. By intentional design, the plan considers only the 400-plus USPS mail processing facilities to be "the network," while in reality, the network consists of both public and private facilities that prepare mail for delivery by USPS employees.

Facilities owned and operated by Pitney Bowes and RR Donnelley as well as many other private entities perform many of the same functions as those performed at USPS facilities. The most significant distinction between the two systems is that the postal processing system must accept single pieces of mail, while the private system processes only commercial mailings (with an established minimum number of pieces).

Two identical letters, one deposited by an individual citizen and another by a commercial mailer (whose letters are co-mingled with mail from other companies) will receive the same depth of processing – one in the postal network and the other in the private structure. These two systems are inseparable and any effort to redesign the location of processing activities must include a review of the entire mail processing network.

The logistics of the network demand that it be coordinated into a national network, which only the USPS, a public service, is willing and able to provide.

In a fundamental way, the USPS financed the creation of the private network. The research and development costs of the technology used to modernize processing have been borne solely by the Postal Service – in amounts totaling billions of dollars: But once the technology has been proven to be effective, it has been adopted by the private system.

And the private, for-profit network continues to draw the revenue to operate its plants from the postal rate structure. The workshare discounts that are applied to the private system represent a transfer of funds from the Postal Service to the private processor, and, as a result, the Postal Service is supporting the entire processing system – public and private. Each dollar in workshare discounts that is granted to private processors represents a direct loss in postal revenue.

There is a cause-and-effect relationship between the two processing networks. An increase in the share of volume in the private system has an adverse effect on the postal network. The cost of processing mail in the postal system increases as mail is diverted to the private system:

Equipment is not used to capacity, and, as a result, the USPS per-piece cost increases.

In that the postal workshare rate is pegged – at least theoretically – to the avoided postal cost, this diversion results in a negative cycle of increased discounts based upon increased postal costs caused by the diversion. No less an authority than the Postal Regulatory Commission has ruled that some workshare discounts exceed the costs avoided by the USPS. This adds the cost of direct subsidies to the costs caused by the relative inefficiencies from lost volume.

USPS Bulk Mail Technicians report that there is a scandalous degree of underpayment by large mailers. These postal employees, who are responsible for completing the paperwork when large mailers enter their shipments into the postal system, report that it is common for mailers to underestimate their costs. However, when these clerks report their concerns to management, they are met with indifference. These underpayments clearly violate postal regulations, and deserve Congressional review.

Postal policy is influenced by the mistaken belief that rates drive mail volume. The current economic slump challenges this assumption and supports the APWU's long-held position that the economy drives volume. Recently, mail volume has declined commensurate with the drop in economic activity; rate reductions through workshare discounts are totally ineffective in increasing mail volume.

The private and public processing networks are inseparable, so any effort to review the network and improve efficiency must examine both systems.

The Postal Service's plans for network realignment have passed through many stages, each with its own acronym. (NDI, the Network Design Initiative, and END, the Evolutionary Network Design, are a few recent examples.) Each of the previous proposals lacked transparency, and the current plan continues that unfortunate tradition.

An example of this lack of transparency is the Network Plan's treatment of the service impacts of proposed network changes. The Postal Service has chosen to ignore important degradations of First Class mail service and access to postal facilities by simply pretending that they do not count. On page 29 of the Network Plan, in the fine print of footnote 13, you will see that the Postal Service does not consider a change in daily delivery time to be a degradation of service.

But to businesses or individuals who depend on timely mail delivery, time of delivery can be of substantial consequence. Similarly, when facility consolidation requires that mail collection times be made earlier in order to transport the mail farther and still meet delivery standards, the Postal Service does not consider that a degradation in service. In fact, businesses or individuals who depend on a later-afternoon pickup of mail will lose an entire day if they cannot meet the earlier pickup time.

Repeated calls for greater transparency in postal operations, at least in the area where there is a postal monopoly, have come from congressional leaders, the GAO, the President's Commission on the Postal Service, and public advocacy groups. Yet the Postal Service persists in obscuring

important aspects of its plans behind politically-correct rhetoric and business jargon.

As evidence of the lack of transparency, I ask members of the Committee a simple question: After reading the plan, do you have a clear idea of which facilities would be consolidated and what criteria would be used to make the decisions?

In recent years, in response to Postal Service efforts to realign its network using a flawed and ineffectual Area Mail Processing evaluation program, the APWU developed its own plan to address issues of network realignment. Part of our effort was to ensure that citizens and elected officials in communities targeted for consolidation had an opportunity to become involved in decisions that would affect the quality and accessibility of local postal services in their communities. These efforts have been very effective. Whenever we alerted citizens that their postal facilities were threatened with closure or their postal services would be degraded, they and their elected representatives have responded vigorously.

The Postal Service has expressed frustration at the efforts of elected officials to protect the postal services of their constituents. But that advocacy by legislators is as it should be. Members of Congress and state and local leaders are elected to serve their constituents by advocating their interests.

The Postal Service is a large and complex network; once changed it cannot be "unchanged" easily. Consequently, it is important that plans for realignment be well thought out and communicated clearly to all the stakeholders.

Pretending that the postal network consists solely of USPS facilities does not make it true. The fact is that both the postal and private, for-profit networks comprise the postal processing system.

Any review of the network must consider the combined system. The original intent of workshare discounts was to create a private network to supplement postal capacity. Over time, as automation enabled the Postal Service to process an increased volume of mail, the supplemental processing capacity has become redundant at the expense of postal efficiency.

The question that now must be asked is whether universal mail service is intended to provide a service to the American people, or a vehicle for corporate profit.

I would be happy to answer any questions the Committee may have.

Mr. DAVIS. Thank you very much, Mr. Reid. And perhaps we will do both.

Mr. Hegarty.

STATEMENT OF JOHN HEGARTY

Mr. HEGARTY. Good afternoon. And thank you, Chairman Davis and Ranking Member Marchant, for inviting me to testify.

My name is John Hegarty. I am the national president of the National Postal Mail Handlers Union, which serves as the exclusive bargaining representative for nearly 60,000 mail handlers employed by the U.S. Postal Service.

I will summarize my testimony. I ask that the entire statement be submitted for the record.

I would like to talk about the Postal Service's most recent ill-advised foray into subcontracting, which involves the recently issued draft request for proposals to outsource work from the bulk mail centers. For many years, the Mail Handlers Union has tried to work with the Postal Service toward a better, more efficient and more economic operation. However, we have several problems with this latest draft RFP.

The premise of the subcontracting proposal, according to the Postal Service, is that they will be moving the machines used by the Flats Sequencing System [FSS], into the bulk mail centers. This decision about the FSS is based primarily on space available, not on the current workload. As a consequence, the Postal Service has a choice: what to do with the work that is being displaced, which is primarily the sorting of parcels, trays and tubs now performed at the bulk mail centers. The work can be shifted to other available nearby facilities based on capacity, or the work can be outsourced. And the draft RFP suggests that the Postal Service is leaning toward outsourcing. In other words, the FSS is being used as an excuse to outsource current mail processing.

It makes absolutely no sense to this union to give away mail volume to the private sector, when the nearby postal plants are suffering from a major loss of mail volume themselves. If the FSS is going to cause work to be moved out of the bulk mail centers, it would make perfect business sense to relocate that work to nearby plants. There simply is no need to outsource this work.

On a related issue, the Postal Service is talking about realigning its plants through closings and consolidations based on the assumption that the current loss of mail volume nationwide is permanent and that this mail volume will never return. Although the network plan does not specifically identify any facilities, it appears that the Postal Service is intending to make permanent changes based on a temporary condition.

It bears noting that their own report references a lack of available data. It seems that much of it is premature. And we have gone down this road before. Both the Postal Rate Commission and the General Accountability Office found the Postal Service's previous report on realignment to be sorely lacking. This time, however, I must agree with the Postal Service that it lacks both the historical data and the accurate future projections that are necessary to finalize any realignment plans.

Despite that shortcoming in this report, my union and our union members have been working with the Postmaster General to make the system more streamlined, resulting in the increased productivity and the higher service standards referenced in the report. Where we see an achievable goal that is based on a concrete analysis of on-the-ground conditions, we have been able to achieve the results that best serve the American public.

Both service and productivity are at an all-time high. Career mail handlers and other postal employees are doing a fantastic job under difficult conditions. When postal plants are closed or consolidated into other facilities, there are a lot of dislocations and much inconvenience to the local communities and postal employees. From a union perspective, any movement of employees must be accomplished in accordance with the collective bargaining agreement and should make good business sense. Improving the postal system includes preserving the skilled work force.

Finally, the process followed by the Postal Service prior to realignment is critical. By not analyzing each situation in advance with employee and community input, prior area mail processing studies have been seriously flawed.

As has been proven numerous times, the career craft employees often have valuable input and insights to share. While the Postal Service can boast about saving billions of dollars based on productivity gains and improved efficiency—I am going to modify my testimony briefly here. I was happy to hear Pat Donahoe speak of the good working relationship with the unions and with the craft employees and give them credit for some of the savings that has been realized by the Postal Service, including reducing 100,000 postal employees over the last 7 or 8 years.

Finally, I must mention the most recent development which has the Postal Service offering voluntarily early retirements to thousands of career employees. Obviously, this is a volunteer program, and early retirement may not make sense for most eligible employees. But, again, the Postal Service is thinking about making permanent changes based on temporary economic conditions.

Ultimately, some mail handlers may opt for this early retirement option, and I do not wish to prevent them from doing so. But as a policy matter, we do not believe it makes business sense to ask employees to retire voluntarily while also proposing to outsource postal work to private contractors. Should not someone in postal management be trying to realign the work, so that career employees who otherwise might retire before they are ready to can continue to perform the work that otherwise might be subcontracted?

Thank you for allowing me to testify. I would be happy to answer any questions.

[The prepared statement of Mr. Hegarty follows:]

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TESTIMONY OF

JOHN F. HEGARTY
NATIONAL PRESIDENT
NATIONAL POSTAL MAIL HANDLERS UNION

BEFORE THE

SUBCOMMITTEE ON
FEDERAL WORKFORCE, POSTAL SERVICE, AND
THE DISTRICT OF COLUMBIA

OF THE

HOUSE COMMITTEE ON
OVERSIGHT AND GOVERNMENT REFORM

"The Postal Service:
Network Realignment"

July 24, 2008

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Good afternoon, and thank you Chairman Davis and members of the Subcommittee for inviting me to testify. My name is John Hegarty, and I am National President of the National Postal Mail Handlers Union, which serves as the exclusive bargaining representative for nearly 60,000 mail handlers employed by the U.S. Postal Service.

You have asked us to testify today about the three R's, "Realignment, Rightsizing and Responsiveness." These are all related to the Postal Service's recent June 2008 report known as "The Network Plan."

During this Subcommittee's previous oversight hearings, I testified on the question whether the Postal Service should be outsourcing some of its core functions, including the processing of mail normally handled at air mail centers or the processing of military mail headed to our troops in Iraq and Afghanistan. I also have challenged the economics of privatization, preferring to focus on the real cost of privatization. As part of that prior testimony, I also pointed out the disastrous private contracts that have been let in the past. I will not repeat that testimony here today. I would like, however, to talk about the Postal Service's most recent ill-advised foray into subcontracting, which involves the recently issued "Draft Request for Proposals" to outsource work from the Bulk Mail Centers.

For many years, the Mail Handlers Union has tried to work with the Postal Service towards a better, more efficient and more economical

operation. However, we have several problems with this latest RFP. The premise of the subcontracting proposal, according to the Postal Service, is that they will be moving the machines used by the Flats Sequencing System (or FSS) into the Bulk Mail Centers. This decision about the FSS is based primarily on space available, not on the current workload. As a consequence, the Postal Service has a choice – what to do with the work that is being displaced, which is primarily the sorting of parcels, trays and tubs now being performed at the Bulk Mail Centers. The work can be shifted to other available, nearby facilities based on local capacity, or the work can be outsourced. And the draft RFP suggests that the Postal Service is leaning toward outsourcing. In other words, the FSS is being used as an excuse to outsource current mail processing.

It makes absolutely no sense to this Union to give away mail volume to the private sector, when the nearby postal plants, as is well documented, are suffering from a major loss of mail volume themselves. If the FSS is going to cause work to be moved out of the Bulk Mail Centers, it would make perfect business sense to relocate that work to the nearby plants. There simply is no need to outsource this work!

On a related issue, the Postal Service is talking about realigning its plants, through closings and consolidations, based on the assumption that the current loss of mail volume nationwide is permanent, and that this mail volume will never return. Although the Network Plan does not specifically identify any facilities, it appears that the Postal Service is

intending to make permanent changes, based on a temporary condition. To the Mail Handlers Union, this also does not seem like a logical business decision.

It bears noting that their own report references a lack of available data. While I understand that this report was required to be filed in June by the terms of the Postal Accountability and Enforcement Act, it seems that much of it is premature. We have gone down this road before. Both the Postal Rate Commission and the General Accountability Office found the Postal Service's previous report on realignment to be sorely lacking.

This time, however, I must agree with the Postal Service that it lacks both the historical data and the accurate future projections that are necessary to finalize any realignment plans. Despite that shortcoming in this report, my union and our members have been working with the Postmaster General to make the system more streamlined, resulting in the increased productivity and the higher service standards referenced in the report. Where we see an achievable goal that is based on a concrete analysis of on-the-ground conditions, we have been able to achieve the results that best serve the American public. Both service and productivity are at an all-time high. Career Mail Handlers and other postal employees are doing a fantastic job, under difficult conditions.

To be sure, when postal plants are closed or consolidated into other facilities, there are a lot of dislocations and much inconvenience to the local communities and the postal employees directly affected by the realignment. From a union perspective, any movement of employees must be accomplished in accordance with the collective bargaining agreement, and should make good business sense. The Postal Service should not be making changes, just for the sake of change. Improving the postal system includes preserving the skilled workforce that moves the staggering total of more than 200 billion pieces of mail a year, or 700 million pieces every day.

Finally, the process followed by the Postal Service prior to realignment is critical. Presenting employees and their organizations with a fait accompli for either closures or realignment is foolish, counterproductive, costly, and a disservice to those who have given the best years of their lives to the Postal Service. By not analyzing each situation in advance, with employee and community input, the Area Mail Processing studies being issued have been seriously flawed, and often draw absurd conclusions – conclusions that anger workers, community leaders, and Members of Congress.

As has been proven numerous times, the career craft employees often have valuable input and insights to share. While the Postal Service can boast about saving billions of dollars, based on productivity gains and improved efficiency, I wish postal officials would publicly

acknowledge that much of the savings is the result of engaging the unions in the process of making realignment and related decisions.

Finally, I must mention the most recent development, which has the Postal Service offering voluntary early retirements to thousands of career employees. Obviously this is a voluntary program, and early retirement may not make sense for most eligible employees, but again the Postal Service is thinking about making permanent changes based on temporary economic conditions. Ultimately, some mail handlers may opt for this early retirement option, and I do not wish to prevent them from doing so. But as a policy matter, we do not believe it makes business sense to ask employees to retire voluntarily while also proposing to outsource postal work to private contractors. Should not someone in postal management be trying to realign the work so that career employees who otherwise might retire can continue to perform the work that otherwise might be subcontracted?

Thank you for allowing me to testify. I would be happy to answer questions.

Mr. DAVIS. Gentlemen, thank you very much. We certainly appreciate your patience.

Let me just ask you, you have been here all afternoon and you have heard the testimony of representatives from the Postal Service, the PRC and the Government Accountability Office.

You just mentioned, Mr. Hegarty, the attrition early retirement plans. Are you suggesting that these are somehow tied in with a privatization scheme or plan and they are just all working, kind of, hand-in-hand together?

Mr. HEGARTY. I believe they are related. I don't subscribe to conspiracy theories. But I think, yes, I think you have to look at what the Postal Service is asking. I have some figures here, just for the mail handlers and the clerk craft and supervisory, they are looking at approximately 70,000 employees who are eligible for voluntary early retirement. They only expect 10,000 of those 70,000 to accept it, but if we lose 10,000 more employees nationwide, someone has to do that work. And my thinking is, certainly, the outsourcing of the bulk mail center work is a component of that plan.

Again, I don't want to stop the mail handlers from retiring early, if that is their choice. And I believe President Burrus has put this message out to his craft as well. People are going to have to take a real close look at how that is going to impact them financially. If you are a Civil Service employee, you already have approximately 25 years of Postal Service, because the Civil Service Retirement System, as you know, was capped in 1983 and all employees hired in 1984 and later are under FERS. You will take a penalty if you retire under certain conditions under Civil Service.

Now, they say there is no penalty under FERS, but the penalty under FERS is that you lose your ability to contribute to the Thrift Savings Plan, lose the employer's matching contributions for the Thrift Savings Plan, and you certainly will take a hit on your Social Security. If you retire at the age of 52 or 53, you are not going to be able to collect your Social Security.

So I just want my folks to go into it with their eyes wide open. And I am not, again, saying that I would stop any mail handlers from taking the volunteer early retirement. But I just think the plan that the Postal Service has put forth is part of a key part of their program to reduce career employees and, in fact, outsource work to the private sector.

Mr. DAVIS. Let me ask both you and Mr. Reid: When there have been consolidations, would you say that there has been adequate communication relative to preparation and planning for this activity that would give affected employees enough time and opportunity to pretty much know what is coming down the pike and to plan adequately for it?

Mr. REID. Mr. Chairman, I would think the answer to that would have to be no. There have been cases where our members have not found out about what was going on until they were contacted by reporters from local newspapers. We have argued for years that there must be more community involvement and input into the system. And the Senate qualified in appropriations language a couple of years ago that could include the input of postal workers as well.

But just off the top of my head, without giving you any specific examples, I would argue that they have not given us adequate input and notice before consolidation decisions are made.

Mr. DAVIS. So you would argue for greater communication between the collective bargaining units and the Postal Service?

Mr. REID. Absolutely, Mr. Chairman.

Mr. HEGARTY. I would echo that sentiment. I think, in some instances, they have given adequate notice. There are protections built into the collective bargaining agreement where the employees have to be given specific notice before they can be relocated, and you have to factor in all the different types of facilities that may be consolidated.

For instance, we had a consolidation from Bridgeport, CT, down to Stanford, CT. I am going to guess that is probably 18 miles away. You would have to say that the impact on most of those employees was minimal. They had to commute an extra 18 miles. I am not saying it is easy, especially knowing some of the traffic down in that area, being from New England myself. So there was inconvenience to the employees.

The collective bargaining agreements, in many instances, will raise some complications that need to be dealt with by postal headquarters and with the headquarters people from the union as well, because we have an Article 12 which allows jobs to be withheld for other craft employees. So, for instance, if employees in the American Postal Workers Union are expected to be impacted by upcoming automation, the Postal Service can withhold jobs in the mail handler craft for those excess employees.

We have a current situation occurring right now in Westborough, MA, where the facility is being closed completely and approximately 75 mail handlers are impacted. We have a dispute, and I am working on that dispute with postal headquarters right now. They have told all of those employees that they have to travel 65 miles to Springfield, MA, to continue their employment with the Postal Service, and they have no option to get postal jobs in nearby facilities.

In fact, there are postal jobs, mail handler jobs, currently under withholding in Boston, which is only 29 miles from Westborough. We have other closer facilities. It is 12 miles to Worcester. It is 47 miles to Brockton, MA. There are probably six or eight facilities that are closer than Springfield.

And we are asking postal headquarters to get involved in this, because the impact on these employees is going to be severe. Especially if they worked 20 miles outside of Westborough, now they have an 85-mile commute instead of a 20-mile commute. And I am afraid we may lose some of those dedicated postal employees due to the unreasonableness of local management to work with us and find closer positions for them.

Mr. DAVIS. Thank you very much, gentlemen.

Mr. Marchant.

Mr. MARCHANT. Thank you.

What we have found in our district office—and I am from the Dallas-Fort Worth area—most of the calls that we get in our district office are not about the mail service, lack thereof or otherwise,

but most of the calls that we get concerning the Postal Service are employee-employer conflict calls.

I don't know, Mr. Davis, if that sounds familiar to you.

Mr. DAVIS. I thought they didn't have that in Texas. [Laughter.]

Mr. MARCHANT. And, to me, in my district office, this is the face of the post office. And there seems to be so much conflict between the Postal Service itself and its employees in its grievance system and the way that it is resolved.

We have heard some testimony just recently that process has been stepped up, redone, streamlined, etc. And, frankly, it is that worker that is in my age group, it is that worker that is in that low–50 to upper–50 age group that seems to have the conflict and the disagreement and the grievance. That just is a sense of frustration to me, because we seem to get that call, you know, either sometime in the middle of the process or after the process.

Do you feel like there is any progress being made there? Because, I can tell you, that is what we deal with a lot.

Mr. HEGARTY. I think we have made some progress. I think the contract interpretation manual that we put out several years ago—and I have mentioned this in prior testimony—was an understanding reached between postal headquarters and the mail handlers' headquarters, and I know the other crafts have those as well. It kind of clarifies a lot of the gray areas in the contract.

That used to be a problem. I will go back to my experience on the workroom floor, dealing with management. I would show them a contract violation, and they would say, "Well, I don't agree with your interpretation of the contract." So a lot of that was put to rest with the parties putting many of those interpretations down in black and white.

But you are always going to have personality conflicts. You are always going to have some managers—and it is not just a one-way street—who still act in an authoritarian manner and just boss people around or tell them what to do and don't adequately explain themselves.

So, I am hoping those are isolated incidents. I am sure those are the calls you get. Nobody is going to call you and say, "Gee, I just want to let you know the post office does a great job, and it is a good employer, and I like working there." You won't get those calls. You will get the calls when someone has an issue with their supervisor or an employment issue like that. But I think we have made some progress over the years.

Mr. MARCHANT. I would encourage both sides to keep working on that. My point is that, of all the branches of the quasi-U.S. Government, I rarely get a call from the Air Traffic Controllers or the Justice Department employees or the GAO or Social Security Administration—I mean, never, frankly. But somehow or another, local Congressmen seem to be drawn into this web quickly.

In my office, we are reluctant to become involved, because there seems to be a pretty established structure on how to get grievances addressed on both sides. I know this isn't the subject of this testimony.

Mr. REID. I would just like to add, Mr. Marchant, I would certainly associate myself with the comments of President Hegarty, but I would also point out a lot of the problems we have arise be-

cause of a complaint of the employee, rather than a grievance of the employee. It is something that doesn't rise to a grievable nature, but it is something they don't like. They don't like their supervisor's hair, they don't like the way they act, they don't like their friends.

So, a lot of times, I think what I have heard from congressional offices is that they get calls from their constituents about complaints which aren't necessarily grievable actions under the collective bargaining procedure.

But I also agree with John. I think the procedure has gotten better. The number of cases pending arbitration has reduced considerably. Certainly on the national level I think the working relationship is a lot better than it is on the local level, most often because of just differing personalities.

But if there is something we can do to help you with that——

Mr. MARCHANT. Thank you. It is just that we are a little unsure at what point to intervene on behalf of a constituent. We have a constituent here, as well as an employee. So I just wanted to express that to you. Thanks.

Mr. REID. We often work with congressional offices to try to sort that out. If there is something you would like us to help you with, we would be more than happy to do it.

Mr. MARCHANT. We may take advantage of that. Thank you.

Mr. DAVIS. Well, it seems as though this has ended with perfection. I don't know if it was designed to be that way or not.

Let me just agree with Mr. Marchant in terms of the whole business of conflict. That does continue to exist. I would also agree that there seems to be some success in helping to reduce it. But if there is an office that does not get a lot of those calls, I would like to find it. That seems to be one of the big issues. But, certainly, all of the other issues, I think, are pronounced and are before us.

So I want to thank you gentlemen for your patience, for your testimony, and all of those who have been patient all afternoon.

If you have no further questions, Mr. Marchant, I certainly don't, we can both run over and vote and end the day.

So, gentlemen, thank you very much.

The hearing is adjourned.

[Whereupon, at 6:20 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

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August 5, 2008

The Honorable Danny Davis
Chairman
Subcommittee on Federal Workforce, Postal Service,
and the District of Columbia
Committee on Oversight and Government Reform
House of Representatives
Washington, D.C. 20515

Re: July 24 Hearing: The Three R's of the Postal Network Plan: Realignment, Right-Sizing, and Responsiveness.

Dear Chairman Davis:

I write in connection with the Subcommittee's recent hearing on July 24 on the Postal Service's Network Plan and respectfully request that these comments be included in the July 24 hearing record.

The Network Plan submitted to Congress by the United States Postal Service is less a plan than a description of assorted efforts by the Postal Service to improve the efficiency of its network operations and its communication about those efforts with stakeholders and the public. The Network Plan, which reveals little in the way of new details, is a strategy without a destination.

The Postal Service's faith in a "fluid approach" toward network realignment, as evidenced in the Network Plan, is largely a continuation of the zig-zagging we have witnessed since 2001, from the Network Integration and Alignment program, to the Evolutionary Network Development program, to the

most recent efforts involving ill-fated Regional Distribution Centers. There is one potentially distinct difference in the latest iteration, however.

The single-most important development in the Network Plan is the one whose possible consequences are left the most unaddressed. Left unanswered in the Network Plan is the role of outsourcing in the Postal Service's vision of network realignment and whether the Service intends to apply outsourcing toward the entirety of its processing and distribution operations, as the Request for Proposals to contract for the management and operation of air mail processing and distribution may suggest.

As you know, the Postal Service on July 1issued a draft Request for Proposal to outsource the work performed at all 21 of the BMCs across the country, starting with Chicago, Cincinnati, Detroit, St. Paul, Atlanta and Seattle. The Postal Service's intent to transform the Bulk Mail Center (BMC) network, through the creation of a Time-Definite Surface Network, involving the contracting-out of the processing and transportation of BMC network mail could represent a significant step toward the privatization of postal operations.

If BMC activity is ultimately outsourced through the TSDN initiative, does the Postal Service intend to extend outsourcing to all of its Processing and Distribution Centers and related transportation activities? What is the ultimate goal? Is this the first phase of wider reliance on privatization of mail processing and distribution? Does the Service ultimately intend to contract out all processing and distribution of mail, if it believes that service standards and customer service can be maintained at acceptable levels?

We encourage the Subcommittee to continue to assert its oversight responsibilities to secure answers to these important questions.

Obviously, the potential outsourcing by the Postal Service of the processing and distribution of more and more mail has huge implications for the Postal Service, its operations, its service to the public and its workforce. The Postal Service's vision for the role of contracting in connection with the mail network was left unaddressed by the Network Plan and by Postal Service testimony on the Plan at the July 24 hearing. We regard these omissions as flaws in the transparency and completeness of the Network Plan, as well as the creation of understanding by the Postal Service's stakeholders and the public in the implications of these steps. We encourage the Postal Service to provide answers to the Subcommittee and the community of stakeholders, including the Postal Regulatory Commission, as to the relationship of the actions underlying the TSDN and the measures to drive cost-efficiencies in processing and distribution centers and other all other components of the mail network.

Thank you for your inclusion of these comments in the hearing record and for follow-up actions in response.

Sincerely yours,

Ted Keating
National President