

THE U.S. POSTAL SERVICE IN CRISIS

HEARING

BEFORE THE

FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT
INFORMATION, FEDERAL SERVICES, AND
INTERNATIONAL SECURITY SUBCOMMITTEE

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

OF THE

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THE U.S. POSTAL SERVICE IN CRISIS

THURSDAY, AUGUST 6, 2009

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICES,
AND INTERNATIONAL SECURITY,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:02 a.m., in room SD-342, Dirksen Senate Office Building, Hon. Thomas R. Carper, Chairman of the Subcommittee, presiding.

Present: Senators Carper, Akaka, Burris, Lieberman (ex officio), McCain, Coburn, and Collins (ex officio).

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. Good morning. Our hearing will come to order. Our thanks to our witnesses and to our guests for joining us today.

This hearing is the latest in a series of hearings over the past half-dozen or so years that this Subcommittee and full Committee have held on the Postal Service's struggle to adapt to a changing mail and communications industry and now to a deeply troubled economy.

As we all know, the economic crisis that our country is currently battling has had an impact on just about every family and just about every business. This downturn has impacted the Postal Service and some of its biggest customers far more than most.

Financial data that the Postal Service released yesterday for the third quarter of the current fiscal year bears this out. This data also tells me that the title of this hearing is accurate. Our Postal Service is, indeed, in crisis.

According to the Postal Service, mail volume was down last quarter more than 14 percent when compared to the third quarter of last year. This led to a loss of some \$2.4 billion, an amount that nearly equals the Postal Service's total losses for all of last fiscal year. This latest quarterly loss brings the Postal Service's year-to-date loss to some \$4.7 billion, and current projections point to a record loss of more than \$7 billion by the end of this fiscal year, and this projected loss takes into account some \$6 billion in cost savings that the Postal Service and its employees are expected to achieve by the end of next month. These numbers are, indeed, sobering. Some would say they are also alarming.

But I would point out that our postmaster general has said, and I am sure he will say again here today, that the mail will continue

to be delivered as it has always been delivered and postal employees will continue to be paid. I would also add that the path out of this situation that we find ourselves in is, at least in my estimation, clear.

First, it is imperative that the Postal Service next month be given some measure of financial relief, not a bailout, not lip service, not berating, instead, a prudent measure of fiscal relief and perhaps even a little bit of tough love.

I mentioned earlier, the postmaster general's assurances that the mail will continue despite the dire financial projections we will be discussing today. Having said that, absent some action from Congress and the President in the very near term, however, we cannot promise that will always be the case.

In recent months, a number of us have come to the conclusion that the most appropriate way to give the Postal Service a measure of relief in the throes of this deep recession is to restructure the aggressive retiree health prefunding schedule that was imposed on it in 2006. That schedule has the Postal Service making enormous payments of more than \$5 billion per year through 2016 to prefund its future health obligations to its retirees. This is on top of regular payments of \$2 billion or more for current retirees' premiums. The combination will be enough to sink many businesses in this economic downturn that has buffeted our Nation and our world over the past year.

Senator Lieberman and I have introduced legislation, S. 1507, the Postal Service Retiree Health Funding Reform Act, to restructure the Postal Service's retiree health payment schedule to give it the financial breathing room to get through the next several years. Our proposal works much like a mortgage renegotiation would for a family in which someone has lost a job and needs to find a way to keep their family home.

The example that I use to explain this to some of my colleagues is to take an example of a young couple that get married, no children, both employed, good jobs, buy a home. They have a choice to take a mortgage of 10 years, 15, 20, 25, 30 years, but they say, we will go with the 10-year mortgage and that is what they start to take and it is what they start to pay. Life goes on. Kids come along. Somebody loses a job. The economy is tough.

And they go back to their mortgage company and say, we would like to restructure that mortgage. We feel that we need to restructure that mortgage. We can't meet the payments on a 10-year mortgage. It is too aggressive given the financial reality that we face today and we would like to have a 20-year mortgage, or a 25, or 30—not a 50, not a 100, but something more reasonable than a 10 in the current economic condition that family would face.

Our bill or something very similar to it must pass and be signed into law before the current fiscal year ends in September. That said, our bill is not a silver bullet. It does not solve all of the Postal Service's problems. It merely sets the stage for the work that needs to be done in a number of areas to streamline postal operations further and to bring back at least some of the business that has been lost.

Much of the cost-cutting discussion since our last hearing in January has focused on the Postal Service's proposal to move from 6-

day to 5-day delivery, perhaps by eliminating Saturday service. The Postal Service estimates that making this change would save it upwards to \$3 billion per year or more. And based on recent polling, a clear majority—not all, but a clear majority of the American people would not oppose the elimination of Saturday service.

And Congress unanimously endorsed language, included in our postal reform bill in 2006, that gave the Postal Service the authority to make the business decision to reduce frequency of delivery if it felt like it needed to do so. But every year since then, Congress through language included in the annual appropriations bill has decided to prevent the Postal Service from exercising that new authority. With the situation that the Postal Service is facing now, I believe it is time for us to reevaluate this prohibition.

Congress also needs to reevaluate the position it often takes on facility closures. The Postal Service currently maintains more than 35,000 retail outlets and more than 400 processing plants around the country. This network was developed for a time before e-mail, before electronic bill pay, and before any number of communications revolutions in our society. We simply don't need all these facilities in this day and age.

But all too often, we in Congress put up roadblocks whenever the Postal Service even mentions that it might be time to close or consolidate some of those facilities. We just can't afford to do that anymore.

The Postal Service itself needs to continue to find new ways over time to make the products and services it offers more relevant and to increase demand for them. We did give the Postal Service some new commercial flexibility back in the 2006 Postal Service law. They have been able to take advantage of that flexibility in some instances, and one example is the Flat-Rate Priority Box promotion that I am sure a lot of us have seen on television in recent months. I think that has been successful and very well received.

There is a great partnership, I think, between the Postal Service and UPS and FedEx, where the Postal Service delivers packages the last mile or the last five miles. I understand you share their aircraft and there is a variety of things that you are doing to be more entrepreneurial, and we need to see more of that.

I understand the response has also been good for a so-called summer sale that the Postal Service hopes will bring additional advertising and other commercial mail back into the system in the coming weeks.

But I am also certain that more can be done in kindling a new entrepreneurial spirit at the Postal Service and we are going to explore that today.

And finally, I would be remiss if I didn't mention labor costs. All four major Postal Service's union contracts are set to expire in 2010 and 2011. It is my hope that these unions will continue to work constructively with the Postal Service through these negotiations to adjust pay, benefits, and work rules to reflect the reality that the Postal Service faces in the mailing and communications market today.

And in conclusion, let me just say, there are many services that the Federal Government provides to the people of this country. Few of them are appreciated as much as the work of the Postal Service.

I have seen approval ratings of a lot of us who serve in the Senate. I have seen customer satisfaction ratings for the Postal Service that most of the American people hold. The Postal Service numbers are better than most of ours, and we applaud the efforts, the years of efforts, that have led to that achievement and we want to make sure that the level of service and level of satisfaction is continued to be held by the American people, the customers of the Postal Service, and the folks who work at the Postal Service will continue to be proud of the work that they are doing.

With that, let me turn to my colleague, Senator McCain. Welcome.

OPENING STATEMENT OF SENATOR MCCAIN

Senator MCCAIN. Thank you, Mr. Chairman, and thank you for that very comprehensive statement. I want to thank you and Senator Collins for the very hard work that you and other Members of the full Committee have done on this issue over the years.

I would point out, in 2006, I believe the legislation was passed overwhelmingly, if not by voice vote, and we had addressed the problem. Three years later, here we are with a bigger problem. So we didn't address the problem in 2006.

Obviously, as we all know, this morning, the Postal Service loses \$2.4 billion in one quarter. I read your statement, Mr. Potter. I see no specific proposals you have except that perhaps maybe we should close some post offices. In other words, Mr. Potter would not commit to an exact number of post office closures, but said some urban facilities are likely to consolidate certain operations while others will vacate expensive locations. Mr. Potter, it is about time we got some absolutely specific proposals to get the post office back onto at least a zero-loss basis.

Now, we have had lots of hearings. We passed legislation. So far this year, I guess the estimate is a \$7 billion loss. We can't do that to the taxpayers of America. We have every right to expect some specific recommendations both from Mr. Potter and the Administration, so that we can enact them into law, and obviously, a lot of this is due to the fact that America has changed. Just as we went from horses and buggies to automobiles, we have gone from hand-delivered mail to the Internet, text messaging, e-mails, Twitter, and all of the other new means of communications. The Postal Service has to adjust to it or they will go the way of the horse and buggy and bridles. And so far, we have not seen either from the Administration or from you, Mr. Potter, who I understand is well compensated for your work, a specific, concrete proposal to bring the situation under control.

The 2006 bill was advertised as solving the Postal Service's problems. It didn't. And also, Mr. Chairman, I recommend in the future that we have some consumer advocates come and testify before this Subcommittee and full Committee as to their ideas as to how we can solve this problem, because clearly we are not getting them from the Administration.

Senator CARPER. Thanks very much.

Let me turn now to our Chairman, Senator Lieberman. I want to thank you for being an original cosponsor of our legislation.

OPENING STATEMENT OF CHAIRMAN LIEBERMAN

Chairman LIEBERMAN. Thanks, Senator Carper. I want to thank you and Senator Collins for the extraordinary work you have done over the last several years at the request of the full Committee. Normally, I don't come to the Subcommittee meetings, but I think we are at such a moment of crisis that I felt it was my responsibility to be here, first to thank you for what you have done.

The Postal Reform Act of 2006 represented quite a remarkable accomplishment in terms of the variety of different stakeholders that were brought together on its behalf and I think it was a constructive and progressive piece of legislation. But as we know now, the problems confronting the Postal Service of the United States went beyond what the Postal Reform Act of 2006 could do, in one way that we were already well familiar with at that time, which was the extraordinary revolution that has occurred in communication in our time as a result of digital technology and electronic mail, e-mail. That is just a new reality of our life. The second painful reality that we didn't foresee at that time, of course, was the great recession that we have gone through in the last couple of years.

In my own view, the Postal Service, its workers, its employees have made some very great efforts to try to put the boat back on an even keel. I mean, I cite these numbers again. USPS has reduced costs by more than \$6.1 billion this year by reducing 87 million work hours, realigning carrier routes, halting construction of new postal facilities, freezing postal officer and executive salaries at 2008 levels, reducing travel budgets, and the like. Also, trying to reduce the costs of more than 500 existing contracts that will result in short- and long-term savings.

But the obvious reality is, notwithstanding all those efforts, as most graphically demonstrated by the quarterly report yesterday, loss of \$2.4 billion, that the Postal Service is in a dizzying downward spiral, and unless we act forcefully, this great American institution created in our Constitution—that is how serious the Founders of our country believed the responsibility was to provide for, as they said, post offices and post roads—created in our Constitution—unless we apply some tough medicine here and we do it working together, this dizzying downward spiral for the U.S. Postal Service could become a death spiral and none of us obviously want that to happen.

Last week, the full Committee voted to report out S. 1507, which I was proud to cosponsor with Senator Carper. It is the U.S. Postal Service Retiree Health Benefits Funding Reform Act. I think it is a good first response to the current crisis. I think without it, the Postal Service effectively doesn't have enough money to pay its bills as of October 1 of this year. The Postal Service has made clear that they will continue to deliver the mail and pay salaries, but there is a lot else it is not going to be able to do.

So to me, one might change what we propose this way or that way, but I think it is critically necessary to do this rescheduling of payments into the Retiree Health Benefits Fund, payments that are now being done at a level that is way above any other governmental program of its kind and any private sector program of its kind, as well.

The reality is, though, that is not going to be enough. That is a short-term step to enable the Postal Service essentially to keep going after October 1. We have got to agree on a broader strategy that will save the Postal Service, because it is not going to stay alive if we continue to do business as we have been doing business, notwithstanding what has been happening.

And when I say that, I speak not just to the Postal Service, its workers, and management, I speak of us here in Congress, because none of the measures that we have talked about is going to be enough to make this work. All of us have to think about doing things that we never would have thought about for the Postal Service.

I know in S. 1507, an amendment was introduced by one of our colleagues in the Committee that requires the binding arbitrator in a labor-management dispute to consider the financial condition of the Postal Service. I know that our friends in the unions who represent workers for the Postal Service are very upset about this. Frankly, I didn't see how I could justify voting against that amendment. It is a statement of reality.

That same reality has to now be adopted by those of us who are privileged to serve and have responsibility here in Congress. That is why I know that there are discussions of consolidating more branch offices of the Postal Service, of going to 5-day-a-week mail delivery. These are onerous responses. We would never have considered them at an earlier time, but I don't see how we can keep this venerable American institution, which so much of America and American commerce still depend on, going without taking steps exactly like that.

And our constituents are not going to be happy, but every time they express their unhappiness to us, I think we have got to say, if we don't take some of these tough moves, what it means is that we are going to either have to raise your taxes to make payments, greater payments to the Postal Service from the U.S. Treasury or we are going to have to put it on the government credit card, which is an act of irresponsibility because we are turning the burden of repayment over to our children and grandchildren and those who follow. Those are the choices we are going to have to make.

I remember some years ago, there was a little post office in Connecticut that the Postal Service wanted to stop. People were furious. They loved that little post office. It wasn't very busy, but they loved it. All of our Congressional delegation went to bat. The post office was kept open. But those were different times and we simply cannot do that anymore.

This great Postal Service of ours is an iconic American institution that has always delivered for the American people. Now it is time for the management, workers, and Congress to deliver for the Postal Service. If we don't apply the kinds of tough measures—call it tough love if you want—this institution which we depend on is simply not going to be there.

Thank you, Mr. Chairman.

Senator CARPER. Thank you very much for that statement, and again for your strong support of this legislation.

No one on this Committee has worked harder than Senator Collins to enact the postal reform legislation in 2006. I was proud to

be her partner in doing that and thank her for her work then and now on these issues.

OPENING STATEMENT OF SENATOR COLLINS

Senator COLLINS. Thank you, Mr. Chairman. First, let me commend the Chairman for holding this important hearing this morning. I appreciate the opportunity to join you.

I must say, however, that it is most disappointing to once again be discussing the dire financial condition of the U.S. Postal Service. Just 2½ years ago, Congress passed crucial reforms that Senator Carper and I authored that rescued the Postal Service from the GAO's High-Risk List. Today, the Postal Service is once again in a financial crisis and once again it has landed on the High-Risk List. In 2008, the agency lost \$2.8 billion, and this year, as my colleagues have indicated, it is projected to have a net loss of a staggering \$7 billion.

The Postal Service matters to our economy. It is the linchpin of a \$900 billion mailing industry that employs nine million Americans. So what we are talking about affects far more than the employees who are working in the local post office or distribution centers. It affects nine million Americans working in fields as diverse as paper manufacturing, printing, publishing, direct mail, and financial services.

Indicative of that is one of our witnesses today. It is the Chairman of NewPage, which is a paper company that has a large plant in Rumford, Maine. NewPage is representing many other businesses, nonprofits, and organizations whose operations are inextricably linked to the Postal Service.

If the Postal Service, for example, were to resort to excessive rate hikes or decrease delivery service, it has ramifications for all of these companies. They may have to respond with layoffs, increased prices to consumers, or reduced services. Any of these adjustments would contribute to an even more perilous condition for the Postal Service. Why? Because when businesses cut their costs, they reduce mailing costs, and that leads to a further erosion of the Postal Service's shrinking mail volume, which in turn will prompt more proposals for rate increases and renewed calls for truncated delivery services.

As Senator Lieberman has indicated, this is a vicious cycle that has no good outcome. We must prevent this death spiral. We all must put our shoulders to the wheel and accomplish the difficult task of transforming the Postal Service.

The postmaster general has offered three major proposals for Congress to consider. First, adjusting the payments to the Retiree Health Benefits Fund. Now, I would note that while I support an adjustment in this area, the bill approved by this Committee would result in an increase in the unfunded liability of \$4 billion, and I think that is a problem.

Second, the postmaster general has proposed to eliminate 6-day-a-week mail delivery. Third, he has proposed closing or consolidating postal facilities. The Postal Service is reviewing 677 of its 3,200 stations and branches nationwide for closure or consolidation. This proposal, like the Postal Service's plan to reduce delivery from

6 to 5 days a week, would result in reduced service to its customers. Is that really the right response to this crisis?

Will it make a real difference in the cost structure of the Postal Service? If it will, we obviously should consider those moves. But when you look at where the costs are in the Postal Service, it raises a lot of questions in my mind. The Postal Service also cannot expect to gain more business, which it desperately needs, if it is reducing service.

Now, let us look at just the proposal for closing or consolidating the 677 branches and stations. The non-personnel costs of these facilities on the list account for about six-tenths of 1 percent of overall Postal Service operating costs. That is right. If the Postal Service were to close all of the branches and stations that are on the list—and that is not the plan, but let us say they closed every one of them—it would reduce the operating costs, when you exclude personnel, by less than 1 percent. So we need to look at whether that is worth it or whether there are better, more effective means of reducing costs.

Last week, before this Committee approved the bill to provide some relief to the Postal Service from the required payments to the Retiree Health Benefits Fund—a bill that I voted to report from this Committee—our Committee adopted several amendments to address some of the cost drivers and to make the bill more fiscally responsible. I believe that additional changes need to be made on the Senate floor, but there is no question that we do have to act. We simply must rescue an institution dating to the earliest days of our Nation. We cannot allow the Postal Service to fail because it is too fundamental to our economy.

But it is going to take an honest assessment of where the costs are, and it is going to take everyone working together—Postal Service management, employees, members of the mailing community, this Congress, and the Administration—to contribute to the solution. We must work together to find a real, lasting, and fiscally responsible solution.

Thank you, Mr. Chairman.

Senator CARPER. Senator Collins, thank you. Thanks for your statement. Again, thanks for your hard work on this, literally for years, and for your staff, as well.

Senator Collins has said that our bill increases the Postal Service's unfunded liability by \$4 billion. It does. But any bill that reduces the Postal Service's payments this year and for the next several years would do that. It would happen because the fund that we created in the Treasury to prefund Postal Service Retiree Health Benefits will have less money in it and thus earn less interest. It is a drawback of extending relief, really, at all, so I just want to note that for the record.

Senator Burris from Illinois has joined us. We are delighted you are here and you are recognized for your statement. Thank you for coming.

OPENING STATEMENT OF SENATOR BURRIS

Senator BURRIS. Thank you, Mr. Chairman, Ranking Member McCain, Senator Lieberman, and Senator Collins. I am pleased to

be here today as we consider the challenges facing the U.S. Postal Service and its employees.

I know that we have a large group of witnesses here today, so Mr. Chairman, I will withhold giving a major opening statement, but I certainly will have some questions during the question and answer session.

Senator CARPER. We are delighted you are here. Thank you for your attendance and your faithful participation.

Our first witness today will be John Potter, the 72nd Postmaster General of the United States. Mr Potter began his career in the Postal Service in 1978 and held a number of senior management positions there before being named postmaster general in 2001.

Our next witness is Ruth Goldway. Ms. Goldway was reappointed Commissioner of the U.S. Postal Regulatory Commission by President Bush, I believe in 2008, and is scheduled to serve until at least 2014. She previously was appointed to this position by President Clinton to the Postal Rate Commission, which is the predecessor to the Postal Regulatory Commission. Welcome. Thanks for coming, and thank you for your service.

Our third witness today is David Williams, Inspector General of the U.S. Postal Service. Mr. Williams has a breadth of experience in the Federal Government, serving as Inspector General for a total of five Federal agencies during his career.

Our next witness is Nancy Kichak, Associate Director of the Human Resources Policy Division at the Office of Personnel Management. In her position, Ms. Kichak leads the design, development, and implementation of new merit-based human resources policies. Thank you for that work and for coming today.

Our final witness is Phillip Herr. Mr. Herr is Director of Infrastructure Issues at the Government Accountability Office and no stranger to this Subcommittee. Mr. Herr has been with GAO since 1989, managing reviews for a variety of domestic and international government programs since that time.

Each of you will be recognized for roughly 5 minutes. I will ask you to try to stay as close to that as you can. Your entire statements will be made a part of the record.

Mr. Potter, please proceed. Thank you for joining us.

**TESTIMONY OF HON. JOHN E. POTTER,¹ POSTMASTER
GENERAL, U.S. POSTAL SERVICE**

Mr. POTTER. Good morning, Mr. Chairman and Members of the Subcommittee. I appreciate the opportunity to speak to you today.

First, I want to express my sincere thanks to you, Chairman Carper, to the Members of the Subcommittee and the Committee on Homeland Security and Governmental Affairs for your tremendous progress in moving S. 1507 forward for consideration by the full Senate. In making this legislation a priority, you have shown the American people that you support a strong and efficient national postal system.

By providing immediate relief from a crushing prepayment schedule for retiree health benefits, enactment of this bill will en-

¹The prepared statement of Mr. Potter appears in the Appendix on page 61.

hance our liquidity at a time when it is urgently needed. It will reduce our projected losses by over one-third in 2009 and 2010.

We support this bill's amendments, in particular, one that improves our arbitration process by requiring an arbitrator to consider not just pay comparability, but the Postal Service's financial health, as well, and another that accelerates the GAO's report on our business model. This will initiate a necessary and broader debate about the manner in which the Postal Service can continue to serve the American public. On behalf of the Postal Board of Governors, management, and the entire Postal Service, I offer you my full support and cooperation as we work toward these goals.

In the longer term, we believe that fundamental restructuring of the legislative and regulatory framework for the Postal Service is required. At stake is the future of what has been since this Nation's founding the right of every American to send and receive mail. The Postal Service exists as a governmental entity whose mission is universal service to all. That mission is a direct reflection of the values on which this country was founded. It is those values of equality of opportunity that continue to drive the Postal Service today, as they have for more than 234 years.

To address the challenges we face, we must push business effectiveness and operational efficiency to the limits permitted by current postal laws. We must foster growth by increasing the value of postal products and services to our entire spectrum of customers. These achievements are possible only by enhancing our performance-based culture. Our ultimate success will require an extraordinary level of commitment from postal stakeholders. There will be inevitable tradeoffs between financial self-sufficiency and affordability, and the costs of underwriting an ever-expanding universal service network and other governmental obligations.

We believe that a modern, self-sufficient postal system can be structured to continue providing universal service to all at affordable prices. To do so, however, requires new flexibility to adjust networks and services to modern conditions and to minimize entrenched governmental and work rules and expectations that carry with them costs and inefficiencies. If the postal community is not able to achieve this break with the past, then it appears to us that the remaining options will be more unpalatable to most stakeholders. This would force the Postal Service to operate under its present, increasingly outmoded business model until enough customers abandon the system to make financial failure unavoidable.

Mr. Chairman, the thoughts I have just expressed are not new. They are taken almost verbatim from the transformation plan that we developed and implemented in 2002 at the direction of Congress. We achieved and exceeded many of the goals of the plan. Service and customer satisfaction continue to set new records. We have removed more than \$40 billion in cumulative costs, increasing efficiency as our delivery base and its costs have grown by the addition of 11 million new addresses. Innovative new pricing and product initiatives are producing results, and our employees are more engaged than ever.

Yet even with the success of these efforts and new levels of flexibility provided by the Postal Accountability and Enhancement Act of 2006 (PAEA), our situation is more tenuous than ever. This does

not reflect a change in will, a change in priorities, or a change in commitment. Rather, it reflects changes in the economy and changes in mail use patterns. It reflects an infrastructure that exceeds customer needs and costs that are beyond our authority to control.

The issue is not the value of the mail. Despite the vast technological changes over the last decade, the mail still is a vital channel for financial, business, and personal communications. It is a conduit for trillions of dollars in transactions each year. It is one of the most trusted services in America and one of the most effective. It offers unsurpassed value, and we are working to increase that value each and every day.

At the end of the day, though, through focused and complementary efforts, we can protect a vital and vibrant national postal system. The Postal Service must and will continue to bring efficiency and service to even higher levels. Together, we must identify a new business model, one that supports success in a new business environment, and we must close the huge gap between our revenues and our costs.

S. 1507 will offset part of that gap. Increased efficiency will narrow the gap even further. And with the ability to change from 6-day to 5-day mail delivery, we can not only eliminate that gap, but return to profitability without placing any financial burdens on the American taxpayer.

It will take hard work. It will take creativity. It will take cooperation and good faith on the part of everyone with a stake in the mail. Individual interests can be served only by advancing the common interest because the Nation's mail system was created to serve everyone equally. This must be our only goal as we work to preserve and strengthen the U.S. Postal Service, the finest in the world.

Mr. Chairman and Members of the Subcommittee, that concludes my statement. Again, I want to thank you for your support of legislation that will reduce our costs, and I would be pleased to answer any questions you may have. Thank you very much.

Senator CARPER. Thank you, Mr. Potter. Ms. Goldway, you are recognized. Please proceed.

**TESTIMONY OF RUTH Y. GOLDWAY,¹ CHAIRMAN, POSTAL
REGULATORY COMMISSION**

Ms. GOLDWAY. Thank you. Chairman Carper, Ranking Member McCain, Ranking Member Collins, Chairman Lieberman, and other Members of the Subcommittee, thank you for the opportunity to testify on the financial crisis facing the U.S. Postal Service today.

I am honored to be participating at this hearing. As many of you know, I have served on the Commission for 11 years with many opportunities to support and second-guess chairmans. This is my first opportunity to speak in front of you myself. The testimony we have submitted has been prepared in consultation with Chairman Blair. All of the Commissioners are in general agreement with these matters. However, there are somewhat different emphases that each one of us bring to these matters.

¹The prepared statement of Mr. Goldway appears in the Appendix on page 76.

I think your comments and those of Postmaster General Potter have fully described the financial situation in which the Postal Service finds itself. Suffice it to say that their revenues are down at least \$6 billion so far this year, and at the end of the year, they may well need additional Congressional action in order to meet all of their payments.

To put it in perspective, however, UPS and FedEx have had revenue declines of 11 percent and 21 percent, respectively. This is a difficult time for the industry as a whole.

The Postal Service has responded to the revenue loss with the most aggressive cost cutting in its history. In fact, under the postmaster general, the Postal Service has cut costs for several years. From 1999, over 160,000 career workforce positions have been taken out and they are expecting another 100 million work hours this year.

Whatever the concerns of those of us who have evaluated the Postal Service and its financial activities in the 1990s or in the early part of this century, management and labor have worked remarkably cooperatively and effectively to streamline the system. I think we can be confident that they are going to be responsible about cost control in the future.

At the request of the House Subcommittee on the Federal Workforce and Postal Service and District of Columbia, the Commission recently examined the underlying assumptions and methodologies used by the Office of Personnel Management and the Postal Inspector General to determine the Postal Service's unfunded liabilities for its retiree health care benefits. You received full copies of those reports, I believe, and they are also available online. Hopefully, our analysis will prove helpful to you in informing the debate should this Committee consider long-term measures to address funding for the Retiree Health Care Benefit Fund.

The Commission developed an alternative calculation to those provided by the other two agencies utilizing current industry and government best practices, and this produced a long-term liability that could result in over \$2 billion in lower payments per year than current law requires, and the chart on page 4 that we submitted in my testimony describes that in greater detail.

The Postal Regulatory Commission is also in the process of reviewing the Postal Service's request for reduction in post offices, postal branches and stations. We have initiated a docket to review that matter. Since some media reports have been inaccurate about the process, let me be very clear. The law gives the Postal Regulatory Commission the authority to review the process the Postal Service proposes, not to decide on the merits of closing individual facilities.

The review does require us to look at the potential impact that such closings would have on the communities, the adequacy of financial analysis that the Postal Service has developed in planning for these closures, and the adequacy of public notice and participation in the process.

The law requires the Postal Service to seek an advisory opinion from the Commission when it proposes operational changes that could substantially affect service nationwide. Therefore, the Postal Service would also have to submit to the Commission any proposal

to reduce days of delivery. We recognize, of course, that Congress must act to allow such a change.

Whether it is 5-day delivery, collection box removal, which has been substantial, or closure of facilities, as the Postal Service proposes, the Postal Service seems intent on reducing its physical presence. No proposals have been put forward to find new sources of revenues at post offices, such as partnering with other public agencies or reinvigorating its brand. These plans bring into question long-held concepts of how the Postal Service fits into the framework of American society.

The Commission is well aware from its proceedings of the impact the Postal Service has on our Nation's charities, educational institutions, political processes, and the overall flow of information. Voting by mail is increasing exponentially in the country, and it was not long ago that the Postal Service demonstrated its ability to bind the Nation together when it allowed residents of New Orleans to elect a mayor even though they themselves had been dislocated from the city by Hurricane Katrina.

In a recent Gallup Poll, 95 percent of those indicated supported the Postal Service and felt that post offices were personally important to them.

While cost savings are important, I believe that the Postal Regulatory Commission has a role in determining whether those cost savings are beneficial in the long term or whether they may, in fact, be counterproductive in terms of providing ongoing support for and interest in the Postal Service from the community and the Nation as a whole.

The Postal Accountability and Efficiency Act have provided considerable room for innovation. Postal products continue to be shaped by historic class differences, largely in place by the 1920s, but potential new markets could be developed around hybrid products that combine characteristics between classes, for example, a standard mail product with a guaranteed date of delivery. Opportunities to better use its existing facilities have yet to be explored.

The American public continues to demand effective, reliable, and affordable nationwide Postal Service—

Senator CARPER. I am just going to ask you to wrap it up in just a moment, if you would.

Ms. GOLDWAY. OK. The Postal Regulatory Commission stands with the rest of the postal industry, with the Committee and Congress to work towards any changes that will be required of us in the future.

Senator CARPER. All right. Thanks so much. Mr. Williams, welcome.

TESTIMONY OF DAVID WILLIAMS,¹ INSPECTOR GENERAL, U.S. POSTAL SERVICE

Mr. WILLIAMS. Thank you, Mr. Chairman and Senator McCain, Members of the Committee and the Subcommittee. I appreciate the opportunity to discuss the Postal Service's retiree health care liabilities.

¹The prepared statement of Mr. Williams appears in the Appendix on page 83.

The Postal Service's financial stability is currently threatened by disruptive effects of new communications technologies and the massive and sudden economic downturn. This situation has turned into an immediate crisis because of the significant diversion of cash to pay for future retiree health care benefits. For example, the first 6 months of this year's payment to the benefit funds was \$2.7 billion. If not for this payment, the Postal Service would have made \$400 million instead of losing \$2.3 billion in the first half of 2009.

The Postal Accountability and Enhancement Act of 2006 requires the Postal Service to make 10 annual payments of \$5 billion each in addition to the \$20 billion already set aside for prefunding its retiree health benefits. The size of the \$5 billion payments has little foundation, and the current payment method is damaging to the financial viability of the Postal Service, even in profitable times.

The payment amounts were not actuarially based. Instead, the required payments were built to ensure that the Postal Act did not affect the Federal budget deficit. This seems inexplicable, since the Postal Service is not part of the Federal budget, does not receive an appropriation for operations, and makes its money from the sale of postal services.

The payment amounts are fixed through 2016 and do not reflect the fund's earnings, estimates of the Postal Service liability as a result of changing economic circumstances, declining staff size, or developments in the health care and pharmaceutical industries. The payments do not take into account the Postal Service's ability to pay and are too challenging even in normal times.

In the current economic climate, the Postal Service is forced to borrow and place its solvency at risk. Borrowing to pay a debt that will be incurred in the future is a controversial practice not seen in business or government.

Beyond the problems with the payments, we believe it is important to know if the Postal Service's obligation is reasonably estimated. My office asked an actuarial consulting firm, the Hay Group, to benchmark OPM's assumptions against those commonly used in the public and private sector, review OPM's estimates of the Postal Service's liabilities, estimate how well the Postal Service will have funded its retiree health obligations when the mandated payments end, and estimate the proper funding levels, given adjustments to the assumptions.

In brief, the actuaries found OPM's assumption of health care inflation will average 7 percent indefinitely, is unreasonably high when compared to the 5 percent inflation rate commonly used by Fortune 100 companies, State and local governments, and public utilities. The payments are aggressive, reducing the Postal Service's unfunded liabilities more quickly than typical prefunding plans.

When the broadly-applied 5 percent for growth in health care costs is used, the estimates show that the Postal Service will have overfunded its obligations by \$13 billion by the end of 2016. By the end of 2016, the current payments will have essentially created an accidental annuity. At 5 percent interest, the \$104 billion fund will earn more than \$5 billion a year. This is a significant amount of money to cover retiree premiums, which are predicted to be \$2 billion this year.

The punishing payments threaten the Postal Service's solvency and the current crisis. Because the Postal Service has been forced to borrow during profitable years, borrowing levels are now stressed during times of need.

Resetting the annual payments from \$5 billion to \$1.57 billion will leave only \$26 billion unfunded by the end of 2016. Resetting payment levels will provide a more achievable financial goal. New payments will take into account the substantial annual earnings of the fund. Last year, the fund earned \$1.3 billion. Payments should be reset periodically to recognize factors such as medical and technological innovations and breakthroughs, current efforts to reduce inflation within the medical sector, and changing interest rates for the fund.

The Postal Service must meet its retiree benefit obligations while acting like a business and paying its expenses from the sale of postal services. As a result, the retiree health benefit obligations and all other postal liabilities should be derived mathematically and not politically.

I am aware that there were voices on your Committee and in the House that called for the proper payment level to be set at the time that the payments were distorted. I am hopeful that these voices will now be heard to correct this debilitating problem. If the distortion is corrected, the Postal Service can more realistically address the remaining serious challenges and opportunities before it. Thank you.

Senator CARPER. Mr. Williams, thank you for that illuminating testimony. Thank you.

Ms. Kichak, you are recognized. Please proceed.

TESTIMONY OF NANCY KICHAK,¹ ASSOCIATE DIRECTOR, STRATEGIC HUMAN RESOURCES POLICY, U.S. OFFICE OF PERSONNEL MANAGEMENT

Ms. KICHAK. Chairman Carper, Senator McCain, and Members of the Subcommittee, I appreciate the invitation to provide the Office of Personnel Management's views regarding the funding of the Federal employees health benefits for retired employees of the Postal Service. We welcomed the introduction of S. 1507, which is intended to provide short-term relief to the Postal Service in meeting its obligations to fund its share of retiree health benefits costs.

In 2006, Congress enacted the Postal Accountability and Enhancement Act, which requires the Postal Service to pay the employer's share of post-retirement FEHBP premiums for its employees in a similar manner to how Federal agencies fund employee retirement costs under the Federal Employees Retirement System. Under FERS, employing agencies pay the cost of future retirement benefits while individuals are employed. Prefunding retirement benefits assures there is sufficient money set aside to pay benefits without further agency contributions.

In the same way, the purpose of prefunding post-retirement FEHBP premiums by the Postal Service is to ensure postal employees will have employer funding available for their health insurance after retirement. The law created a new fund and provided for ini-

¹The prepared statement of Ms. Kichak appears in the Appendix on page 88.

tial deposits of certain surpluses related to the Civil Service Retirement System, plus an amount held in escrow as a result of prior legislation.

P.L. 109-435 also provided that through 2016, the Postal Service will make the annual pay-as-you-go costs for current postal retirees plus annual payments in specified amounts that range from \$5.4 to \$5.8 billion per year. Prior to this 2006 change in the postal law, the Postal Service obligations to CSRS, the retirement fund, which they no longer pay, totaled about \$5 billion a year.

Beginning with 2017, the pay-as-you-go costs will be paid from the fund and the Postal Service's annual payments will equal accruing costs for active employees plus amortization of the unfunded liability actuarially determined by OPM.

As requested, we have reviewed the Postal Service's OIG report and disagree with its conclusions. The Postal OIG position is based upon a study by the Hay Group which used different assumptions from those used by OPM. Although the private sector plans reviewed in the Hay study used trends starting at a higher rate and decreasing to an ultimate average rate of 5 percent, the Hay report applied the 5 percent throughout the projection. Hay also did not study FEHB experience that covers the Postal Service.

We believe OPM's 7 percent trend assumption is appropriate. The assumption is based on careful consideration of historical trends of the FEHB program. The program differs from other retiree medical programs in several respects. Retirees and employees are covered under a single program and participation in Medicare is not required. Both of these program features drive premiums upward.

Last week, the Postal Regulatory Commission released a report which included a Mercer review of the OPM assumptions. Mercer applied a variable select and ultimate trend rate with increases higher than 7 percent until 2016 and lower thereafter. Use of the Mercer select and ultimate trend assumptions produces results that are similar to the level 7 percent trend used by OPM. The Mercer report states that a 7 percent trend rate or higher would be a reasonable trend assumption and is indeed consistent with the historical results achieved.

Both OPM and Hay employ an assumed discount of 6.25 percent. However, had Hay applied the same methodology in selecting a discount rate for their analysis as they did for their trend assumption, they should have used something substantially less than 6.25 percent. A lower discount rate would have resulted in a larger liability. We believe it is extremely important to make and apply assumptions consistently.

OPM has no objections to legislative changes that do not jeopardize the funding for employee and retiree benefits. S. 1507 meets that requirement. We believe the bill would provide temporary relief to the Postal Service in a financially responsible manner. It provides that the Postal Service would begin paying the normal cost for its employees today along with a stream of payments that represents the amortization of existing unfunded liability.

Thank you for the opportunity to discuss this issue. I would be happy to answer any questions.

Senator CARPER. Ms. Kichak, thank you very much for that testimony, too. Mr. Herr.

TESTIMONY OF PHILLIP R. HERR,¹ DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. HERR. Thank you. Chairman Carper, Ranking Member McCain, Members of the Subcommittee and full Committee, I am pleased to appear again before this Subcommittee to discuss issues facing the U.S. Postal Service. Today, I will first provide updated information on the Postal Service's financial condition and outlook; second, explain GAO's recent decision to place the Postal Service's financial condition on our High-Risk List; and third, discuss options and actions to address its current and long-term challenges.

It is widely recognized that the Postal Service's financial condition has deteriorated sharply over the past year. Mail volume is projected to decline 28 billion pieces this fiscal year, leading to some sobering statistics. A net loss of \$7 billion, which has been mentioned previously, an increase in outstanding debt by the annual statutory limit of \$3 billion to a total of \$10.2 billion, and an unprecedented \$1 billion cash shortfall that will threaten the Postal Service's ability to make its mandated annual payment of \$5.4 billion for future retiree health benefits.

The outlook for fiscal year 2010 is even more challenging, as the Postal Service is projecting its outstanding debt to increase to \$13.2 billion, just under its \$15 billion statutory limit. These figures reflect the impact of the current economic recession as well as how mail use has changed as businesses and consumers have moved to electronic communication and payments.

Further, the Postal Service does not expect mail volume to return to its former levels. In fact, the postmaster general's statement today projects volume declines of another 8 to 15 billion pieces next year.

Last week, GAO added the Postal Service's financial condition to our list of high-risk areas because we believe that restructuring is urgently needed. Simply put, no single change will be sufficient to address the Postal Service's challenges.

The short-term challenge is cutting costs quickly enough to offset the unprecedented volume and revenue declines. The long-term challenge is to restructure its operations, networks, and workforce to reflect changes in mail volume and use.

We have called for the Postal Service to develop and implement a broad restructuring plan, with input from key stakeholders and approval by Congress and the Administration that includes time frames for actions. The plan should address: Realigning the Postal Service to reflect changes in the use of the mail; better aligning costs with revenues; optimizing its operations, network, and workforce; increasing mail volumes and revenues where possible; and retaining earnings to finance needed investments and repay debt.

Turning to restructuring options in three key areas, compensation and benefits, postal operational networks and revenue enhancement. Compensation and benefits, as most here know, rep-

¹The prepared statement of Mr. Herr appears in the Appendix on page 92.

resent about 80 percent of the Postal Service's costs. Reducing these costs by taking advantage of looming retirements is crucial. About 162,000 employees are eligible to retire this year, and this number will increase to almost 300,000 within the next 4 years. In addition, benefit costs could be contained by paying a lower percentage of health and life insurance premiums, in line with those of other Federal employees.

There are also savings opportunities in postal operational networks and facilities. There is excess capacity in the 400 mail processing facilities nationwide. For example, processing capacity for First-Class Mail exceeds needs by 50 percent.

About 30 percent of the Postal Service's retail revenue comes from stamps sold by mail, on the Internet, and at grocery stores. Accordingly, the network of 37,000 retail facilities, where maintenance has been underfunded, also offer consolidation opportunities, we believe.

And because cutting costs cannot be the only solution, it is important to look for ways to generate revenue through new or enhanced postal products.

In closing, GAO has begun work on the PAEA-mandated study of the Postal Service's business model that will examine these and other options that lead to structural and operational reforms at the Postal Service. We look forward to working with your offices and other stakeholders here today on this effort.

Mr. Chairman, this concludes my statement and I would be happy to answer any questions. Thank you.

Senator CARPER. Thank you, Mr. Herr, and we are very grateful to the GAO for the good partnership and the input you have provided for us over the years as we have wrestled with these issues. Thank you, and thank you for your testimony today.

We will have 7 minutes for questions. I will ask our colleagues to try to remain within that time frame and I will, too. We will have time for a second round if that is necessary. I am told we are not going to have any votes scheduled on the floor until maybe 3 o'clock, so hopefully we will conclude here well before that. That is not going to be a problem.

I would like to start by asking the panel, if you will, to weigh in on—first of all, I thought that was very good testimony. It was very helpful testimony for me. I learned some things, and I suspect my colleagues did, as well. I thought it was, as they say at Fox, fair and balanced. It was interesting to hear a little bit of disagreement here between Mr. Williams and Ms. Kichak and we will have an opportunity to explore that and some of the assumptions.

I would just note that if we are successful at passing health care reform, almost everybody, whether you are a Democrat or a Republican or the Administration or not, one of the things everybody agrees on is we have got to bend the cost curve. We have got to bend it down, find ways to rein in the growth of health care costs, so we may provide some additional business for Hay or Mercer or these other consultants after we pass legislation, I hope this year, on reining in the growth of health care costs and improving its quality and extending coverage to those who don't have it.

But let me start the questioning of our panel today by asking you to weigh in on a debate that we had in the Committee last week,

about the best way to restructure the Postal Service's retiree health prefunding payments. A bill that Senator Lieberman and I introduced reduced the Postal Service's payments this year and for the next several years in an effort to give the postmaster general and his team the breathing room that we think they need to get through this tough time they have ahead of them, and we think this legislation should buy them the time that they need to find additional savings and hopefully attract more business.

An alternative approach put forward by our colleague, Senator Collins, would have provided some relief this year and next, but would have reduced the amount of that relief in order to reduce the Postal Service's payments later in this decade.

I would just like to get the panel's thoughts on these two approaches. Mr. Potter, if we could just start with you, please.

Mr. POTTER. Mr. Chairman, in terms of the two approaches, obviously, I support what came out of Committee because it provides short-term relief. I understand the point that was made by Senator Collins earlier about the fact that, at the end, there would be some underfunding by about \$4 billion, and her proposal sought to address that. I believe that the needs of the Postal Service in the immediate couple of years are very urgent and therefore I would support the proposal as it came out of Committee because it provides more short-term relief. It gives us an opportunity for further discussion about the public policy issues around the Postal Service, 6-day to 5-day delivery and other things that need to be done to address our situation.

Senator CARPER. All right, thank you.

Ms. Goldway, I would ask you to keep your responses fairly brief, if you would.

Ms. GOLDWAY. The Commission recognizes that the Postal Service needs some immediate assistance. Your bill S. 1507 does provide relief that is, I think, financially responsible. I would say that the Commission's review of the issue of long-term health care retiree benefit liability differs from the OPM in the number of employees that we forecast in the future and that forecast underlies my earlier comment in my confidence that the Postal Service is going to continue to cut. And therefore, in any future review of the postal liability issues, the understanding of the lower number of employees may help to resolve the long-term liability issues.

Senator CARPER. Before I turn to Mr. Williams, Mr. Potter, recall for us, if you will, the level of postal employees, say, 6 years ago compared with what we have today.

Mr. POTTER. We hit our maximum number of career employees in late 1999. We had 803,000 career employees. We have been addressing the diversion of mail to electronics and have been managing our workforce very aggressively. Today, we have 630,000 career employees, so we have managed to reduce that, working with the unions and within the contracts, by over 170,000 people, the number of current employees we have. If you look at where we are today versus where we are the same day last year, we are down 37,000 career employees. We are down over 40,000 if you included non-career.

Senator CARPER. Thank you. Mr. Williams.

Mr. WILLIAMS. We are very supportive of S. 1507. We like a lot of things about it. It pays the current retirees out of the fund. That was the purpose for the fund's construction. It is actuarially based, which is very powerful and useful. It addresses the period of time from the date of employment all the way through the projected retirement and that is a very good feature, too.

As we look, we do not believe 7 percent is a sustainable inflation rate and we think—and apparently we will get into that later, but we think 5 percent is much better. There isn't anybody paying 7 percent. There are a lot of people prefunding and they are all paying 5 percent.

The last thing is, we think it would be useful in the future if we revisited this occasionally and if we used Postal Service's specific employee data instead of large data, and we would want to focus on a more recent period. OPM went back to 1983 and the medical industry is almost unrecognizable from that period of time.

Senator CARPER. All right. Thank you, Mr. Williams. Ms. Kichak.

Ms. KICHAK. Well, he said a lot of things I would like to address—

Senator CARPER. Don't address all of them, just one or two.

Ms. KICHAK. OK. Let me just say that with S. 1507, one of the things that is very powerful in that legislation the way it is addressed is that the Postal Service is going to pay the accruing costs every year for its employees. So if it is able to bring down its employment numbers of active employees, it can control that part of its costing, which makes projecting what the loss is immaterial. Those payments will be based on the actual number of employees.

Senator CARPER. Thank you, ma'am. Mr. Herr.

Mr. HERR. Yes. As I testified in January at the hearing you held earlier this year, we support short-term relief from these payments. We understand the Postal Service is in a very difficult financial situation. We believe that this is one way to help give them some breathing room so that they can come out from underneath this. We also believe, though, that it should be tied to a broader restructuring so that there is a quid pro quo, if you will, so that there is something that is given in return.

Senator CARPER. All right. Thank you.

This question is probably to you, at least initially, Mr. Potter, and I will ask you to be very brief in responding to it. But the options that face the Postal Service, one, rein in your costs, and you have endeavored to do that by trying to right-size your payroll, your number of employees with the amount of mail that you are delivering. You can try to close some facilities, post offices, some of the stations, satellite stations. You can try to close processing centers, there are over 400 of those.

You can try to find new business, create new business opportunities, and what I want to do is to go there. Just talk to us very briefly about some of the things that you are doing now to be more entrepreneurial under the language in the bill that we passed 3 years ago. What are you doing to be more entrepreneurial? What can you do to be more entrepreneurial going forward?

Mr. POTTER. Thank you for that question, Mr. Chairman. What are we doing? We are taking advantage of pricing opportunities and flexibility that is in the PAEA. We now have, for example, our

package services. We are out contracting with different companies to get their business. We didn't have that ability in the past. We now have different pricing based on how you access postal products. We have pricing if you go online, pricing if you have some volume. So we are offering some volume discounts. A different price is offered if you come in and use our lobby services. We have a summer sale for the first time ever in the Postal Service to encourage people to advertise with us. Our intent is to keep going with this type of flexibility. We have increased the number of different sizes and shapes for our Flat-Rate Priority Box that have really been doing very well in the marketplace.

I think longer term, though, Senator, we have to think about the fact that we have a network of 37,000 retail outlets. America loves them and we want to keep as many of those open as we possibly can, but we cannot just sell stamps in those outlets because of the substitution factor going on with stamps and mail. And when I look around the world, I see lots of examples of what other posts are doing. If you are in Australia and you want to update your driver's license, renew it, you go to the post office. If you are in Italy and you go into a bank, more than likely, you are going to the post office. If you are in Japan and you want to buy insurance, more than likely, you are going to the post office. If you are in France and you have a cell phone issue, more than likely, you are going to the post office.

I think we have done a good job of trying to sell mail and do what can be done there. I think we have just begun to scratch the surface with the PAEA and we are aggressively pursuing that.

Senator CARPER. Thank you. Thank you for that response. Senator McCain.

Senator MCCAIN. Mr. Potter, do you believe that we should implement many of the recommendations of the GAO, in their report that Mr. Herr just mentioned?

Mr. POTTER. Yes, I do, Senator. And if I could, we have been working very diligently to implement much of what he talked about. If you look back at the year 2000, we had 446 mail processing plants. Today, we have 355. So we have taken out over 20 percent of our mail processing plants.

Senator MCCAIN. You have taken out over 20 percent, and how much has your volume dropped in that period of time?

Mr. POTTER. Our volume has dropped a similar amount. What we have here, and the reason I asked for 6-day to 5-day delivery, if you look at where we were—if you look at where we are this year versus last year, our volume is down 12.6 percent. Eighty percent of our cost is labor. Our cost in post office operations and in mail processing operations is down over 13 percent. The one area that we cannot control our costs and match our costs to the workload is delivery, because moving from door to door 6 days a week is a fixed cost. And if the volume declines, that portion of a letter carrier's day that is fixed cannot be adjusted by the fact that mail volume has declined.

We have gone from 5.9 pieces of mail, on average, for every door, since 2000, down to 4.1 pieces. We have managed very aggressively to take costs out to offset that loss. But the fact of the matter is,

I think we have reached a breaking point with the recession and that is why we are seeking to go from 6-day to 5-day delivery.

Senator MCCAIN. So we are now presented with a situation where in October, you would not be able to make payroll or not make the \$5.4 billion payment, is that correct?

Mr. POTTER. Yes, sir. We will experience a shortfall of approximately \$700 million.

Senator MCCAIN. Short.

Mr. POTTER. Yes.

Senator MCCAIN. So obviously, we are going to make payroll.

Mr. POTTER. Yes, sir.

Senator MCCAIN. So what adjustments need to be made?

Mr. POTTER. Well, Senator, in January, we recognized that this was an upcoming issue.

Senator MCCAIN. Although you certainly didn't predict the size of the losses. I think we can go back——

Mr. POTTER. That is true.

Senator MCCAIN [continuing]. Through the Congressional Record to clearly indicate that.

Mr. POTTER. They have been accelerating.

Senator MCCAIN. Dramatically.

Mr. POTTER. And if I could just clarify, the \$2.4 billion loss in this quarter, there is some bright news in the sense that if you look at quarter three versus quarter two, although we are reporting a \$2.4 billion loss, \$800 million of that loss is a workers' compensation adjustment, a non-cash adjustment, because interest rates are projected to be low, and because of that, we have had to make a non-cash adjustment because the net present value of what we had there obviously has declined because it will not earn as much because of lower interest rates.

Senator MCCAIN. I have only 7 minutes——

Mr. POTTER. I am sorry. So our net loss actually went down without that one-time adjustment from quarter two to quarter three.

Senator MCCAIN. So clearly, your temporary short-term fix is not to make the full \$5.4 billion payment.

Mr. POTTER. My preference would be that we get legislation passed that would address the retiree health benefit issue and then we would be able to meet all of our obligations.

Senator MCCAIN. But if that legislation is not passed——

Mr. POTTER. Yes, sir. Then we will not pay the full \$5.4 billion payment.

Senator MCCAIN. Mr. Herr, what is your assessment of the measures that the Postal Service has taken so far in keeping with your previous reports and your previous recommendations as to what actions need to be taken in previous GAO reports to Congress?

Mr. HERR. Senator McCain, as we looked at the Postal Service's situation this year and we considered the step to go to the High-Risk List, we felt that given the importance of the service provided to the American people, the challenging condition in terms of the financial situation the Postal Service faces, coupled with the real paradigm change in how people communicate, using the Internet, making electronic payments, we felt that we needed to put them on the High-Risk List to help bring a sense of urgency to this matter.

Senator MCCAIN. I understand. How have the actions of the Postal Service been in sync or complying with or agreeing to the proposals you have made, the GAO has made, to improve the situation, which is obviously very serious?

Mr. HERR. Well, we have seen some steps. For example, on the delivery side, there was a very big agreement between the Postal Service and one of its union to do readjustments of routes, and that has resulted in some savings this year.

Senator MCCAIN. What haven't they done?

Mr. HERR. Processing is one area, although there is reference to some changes there. There are some studies underway. The other area—

Senator MCCAIN. Processing, meaning what?

Mr. HERR. Having the opportunity to do some more consolidations there. I mentioned, for example, in my oral statement that the First-Class Mail processing capacity exceeds the need.

Senator MCCAIN. But, Mr. Herr, isn't the fundamental problem the benefits?

Mr. HERR. Well, 80 percent of their costs are salary and benefits. I mentioned also the need to take advantage of the looming retirements, so through attrition, you would be able to cut those costs, as well.

Senator MCCAIN. It is my understanding that USPS pays a higher percentage of employee health benefits premiums than other Federal agencies, 80 percent versus 72 percent, and USPS pays 100 percent of employee life insurance premiums while other Federal agencies pay about 33 percent. And I am cognizant that the Postal Service is not a Federal agency, but there is certainly a significant difference there.

Mr. HERR. Yes. That is a point that we have been making both in our High-Risk designation and also in prior reports and testimonies. And the differential there, my understanding is that if you costed that out, would be in the \$600 to \$700 million range.

Senator MCCAIN. Six to seven-hundred million dollars?

Mr. HERR. Correct.

Senator MCCAIN. Per annum?

Mr. HERR. That is my understanding, yes, sir.

Senator MCCAIN. That still doesn't get—

Mr. HERR. No, it doesn't.

Senator MCCAIN. What does?

Mr. HERR. I think you are going to have to look more broadly at the infrastructure, but then at the other piece being the salary and benefits, I think you are going to have to look at ways to streamline the workforce.

Senator MCCAIN. Thank you, Mr. Chairman, and I thank the witnesses. Could I just ask one more question of Mr. Herr?

Senator CARPER. Sure.

Senator MCCAIN. Are you aware of the pending legislation before Congress that was passed through the Committee?

Mr. HERR. Yes, sir.

Senator MCCAIN. How do you view it? Short-term fix? Long-term fix? No fix at all?

Mr. HERR. It is a short-term fix. As I mentioned earlier, I would think it should be coupled with a restructuring effort so that there

is a sense of urgency to start this moving forward, getting them through this short-term difficulty, but then laying groundwork to help the institution get out ahead of what is a real looming financial problem.

Senator MCCAIN. Thank you, Mr. Chairman. I thank the witnesses.

Senator CARPER. Thank you, Senator McCain. Senator Lieberman.

Chairman LIEBERMAN. Thanks, Mr. Chairman.

Thanks to all of you. I think your testimony highlights what we all are coming to understand, which is that we don't have any easy choices here. None of us—and I am speaking from the point of view of Congress—none of us want to close any postal facilities. None of us want to go to 5-day-a-week delivery as opposed to 6 days. The only reason we are thinking about those, and I fear we will probably have to do both of those, is that the alternative is increasing fiscal desperation for the U.S. Postal Service, and the alternative to that—because it all comes back to us.

You can't just keep doing what you are doing. The money doesn't come out of the air. Either we are going to have to raise taxes, which none of us want to do, to pay the growing, surging deficits of the Postal Service, or we are going to end up doing what is easy but very wrong, which is to put it on the government credit card and delaying payment for coming generations, and that is going to have terrible consequences on our children, grandchildren, and on our country's long-term fiscal viability. I just can't say that enough, which is why we are talking about what we are talking about.

In that regard, I think all of us, Mr. Potter, the Postal Service, we in Congress, really have an obligation to bring the public up to where we are about this crisis. They don't want the 5-day-a-week delivery. They don't want any postal facility to close. But if the alternative is higher taxes or putting it off so their kids have to pay, I think it is going to make it easier for them.

Some of this goes to definition, Mr. Potter. I want you to take just a moment to explain what the difference is between a post office and a branch or station, because as I understand it—correct me if I am wrong—you are not talking about closing post offices, is that right?

Mr. POTTER. That is correct. The difference between the two is that a post office is generally a zip code that has one postal facility within its boundaries.

Chairman LIEBERMAN. Right.

Mr. POTTER. A station is part of a larger post office located in our bigger cities, so, for example, Chicago, L.A., New York. The geography within that city is broken up by different postal facilities. In some cases, it is a station, which has delivery and retail units, a branch or a finance unit. It could just be a storefront where we sell postal services.

And so what we are talking about here is a review of our big city post offices. We spend \$16.9 billion on those operations, \$2 billion of which are for non-personnel costs. And so it is a matter of reviewing what is a quarter of the expenses that are incurred by the post office in these 3,200 facilities.

Chairman LIEBERMAN. OK. I hope that is helpful to people. It is to me.

Second, am I right, you have said that the workforce is down 170,000?

Mr. POTTER. Over 170,000 since our peak in 1999.

Chairman LIEBERMAN. Right. And am I right that there is a no-layoff clause in the agreement between the post office and the workers?

Mr. POTTER. There are no lay-off clauses in each of the contracts. There are different levels of protection depending on the contract. So there are employees that could be laid off, but our contracts are very complex. If you were to lay off career employees, that would mean that you would have to eliminate all use of non-career employees. The biggest body of people that could be laid off are in the carrier craft—

Chairman LIEBERMAN. Right.

Mr. POTTER [continuing]. But we have some 15,000 non-career employees there, and we have to deliver 6 days a week. So we have competing obligations. I mean, you would like to lower your costs, but you still have to perform that delivery 6 days a week. And so therein lies the dilemma.

Chairman LIEBERMAN. OK. So the way you have reduced 170,000, which is almost 20 percent, I think, by what you said, the number, is by attrition, I presume?

Mr. POTTER. Yes, it is, so we capture all attrition that we can, and obviously we have been very aggressive about doing that in the last couple of years because of the downturn. As I said earlier, we have reduced some 37,000 career jobs in the last year. That is actually higher than the normal attrition. We have voluntary early retirement options for our employees to increase the amount of people who might consider leaving.

Chairman LIEBERMAN. As you know, and we will hear from the second panel, the groups representing employees and others are unhappy about the amendment added in the Committee bill that said that binding arbitrators could consider the fiscal condition of the Postal Service. You said in your opening statement that you support that. I wonder if you could indicate why.

Mr. POTTER. Well, right now, there is direction to the arbitrator in the law that says that the arbitrator should consider paying wages comparable to the private sector.

Chairman LIEBERMAN. Right.

Mr. POTTER. That is a very broad direction. In the past, arbitrators have assumed that the language meant that our employees were comparable to policemen, and there is, if you just take verbatim what that directive is, it does not in any way, shape, or form link to what the financial position of the institution is, and I think that by adding that phrase, you are bringing balance to what an arbitrator would consider when it comes to the Postal Service and how you would view each of these agreements and how critical they are to the health of the business when 80 percent of the costs that we incur are labor.

Chairman LIEBERMAN. Do any of the four other witnesses oppose that amendment to allow the binding arbitrator to consider the fiscal condition of the Postal Service?

Mr. HERR. No, sir.

Ms. GOLDWAY. Chairman Lieberman, if I might just add to the record with regard to your question of the definition of post offices—

Chairman LIEBERMAN. Yes.

Ms. GOLDWAY. The Postal Regulatory Commission has a different interpretation. The Postal Service is defining post office in terms of its administrative organization, in other words, who reports to whom, whereas the Postal Regulatory Commission defines it in terms of the service actually provided in the community. So to the extent to which branches and stations function like post offices, the way you and I imagine a post office, we define those as post offices and expect and anticipate that all of the laws regarding closing post offices cover those stations and branches.

Chairman LIEBERMAN. I appreciate that. I am over my time, but I would ask you to submit to the Subcommittee what that definition is. In other words, where do you draw the line?

Ms. GOLDWAY. Right. Thank you.

Chairman LIEBERMAN. The Postal Service's definition is quite clear in terms of administrative functions, but when does a branch become a post office in the definition of the Commission?

Ms. GOLDWAY. Thank you. We will do that.

Chairman LIEBERMAN. Thanks, Mr. Chairman.

Senator CARPER. Thank you, Senator Lieberman. Senator Collins.

Senator COLLINS. Thank you, Mr. Chairman.

Mr. Herr, I support changing the payment schedule for the Postal Service to give it some relief to get through this difficult time. Where Senator Carper and I disagree is in our assessment of what the increase in the unfunded liability ought to be and also in our valuation of the Postal Service's ability to pay far greater amounts into the fund in the second 5 years of the 10-year period.

I worked very closely with the GAO to come up with the amortization schedule that I proposed. As I indicated, under Senator Carper's proposal, the unfunded liability would increase by \$4 billion. Under my proposal, it would still increase, but the increase would be \$500 million as opposed to \$4 billion—big difference.

I want to turn to the second issue, however, and that is whether it is realistic to expect the Postal Service to be able to pay far more between 2015 and 2019—the second 5 years—than is the case under current law. Under Senator Carper's proposal, the Postal Service would have to pay \$6.3 billion more into the Retiree Health Benefits Fund than is required under current law in the second 5 years. In other words, under the bill the Committee reported, it lowers substantially the payments for the next 5 years, but then ramps them up for the second 5 years to the tune of \$6.3 billion over the current law's schedule.

How optimistic are you that the Postal Service's financial situation is going to improve so greatly that it will be able to pay \$6.3 billion in payments above what would be required by current law?

Mr. HERR. Senator Collins, I think looking at the situation the Postal Service is in now, if dramatic and rapid change is not embraced and enacted, it would be difficult for them to make those larger payments. So that is why we believe this restructuring plan

is very important going forward. So however the Committee decides to move forward in terms of its legislation, we believe that this should be linked to a plan that will help the Postal Service move forward and expeditiously deal with some of these structural problems that it faces.

Senator COLLINS. Again, I support providing some relief to the Postal Service because we truly are in a crisis, but I do not want to be back here in 2015 having the Postal Service say to us, "there is no way that we can pay these ramped-up amounts," and that is exactly what is going to happen. And that is why I think that the proposed amortization schedule that my staff and I worked out with the GAO is a far more realistic assessment. It still provides relief, but the difference is an increase in payment in those out years of \$0.5 billion to \$6.3 billion. We have to be realistic.

Mr. Potter, the postmasters have suggested that one source of savings out of retail operations is to negotiate with the unions about cross-craft training, in other words, to have more flexibility in the work rules. Are you pursuing what seems to me to be an excellent suggestion by the Postmasters Association?

Mr. POTTER. Yes, we are, Senator. We have had those similar discussions in the past.

Senator COLLINS. Are you optimistic that you are going to be able to implement some changes in the work rules that will save money?

Mr. POTTER. I wish I could be optimistic, but having discussed these issues in the past, we were not successful. So hopefully the conditions that we are in today would have people be more open to that level of flexibility.

Senator COLLINS. Let me return to the question that I raised with the GAO witness. What are your grounds for believing that the Postal Service will be able to pay \$6.3 billion more in the second 5-year period than would be required under the current amortization schedule?

Mr. POTTER. Senator, I have two reasons to believe that \$6.3 billion would not have to be paid. The first reason is that there is an assumption in the modeling that was done about the number of employees that the Postal Service will have going forward. The number that was in the initial analysis assumed that there would be a growing number of employees. Today, we have 630,000 people, a number that has dropped from some 800,000 employees in 1999.

I also believe that the country cannot survive with an inflation rate on health benefit costs of 7 percent, and I believe that the Senate and the House are having significant debates about that very issue. So as the second-largest employer in America, I can tell you that the issue needs to be successfully addressed because I think the burden is on every business for those costs going forward.

So it is those two things that make me optimistic, and I believe that we will reach our target of ultimately being about 550,000 employees. So again, I am optimistic that you are going to see the type of changes in our system that will lower that cost, and I am hopeful—and I don't control it—that health benefit cost growth will be mitigated.

Senator COLLINS. Mr. Chairman, I am going to have to leave for a while for an important meeting that I cannot miss, and I will re-

turn, but I realize this panel will have finished. I do want to point out another issue as I am leaving, and that is the postmaster general's testimony today, which requests that Congress lift restrictions on the ability of the Postal Service to get into new non-postal lines of business. The postmaster general has indicated that he is interested in getting into banking, cell phones, logistics, all sorts of non-postal lines of business.

I want to point out for everyone, and I wish I could get to a question for Mr. Herr about this, that the Postal Service's past forays into non-postal services have had very little success. In fact, GAO did a study in December 2001 that concluded that none of the earlier initiatives were profitable.

I would also point out that there are real competitive issues here if we are allowing the Postal Service to compete with the private sector on non-postal areas. So this is an issue that has not come up today and I will be submitting some questions for the record. Thank you.

Senator CARPER. And I hope you will come back and join us as soon as you—

Senator COLLINS. Do you really hope I will come back? [Laughter.]

Senator CARPER. No, I really do. [Laughter.]

Mr. Potter, take just a few seconds. I didn't understand you to say that you wanted the Postal Service to get into all those businesses. Is that what you said?

Mr. POTTER. No. I did say that, Senator, but let me just respond to Senator Collins, and let me assure her, we are not spending a nickel on exploring any of these ideas. I was simply using that to illustrate that other countries, when faced with the same dilemma that we are faced with, have provided, again, more flexibility in that regard.

Senator COLLINS. Aren't you asking for that authority? It was my understanding you were asking us to repeal the prohibition in the 2006 Act.

Mr. POTTER. Yes, I am, Senator, and I would assume that will come with a regulatory framework so that any proposals that we would make would have to go through the Postal Regulatory Commission. But I do think there is a real issue about how we generate revenue out of these over 30,000 retail outlets that we have. Whether that is providing other government services or broadening what we can do there, I think it is something that needs to be addressed. Again, it is this juxtaposition, do we have them or do we not have them, and how can we finance them? That is all it is.

Senator CARPER. Well, I am sure we will return to this issue again and maybe again. Thanks very much.

Let me turn to Senator Burris. Thank you.

Senator BURRIS. Thank you, Mr. Chairman.

This has been a very enlightening discussion and information and I really have empathy and sympathy as we deal with this major crisis in our postal system.

As a new member of the U.S. Senate and, of course, a person who receives a great deal of mail delivered to my home, I find a lot of this information a little disconcerting in terms of what we are going to do. I even see the number of post offices or branches that

has been recommended to be closed in Chicago and the State of Illinois that even concern me a little bit more.

Mr. Potter, in terms of the 677 postal branches and stations that are being considered for closure or consolidation, how is the Postal Service conducting its study and what are the criteria being considered, and how many possible layoffs would be involved?

Mr. POTTER. First of all, let me describe the study. Basically, as I described earlier, we have 3,200 locations in major cities around the country. It is an almost \$17 billion cost base. What we have asked in the initial round is for our local facilities to determine and do an analysis of what facilities they have, look at space that is available in those facilities and surrounding facilities, to look at what traffic we have in terms of people coming into those retail outlets, and to look at backroom operations to view whether or not those could be consolidated.

There is, again, an initial review that is being conducted to identify candidates. There will be a further review with in-depth analysis around whether or not there are cost benefits to the Postal Service. There could be even real estate opportunities to the Postal Service. That will be done at the local level, fed up to the area level, further review at the national level. There is a pending issue in front of the Postal Regulatory Commission and we look forward to their opinion.

And then decisions will be made with, obviously, input from the Postal Regulatory Commission about what actions would be taken. There will be community outreach to get feedback from the community as part of that process. And then before any actions would be taken, there will be a 60-day notification period for the general public. And that is, again, in general what is going to happen.

Senator BURRIS. Well, how did you then arrive at 677 postal branches and stations at this point if all that still has to be done? You said these are proposals or—

Mr. POTTER. Well, my understanding of how this whole thing transpired was that we began a nationwide effort to conduct this review. At one point, we were asked to provide an update. Where all 3,200 was going to close or where do you stand, and there was an interim list provided, that is very fluid and it got published, and I wish it hadn't.

Senator BURRIS. My time is short and I have so many questions—

Mr. POTTER. Sure.

Senator BURRIS. How many people are we talking about in terms of layoffs? Do we have a number on that?

Mr. POTTER. There is no intent to lay anyone off.

Senator BURRIS. So you are going to do all this by attrition?

Mr. POTTER. Yes.

Senator BURRIS. So if my station, which I see on this list—I guess it is a station because evidently it is not a post office, which I use at my home, it is on the Chicago list, and I see it is scheduled for some reason—it is Grand Crossing—to be closed. That would be a little concerning—

Mr. POTTER. Well, it is not scheduled to be closed. It is still under consideration, which is probably the best way to say it. And

those employees, the people who work in that unit in these big cities, they have bidding rights to move anywhere else in the city.

Senator BURRIS. Based on union seniority, I would assume?

Mr. POTTER. Yes. And so they would move to other facilities within that city.

Senator BURRIS. Now, has any study been made of what it would take, and this is just an inquiry, or speculation of the cost of a First-Class stamp to cover our costs? What would it cost? We are now paying 44 cents for a First-Class stamp.

Mr. POTTER. Right.

Senator BURRIS. Would it have to go up to 75 cents? To a dollar per stamp?

Mr. POTTER. To cover the current costs.

Senator BURRIS. Yes.

Mr. POTTER. Well, some prognosticators have said that it would have to go up about 15 percent.

Senator BURRIS. Fifteen percent of 24—

Mr. POTTER. All of our rates would have to go up 15 percent. But I caution you to say what was earlier stated: Given our financial situation and given the fact that substitution is a reality, each and every one of our products could move through a different channel, raising rates when you are in the type of situation that we are in now which is just going to drive mail away from the system. I think there is a misnomer here that the bulk of our revenues come from the citizens buying stamps. The fact of the matter is, over 75 percent of postal revenues comes from commercial entities.

Senator BURRIS. Those are the catalogs and all the other—

Mr. POTTER. That is catalogs, that is banks, that is—think about what you get in the mail. It is those folks that make decisions about what channel—

Senator BURRIS. And wouldn't your rate increases also apply to those items?

Mr. POTTER. It has, and there are elasticities for every one of our rates. So anytime we raise rates, we always calculate the fact that a rate increase is going to drive people further away from the mail. So we are very cautious about raising rates.

Senator BURRIS. I am not advocating that.

Mr. POTTER. No. I just want to make—

Senator BURRIS. Mr. Williams, you looked at that because you are nodding your head.

Mr. WILLIAMS. I am aware of the ongoing effort. We try not to do it simultaneously. We will come in behind the effort to try to validate it and will certainly work with your office to assure that you are made aware of—

Senator BURRIS. Another question I have, Mr. Potter, in terms of the use of technology, and I heard Mr. Herr say that there is an excess capacity in processing, and the use of technology. Has the Postal Service really kept pace with the processing technology in order to deliver the various items to the public? Is that also something that would cost additional monies?

Mr. POTTER. Senator, we have the best mail processing system in the world. You put a letter in a collection box. It literally is not touched by a human being until it is put into a mailbox as an individual piece. It is read by machines. It is sorted by machines—

Senator BURRIS. Is there sorting to the light?

Mr. POTTER. To the light?

Senator BURRIS. Yes. Technology.

Mr. POTTER. Well, again, I invite you to come and visit a post office—

Senator BURRIS. I have. We will talk about that.

Mr. POTTER. OK.

Senator BURRIS. OK. Mr. Chairman, my time has run out. I was trying to push the postmaster to get some more answers. I don't know if you will have a second round of questions with this panel—

Senator CARPER. I am inclined not to because we are coming up on 12 o'clock and we have another panel to go—

Senator BURRIS. Thank you, Mr. Chairman.

Senator CARPER [continuing]. But I am not going to be taking a second round and I would urge my colleagues not to, but we will certainly be submitting questions to our witnesses. This has been a very good back-and-forth, I think.

Our next Senator is Senator Coburn. Good to see you, Doctor.

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. Thank you, Senator Carper. I will try not to use my 7 minutes. I know we have another panel.

In your estimates, Mr. Potter, you show a continuing decline in mail volume, First-Class Mail volume, until 2011, is that correct?

Mr. POTTER. Yes, Senator.

Senator COBURN. Do you still think you are going to see a resurgence in First-Class Mail in 2011?

Mr. POTTER. Senator, it is not a resurgence in the sense that there are—

Senator COBURN. Do you still think you are going to see an increase in First-Class Mail?

Mr. POTTER. Yes, I do, because the number of transactions has declined because of economic activity. When economic activity picks up, the number of transactions through the mail will pick up. People have stopped using credit cards. They don't get a credit card bill at the end of the month. Once they start using them again, as an example, that would drive—

Senator COBURN. You and I will have a dinner bet on whether or not that happens.

Mr. POTTER. OK. We will.

Senator COBURN. I think that the electronic mail is accelerating, not decelerating. Everything that I see in my personal life, my kids' life, people who used to mail the church bulletin send it by e-mail. People who used to mail a statement of what is happening somewhere send it by e-mail. I think that is going to continue. I think you are entirely too optimistic in terms of what you think is going to happen in First-Class Mail.

Mr. POTTER. Well, we could see a precipitous drop in John Q. Public putting stamps on mail. What that reflects is commercial use of First-Class Mail and it is basically bill presentment.

Senator COBURN. Well, that is what I am talking about. I am getting all my bills now not through the mail.

Mr. POTTER. I wish you were a better customer of ours, but that is OK. [Laughter.]

Senator COBURN. I appreciate your service in the rain, snow, and sleet. Thank you. [Laughter.]

I am still very worried about the projections that you have in terms of return of revenue, and that is just one side of the equation. Does either the IG or Mr. Herr, the GAO, have any comments about their projections on revenue?

Mr. WILLIAMS. We have not. What the information we have indicates is that it is not going to be as bad as it is now, but it is unlikely to return for the reasons that you said. It is unlikely to return to the levels that existed before we went into the crisis.

Mr. HERR. Senator Coburn, I want to point out a figure in my statement on page four. We show the percentage of household bill payments made by mail and electronically from fiscal years 2000 to 2008, and the mail payments were down to 56 percent in 2008 and the electronic were up to 38 percent. So you can see that trend fairly obviously there.

Senator COBURN. And that rate of change hasn't changed, has it?

Mr. HERR. Well, it appears the lines are converging pretty quickly.

Senator COBURN. Right. But they are on a straight line, so that the rate of change is, in fact—the slope of the curve is it is staying steady, so you are going to continue to see that type of increase and that type of decline.

Mr. HERR. I think that is consistent with broadband penetration. People begin to move to these kind of payments.

Senator COBURN. All right.

Ms. GOLDWAY. I simply wanted to add that the Postal Regulatory Commission used to get from the Postal Service volume estimates on a quarterly basis, prior to 2006. They shared their volume forecasting with us, and it might be beneficial for them to resume that practice in light of the recent experiences and expectations in volatility. We would have a better—

Senator COBURN. The problem is their forecasts aren't accurate. That has been the problem.

Ms. GOLDWAY. Well, we would have a better opportunity to examine what they are and be able to give an opinion as to their accuracy if we had them.

Senator COBURN. I don't disagree, but the point is, they are highly inaccurate, as we have seen. We have had these hearings for 3 years and we have been talking about this issue, and quite frankly, those of us that have been pessimistic have been much more accurate than what the Postal Service has been, as well as the Postal Board of Governors.

You have 630,000 employees at this time?

Mr. POTTER. Yes, sir.

Senator COBURN. And what is your total fully absorbed labor and benefit costs?

Mr. POTTER. It is \$57 billion.

Senator COBURN. Fifty-seven billion dollars?

Mr. POTTER. Yes, sir.

Senator COBURN. So that comes out around \$80,358 per employee. That is fully absorbed in terms of benefits?

Mr. POTTER. Yes, sir.

Senator COBURN. Would there be any benefit of having postal employees have the same health benefits that the rest of the Federal workforce has?

Mr. POTTER. Obviously, there would be about a \$600 million reduction in costs.

Senator COBURN. All right. That is just if they had that.

Now, let me ask you another question. If, in fact, you could achieve—Safeway has 200,000 unionized employees. They have had a 0.5 percent increase in the cost of health care the last 4 years. They have had a marked increase in satisfaction by their employees of the health care they do have. They have a healthier workforce with less time off because they are actually intervening in chronic disease and cash payments incentivizing people for weight loss, bad risk. Why is it that we would not want to sit down with your unions and say, here is a unionized workforce that has helped their country, but also have gotten better, had less out-of-pocket costs. Why would you not want to model health care after what Safeway has done?

Mr. POTTER. I personally would. We are part of the Federal Employee Health Benefit Program. In years past, under a different Administration, we went down the path of seeking to determine whether or not we could withdraw from FEHBP and we were strongly advised that was not a path to seek.

Senator COBURN. But your average cost is higher than the average FEHBP, is that correct?

Mr. POTTER. I don't believe so. I would have to check that.

Senator COBURN. I believe it is. You check it and I will check it.

Mr. POTTER. Yes. I am not sure, Senator.

Senator COBURN. So if—we are obviously going to solve your problem in the short term. The question for the American people is, what is the long term? How are we going to solve it? I believe we ought to give you the flexibility to go to 5 days, just based on mail volume alone. I believe we ought to give you the flexibility to do what you want in terms of your core business and trying to make it fit into what the real world market looks like today.

But what I don't believe we should do is continue to just get out of the one crisis and move to the next. My hope is, with hearings like this that I know Senator Carper and Senator McCain are going to continue to have, that we will look at the real hard issues and be realistic to the American public, because ultimately, if, in fact, future health care benefits aren't paid for, somebody is going to pay for them, aren't they?

Mr. POTTER. Exactly.

Senator COBURN. Somebody is, and that somebody is either going to be a rate payer or the U.S. taxpayer.

Mr. POTTER. I wholeheartedly agree with your sentiment, and the quicker we do it, the better off I believe we will all be.

Senator COBURN. All right. Just so you would note, there is a difference in terms of your cost on FEHBP. You subsidize 85 percent of the premium risk. The Federal Government is 72 percent.

Mr. POTTER. Oh, no. I understood that.

Senator COBURN. So your costs per employee for the same insurance is higher.

Mr. POTTER. I agree. I thought you were talking about within FEHBP for an employee, if you looked at the 100 percent, I believe our employees take lesser plans. Blue collar people tend to be healthier.

Senator COBURN. Well, they are walking. They are getting exercise.

Mr. POTTER. I know. It is great. But I am just saying that is what was in my head, not the contribution level.

Senator CARPER. Thank you, Dr. Coburn.

Senator Akaka, good to see you. Welcome. Please proceed.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman, and I thank you for having this hearing. I want to also thank the witnesses for participating today.

The Postal Service has shown signs of financial distress, as has been expressed here, for some time, and still faces that. The Government Accountability Office recently placed the Postal Service back on its High-Risk List. I am very much in favor of extending needed assistance to the Postal Service to get them through this difficult time. Most recently, this proposed fix came in the form of S. 1507, which the Committee passed last week. This bill would provide flexibility in prefunding future retiree health benefits in order to close budget gaps over the next several years.

However, I am disappointed that at the mark-up of S. 1507, an amendment was added that affects the bargaining process and arbitration, giving unnecessary deference to management in negotiation by requiring that an arbitrator consider the financial health of the Postal Service. I understand that the Postal Service's financial condition already is a key consideration in arbitration, so this amendment has no practical effect other than to maybe insult and disgust the postal workers.

I believe that we should not have included this additional substantive policy change on this must-pass legislation, especially with the strong objection from so many postal workers. I believe that there is still time to find a compromise to address the concerns by recognizing the current economy and the fiscal crisis at the Postal Service without injecting ourselves once again into the bargaining process.

Mr. Potter, in the first quarter of this year, packet service in Hawaii met the established service standard less than 7 percent of the time. Most were well over the service standard. Only a quarter of packages were delivered within 3 days of the service standard. While I am very concerned about these Hawaii numbers in particular, which are the worst in the country, I am also concerned about the negative image of the Postal Service that such issues can lead to. At this hearing, we have heard suggestions about closing post offices and reducing delivery days. I am concerned that the point may be reached when USPS is no longer the carrier of choice due to lagging service and cuts.

What is the Postal Service doing to ensure that, despite these problems, it continues to provide world class and universal service?

Mr. POTTER. Senator, let me first address the Hawaii issue. Simply stated, we lost the shipping. When we pay ground rates, we put

mail on boats and move it to Hawaii. We have had trouble finding a supplier that would operate at a frequency that would provide a higher level of service. So we are continuing to work on that issue and it is one we know we have to address.

Senator AKAKA. Commissioner Goldway, the PRC released a report outlining the current state of the Postal Service's universal service obligation that found USPS is generally fulfilling the obligation. It seems to me that some of the cost-cutting options, service reductions and closings, could have serious effects on the USO.

Do you think that the options discussed for cost cutting could cause the Postal Rate Commission (PRC) to reevaluate the Postal Service's fulfillment of the universal service obligation?

Ms. GOLDWAY. Thank you, Senator. I think the Commission is, in fact, concerned about the proposals to reduce the footprint of the Postal Service throughout the Nation and we will be in the end case looking at these proposals in terms of their impact on universal service. We hope to have public hearings in the context of this end case, and we may, in fact, review the universal service obligation study that we did 2 years ago to look at what ought to be universal service in this dramatically different time that we are in, or how universal service could be provided.

I am very concerned that the cuts proposed by the Postal Service may, in fact, be counterproductive, and by reducing access to the community in these options that they propose, that there will be simply less opportunity for the Postal Service to respond or to grow in any way in the future.

Senator AKAKA. Thank you very much for your response.

General Potter, I believe that any service cut from 6 days a week to five days cannot be taken lightly. In addition, determining which day would have the least impact on the use of Postal Service as the carrier of choice is a very important decision. Reducing to a 5-day week would most likely save money by reducing staff hours processing and delivering mail. Likely, some of this would be through layoffs in addition to attrition.

In the past, you mentioned that a weekday likely could be cut, so I would like you to address why and what changed this to Saturday. And second, how long would it take after the announcement of a 5-day week until any cost savings were realized?

Mr. POTTER. Senator, the reason we moved to Saturday was because of further analysis around volume. Only 11 percent of mail is delivered on Saturday. In addition, many businesses—and one of the reasons it is low on Saturday is because many businesses are closed on Saturday and we don't provide delivery on Saturday today, and so if we were to pick a day during the middle of the week, what would happen is we would only have 4 days of delivery to businesses and we thought that and think that doing that would be harmful to our position from a competitive standpoint. We know that the competitors do not deliver on Saturday without a surcharge, and so we are positioned well in that regard.

I forgot the second part of your question.

Senator AKAKA. Yes, the cost savings from this.

Mr. POTTER. We estimate the cost savings to be \$3.3 billion, and in terms of how quickly we could get it, literally, the day that we start, we can capture that savings. And so right now, our thinking

is once it is approved, reviewed by the Postal Regulatory Commission and approved in the sense that we have the legal authority to do it, we would provide no less than 6 months' notice to our customers so they can make adjustments to their operation and we begin saving money the day that we did it.

Senator AKAKA. Thank you very much. My time has expired.

Senator CARPER. Senator Akaka, thanks.

Let me just follow up very briefly on Senator Akaka's question. You may have said it and I missed it in the back and forth between the two of you, but other countries which have 5-day service, I understand that they don't all simply get rid of Saturday service. They may get rid of Wednesday service. They may keep their postal windows open and their post offices, so folks who come to the post office can still get some kind of service. I think there may be one country, I don't know if it is Canada, where when it is holiday seasons or different times of the year, they go back to 6-day-a-week service. Is there a fair amount of variety in the way countries approach this?

Mr. POTTER. To the best of my knowledge, most have eliminated Saturday when they go to 5-day delivery. I think our concept has evolved, and if I could just take a minute to describe what it is. We would continue to open post offices on Saturdays. So we are strictly talking about delivery. We would provide box mail service on Saturdays, and part of the reason for that is there is a lot of money that moves through the mail and those recipients of money have said that they need access to the remittances that come through the mail. So we would continue to provide delivery to post office boxes.

We would continue to allow big customers to come and pick up their mail at plants as it is generated. A lot of the banks do that and some of the utilities. And the American public has told us in surveys that we have done that they want to continue to have access to postal personnel on weekends. Maybe they work during the week and they come on Saturday to pick up a package that may not have been able to get delivered because no one was home. And so we would continue to operate our post offices on Saturday.

What we are talking about here in the \$3.3 billion in savings is strictly from elimination of that sixth day of delivery.

Senator CARPER. Thanks very much.

Senator BURRIS. Mr. Chairman, just one quick question.

Senator CARPER. Yes, real quick if you would, please.

Senator BURRIS. Mr. Potter, that 11 percent that is not delivered on Saturday, will it be delivered on Monday?

Mr. POTTER. That is true. Yes, sir.

Senator BURRIS. Which means that is an extra load on the carrier who has to deliver that mail. Has that been taken into consideration?

Mr. POTTER. Yes, sir, because we do have holidays. And so we have experience today with holidays and we have, when we estimated our costs going forward and our savings, that was a key part of the calculation. It turns out that because the machines sort the mail and put it in walk sequence, the bulk of that workload is absorbed by the carrier and our systems and there really is no addi-

tional cost as a result of moving that work, or limited additional cost as a result of moving that workload from Saturday to Monday.

Senator CARPER. Thanks. Before we excuse this panel, I want to, on behalf of all of us, thank you for being here, for helping us wrestle with a tough issue, and for those of you who work on this on a daily basis, to say thank you for your leadership.

We still have to hear from our second panel. I very much look forward to their testimony, as well. But I would just conclude before this panel leaves that, as several people said, there are no silver bullets, and I don't know that there are, but there are a lot of ways that we can address the challenge that we face, and the post office working with their employees and their employee unions have wrung a lot of costs out of the system, reduced payroll by almost 200,000 people over the last decade, and we will see some additional reduction through attrition.

We need to, as Members of Congress, we need to get out of the way. I don't welcome a wholesale closing of post offices or stations around the country, but where it makes the most sense and where people have other opportunities for service, that is something that needs to be done. I am not anxious to see wholesale closing of processing facilities around the country, but to the extent that there are some that make sense, we need to get out of the way.

You have difficult labor negotiations coming up in the next couple of years and we commend the approach that management takes to those negotiations, and frankly, the approach that our union representatives have taken, as well. Those will not be easy negotiations. We realize that.

The issue of days of delivery, and how it might be 6 or 5 days, I think that is something that needs to be on the table, and there are different ways, as we said, that can be crafted in order to meet most concerns. One of the concerns that I have not heard addressed is if we don't have service on Saturday, we don't have service on Sunday, and Monday is a holiday, that would be 3 days without service and that might be a concern, a real concern, a legitimate concern for a number of folks.

Having gone through potential ways to save some money, and I know that you have done a number of those and are looking at a number of those, the issue of generating new revenues, of being innovative, as you hire new people, and I realize you are not hiring a lot of people, but as you hire people, just hire some really outside-the-box thinkers, people who are entrepreneurial and will think of ways of generating business that maybe the rest of us wouldn't have come up with. We were sitting back here brainstorming a little bit on how to think outside the box in terms of maybe co-locating some other business that we do, maybe government kinds of business, co-locating them in postal facilities around the country.

And the last point, I had a sidebar conversation during the testimony with Senator McCain, and I spoke earlier about the need to rein in the growth of health care costs. Every Democrat, every Republican in the Senate that I have talked to has said, as we move through health care reform legislation, as important as it is to extend coverage to people who don't have it, it is incredibly important that we not raise the deficit and it is also incredibly important that

we reduce the growth of health care costs. We call it lowering the cost curve.

Someone said that if we are still at 7 percent rate of inflation for health care costs, not just the Postal Service, our country will be in dire straits, very dire straits. And we were talking about putting our Federal Government further in a hole, threatening to bankrupt not just Medicare but our government, putting State and local governments, especially Medicaid burdens that the States carry, in an unsustainable way, and we further make our businesses uncompetitive with the rest of the world. So this is one we have got to come to grips with, and when we do, whether it is 5 percent or 4 percent or 3 percent, we will be back to those consultants and asking them to help clarify this situation.

In the meantime, while we work on that legislation, we need to work on the rest of this agenda and we look forward to working with you. Thank you.

[Pause.]

Senator CARPER. I am going to ask our second panel to find their seats, and I would like to take this opportunity to—I am just going to ask those in our audience that are still visiting with one another, I am going to ask you to do that outside, if you would.

Let me welcome our second panel. Thank you for your patience for the last 2 hours, and we are delighted to welcome each of you.

Our first witness will be Fred Rolando. He is the new President of the National Association of Letter Carriers. It is good to welcome you here today. Mr. Rolando began his career as a letter carrier over 20 years ago and was sworn in as President of the National Association of Letter Carriers, I believe just last month, taking the reins of leadership at, I am sure, a challenging time, and we applaud you for your willingness to serve in these challenging times and we look forward to working with you to get us through this, not just for your employees, but for our country.

Mr. ROLANDO. Likewise.

Senator CARPER. But congratulations on your election.

Next, I watched Bill Burrus shake hands with Senator Burris and I thought, I wonder how one of them misspells their name?

Senator BURRIS. Mr. Chairman. The Burrus with the “u” did not know how to spell. [Laughter.]

Senator CARPER. Well, I am sure the witness with the “u,” will have an opportunity to rebut that. But Bill Burrus, we are delighted to welcome you back to this Committee and Subcommittee, as the President of the American Postal Workers Union. Mr. Burrus began his career with the Postal Service in 1958—I like to kid him, I say at the tender age of 12—and was elected President of the Postal Workers Union in 2001.

Our third witness is Dale Goff. It is good to see you, thank you for joining us. He is President of the National Association of Postmasters of the United States. He has been with the Postal Service for 39 years, 29 of those as postmaster in Covington, Louisiana.

Our next witness is James West, Director of Postal and Legislative Affairs for Williams-Sonoma. Mr. West has been with Williams-Sonoma since they began their catalog business in 1975. During that time, he has seen the company grow from \$1 million in sales to over \$3 billion in sales.

And our final witness today is Mark Suwyn, Executive Chairman of NewPage Corporation. Mr. Suwyn has held a variety of senior executive positions in the private sector, including 25 years, I am told, with a company that my home State is just a little bit familiar with, and that is the DuPont Company, so it is a special treat to welcome you here today.

Your statements will all be made part of the record, your entire statements. I would ask you to summarize, and if you could keep it to about 5 minutes, we would be most grateful.

Mr. Rolando, you are up first. Thank you.

TESTIMONY OF FREDRIC ROLANDO,¹ PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS

Mr. ROLANDO. Good morning, Chairman Carper, Senator Akaka, Senator Burris. Thank you for inviting me to testify.

The Postal Accountability Enhancement Act was designed to help the Postal Service deal with the public's increased Internet use by giving it more flexibility to compete in competitive services that continue to grow. I believe that more and more innovative ways of using the mail and the network are within our reach.

However, when this Committee led the charge for postal reform and successfully passed it, one of the key components was to prefund retiree health benefits. Your intent to shore up unfunded liability for our retirees was indeed commendable. Nevertheless, the crippling economy has forced us to restudy the unfunded liability a little closer, and it is now even more clear that the aggressive schedule of payments is only part of the problem.

I will focus first on the short-term issues that we are faced with and then move into the long-term strategy.

The requirement for the Postal Service to prefund the massive 75-year liability over just a 10-year period is just no longer feasible. No other company in America is required to prefund future retirement benefits at all, much less at such an accelerated pace. The exorbitant cost of prefunding, \$5.4 billion this year, accounts for most of the \$6 to \$7 billion that the Postal Service has indicated that it will lose this year.

As the reaction to a possible 15 percent drop in mail volume this year and in view of a potential year-end cash flow crisis due to the excessive cost of the prefunding schedule, the Postal Service has put forth a blueprint for dismantling its core business, with service cuts and downsizing. Its branch and station optimization program and the 5-day delivery study are part of that response.

As Congress reviews these developments, it should ensure the public that the Postal Service does not make structural decisions that will do more harm than good over the long run. Downsizing to meet depression-level demand without considering the long-term impacts on the ability of the Postal Service to meet new demands when the economy recovers would be short-sighted. Short-term savings that undermine the Postal Service's capacity to offer new services and to take advantage of future growth opportunities would be self-defeating.

¹The prepared statement of Mr. Rolando appears in the Appendix on page 101.

There are endless opportunities for the Postal Service, but it will never be able to take advantage of them if we begin closing our doors and limiting our services to our customers as a knee-jerk reaction to a temporary and fixable problem.

I would like to commend this Subcommittee for the attention and dedication it has given to the Postal Service and your obvious commitment to see it survive this downturn in the economy. I believe there has to be a two-tiered legislative approach.

The first, as I mentioned earlier, must address the cash flow problems associated with the prefunding payment. I believe that H.R. 22 and the OMB proposal both do this effectively.

However, using the short-term emergency relief legislation as a last-minute vehicle during a mark-up session to address long-term labor practices is short-sighted, is unbalanced in its nature, and is an inappropriate vehicle for such an important and labor-specific issue. I sincerely wish I had this opportunity to testify before this Committee took such an amendment under consideration. At the very least, I would have liked to discuss the factual information behind it that was discussed inaccurately at the Committee's mark-up, as well as some of the testimony from the first panel.

I believe S. 1507 was intended to responsibly address the Postal Service's financial challenges, but the National Association of Letter Carriers (NALC) is completely opposed to the amendment offered by Senator Coburn. Inclusion of this amendment serves only to upset the balanced collective bargaining procedure that was established by President Nixon nearly 40 years ago which is incorporated into the Postal Reorganization Act of 1970. During those 40 years, numerous interest arbitrations have been conducted in accordance with the existing provisions of the Act. I can assure you that in resolving critical collective bargaining impasses, the arbitrators and the parties have consistently examined and taken into account the financial condition of the Postal Service along with the many other relevant factors.

Once this amendment issue is resolved and the immediate short-term relief is passed, it will be crucial for Congress to begin looking at ways to strengthen the Postal Service for the long run. Long-term reforms will be critical to not only the survival of the Postal Service, but to the continued growth of the broad industry that relies on its network.

Congress can take the first step by reforming the retiree health prefunding provisions in the law. The current schedule of prefunding payments, again, designed to fund 80 percent of a 75-year liability by 2016, is unaffordable and has become unreasonable. Moreover, the actuarial methods adopted by OPM to implement the prefunding policy discriminate against the Postal Service and significantly increase its cost.

As the OIG confirmed in a study released July 22, 2009, OPM has inflated the cost of future postal retiree health benefits by tens of billions of dollars by using an unreasonable assumption about the long-term growth rate.

Additionally, the OPM has severely shortchanged the Postal Service when it set up the Postal Retiree Health Benefit Fund by grossly underestimating the postal surplus that was in the Civil Service Retirement System Pension Plan, the surplus that was

transferred to the Retiree Fund in 2007. In other words, to use the analogy of the Chairman, not only do we need to refinance, but we need to revisit the formulas that are used in the rate and the downpayment that was used for that fund.

Congress should resist radical reforms to the Postal Service, like 5-day delivery, massive closures and consolidations, and interference in the carefully-balanced and successful collective bargaining process, in favor of practical reforms that will stabilize the Postal Service's finances and give it time to take advantage of the new commercial freedoms provided by the Postal Accountability and Enhancement Act when the economy recovers. I urge you to look at the overall methodology of the prefunding payments as well as the network opportunities sitting before the Postal Service. We do not need to destroy the Postal Service in order to save it.

Thank you for this opportunity to testify today. I will be happy to answer any questions you may have.

Senator CARPER. You are quite welcome, and thank you for that testimony and for joining us, and again, congratulations.

Mr. ROLANDO. Thank you.

Senator CARPER. Mr. Burrus, please proceed.

**TESTIMONY OF WILLIAM BURRUS,¹ PRESIDENT, AMERICAN
POSTAL WORKERS UNION AFL-CIO**

Mr. BURRUS. Thank you, Mr. Chairman. Mr. Chairman, Members of the Committee, particularly Senators Akaka and Senator Burris, with whom I share the same name, I will summarize my written remarks, but I ask that the full text be submitted for the record.

Senator CARPER. They will be, for all of our witnesses.

Mr. BURRUS. Mr. Chairman and Members of the Subcommittee, thank you for providing my union, the American Postal Workers Union, the opportunity to testify on behalf of the members that we are privileged to represent.

As you know, the Postal Service is in the midst of a severe financial crisis, caused in large part by the Nation's economic difficulties and the resulting decline in mail volume, which is compounded by the oppressive burden of prefunding retiree health costs. The interest of the Chairman and this Subcommittee in drafting legislation that would mitigate the prefunding requirement was welcomed by the postal community. We were aware of the concerns associated with scoring such legislation and looked to the Administration and the Chairman for their assistance in achieving a reasonable solution.

The introduction of S. 1507 gave us hope that legislation would soon be enacted that would provide substantial short-term relief to the cash-strapped agency, and progress was well underway until the full Committee voted to amend the bill. One amendment, which requires arbitrators in negotiation of postal labor agreement, to take the financial health of the Postal Service into account drastically changed the focus of the Committee's efforts from assisting a troubled industry to an assault on postal workers. It is a mean-spirited amendment that is intended to shift the payment of the

¹The prepared statement of Mr. Burrus appears in the Appendix on page 107.

employer's share of retiree health care liabilities from the employer to employees. The Committee did not consider imposing a surtax on postage rates to pay the unfunded liability, but adopted an amendment that would, in effect, assess a tax on postal workers.

Let us be clear. The Postal Service obligation to pay \$68 billion over an 8-year period was the product of the PAEA, which was endorsed by this Subcommittee. The offers did not anticipate the recession that would soon grip the Nation and failed to appreciate the impact it would have on mail volume and postal revenue.

One goal of the PAEA was to force postal management to reduce its network and labor force. It sought to achieve this objective by squeezing postal finances to such an extent that management was left with no other options. It imposed on the Postal Service the burden of prefunding retiree health care payments, exacerbating the crisis. By requiring payments of \$14 billion over the last 2 years, with more to come, the supporters of PAEA share the blame for the Postal Service's inability to ride out the economic crisis.

S. 1507 would have alleviated the problem, but the amendment, which is not at all germane to the subject of the main legislation, would subvert the collective bargaining process, and by endorsing the amendment, the Committee has declared war on postal workers.

When I began my career 55 years ago, postal employees labored under the absolute control of the Congress and suffered from serious neglect. After years of struggle, in 1971, the Postal Service was converted to an independent agency of the Federal Government and postal workers were granted the right to organize and engage in collective bargaining. Negotiations over the following 38 years have resulted in postal wages that have tracked the Consumer Price Index.

Arbitrator Clark Kerr, a renowned economist, issued a similar decision in 1984 that interpreted comparability, the standard for postal wages, and since then, the parties have been guided by his decision. The recent action of the Committee would jettison this history and require the unions and management to embark on a contentious journey aimed at applying competing standards.

In the abstract, supporters can make the case that requiring arbitrators to consider the financial health of the Postal Service is a reasonable standard that should be applied universally. But one only has to look at recent history to see that such application has been selective. Wall Street executives who nearly bankrupted the financial institutions of our country awarded themselves indecent bonuses from the Treasury to the very companies that they nearly destroyed, and massive bailouts were funded by the taxpayer. If there was ever a time to consider financial health, one would think the Wall Street debacle would have been it.

The financial health of the USPS has been a consideration in the arbitration of every contract, but the amendment is intended to elevate this factor above all others. One does not have to be a rocket scientist to understand the purpose. Clearly, the authors of the amendment hope it will constrain wages and benefits. The amendment to S. 1507 is not an effort to be fair and reasonable. It is an attempt to turn back the clock and penalize postal employees, and

penalize them for what? For abiding by the rules and managing to attain a middle-class wage?

I repeat, this is a mean-spirited amendment that undermines the collective bargaining process and the American Postal Workers Union, my union, will oppose S. 1507 because we believe its enactment would be disastrous for the American public and disastrous for postal employees.

Mr. Chairman, that concludes my testimony and I would be pleased to respond to any questions.

Senator CARPER. Thank you so much for being here and for your testimony, and we will look forward to that exchange of questions.

Mr. Goff, welcome to you.

TESTIMONY OF DALE GOFF,¹ PRESIDENT, NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES

Mr. GOFF. Mr. Chairman, Members of the Subcommittee, I am honored to share with you the thoughts of the National Association of Postmasters of the United States (NAPUS) regarding the fiscal and operational challenges confronting the U.S. Postal Service.

Today's inquiry is not new for this Subcommittee. It has consistently promoted a healthy Postal Service, conducting constructive oversight and approving vital legislation. The 2006 Postal Reform Act is a prime example. However, the conditions facing the Postal Service today are more daunting than those preceding enactment of postal reform.

The economy is only now beginning its deep climb out of recession, and sectors that use mail were impacted greatly, resulting in a dramatic fall in mail volume. In 2006, prefunding retiree health benefits was challenging, but in 2009, it is suicidal.

The Postal Service must engage its workers to craft a coherent and responsible plan for the future and transmit the plan sensibly. I strongly urge the Postal Service and its Board of Governors to commit to biweekly high-level meetings with their employee associations to help mark a path for the future.

In the meantime, it is crucial that Congress enact emergency postal relief legislation rapidly. Without a refinancing plan, the next crucial steps may be moot.

The subsequent legislative phase should be a review of the Postal Service's retiree health liability. Two recent reviews of the liability, by the Postal IG and by the PRC, concluded that OPM's original estimate is overstated. The disparity could be up to \$4 billion per year in fiscally harmful payments. NAPUS urges the Subcommittee to reevaluate the postal prefunding schedule in light of this new analysis.

Beyond this reexamination, I caution the Subcommittee against impulsive acts that yield artificial solutions. At this point, the climate to reduce the frequency of mail delivery is misguided. The 2003 President's Commission Report warned that diminishing delivery frequency may save money, but the Postal Service's value to the Nation would suffer.

The Postal Service is presently considering closing a significant number of stations and branches. The USPS has yet to reveal the

¹The prepared statement of Mr. Goff appears in the Appendix on page 110.

final number of locations that it plans to close, nor how much money will be saved through these actions. Community and employee involvement is essential. Postmasters will have to respond to community outrage should their facility be targeted for closure. Therefore, the realignment process must be transparent and cannot be an after-the-fact defense.

Although this facility review does not appear to jeopardize post offices, NAPUS is attentive to a possible wayward gaze at post offices serving rural and small communities. The Postal Service would save only \$586 million if small and rural post offices were closed. This would deny vast areas of this Nation accessible and affordable postal services, yet make no more than a dimple in the Postal Service's financial health.

As we move further along the legislative decision tree, changing customer preferences and mailer behavior should not be ignored. We should not mimic Chicken Little. But also, we should not emulate an ostrich. Ossifying on the sidelines renders the Postal Service archaic and irrelevant.

Demand for a universal, accessible Postal Service is steadfast. Its employees are trusted public employees and the agency is one of the most valued public institutions. However, the Postal Service has yet to exploit its wide national retail footprint to partner with other governmental entities and associates with complementary private sector endeavors.

Postal employees play a fundamental role, promoting changes and making sacrifices. We have contributed substantial sums and reduced compensation through increased health benefit premiums over the past few years. In addition, many postmasters have worked beyond the normal work day without additional compensation to ensure that mail is accepted, processed, and delivered. And postmasters were forced, just recently, to relinquish an 80-year-old leave program to shave postal costs.

For its part, the Postal Service must scrutinize the benefit package of its most highly compensated employees and it must aggressively streamline its bureaucracy to increase efficiency and effectiveness and success.

In order to achieve more savings out of operations, I encourage the postmaster general to negotiate with our unions regarding cross-craft training. An accord in this area would boost the skills of individual postal employees and enable postmasters to more effectively utilize the talents of their employees.

Legislative and operational solutions will not happen overnight. Nevertheless, Congress must act quickly to reconcile the differences between S. 1507 and H.R. 22. Admittedly, the legislation provides only a temporary repair. However, failure to enact legislation will result in the agency's default of the required liability payment and calls into question Congressional commitment to the Postal Service.

Mr. Chairman, thank you.

Senator CARPER. You bet. Thank you very much, Mr. Goff.

Mr. West, welcome. Please proceed.

**TESTIMONY OF JAMES E. WEST,¹ DIRECTOR, POSTAL AND
LEGISLATIVE AFFAIRS, WILLIAMS-SONOMA, INC.**

Mr. WEST. Thank you, Mr. Chairman, Members of the Subcommittee, and I thank you for the opportunity to testify with regard to the actions necessary to preserve the U.S. Postal Service as a viable and healthy business entity. I have submitted written testimony that you will put in the record, as you said.

Thank you very much for the introduction to Williams-Sonoma and its growth. When I started with the company in 1972, we were just mailing one catalog and we had annual sales of less than \$1 million and we had only one store, in San Francisco. We have since achieved growth of sales exceeding \$3 billion across six brands, seven direct-mail catalogs, six e-commerce websites, and 630 retail stores. These stores are located in 45 States, Puerto Rico, and Canada, and we employ up to 30,000 associates.

We have achieved this growth in large part by using catalogs as our primary advertising vehicle and our strategic partnership with the Postal Service is an essential part of our execution strategy. We will mail approximately 250 million catalogs this year, making us one of the largest catalog mailers in the United States. Our ability to recover from the current economic recession and ensure our future success depends to a significant degree on the continued ability of the U.S. Postal Service to provide us with effective and increasingly cost-efficient mail delivery.

To this end, we see the following as essential for recovery to the U.S. Postal Service: Maintaining pricing levels to mitigate further mail volume decline. Develop sound business plans based on realistic volume and revenue expectations. Seek prudent Congressional support and oversight. And transform the USPS business model and operations to meet customer needs in the future.

It is imperative that mail volume be stabilized. Without a doubt, increased postage costs on consumers or commercial mailers will only serve to drive more volume out of the system. Any increase, especially an exigent increase to cover expected losses, must be avoided.

Financial savings are available from many sources: Relief from current financial obligations, additional operational cost savings, retention and expansion of the current cost avoidance practices, and the right-sizing of the Postal Service infrastructure to fill the demands of lower mail volume.

The legislation currently under consideration, S. 1507, provides modification to Postal Service financial obligations which, at the minimum, are needed to relieve the USPS of excessive financial burdens. My company, along with the Direct Marketing Association, the Association of Postal Commerce, and the American Catalog Mailers Association, to name a few, supports the passage of this legislation.

The Postal Service must be commended for its success in reducing operating expenses. Arguably, the most significant contribution—the next most significant contribution would come from a modification of the universal service obligation. Reduction in the number of delivery days is a very difficult decision and it will re-

¹The prepared statement of Mr. West appears in the Appendix on page 119.

quire the compromise in which all share, but the unfortunate reality is that mail volume simply no longer supports 6 days of delivery.

Processing facilities and retail services, likewise, must be brought in line with mail volume. Prudent business practices dictate that a company must continually modify its infrastructure to match the volume of its business and the USPS can no longer be an exception.

The Postal Service must become more aggressive in developing realistic business plans and forecasts. The volume and revenue expectations in the near term as well as for the next 2 to 3 years must reflect the most conservative forecasts for mail volume. The USPS should be encouraged to actively engage with its largest commercial partners in developing business plans that will reflect the expectations of those who produce the largest portion of its mail volume.

Completing the transformation of the USPS into a modern business enterprise will require more and sometimes difficult support from Congress. We encourage continued oversight, but this oversight must not overly scrutinize or inhibit changes, nor should it burden the Postal Service with such obligations that a typical enterprise would find untenable. Flexibility, adaptability, and competitive positioning must be goals of the transformation that the Congress will be called on to support, but not micromanage.

We are now aware that over three-quarters of mail volume and revenues come from commercial mailers, and commercial mailers, such as my own company, are operating in an increasingly multi-channel environment. Service expectations from our customers and the need for economic performance is forcing us to be increasingly demanding of our business partners and to utilize new and efficient ways to reach out and serve our customers. We have more choice and effective ways to communicate with our customers than we have ever had before.

Williams-Sonoma, as well as most other companies, is evolving to meet the new economy that is driven by new and innovative methods of communicating with and serving our customers. The only way that the Postal Service can retain its role in our own marketing strategy will rest on its ability to operate competitively and with the same flexibility that is required of the companies that it serves.

In closing, I would like to reiterate our recommendations. Mitigate further mail volume decline by maintaining current postage rates. Develop business plans in partnership with the Postal Service's largest customers. Provide prudent Congressional oversight and support of the USPS. And transform the Postal Service into an efficient business organization that will remain viable for the years ahead.

Thank you, Mr. Chairman and Members of the Subcommittee, for your time and consideration.

Senator CARPER. You bet. Thank you for those recommendations and for your entire testimony.

And finally, Mr. Suwyn, you are recognized. Please proceed. Thank you for joining us.

**TESTIMONY OF MARK SUWYN,¹ EXECUTIVE CHAIRMAN,
NEWPAGE CORPORATION**

Mr. SUWYN. Thank you, Mr. Chairman, other Members of the Committee. I am the Executive Chairman of NewPage Corporation, which is the Nation's largest producer of coated paper. That is the shiny paper that shows up in his catalogs and magazines and other point-of-purchase display materials. In fact, Williams-Sonoma is one of our most important customers.

We have nine paper manufacturing facilities in the United States plus one in Canada. We are also a major supplier to magazine publishers and an industry that is a vital source of news and information important to our country socially and economically. In fact, more than 80 percent of the paper that we produce is used in magazines, catalogs, and advertising, and with that, you can imagine the viability of the U.S. Postal Service is critical to the future of our company.

As Senator Collins pointed out earlier, there are about nine million employees whose livelihood depends on an effective, efficient, and low-cost Postal Service. Certainly our company, with most of the paper that we produce ultimately going through a system that shows up in your mailbox, it is critical that be a viable economic system.

The thing we want to keep in mind is that the studies continue to show that the lowest cost, the most effective way to get a response from advertising is via print advertising to your home. Now, that is a need that is going to be there for advertisers. The key concern, I think, has to be can the Postal Service become efficient enough to hold costs down so that they are the preferred route to that home.

Meanwhile, you have newspapers that are waning and in some cases disappearing and they have always been a source of delivery of a lot of inserts and coupons and other kinds of advertising materials. So there is going to be a vacuum created here with newspapers waning, and if costs in the Postal Service continue to go up, some other entrepreneur is going to find a way to get in there and begin to deliver some of those materials. If that were to occur, that would just accelerate this downturn that we are looking at as other people begin to find ways to deliver that material to your home, and there are some experiments going on underway right now around the country.

I think one of the real issues looking forward near term is what is the shape of the curve? Are we going to continue to go down at 10 percent per year? Are we going to flatten out? Are we going to come back? I think if the Postal Service costs, the postal rates do not go up, I personally believe there is going to be a modest rebound, certainly on the industrial side. I can't comment on the First-Class letters. But there is going to be a rebound because a lot of what is going on now is a downturn because of the economy, and there will be a rebound in number of catalogs and direct mail, etc., as the economy rebounds. The question for the longer term is, who is going to end up delivering this to the home?

¹The prepared statement of Mr. Suwyn appears in the Appendix on page 128.

Certainly, costs have to be taken out. We are all having to do that. We have had to downsize our company because we have experienced about a 20 percent downturn in terms of total demand and so we have had to take costs out. We have had to shut some facilities down to match the ability to produce with the demand.

But we think there are also ways to look for revenue growth for the Postal Service. As I indicated, there are inserts and coupons that are very important to be delivered to the home that newspapers are going to be delivering less and less.

We are doing a little experimentation with the concept of backhauls. Those same inserts and catalogs, etc., that are delivered by the Postal Service could be put in a pouch and brought back and then collected and put through recycling going forward. I think the summer sale, where you are determining what kind of level of volume can you get depending on what price or postal rate you are charging is also an important one to understand what is the flexibility and elasticity of pricing.

Our company is running some specials where we have made 500 tons of paper available to catalogers to try to reach new prospects, and that is 500,000 new mailings this year.

So in summary, costs are going to have to be reined in, and there is a lot of discussion here in terms of how one can do that. I believe that can be done, that the Postal Service will, in fact, be increasingly viable going forward as the route to deliver, in our part of the business, advertising to the home, which is very important for the overall economy of the country. Thank you.

Senator CARPER. Mr. Suwyn, thank you, really all of you, for excellent testimony. Well delivered, well prepared.

We are going to be voting at 3 o'clock this afternoon on the nomination of Judge Sotomayor to become a Justice of the Supreme Court. I am scheduled to speak on her behalf in support of her nomination at 1:15. I was scheduled to speak at 12:10 and we have moved it once. We can't move it again. So I am going to have to leave here at about 1:05. I am going to ask one of my colleagues—I spoke with Senator Lieberman, who needs to leave, as well, but I would ask if one of my colleagues, if Senator Akaka or Senator Burris, would consider, if I do have to leave before we conclude, closing out the hearing. If one of you could do that, I would be most grateful. Thank you.

Let me just go back in time. When I got out of the Navy in 1973 and moved from California to Delaware to enroll with the G.I. Bill in a MBA program at the University of Delaware. I had a lot of wonderful professors. One of my labor professors was a fellow named Art Sloane, who is still alive, still doing well. I saw him not long ago and he gave me the 13th edition of his labor economics book that he had written. I learned a whole lot from him, not just during the semester that he was my professor, our professor, but in the time since then. He has been good to give me advice on a wide range of issues, many of them pertaining to business and labor.

One of the things that he taught me is about the difficult role, and actually the similar role that those who are elected to lead labor unions, the similar role that you have to us. We have constituents whose concerns are addressed and you have, as well. And

we have found, as we know from personal experience, it is impossible to please everybody. We have to do what we think is right and push as hard as we can for their well-being. I appreciate the difficult situations that Mr. Rolando, Mr. Burrus, and Mr. Goff find themselves in, and others, as well.

And I want to thank you and your predecessors, for the way you have worked with the Postal Service to try to find efficiencies and to bring down costs and to be able to do more with less in terms of personnel.

A member of the Senate who is not here today asked me to explain to him the amendment that was adopted that said that an arbitrator in the labor negotiation, the contract negotiation, shall consider, along with wage comparability, shall consider the financial condition of the Postal Service, and he said to me, "Let me see if I have got this right. The Postal Service already has a line of credit with the Treasury, is that right?" I said, "Yes." He said, "How much is it?" I said, "It is capped at \$15 billion. I think right now, they have used about \$10.5 billion. It can be increased by an additional \$3 billion per year to a maximum of \$15 billion."

And my friend said, "Let me see if I have got this right. We just came off of 8 years of the largest growth in our Nation's debt in history." He said, "We actually accumulated more new debt in the last 8 years than we did in the first 208 years of our country's history." I said, "Yes, that is right." And he said, "Let me see if I have this right, as well. We are on course to run up this year the biggest budget deficit that we have run up ever in the history of our country. It will be over \$1 trillion." I said, "That is right."

And he said, "So we have the taxpayers of this country on line for whatever has already been extended in that line of credit up to a maximum of \$15 billion." And I said, "That is correct." And he said, "When the arbitrators are considering, or they are involved in labor negotiations under current law, what do they have to consider? Are there any things that they have to consider?" And I said, "Well, as I understand it, there is a directive in the law that says the arbitrator must consider wage comparability, and whether it is to UPS, FedEx, whether it is to police or fire, whoever it might be to. But there is a direction to consider that."

He said, "Do they consider the matter of the financial well-being of the Postal Service?" And I said, "Well, my understanding is that they do, although that is not something that they are directed to do by law." And he said to me, "What is the big deal? If they already do it and you are asking that we just make sure they do it, what is the big deal about that? I just don't get it, especially given the fact that our taxpayers in this country are on the hook for so much money, huge debt, huge national debt, growing enormously, and on the hook for maybe another \$15 billion here? I just don't get it."

And I would just ask for people, my colleagues like the one I just described who just don't get it, just explain for him and for us what we don't see, please.

Mr. ROLANDO. I think it is important to consider that the premise that you just described is based on some inaccurate information. First of all, I understand during the mark-up that Senator Coburn suggested that the current law prevents arbitration boards

from considering postal finances. On the last panel, Postmaster General Potter indicated that the law offers direction to the arbitrators, and neither of those are true. The law with regard to the term "comparability" offers direction to the company only, not to arbitrators. The only language that offers any direction to the arbitrator is to consider the evidence offered by the parties, which as I stated in my testimony historically has included the finances of the Postal Service and many other important—equally important factors.

With regard to the law preventing arbitrators from considering postal finances, there is no such language. So the very premise that all that was based on, both of those are incorrect. I think that is very important to reconsider that the law, the way it stands now, allows the arbitrator to consider all the evidence and offer a fair decision, including all those things, and to offer anything other than everything that should be considered is going to tip the scales in an unfair balance.

Senator CARPER. Mr. Burrus.

Mr. BURRUS. Yes. I was present in 1970 and 1971 when the first postal reorganization was under consideration and we were discussing with Congress the right to strike and collective bargaining rights, binding arbitration. And as was expected, the final analysis was we were Federal employees and should not, did not, and would not have the right to strike. So we elected instead and Congress drafted the language—we had input into it—that we would have free collective bargaining with binding arbitration.

Free collective bargaining is either free or it is not. It is like pregnancy. There is no little bit of free collective bargaining. There is not qualified free collective bargaining. We either have the right to bargain collectively with our employer without restrictions, without obligations, without either side putting their thumb on the scale and tilting the outcome favorable to his or her side, and we elected, and Congress embraced it, that we would engage in free collective bargaining and we would forego the inherent right in the laws of our country, which is natural, the right to strike. That bargain was struck 39 years ago.

Now, 39 years later, Congress seeks to impose a qualifier, a condition of free collective bargaining, and that is unfair. We have 39 years of history of arguing the financial health of the employer, the U.S. Postal Service. That has been a factor in every arbitration, and we have had since 1983, the last 26 years, we have had three arbitrations and three negotiated contracts. And each of those negotiated contracts before us at the bargaining table was on the health of the U.S. Postal Service.

One negotiation, the Postal Service reprinted the stamp in honor of my predecessor, Moe Biller, that many of you knew, and presented a 50-cent stamp if the Postal Service were to accept the union's proposals. That is what the impact it would have on the financial health of the Postal Service. That has been a factor in every negotiation inserted into the law, and as Mr. Rolando said, presently, there is reference that a standard exists today of comparability. That is not the standard for arbitration. That is the Postal Service's obligation, but it is not a standard for the arbitrator. This would be the first insertion in the law where the arbi-

trator was required to comply with the standard in rendering the decision.

The expectation, the intent is to cut postal workers' salary, and the underlying purpose is to adjust the salaries to pay for the unfunded health care liability. Postal employees should not be put under that restriction. They should not be. This would almost guarantee it.

The Postal Service coming off of a year where they are suffering, all of us—my union goes to negotiations in 2010, Mr. Rolando's and others in 2011. Next year, I will be at the bargaining table representing the 250,000, 300,000 employees that I represent on the heels of the Postal Service suffering a \$7 billion deficit, \$5.4 billion of the \$7 billion caused by the PAEA. Only \$1.6 billion is for other purposes. I would be entering negotiations facing that debt and newly-inserted language saying that they must consider the financial health of the Postal Service.

What would we end up with? No matter what the outcome would be in 2009 rolling into 2010, the next three, four, or five negotiations will be embroiled in further defining what it meant. Comparability was enacted in 1970. We went to arbitration in 1978 and 1983, and then for the next 9 years, we re-litigated that issue seeking from the arbitrators clarity. What did it mean? It is not just inserting the language, but the parties—my attorneys come forward with their arguments. The Postal Service attorneys come forward with counterarguments. And it is the arbitrator that makes the final decision. But this would put postal bargaining in the uncertainty of no finality to how does it apply to the bargaining process for many years.¹

Senator CARPER. Mr. Burrus, I don't mean to be rude, but my time has expired and we have not given Mr. Goff a chance to say anything. Would you just go ahead and conclude your sentence and then I want to give him—

Mr. BURRUS. Sir, I have concluded it.

Senator CARPER. OK.

Mr. BURRUS. That is my response.

Senator CARPER. Thank you very much.

Mr. Goff, could I ask you to just be brief in your response, please? Thank you.

Mr. GOFF. I will be very brief, Mr. Chairman. As managers in the Postal Service, we don't have arbitration rights. So with that, I will refrain from making comments on the issue. I think my two esteemed colleagues have handled the subject well.

Senator CARPER. All right. Thanks very much.

I apologize. I am going to stay for a few more minutes. I would just say in closing, I appreciate your sharing those thoughts with us very much.

A different subject, but I want to go back to it. Dr. Coburn mentioned the Safeway Supermarket. They have 200,000 employees. They have literally spent as much money for health care in 2008 as they spent in 2004. I think the United Food and Commercial Workers represent many of their employees. I visited their cor-

¹ Copy of "Observations by the Board," submitted for the Record by Senator Carper appears in the Appendix on page 184.

porate headquarters before. I have spoken to a number of the folks there and will coincidentally talk to one of their top people later today on an issue relating to health care coverage and health care reform.

I think it was Albert Einstein who said in adversity lies opportunity, and my hope is that maybe in some of the adversity that we face here that we are discussing with respect to the Postal Service, we will also find some opportunity, and the opportunity, we need to look at other employers, major employers like Safeway who have a unionized workforce and to see what they are doing and to see if there is something we can learn from the way that they are providing health care in a way that seems to be well accepted, well received by their employees and actually being able to do it for the same amount of money. And I am going to explore that opportunity and I would just encourage all of us to do the same.

In closing, and I am going to pass it off to Senator Lieberman and then I think to Senator Burrus and then to Senator Akaka, and if Senator Akaka or Senator Burrus could conclude, that would be great, this has been, I think, just an excellent hearing. It has been an excellent hearing and I am grateful to everyone who has prepared for it and participated in it. Excellent testimony, good questions, and I think very helpful responses.

Senator Lieberman.

Chairman LIEBERMAN. Thanks, Senator Carper.

Mr. Rolando and Mr. Burrus, I apologize that I didn't get to hear your full testimony because I had to go back to my office for a meeting.

Mr. ROLANDO. It will only take 5 minutes. [Laughter.]

Chairman LIEBERMAN. I will read it. But it was very interesting and helpful, actually, to hear you respond to Senator Carper's question because on the face of it, as Senator Coburn introduced this amendment and the mythical or real conversation that Senator Carper cited, I think the response of most Members of the Committee was not hostile to postal employees—I have my whole career been very proud to be an advocate—but, well, how could you not allow them to consider the fiscal condition of the Postal Service, the binding arbitrator.

Now, you have taken us inside the world that you live in in terms of these negotiations and informed at least me of two things. One is, which is reassuring, I suppose, that in every arbitration you have been through, in fact, the arbitrators do consider the financial condition of the Postal Service. In fact, it is relevant and it is discussed and it is argued and all the rest.

So I will tell you that one reaction, the first reaction to that I had is, well, if they do it already, what is wrong with putting it in the statute? But then you went to your second point, and I am going to go back and look at this because I think it perhaps takes us to a way to reach common ground here, that this would be the only factor so stated in the law, if Senator Coburn's amendment is adopted. Am I right?

Mr. BURRUS. Yes.

Chairman LIEBERMAN. So I want to ask you to think about whether you would submit to the Committee a broader rewrite which would list a series of factors that the arbitrator should con-

sider. Do you know what I am saying? In other words, I know that you are worried about this one. You are worried that this is going to be used as a premise, that is, the fiscal condition of the Postal Service, for cutting back on wages or benefits or conditions of labor.

From the point of view of the Members of the Committee who voted for it, and I would say probably most people in the American public, they would say, well, of course, any arbitrator would have to consider the fiscal condition of the employer, but you are concerned that this is the only factor so outlined. I don't need a particular response now unless you want to give one. I want to ask you whether one way to reach common ground here is for us to list a series of factors that the arbitrator would consider as part of a binding arbitration, including others that are more acceptable, shall I say, to you.

Mr. ROLANDO. It certainly has possibilities. We will be happy to submit such a list.

Chairman LIEBERMAN. All right. And I will think, also, about what you had to say.

I take it that both of you, were this amendment not in our legislation, would support the legislation. Am I right?

Mr. BURRUS. Yes.

Mr. ROLANDO. Yes, sir.

Chairman LIEBERMAN. And not only would you support it, you think it is important—

Mr. BURRUS. Yes.

Chairman LIEBERMAN [continuing]. And very constructive. So you feel so strongly about the amendment that you would oppose something you think is actually good for the Postal Service and for your members, I presume, just because of the amendment, correct?

Mr. BURRUS. Correct.

Chairman LIEBERMAN. Did you want to say something, Mr. Rolando?

Mr. ROLANDO. Yes. With all due respect, I have every confidence that this Congress won't pass legislation that includes an anti-union amendment.

Chairman LIEBERMAN. OK, but I hope we can come to a point, because it is not only critical to the Postal Service, to everybody who pays for it, gets mail, but to your workers that we get this passed so we can figure out a way to find common ground.

I thank you all very much. I think it is very important to say that this probably will go to the floor of the Senate in September. I know the leadership—no opinion that I have heard from Senator Reid and others about this amendment, but a very strong concern about the fiscal condition of the Postal Service and wanting very much to deal with this in September. So we should reason together during the weeks between now and then.

Mr. BURRUS. Thank you.

Mr. ROLANDO. Thank you.

Senator CARPER. I think, Senator Lieberman, you may have stumbled across a very constructive proposal and we look forward to exploring that and we welcome your willingness to provide us with some other ideas. Thank you.

Mr. BURRUS. Well, before you leave Senator and while this issue is still fresh in our minds, qualifying free and open rights under

our Constitution, it is very dangerous, difficult, and fraught with all sorts of problems to try to include—for everything you include, you are excluding something else. That is the beauty of free collective bargaining, that there are no parameters. It is the parties, back and forth. In one specific set of negotiations, one thing might be important to either side. That may disappear before the next round.

So trying to qualify that, giving my best effort at it is fraught with danger and I would be very hesitant to put pen to paper to try to identify what the parties should or should not consider.

Chairman LIEBERMAN. All right. Well, I just want to say, and I will do it real briefly, that the hope here is not to interfere with free collective bargaining. But as you have said, and you were there—and, of course, it is typical of public employees generally—as part of the right to freely bargain collectively, people accept binding arbitration. So the question now is do you want to give any standards to the binding arbitrator, not to interfere with the free collective bargaining? Because right now, the arbitrator presumably could do whatever they think is fair. They don't have anything. OK. We will continue the dialogue.

Senator CARPER. Senator Burris, thanks.

Senator BURRIS. Thank you, Mr. Chairman.

To the Committee, to Mr. Rolando and Mr. Burrus, this is an eye-opener for me because I was looking at it as Senator Lieberman just said, that certainly it is a natural process for the arbitrator to look at the financial condition or the circumstances of the Postal Service, to not have knowledge of the history of the collective bargaining situation. I understand that you just said that would really cause your union—and I assume, Mr. Rolando, your union, also—to oppose the amendment to S. 1507. And that is very interesting.

Could you all just back up then and answer some specific questions for me, because I have some limited knowledge of the Postal Service. I asked the postmaster general about the processing and technology. Would any of you say that you have been exposed to the best available technology on the market? What comments could you all make about the technology that has been brought in and to what extent that technology—now, naturally, it is going to hopefully improve the processing, perhaps eliminate some positions, but I understand, Mr. Burrus, your union even supported a project that was proposed out of Chicago a few years back, the American Postal Workers did, and I am just wondering, to your and Mr. Rolando's knowledge, has the Postal Service really kept up with technology?

Mr. BURRUS. Yes. We have the most advanced technology in the mail processing environment anywhere in the world. My members are the most productive processors anywhere in our society or any foreign countries, and as a result of that, we have the lowest postage in the world. We have the most efficient service, the most highly recognized and accepted by the general public, and the lowest postage in the world. So it is not a question of whether or not we have become more productive.

My criticism of our productivity, we have the capacity in this country to handle the world's volume of mail. We are that efficient. We could take all the mail that is processed throughout the world

and process it in the American Postal Workers' system. That is how efficient we are. And it causes a major issue that I have been fighting for a number of years, championed by Senator Lieberman in the 2006 legislation, because we are so efficient, I can't accept or understand why we pay others to reduce postage to perform our activities through discounts.

We are paying private companies that perform the same work that we perform for four times our wages. We are paying over \$200 an hour for people to do the same thing that we do so that when the mail gets to us, it has already been processed.

Senator BURRIS. Explain that. I don't understand that. Do you mean the—

Mr. BURRUS. The Postal Rate System has a—

Senator BURRIS. Would they be the catalogs and—

Mr. BURRUS. They have discounts attached to their rate system. So if the private company, the mailers, are performing some of the postal functions, they get a reduction in their rate based upon the value of the function they perform.

Senator BURRIS. Yes.

Mr. BURRUS. They are avoiding our processing system. Our processing system, as I said, is the most efficient in the world, the most cost effective in the world. We are paying private processors four times our salary through rate reductions to perform the exact same work that we perform. Unbeknown to the Senators, I am sure, we have a companion mail processing system in this country that is operated by private companies—Pitney Bowes, Siemens, Lockheed—

Senator BURRIS. Lockheed Martin?

Mr. BURRUS. Lockheed. They have a private system out there that is located within blocks or miles of the postal processing systems and workers are performing the same work with the same equipment under the same conditions that my members perform. But their rates are adjusted four times our salaries in order for them to perform that activity.

Senator BURRIS. But doesn't Lockheed Martin sell some of this equipment to the Postal Service?

Mr. BURRUS. Yes, they do. They sell the equipment to the Postal Service and they use it themselves in their processing plants.

Senator BURRIS. Are any of you familiar with the process called sorting to the lights? Has that been implemented in the Postal Service, where you have the reader—because I heard the postmaster general say that mail is not even touched by the human hand until it is delivered by the—

Mr. BURRUS. That was an exaggeration, but I heard it, too.

Senator BURRIS. And what I am trying to get at is there is a process called sort to the light where it would not be—or mail in some of these local—

Mr. BURRUS. We called it lights out facilities.

Senator BURRIS. Yes. Is some of the mail still being thrown by the schemes into the slots to—

Mr. BURRUS. We piloted that in Florida and it has not been expanded nationwide. We still have workers hands-on interfacing with mail through the processing—

Senator BURRIS. We are sorting to the zip codes?

Mr. BURRUS. Yes. They don't do it one at a time.

Mr. WEST. Senator Burrus, if I can comment on this—

Senator BURRIS. Yes, Mr. West?

Mr. WEST. A lot of what Mr. Burrus is talking about is a process in our mailing—in the process of producing and mailing our catalogues whereby what we do is we decide who is going to be receiving our catalogs. It is all done electronically and within computers.

And we are pulling and processing our customers' names and addresses, and part of the most efficient way of deciding who is going to get those catalogues involves what we call sorting the mail and sorting it into sequence that verifies the addresses, verifies that everything is correct, and subsequently puts the mail into the sequence, ultimately, within which it is going to be delivered. We are doing that, but we are doing it in computers far before it ever even touches a catalog. And we produce basically the customers' names and addresses that are going to get the catalog before it is even printed.

And I would like to comment a little bit further on one other thing you are talking about, technology, and just one thing that hasn't been mentioned is in the world of standard mail and standard flats. We are at the beginning of introducing—the Postal Service is introducing new technology and new equipment throughout their system called Flat System Sorting, or Flat Sequencing System (FSS), that is going to sort catalogs in the same system in the same process similar to the way that Mr. Potter described First-Class Mail.

Mr. GOFF. Senator Burrus, we do have the technology. Our concern, especially as the managers that run the units that process mail, is that we can have all the technology in the world. If we don't have the volume, the technology is useless. With the flat sorter machines, if we don't have the volume, there is nothing to run on the machines. We have the best technology, but we also need some people to run the machines, so inadequate staffing comes into play. So when you have the best technology, if you don't have the manpower to go with it, too, it hurts us.

Senator BURRIS. Very good. My time is up, Mr. Akaka, so I am going to defer to you. Please.

Senator AKAKA [presiding]. Thank you very much, Senator Burrus.

My question is to Mr. Rolando and Mr. Burrus. As you both know well, many of your private sector brothers and sisters have been forced to accept wage and benefit cuts as a result of the economy. Proponents of Senator Coburn's arbitration amendment argue that public sector employee groups likewise need to tighten their belts in order to meet our economic challenges.

Over the last few years, how has a difficult financial climate affected negotiating benefits through the regular arbitration process?

Mr. ROLANDO. Well, the last contract we have, 2006 to 2011, did not involve interest arbitration. It was negotiated between the parties and I think both sides felt they have a fair contract and we look forward to doing the same in 2011.

Senator AKAKA. Mr. Burrus.

Mr. BURRUS. And the last contract changed the contribution rate between the employer and the employees on health benefits, and

all the unions agreed to shift—my union, 4 percentage points from the employer to the employees, the other unions 5 percentage points from the employer to the employee. A major shift. As you know, most unions over the years have resisted very heavily in having employees pay a greater share of health benefit costs. In bargaining the last round, we voluntarily negotiated. Understanding the escalating costs of health care, we voluntarily agreed to shift that cost.

We are constantly in discussions with the Postal Service, in and out of negotiations with postal management. How can we be of assistance? What can we do together? How can we make changes in this time where there is significant volume loss and financial difficulties? I am in discussions currently on a proposal that could save the Postal Service over \$1 billion. It has not been finalized, so I am not free to share any details of it, but we are always in that mode with postal management, to find some way that we can jointly come up with a way to make them more efficient to respond to the crisis that we find ourselves in today.

Mr. GOFF. Senator, I know you asked that question to my two labor colleagues, but as part of our consultative process, postmasters have absorbed the 1 percent increase over the years, shifted from the employer to the employee. I think we have started the shift even before the recession hit.

As I said in my testimony, I think there is another sector of the Postal Service that needs to be looked at. There is a sector, senior management, that has free health insurance and free life insurance and I think that needs to be addressed.

Mr. ROLANDO. Yes, it is important, Senator, working between contracts on issues together, and NALC has been working with the Postal Service to adjust routes jointly. We are doing all routes in the country twice this year to adapt to the current fluctuations that we have in the volume. That is an important part of the process. It saved the company quite a bit of money.

Just a comment on Senator Coburn's somewhat negative reference to the 80 percent labor cost in the Postal Service, speaking for my members, if you look at the dedication and the productivity of those employees, I believe the Postal Service and the ratepayers are getting a great return for that cost.

Senator AKAKA. Mr. Rolando, I want to follow up on a question that I asked Mr. Potter on the first panel about a 5-day delivery week. As I said, reducing a 6-day week would most likely save money by reducing staff hours on the street delivering mail. Do you believe that buy-outs or regular attrition alone is enough to reshape and reduce the mail delivery workforce to a 5-day rotation?

Mr. ROLANDO. Well, the Postal Service is doing a study on that now and we have asked for the data that they are looking at that led them to that conclusion, and to date, we haven't received that data, so it is difficult for me to comment on that.

I will say that, yes, certainly reducing from 6-day to 5-day on its surface would save costs. So would reducing to 4 days, 3 days, 2 days, and 1 day to eliminate costs. But until you look at the overall effect of your ability to generate new revenue using the network as we know it today, I think it is kind of silly to make any type of structural changes like that.

Senator AKAKA. Mr. Burrus and Mr. Goff, can you tell me more about the impacts you would expect on post office workers and postmasters if the delivery week were shortened?

Mr. BURRUS. I think it would be the demise of the U.S. Postal Service, and the impact would be there would be no more postal employment. If you go from 6 days to 5 days, what follows is the relaxation of monopoly. American citizens will demand receipt of important items—or routine items—on that day, and if the Postal Service doesn't deliver it, somebody else will. And you will have entrepreneurs that will start in your major cities, where it is cheaper. You will have entrepreneurs that will see an opportunity to have home delivery, access to the mailbox, access to people's homes with items that individuals, American citizens, are expecting and wanting.

I think it will be the demise of the Postal Service. It will be the first step down a road that says, if someone else can do it on the Saturday, why can't they do it on Friday and Thursday and Tuesday? I think it takes us down that road and the Postal Service will become irrelevant.

Senator AKAKA. Mr. Goff.

Mr. GOFF. Senator, in the remarks that Mr. Rolando made about the study, there is a study going on and we responded to some inquiries from the Postal Service and our first comment was that we oppose 5-day delivery for several reasons. The first reason being that in the last three hearings, we have heard three different figures as to what the savings would be with 5-day delivery. Whose figures are correct? Which ones? We heard a different figure today on the savings on 5-day delivery. So, just on that point, convince me that we all have the same figure and maybe we will be in favor of this.

What concerns the constituents that I represent is that we have problems now in smaller offices, especially in the rural areas. We are having difficulty hiring people to replace the postmaster, so he or she can have their day off and not break the FLSA law. What happens is that nobody comes in and replaces them. We have tasks right now, we cannot hire people. This would just prolong it and it would do something that would be even more drastic.

I agree with Mr. Burrus. I think 5-day delivery is a demise of the Postal Service. After 39 years, I don't want to see this institution go away. I am convinced that it will be here 200 years from now.

But some of the things that we need to look at are those that Mr. Potter mentioned today. I think Senator Carper asked about what would happen after the third day. The postmaster general said, we have experience after holidays now, and I kind of laugh. I said in my statement, let us not take the approach of being an ostrich. Let us not bury our head in the sand. Come out to a post office and see what happens to us on the day after a holiday, and when we are trying to make up for the overload from the weekend. It is a different story if you are actually out there doing it.

Senator AKAKA. Thank you. Mr. Burrus, any questions?

Senator BURRIS. Yes. Mr. Goff just hit on—that is where I was going with the postmaster on that reduction, on that 11 percent increase and he says, well, we have holidays, but this would be a reg-

ular process every day and I am wondering what impact would that have on the processing and the letter carriers having to carry that 11 percent every Monday—

Mr. GOFF. The concern that we have is that the savings realized by not delivering on Saturday would be offset by Monday and Tuesday, trying to catch up from the weekend.

Senator BURRIS. Do you all pay overtime, by the way?

Mr. GOFF. Yes, there is. After 8 hours a day, 40 hours in a week.

Senator BURRIS. And is it double or time-and-a-half?

Mr. BURRUS. We have a sliding scale.

Senator BURRIS. A sliding scale?

Mr. BURRUS. We have penalty pay, that if you violate certain limitations, then it is double-time, twice the salary, that we have time-and-a-half and then double-time.

Senator BURRIS. So I am wondering how they are calculating this \$3.2 billion savings by going to 5 days a week and cutting out 677 stations and units. I don't even know how that is going to take place because he said they are just studying it.

Mr. GOFF. Yes. As Mr. Rolando said, I think it would be incumbent upon us to see the final product of the study—

Senator BURRIS. That is correct.

Ms. GOLDWAY [continuing]. To give us the correct figure. Maybe all the parties that came up with the different figure will come close then. But until we have that study, until it is completed, and until the stakeholders are included in that study, then we are not going to get a good figure out of it anyway.

Mr. ROLANDO. It is interesting that the Postal Regulatory Commission, I believe, put the savings at closer to \$1.9 billion, I believe. Whichever figure you pick, in light of cutting out one-sixth of your service of a \$75 billion operating budget, again, it seems kind of a silly road to go down.

Senator BURRIS. In terms of the cost of the First-Class Mail—I don't mean the catalogs—I would assume that if you go up, as the postmaster general said, from 44 cents to a 15 percent increase, that would cover the cost. That would mean that a First-Class stamp would be 50 cents. And I heard you, Mr. Burrus, make mention about a 50-cent stamp, or someone mentioned a 50-cent stamp.

Mr. BURRUS. I did, but that was printed in jest. They were having a joke with my predecessor, the president of our union.

Senator BURRIS. Well, do you think the American public would pay 50 cents? We get an increase every year now.

Mr. BURRUS. But we don't get an increase every year, but—

Senator BURRIS. We had two in—

Mr. BURRUS. The law permits an increase every year up to CPI.

Senator BURRIS. Yes.

Mr. BURRUS. But prior to 2006, the law provided the Postal Service to break even over time and we were on a 3-year cycle, so we didn't raise rates—from 1971 to 2006, we raised rates every 3 years. The first year, they would make money. The second year, they would break even. The third year, they would lose money. And the law said they had an obligation to break even over time, but it was unrelated to the CPI. It was based upon Postal Service expenses.

Senator BURRIS. OK. I just have too many questions. I will turn this over. Thank you, Mr. Chairman.

Senator AKAKA. Thank you very much, Senator Burris.

I want to thank all of our witnesses today for your testimonies, and your responses to our questions have been helpful.

The hearing record will remain open for 2 weeks for additional statements and questions from the Members of the Committee for our witnesses.

Again, thank you very much. This hearing is adjourned.

[Whereupon, at 1:25 p.m., the Subcommittee was adjourned.]

APPENDIX



**STATEMENT OF
POSTMASTER GENERAL/CEO JOHN E. POTTER
BEFORE THE
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICES
AND INTERNATIONAL SECURITY
OF THE
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE**

AUGUST 6, 2009

Good morning, Mr. Chairman and members of the Subcommittee. I appreciate the opportunity to meet with you today to continue our conversation concerning the extreme financial difficulties being experienced by the United States Postal Service and the actions we must take to address them. Our situation is urgent and our condition has deteriorated significantly since I testified before this Subcommittee in January, but our goal remains the same: to protect the immediate and long-term viability of America's postal system.

This is a complex and difficult task and there is no simple solution. The tools available to the Postal Service today, although enhanced by welcome new levels of pricing and product flexibility offered by the Postal Accountability and Enhancement Act of 2006, are insufficient to overcome economic conditions and unaffordable cost obligations that are contributing to a growing series of multi-billion dollar annual losses and financial instability that we expect to continue for many years to come.

Last week, the Government Accountability Office (GAO) added the Postal Service's financial condition to its "high-risk" list, explaining that our financial viability is critical because of the vital role the Postal Service plays in the national economy.

It is important to emphasize that the problems we are facing, despite their magnitude, do not reflect, in any way, a lessening of the value of the mail. Rather, the extreme suddenness with which they arose—at a time when our annual costs began to surge more than \$5 billion as the result of a new statutory obligation, and as the negative effects of the recession began to hurtle through every economic sector—indicate that the Postal Service, like any organization or business whose financial success depends on the underlying soundness of the economy, was—and is—being affected by larger market forces.

As a business tool, mail continues to offer unparalleled value in terms of targeting, pricing, measurability, and effectiveness. It continues to produce positive results for mailers who depend on it to help drive business growth. Customer satisfaction and employee engagement have never been higher. In a time marked by uncertainty, the Postal Service remains the most highly-trusted government agency — and one of the ten most trusted organizations in America.

To be sure, the chilling effect of today's economic climate has certainly accelerated the diversion of some mail to other channels. But it has not altered the basic strength of the mail as one of the most effective tools available for customer acquisition, customer retention, and customer growth.

In responding to the changed requirements of our changed economic situation, we have been taking cost-reduction efforts to unprecedented levels. Employees and managers at every level of the organization have brought a remarkable focus to making all of our operations more efficient and effective than ever. This will continue. And despite the severe strains the economy has created throughout the entire mailing industry, we believe that the potential of the mail remains as strong as ever.

With that in mind, we have implemented a growth strategy that is based on pricing and product innovation that offers even more value to customers. This can also serve to limit the severe volume erosion that is so closely tied to the decline in business and consumer spending that began late in 2007.

If the efforts we are making are to be successful, they must be matched by legislative efforts that address key cost and structural issues that are beyond the scope of the Postal Service's authority and are key contributors to our precarious financial condition. These include the elimination or modification of a unique and onerous prefunding requirement—one borne by no other public- or private-sector employer—for health benefits for future retirees. The sheer size of this payment, which averages almost \$5.6 billion each year from 2007 through 2016, has undermined—and will continue to undermine—our ability just to break even during that entire period, let alone generate the positive net income that was anticipated by the 2006 legislation.

Beyond the huge expense of the retiree prefunding requirement, our financial condition has been profoundly weakened by the effects of a shrinking economy on mail volume and revenue. The retrenchment in spending has affected virtually every mailer and their customers. The consequences have been so severe that only a fundamental structural change will make it possible for the Postal Service to overcome costs that are insurmountable under our current business model.

In considering the structural changes that can produce the level of results that are necessary, we have concluded that reducing the frequency of mail delivery from six to five days a week can provide the financial relief that is necessary to restore the fiscal health of the Postal Service. We respectfully request your support of this difficult but necessary approach through legislation that would make this adjustment possible.

This morning I will provide you with a detailed analysis of the untenable economic condition of the Postal Service today. I will share our projections about its equally disturbing financial prospects for the future. I will explain how our entire organization is working to overcome the effects of the economic forces that have undermined our business success. And, finally, I will discuss the legislative solutions that the Postal Service Board of Governors and management believe are necessary for the long-term survival of an effective, efficient, and affordable national postal system.

It all starts with service. Despite the tremendous financial pressures we are experiencing, and the enormous strains that have been placed on every element of our network, I am pleased to say that the men and women of the Postal Service are doing an exceptional job. They are focused on our customers, the American people, and they are delivering service performance that not only meets previous high levels but continues to set new records. Each of them shares my confidence in the future of the mail and, through their performance, each of them is contributing to a stronger future for everyone who depends on the mail.

As our organization continues to respond to the demands of an economy marked by contraction and uncertainty, we will not waver in our commitment to service. That is the heart of our brand. Our customers have always depended on the Postal Service for quality, reliability, trust, affordability and value. That is what they expect and that will not change. That is our job. And that is why protecting service remains one of the primary elements in our strategy of working to protect the future of our nation's mail system. It remains a vital and substantial contributor to our nation's economy—both as an enterprise and through its role connecting every American household and business.

The financial framework that supports our work and, with it, our ability to provide the levels of service our customers require, has changed drastically over the last twenty months. The pace of that change, driven by the length and severity of the current recession, has only accelerated since January.

At that time, based on preliminary first-quarter results, I reported that we were anticipating a loss of \$6 billion for fiscal year 2009. Today, as we near the mid-point of our final quarter, we expect to end the year with a loss of at least \$7 billion. Despite the success of our cost reduction efforts, the volume and revenue declines are even more dramatic.

Mail volume, our measure of unit sales, has reflected both the weakness of the overall economy and its particularly harsh effects on the financial, credit, and housing markets, declining more sharply than at any time since the 1930s. Earlier in the year, we were projecting a volume decline in 2009 of 15 to 20 billion pieces compared to 2008. We now expect to close this year with actual volume of around 176 billion pieces, a year-over-year decline of 27 billion pieces, or 13 percent.

We have just filed our third-quarter financial reports. For the quarter ending June 30th, the Postal Service had a net loss of \$2.4 billion, which includes a one-time accounting adjustment that increased expenses by \$800 million, on revenue of \$16.3 billion and expenses of \$18.7 billion. Our revenue declined by 8.8 percent, driven by a volume decline of more than 14 percent. Through the first three quarters of this fiscal year, our net loss was \$4.7 billion, again driven by a year-to-date volume decline of almost 20 billion pieces.

In addition, we are facing a serious liquidity issue. The growing gap between costs and revenue, even as we have increased our borrowing by the annual permissible limit of \$3 billion, will result in a serious cash-flow shortage of up to \$700 million for 2009.

Consequently, we will simply not have the means to meet all of our required obligations as we close the fiscal year. This will have a direct effect on our ability to meet the scheduled payment of \$5.4 billion to the Postal Service Retiree Health Benefit Fund, which is required on September 30, by the Postal Accountability and Enhancement Act of 2006.

If we were to make that entire payment, the Postal Service would not have the working capital reserves to fund operations or meet its payroll obligations, both of which are critical to fulfilling our universal service mandate. We will not default on that mandate. As a result, we have notified the Administration, the members of this Subcommittee, and other Members of Congress that, absent legislative change, the Postal Service will not be in a position to meet a portion of its required September 30 payment to the Postal Service Retiree Health Benefit Fund without legislative action to modify this requirement. The Fund today contains a balance of \$34 billion.

As we examine our key business indicators over the next several years, we do not see any improvement without a swift, substantial, and sustained improvement in the general economy and legislative changes that will provide needed cost relief in a number of key areas. While general inflationary pressures have moderated considerably, our network costs will continue to climb inexorably as we invest scarce resources to expand our delivery system to accommodate more than one million new households and businesses each year. With mail volume well below the level necessary to adequately finance growing network costs, the gap between revenue and expenses will widen even more.

Mail volume will contract even further in 2010, with an expected decline of another 8 billion to 15 billion pieces, bringing total volume possibly as low as only 160 billion pieces—more than 20 percent below 2008 figures. While our growth initiatives will help to partially offset that decline, they will be constrained by the general weakness of the economy and the limited pace of any potential recovery.

By the end of this fiscal year, we will have reduced our career workforce by 175,000 employees—more than 20 percent below our peak of 800,000 in 1999. And we have not simply substituted noncareer employees in their place. In fact, we have reduced our reliance on temporary and seasonal employees by the same ratio. Today, they constitute the same percentage of our total complement, 12 percent, as they did ten years ago.

At the same time, the number of addresses we serve has increased from 134 million to today's 150 million. Accommodating that growth, while minimizing the staffing necessary to achieve it, has contributed to unprecedented levels of efficiency that were interrupted only by the effects of a weak economy.

As we work to respond to the intense financial pressures of the deepest and most prolonged recession our nation has experienced since the 1930s, an unwavering focus on cost reductions will remain an integral part of our strategy to protect the viability of the Postal Service. Our cost-reduction targets have been aggressive, averaging more than \$1 billion per year from 2002 through 2007, and intensifying since that time.

When, early in fiscal year 2008, it became clear that the recession would negatively affect mail volume and revenue, we set—and ultimately surpassed—a goal of removing \$2 billion in costs. Based on the severity of the economic slowdown, our plan for 2009 calls for an unprecedented reduction of \$5.9 billion in additional costs. We are on track to exceed this goal, ending the year with more than \$6 billion in cost reductions.

Throughout the organization, our managers have pursued every opportunity to meet our target of removing 100 million workhours. By the end of the third quarter, with three full months remaining in the fiscal year, the actual reduction was 87 million workhours—almost 90 percent of our goal.

We have maintained a hiring freeze since the beginning of this fiscal year, which is critical to our ability to match the size of our workforce with the steep and rapid decline in mail volume. This has been accompanied by reductions of up to 20 percent in administrative positions and the offer of voluntary early retirement opportunities to 150,000 eligible employees.

We have also been adjusting scheduling, particularly in our mail processing facilities. In many locations we have eliminated work shifts so that we can better align plant staffing with the ebbs and flows of a changing workload.

Working closely with the National Association of Letter Carriers through a special, expedited process, we are reviewing more than 158,000 city delivery routes this Fiscal Year. Our goal is to identify routes that require adjustment to reflect reduced mail-delivery volumes. More than 93,000 were evaluated from October 2008 through March 2009. We are now completing evaluations and adjustments for routes not previously evaluated and reviewing those that were recently adjusted. We evaluated 18,000 routes in June and 52,000 in July. Another 82,000 are now underway. Earlier this year, through the provisions of our collective bargaining agreement with the National Rural Letter Carriers Association, we also completed a review of every aspect of our rural delivery routes. In both cases, the result will be reduced costs and increased delivery efficiency.

In addition, the last round of collective bargaining with our unions produced a notable change in the Postal Service's share of contributions for health-benefit premiums for current employees. The resulting contracts reduce the Postal Service's payment by one percentage point during each year they are in effect, resulting in growing, annual savings. This transfer of obligation means that employee payments increase by one percent each year.

Our plans for 2010 call for additional cost reductions of more than \$3.5 billion, led by the elimination of another 80 million to 90 million work hours. We will continue the strategies that have been successful in 2009 and we will supplement them with activities that continue to improve efficiency, reduce costs, and maintain the highest levels of service.

We have begun to convert our 21 Bulk Mail Centers into Network Distribution Centers. This will greatly enhance network efficiency through greater levels of shipment consolidation, contributing to more effective utilization of the cargo capacity of mail containers and trucks. This will also allow us to move greater amounts of mail more deeply into the system earlier in the process, by reducing and eliminating expensive and time-consuming intermediate sorting, shipment consolidation, and transportation activities.

Since the mid-1990s, we have relied on automated processing technology to sort letter mail into the order in which it is delivered, contributing to improved accuracy and efficiency. We are now bringing the same efficiency to flats. Flat mail—which includes large envelopes, catalogs, magazines, and newspapers—is one of the most difficult and expensive types of mail to process, sort, and deliver because of its variations in size, thickness and address placement.

In 2008, faced with competing priorities, rapidly diminishing resources, and the need to constrain price growth for this product segment, the Postal Service made a conscious decision to proceed with its investment in flats-sequencing technology. Sequencing for flat mail is now performed manually by our letter carriers at each Post Office before they begin their actual delivery duties.

As we expand automated delivery sequencing to this mail, we will achieve savings through processing improvements, increasing the amount of time available to carriers for delivery. This will help us to avoid adding new routes and make it possible to reduce existing delivery routes from current levels, an important consideration as our delivery network expands while mail volume—and the revenue it generates to support universal delivery—are both contracting more sharply than at just about any time in our history.

These same factors are driving our initiative to consolidate some of our retail stations and branches in larger cities throughout the nation. We are focusing on areas where we have a number of offices in close proximity to each other to determine where consolidations are possible. Each facility will be reviewed on a case-by-case basis. We anticipate that out of about 3,200 locations, fewer than 1,000 would be considered as viable candidates for further study and action.

While a station or a branch is similar in many ways to a Post Office, there are some significant differences, particularly from an administrative standpoint. Each of our more than 27,000 Post Offices is managed by a Postmaster and is responsible for providing access to postal services in a local geographic service area. Some Post Offices have subunits, called stations or branches, which operate under the direction of a station or branch manager, who reports to the local Postmaster. These facilities offer retail counters where customers can buy stamps, ship packages, and obtain just about all of the products and services available at a Post Office. They often offer Post Office Box service and many host carrier operations, as well.

Changes in letter- and flat-mail processing technology over time have reduced the space needed for carrier operations in the "back of the house" at many stations and branches. This has made it possible for the Postal Service to consolidate carrier operations into fewer locations without affecting delivery service. Often, space vacated by carrier operations at a particular station created opportunities to expand the space available for "front of the house" retail operations. But it is time to reexamine our retail space requirements, as well.

Today, our traditional retail network reflects needs of a different time, when there were far fewer means of alternate access to postal services, when First-Class Mail growth was very robust, and virtually all of our retail revenue was generated through transactions at our retail counters. We have responded to the demand for increased customer convenience by developing even more-accessible and economical alternate channels that offer a wide range of postal products and services.

These include our popular website, *usps.com*; Automated Postal Centers, self-service kiosks that weigh packages, dispense postage, and accept mailings; contract postal units, operated by independent businesses in conjunction with their primary businesses; postage stamps at Post Office prices, available at more than 50,000 non-postal retail locations; the ability of customers to order postal products by phone or mail; and the ultimate convenience of free package pickup right at their home or office.

Today, about 29 percent of retail revenue is generated through alternate channels. This continues to increase. Each year more and more customer transactions take place online without the need for customers to make a special trip to the Post Office.

Use of our website, *usps.com*, has grown to about 30 million customer visits each month for stamps, prepaid postage, address changes, mail holding and forwarding, free mailing supplies, free package pickup requests, and mailing information. Consistent with the Congressional mandate in the Postal Accountability and Enhancement Act of 2006, we will continue to expand alternate retail access to postal services.

Changes in customer mailing habits and the expansion of state-of-the-art technology throughout all of our operations—processing, delivery, and retail—have made it incumbent upon us to review the number and location of stations and branches and to determine if there is any excess capacity. Reevaluating the need for these facilities and determining if they are truly adding value, while providing our customers with necessary levels of service, is the type of business-like action required for the Postal Service to be able to compete in today's marketplace and to manage its resources responsibly.

As part of this process, we have asked that our local managers consider factors that include: local customer access to our retail services; the affect any change might have on service standards; cost savings; impact on employees and the environment; real-estate values; and long-term Postal Service needs. We do not expect that this initiative will generate any changes before fiscal year 2010, which begins on October 1.

The postal workforce will continue to grow smaller as we adapt to a changed economic environment. As this occurs, it will be possible to further reduce administrative staffing while still providing the necessary levels of support for our employees and operations.

Our stringent cost-reduction activities will continue in 2011, with a target of eliminating another \$3.2 billion from our base costs, but this can only be achieved if current law is modified to allow our Board of Governors to review, approve, and implement a major—and necessary—structural change to our delivery operations by moving from six-day to five-day delivery. This will also create opportunities to align administrative staffing with a new operational model.

There has been a great deal of speculation regarding the effect of five-day delivery on our household and business customers, and on mail processing and collection, as well. In our extensive planning for this change, which is an absolute requirement for the long-term viability of our nation's postal system, we have been developing a thorough concept of operations.

First, and most importantly, weekday delivery would not change. Mail would be delivered on Monday through Friday to homes, businesses, and Post Office boxes. A reduction to five-day delivery would affect only carrier delivery and only on Saturday.

A change to five-day delivery will not affect retail operations. Post Offices with Saturday hours will remain open on Saturdays.

This adjustment would have absolutely no effect on Post Office box service. All box mail would continue to be delivered—and available—to our box customers on Saturdays. For most users, Post Office box service is an optional, value-added service designed to provide an additional level of flexibility to mail delivery and receipt, based on a customer's individual schedule and needs.

Express Mail, our premium expedited service, which has always offered delivery on Sunday and holidays, will continue to be delivered on Saturday as well. There will be no regular Saturday delivery or collection of mail to addresses served on any city, rural, and contract delivery routes.

Remittance mail would also be available as it currently is through Post Office box or caller service at the local Post Office and, for some larger customers, at the local mail processing facility. Consisting primarily of payment by consumers to businesses, utilities, services, and financial institutions, remittance mail is an extremely important element of our nation's economy, expediting payments valued at trillions of dollars each year. Our exceptional on-time delivery performance for this mail, independently measured in increments of hours rather than days, has become the expectation of organizations that rely on remittance mail. We will continue to meet those expectations as we work to improve on our already high performance for this mail.

We selected Saturday as a non-carrier-delivery day for a number of reasons. First, because it is the lowest-volume delivery day, but with same level of fixed costs as other delivery days, discontinuing Saturday delivery offers the maximum benefits to our business. It will also minimize the inconvenience to our customers. Most business and professional offices are open Monday through Friday, with many closed on Saturday.

We recognize that if we were to eliminate delivery during the regular business week, some business customers would only receive mail on four days each week. These customers have been clear about their needs, which are consistent with our approach, and we will honor those needs.

We will continue to collect and process locally originating mail on Monday through Friday. This is mail that enters our system within the immediate service area of a local mail-processing plant. Processing for destinating mail—mail received for delivery within the service area of a local processing facility—will vary. Mail for delivery to street addresses will be processed on Monday through Friday. Post Office box mail will be processed Mondays through Saturdays. Remittance mail will be processed seven days each week at our plants, where our largest customers come to pick up their mail.

The changes in processing activities will not affect our acceptance of destinating drop-ship mail at these locations on Saturdays. We will be staffed to accept this mail. This will support our ability to continue providing exceptional value to these mailers.

For the last several months, a cross-functional team has been exhaustively examining every aspect of our five-day delivery concept so that we can make a quick and seamless transition to a new delivery environment. They have been gathering and considering input from the full range of postal stakeholders. Their work has included an in-depth analysis of the financial impact of this change.

Our findings show that implementation of five-day delivery offers potential annual savings of approximately \$3.8 billion. However, as a number of observers have noted, a reduction in delivery frequency will likely result in some erosion of mail volume and revenue. Our calculations support this conclusion and we estimate the lost contribution from the estimated annual revenue loss to be approximately \$500 million.

Consequently, we are projecting net annual savings of some \$3.3 billion, with one-time implementation costs of roughly \$110 million. The savings offered by the five-day delivery concept are significant, they are achievable, and they are vital to the survival of the United States Postal Service.

It will simply be impossible for the Postal Service to return to financial health, much less realize the potential for profit envisioned by the Postal Accountability and Enhancement Act of 2006, without substantial legislative change, an unyielding emphasis on removing every dollar in non-essential costs, and a focused and realistic growth strategy that supports customer retention, drives revenue gains in both our market-dominant and competitive product lines, and creates new revenue opportunities through increased product freedom.

Over the last year, our people have demonstrated a renewed energy and creativity in their pursuit of the pricing and product opportunities now possible as a result of the new law. For our market dominant products—which represent 90 percent of our revenue base—we are moving forward on a number of unique approaches to pricing. Through these actions, we are enhancing that value, using new pricing flexibility and its potential to stimulate growth to preserve volume and address mailers' concerns about market economics.

Last month, we introduced our first "Summer Mail Sale." By offering pricing incentives of 30 percent on incremental Standard Mail volumes above specific thresholds based on a customer's prior mailing experience, we are offering an even better return on their mailing investment. This can help us to retain customers and increase their use of the mail which, in turn, will help them build their business.

Nearly 1,300 mailers, accounting for more than 60 percent of eligible summer sale volume, have signed up for this promotion, which runs through mid-September. Based on the level of activity we have seen so far, we are on track to meet our summer-sale revenue target.

We have begun preparation of a proposal to the Postal Regulatory Commission for a similar incentive program for First-Class mailers. If approved by the Commission, the program would run through the fall, the most important sales quarter for the nation's marketers. We are working directly with First-Class mailers on this proposal.

We also introduced a one-year volume incentive program for users of saturation mail—an extremely cost-effective way for marketers to connect with consumers in local markets. In response to customer requests, we recently expanded the eligibility criteria, which will allow more mailers to take advantage of the benefits of this program.

It is critical that we develop a wide range of effective growth tools to enhance our mailing services, the products and services classified as "noncompetitive" and that provide the bulk of the revenue necessary to maintain our national network. It is no less important that we apply the same approach to our competitive product line, our Shipping Services, which include Priority Mail and Express Mail. This will help us to fully develop their enormous potential in a marketplace where value is becoming the primary differentiator for customers who require overnight or expedited ground shipping.

The Postal Service's shipping services meet, and often exceed, the service performance of similar products offered by other shippers. They offer other distinct benefits as well, with delivery to every address and free pickup from every household and business in America, and no surcharges. By enhancing them through new pricing tools and product innovations—and effectively communicating their advantages—we are making them even more attractive to our customers.

Over the last year, we have offered our shipping customers price savings through commercial contracts and lower internet and volume pricing. Our Priority Mail Flat Rate Box is a popular service and the Flat Rate Box offering is the best value in the shipping business today. There is no better way to describe it than the language from our current advertising campaign, "If it fits, it ships for a low flat rate," and the tag line, "A simpler way to ship." With the support of the new advertising campaign, Priority Mail Flat Rate Box sales increased by 22 percent in June, a time when shipping sales are down. And we offer a special rate for packages sent by families and friends to their loved ones serving in the military with APO and FPO addresses.

We have also developed a new Express Mail letter that provides an added level of convenience to the traditional speed, reliability, affordability, and security of our guaranteed, premium overnight service. With the Express Mail letter, available through customer agreement, carriers can deliver this important mail on the first attempt—securely—even if the customer is not available to accept it. There is no better way for senders to be sure "urgent" mail is received the next day.

Given the enormity of the financial challenges we are working to overcome, our revenue generation efforts must include product freedom that goes well beyond the introduction of new mailing and shipping services. We must also expand into completely new product areas, beyond what is permitted under current law. The Postal Service maintains the largest retail presence in the United States today. With 37,000 Post Offices, we have more outlets than McDonalds, Starbucks, and Wal-Mart combined.

As mail volume sales continue to plunge, we are simply unable to generate the revenue necessary to support our retail and delivery network at their current size. This is a situation that is not unique to the United States Postal Service. Other national postal administrations complement their traditional offerings with banking, cell phone, logistics and other services to generate the income necessary to offset the costs of their universal service obligation—costs that cannot be met solely by the price of postage.

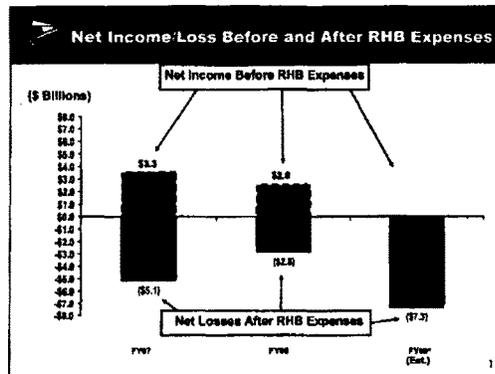
Given the size, accessibility and diminished utilization of our retail network, we believe the time has come to allow the Postal Service to introduce new lines of business at its retail facilities. It is not our goal to expand our offerings for the purpose of supplanting our basic mission; rather, it is our goal to use them to enhance our ability to support that mission. This change is possible only with the concurrence of Congress through new legislation, and we ask for your consideration in this regard.

While we need added flexibility in the future, our most immediate need is for relief from the oppressive burden of the obligation to prefund retiree health care benefits. This is an item that we discussed at some length in January. Over the last seven months, as our financial position has deteriorated far beyond earlier projections, the need for major modification or complete elimination of this requirement has only grown more compelling. Operating under the current legislative requirements, we project annual net losses of in the range of \$5.4 billion to \$8 billion for at least the next five years, with cumulative annual cash shortfalls growing exponentially.

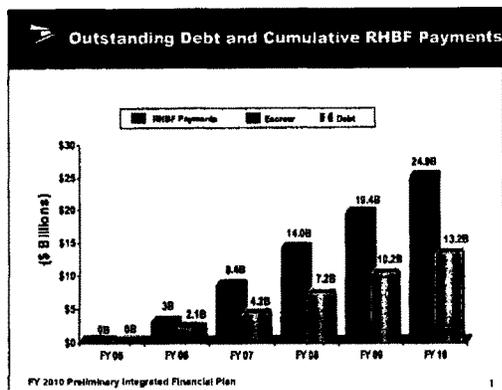
The law requires that the Postal Service make annual cash deposits averaging \$5.6 billion to the Postal Service Retirement Health Benefits Fund at the close of every fiscal year through 2016. There is no comparable fund for any other group of public or private sector employees.

The amount of the funding is related primarily to federal budgetary concerns rather than actuarial requirements. Without this unique burden, the Postal Service would have realized profits in 2007 and 2008 and would lose less than \$2 billion this year, even considering the 27 billion piece volume decline.

The following two graphs illustrate the effect of the Retiree Health Benefits Fund payments on our finances. Graph 1 shows our net income/net loss, both before and after these expenses. Graph 2 shows our outstanding debit in relation to our cumulative payments to the Fund.



Graph 1



Graph 2

Viewed within the context of our current and future financial condition, continuation of the prefunding requirement at current levels is unsustainable. Your recent introduction of S. 1507, a bill to reform Postal Service retiree health benefits funding, would provide a sorely needed and extremely welcome level of financial relief over the next five years. By reducing total costs by \$6.4 billion during this critical period, the solvency of the Postal Service would be enhanced considerably.

The overall goal of a financially sound Postal Service is a goal shared by both the Administration and the House of Representatives, where a similar bill has been cosponsored by 80 percent of its Members. I am extremely appreciative and encouraged by the quick action of the Senate Committee on Homeland Security and Governmental Affairs in moving this bill forward for consideration by the full Senate. The issues we are working to address are important. By making this legislation a priority, you have shown the American people that you support a strong and sound national postal system.

The Postal Service supports the amendments added to S. 1507, particularly the amendment directed at our arbitration process. Current law requires an arbitrator to consider "comparable pay" in his or her decision. The amendment included in S. 1507 simply balances that requirement by including a consideration of the Postal Service's financial health. We are equally pleased with the acceleration of the Government Accountability Office's report regarding the business model necessary for the Postal Service's long-term future. This effort will serve as a gateway for a much needed, broader debate about the manner in which the Postal Service can continue to serve the American public.

While the details of the House and Senate bills vary, their intention does not: protecting affordable, quality, universal mail service for every American home and business. I am confident that the Senate, the House of Representatives, and the White House, working together toward this shared objective, can and will act expeditiously to help create a firmer financial foundation for the Postal Service. You can rely on my full cooperation, and the cooperation of the Board of Governors and the entire management team.

Mr. Chairman, as you have indicated, this bill is not a "silver bullet." There is more that must be done as Congress, management, and our employees continue their work together. In an environment defined by annual multi-billion dollar losses for the foreseeable future, other actions will be necessary to completely bridge a reduced but still considerable distance between our income and our expenses.

Very recently, the Office of Inspector General of the United States Postal Service completed a self-initiated review of the estimates of the Postal Service's liability for retiree health care benefits. The Office of Inspector General, an entity separate and apart from Postal Service management, worked with a respected private-sector actuarial group to assess the assumptions used by the Office of Personnel Management to determine our liability.

The review concluded that, if the Postal Service continues the payment schedule required by the Postal Accountability and Enhancement Act of 2006, we could overfund our retiree health-care liability by \$13.2 billion by the end of Fiscal Year 2016. Adjusting for this potential overpayment, the Office of the Inspector General determined that reduced annual payments of \$1.57 billion—rather than the current average of \$5.6 billion per year—would satisfy the funding goal that was identified by the Office of Personnel Management for the Postal Service Retirement Health Benefits Fund.

The Office of Inspector General also found that this goal was based on assumptions regarding average health-care cost inflation over a ten year period. We believe a more accurate assessment of our obligation would be based on actual costs, which can differ widely from individual to individual.

The variables include the total costs associated with the health plan selected, from the literally hundreds available to eligible Postal Service retirees. On a fixed income in today's difficult economy, retirees are more sensitive than ever to receiving quality care at the lowest price possible. Levels of usage also vary considerably based on the needs and preferences of different enrollees, strongly affecting costs. And with career employment now numbering about 630,000, a decline of 66,000 positions since 2006, funding goals that were established at that time, based on a workforce of almost 700,000, must be reexamined.

At the request of the Chairman Stephen Lynch, and Representatives Danny Davis and John McHugh of the House of Representatives Subcommittee with oversight responsibility for the Postal Service, this issue was analyzed by the independent Postal Regulatory Commission. The Commission found that both valuations—one from the Office of Personnel Management and the other from the Postal Service's Office of Inspector General—were reasonable in meeting the different purposes for which they were designed. However, the Commission suggests an alternative calculation that produces a long-term liability that could result in lower payments than current law requires. We appreciate their input into this important discussion.

As I have noted previously, no other employer is faced with this type of prefunding obligation at the levels required of the Postal Service. The report of the Office of Inspector General noted that the public and private sector employers that were surveyed, which included some of the largest in the nation, are not required to prefund post-employment health-care benefits.

In fact, there is no general prefunding requirement for the Federal government as a whole. In addition, the primary genesis of the prefunding obligation was as a means to preserve the budget neutrality of the Postal Accountability and Enhancement Act.

Economic assumptions regarding the Postal Service's long-term ability to meet this obligation—assumptions that were reasonable and justified when the Act was passed in 2006—have been completely eclipsed by an economy that has been shaken to its core. As we work to return the Postal Service to a sound financial footing, it is certainly appropriate to initiate a conversation regarding not simply the modification of the prefunding requirement, but its elimination.

Effectively surmounting our immediate and future financial challenges will require far more than a combination of cost management, product growth, and the elimination of staggering financial burdens. It will also require a basic structural change to our business in the form of reduced delivery frequency.

This is a difficult choice but, given the gravity of our financial situation, a necessary choice, and one we are pursuing only reluctantly. We can no longer afford the costs of six-day mail delivery.

In fiscal year 2000, our carriers delivered an average of 5.9 pieces of mail per day to every address they served. This year, that has fallen to 4.7 pieces—a decline of 20 percent. Over the same period, our delivery base has expanded by more than 11 million addresses. We are delivering less mail to more addresses, resulting in less revenue per address served. The ratio of higher-contribution First-Class Mail to lower-contribution Standard Mail has also declined steadily over a 10-year period further eroding revenue per delivery.

With the existing six-day delivery requirement, we simply do not have the ability to adequately adjust to the financial pressures this situation has created. However, under a five-day delivery model, the average number of pieces per daily delivery would return to the levels of 2000.

Reducing the frequency of delivery would be an important step in helping to close the gap between costs and revenue—a situation that is unachievable in today's environment because of the requirement to maintain six-day delivery. In mail processing and retail operations, workhour reductions, which reflect volume variability, have essentially tracked mail-volume declines. But in delivery operations, because of their much-higher ratio of fixed costs, workhour reductions have been held to only half that rate, reflecting a structural issue that impedes our ability to align system capacity with a marked reduction in system use.

Providing the Postal Service with the ability to reduce delivery from six days to five is an effective and appropriate response to the sobering reality of our fiscal situation. By acting sooner rather than later, we can not only sharply reduce our losses but we can help restore profitability to our operations.

Independent surveys show that the majority of Americans would prefer five-day delivery to other options—such as a price increase, closing their local Post Office, or returning to a tax-subsidized Postal Service. According to a recent Gallup Poll on this subject, more than three out of four Americans said it was "very important" to them that the Postal Service remain in business.

Our customers have considered what is at risk and they have examined the options. They have said that they are willing to accept this change as a reasonable solution that accommodates their needs and the needs of the Postal Service.

Our experience over the last several years has provided us with a valuable perspective regarding the financial goals of the modern Postal Service. For the first 35 years since beginning operations in 1971, we were required to operate on a break-even basis. We met this requirement.

The enactment of the new Postal Law in 2006 made a fundamental change to this model. For the first time, we were permitted to plan and operate with the goal of generating positive net income. Provisions that permitted us to retain earnings and reinvest them in our business encouraged a new approach to planning, operational efficiency, and pricing, product, and marketing initiatives. Unfortunately, the effects of the economic recession, which began to be felt in 2007, only short months after the new law went into effect, had the practical result of deferring our ability to operate profitably.

Yet the years immediately preceding the recession were among the most successful we have ever experienced. Service performance continued to reach new heights. For the period from 2000 through 2007, productivity growth was five times greater than it had been during the previous 27 years. Mail volume was on a steady upswing, at or near a record 213 billion pieces from 2005 through 2007. Debt, which stood at \$11.1 billion in 2002, was completely retired in 2005. Liquidity was not a concern.

The common thread that linked most of these achievements—both as cause and result—was our bottom-line financial results. Beginning in 2003, and in every subsequent year through 2006, the Postal Service was profitable, recording more than \$9 billion in cumulative net income. As I have indicated, that would have continued in each of the two following years, and our loss for 2009 would have been significantly smaller, but for the effect of the prefunding requirement for retiree health benefits.

That is no longer the case. Productivity is showing a decline as mail volume falls and the number of delivery points continues to increase. We will soon reach our maximum borrowing limit of \$15 billion. The prospects for servicing or retiring that debt are not encouraging in the foreseeable future. Annual multi-billion dollar losses will continue. We do not expect to be able to meet all of our cash obligations. While we anticipate that an eventual economic recovery will end the current declines in mail volume and result in renewed mail volume growth, we cannot predict the timing or strength of that recovery. And, considering the recession's negative and disproportionate effect on some industries that were key generators of mail, we do not anticipate that volume will return to its former levels.

Our landscape has changed, unalterably. Our task is to take the actions necessary to make it possible for the Postal Service to continue to provide universal service to the nation, and to do so in a radically altered business environment. It is critical that our actions are sufficient for the Postal Service to close the gap between costs and revenue. Only by meeting this minimum requirement can we set the stage for business success.

But I believe we must do more. Simply breaking even will not allow us to pay down debt that will reach and remain at \$15 billion. The most prudent path the Postal Service can take is to recognize that the loss of volume represents a new norm and to modify operations accordingly. Simply breaking even will not ensure the levels of liquidity that are needed and at the times they are needed. Simply breaking even will not allow us to make the investments in the technology, processes, equipment, and buildings that are necessary to maintain the United States Postal Service as the best and among the most affordable in the world.

Simply put, our goal must be more than breaking even. It must be to generate positive net income—profitability—year in and year out. Reinvesting that profit in our business by constantly improving our performance, our efficiency, and our financial foundation, will pay dividends for every postal stakeholder.

The American people have expressed their support for the Postal Service. We are honored and grateful for their confidence. We owe them our promise that their Postal Service will be an asset and not a liability or a burden.

Within the constraints of the current law, the Postal Service is taking a number of specific steps that will help us to deliver on that promise:

- We will continue to provide our customers with world-class service;
- We will continue to reduce costs throughout every corner of the organization;
- We continue to develop the services our customers need at prices that provide the best value possible.

Our ultimate success requires that the steps we are taking be supplemented by specific legislative actions by Congress. We will continue to seek your support for:

- Legislation that offers relief from a crushing schedule of funding for future retiree health benefits;
- Legislation that opens the door to the structural changes necessary to match declining delivery volumes with an expanding delivery network;
- Legislation that makes it possible for the Postal Service to expand its offerings to generate new avenues of growth to support our universal service obligation.

The Postal Service is a vital and valued element of our nation's communications infrastructure. It has served our country well for more than 234 years by adapting to the changing needs of a changing nation. It is a vastly different organization today than it was in the past. And it will be a vastly different organization in the future than it is today.

At key times of change, Congress, in representing the interests of the people of our nation, has acted to preserve affordable, universal mail service for everyone in America. I trust that you will take the steps necessary to help us continue this proud tradition. By holding this hearing today, you have expressed your firm support of that mission, a mission that was defined by Congress more than two centuries ago.

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to share my thoughts with you today. I appreciate your support of the Postal Service, its employees, and its customers. And, on behalf of everyone who relies on the United States Postal Service, I appreciate your efforts to strengthen America's postal system. I would be pleased to answer any questions you may have.

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Testimony of

The Honorable Ruth Y. Goldway,

Commissioner

On Behalf of the Postal Regulatory Commission

**Before the U.S. Senate Committee on Homeland
Security and Governmental Affairs**

**Subcommittee on Federal Financial Management,
Government Information, Federal Services,
and International Security**

August 6, 2009

Chairman Carper, Ranking Member McCain, and members of the Subcommittee, thank you for the opportunity to testify on the financial crisis facing the United States Postal Service.

I am honored to be participating at this hearing. As many of you are aware, I have served on the Commission for 11 years, with many opportunities to both support and second guess three different chairs. The Commission acts as both a regulator of the Postal Service and a protector of its roles as the Universal Service provider. Striking the appropriate balance is difficult. Articulating such in brief statements is most challenging. This document has been prepared in consultation with Chairman Blair. We are in general agreement on these matters however with somewhat different emphases.

Others on today's panel have described in detail the financial straits in which the Postal Service finds itself at this time. Suffice it to say that based on the available reports submitted by Postal Service to PRC, we expect revenues to be down over \$6 billion from last year at the end of the third quarter, an 8% reduction. By the year's end, the Service most likely will run out of cash and not be able to make all of its year end payments, absent Congressional action. To put this in perspective, UPS and Fed Ex have had revenue declines of 11% and 21% respectively. This is a difficult time for the industry as a whole.

The Postal Service has responded to the revenue loss with the most aggressive cost cutting in its history. In fact, under PMG Potter, the Service has cut costs for several years. Since 1999, 160,000 career workforce positions have been taken out of the system. (This year it is on track to eliminate an additional 100 million work hours.) Whatever the concerns of those of us who evaluated the Service in the 90's, in the 21st Century, management and labor have worked remarkably cooperatively and efficiently to streamline the system.

The Commission is exercising its authority to ensure that savings are not achieved at the expense of service. To date, reports submitted to the Commission by the Postal Service indicate satisfactory levels for delivery. Accurate measurements systems for customer satisfaction and access are being reviewed.

Retiree Health Benefit Fund Liability

Despite its many actions to increase revenue and cut costs, the Postal Service may run out of cash by the end of next month, which marks the end of fiscal year 2009. They need some immediate relief.

Consequently, the Postal Service is seeking legislation to adjust its retiree health benefit payments. This Committee, through its recent approval of S.1507, the Postal Service Retiree Health and Benefit Fund Reform Act, has taken a step towards alleviating – at least for the short term – the Postal Service's financial crisis, while maintaining the long term solvency of the fund.

At the request of the House Subcommittee on Federal Workforce, Postal Service and District of Columbia, the Commission recently examined the underlying assumptions and methodologies used by the Office of Personnel Management (OPM) and the Postal Service Inspector General (OIG) to determine the Postal Service's unfunded liability for its Retiree Health Benefit Fund. Copies of the report were provided to members of this Subcommittee and are available online at www.prc.gov. Hopefully, our analysis will prove helpful in informing the debate should this Committee consider long-term measures to address funding for the Retiree Health Benefit Fund.

In brief, the Commission found that the different purposes of the two valuations led to differing, though reasonable, assumptions and results. OPM, essentially, took a current snapshot of the Postal Service workforce and rolled it forward to establish the liability, which

was reported on the Postal Service's 2008 financial statements. OIG made its calculations incorporating expected Postal workforce declines through 2016, essentially creating a snapshot of a much smaller Postal family in 2016, and a smaller liability. The two valuations also assumed different future rates of medical inflation.

The Commission developed an alternate calculation utilizing current industry and government best practices. This produced a long-term liability that could result in over \$2 billion in lower payments per year than current law requires. The following chart depicts the three calculations.

Payments to Achieve 73% Funded Status (Dollars in Billions)			
	USPS OIG	OPM	PRC Alternative
Workforce Assumption	Declining	Fixed	Declining
Health Care Inflation	5%	7%	Graded: 8% - 5%
Average Interest rate on assets	5.35%	6.25%	5.35%
Discount Rate on Liability	6.25%	6.25%	6.25%
FY 2016 Estimated Liabilities	\$90.5	\$147.9	\$113.2
FY 2016 Estimated Assets	103.7	108.7	103.7
FY 2016 Estimated Unfunded Liability	(13.2)	39.2	9.5
2016 Asset Balance for 73% Funded	66.1	108.0	82.6
Fixed Annual Payment	\$1.7	\$5.5	\$3.4

Future Pricing

Looking ahead to FY 2010, the Postal Service expects continued, though moderating, declines in mail volume. This would have significant ramifications for postal revenues. Under the PAEA, the Postal Service has the ability to raise new revenue through general rate increases, subject to a CPI-based price cap on its market dominant products and to a price floor and market constraints for its competitive products. Following Commission review, the Postal

Service exercised its flexibility and implemented general price increases for its competitive products in January and for its market dominant products in May. These increases helped offset some of the revenue lost to declining volume.

Due to recent low inflation in the overall economy, it appears that the Postal Service may have little to no room next year to raise prices for its market dominant products, which account for 90 percent of revenue. To raise prices above the cap, the Postal Service would have to file with the Commission a so-called "exigent" rate case and they would have to demonstrate "extraordinary or exceptional circumstances" to justify exceeding the rate cap imposed by the PAEA.

Prior to 2007, the former Postal Rate Commission reviewed Postal Service forecasting assumptions and methodology as part of its rate analysis. In the new streamlined rate setting processes established by the PAEA, this has not been necessary. Even if the Postal Service does not file an exigent rate case, it may be beneficial for the Postal Service to share its volume forecasting model with the Commission as a general practice.

Further Cost Savings

The Postal Service has responded to the financial burden of HCGB, PAEA price caps and declining volumes, in addition to the above referenced streamlining, by proposing a significant reduction in its footprint and service levels.

It has submitted to the Commission a proposal for evaluating the possible closures of about 1000 branches and stations. Under the law, the Postal Service is required to seek an advisory opinion whenever it considers embarking on changes that could affect service nationwide. While the Commission doesn't have power to direct the Service to operate in a particular manner, the public review within the administrative procedures of Docket N2009-1 will examine the adequacy of the Service's analysis and how it will measure the impact of any

closure on effected communities and measure the overall quality of service-before such closures take place. Further we will examine the adequacy of notice provided to the public during the Service's evaluation process and the level of consideration public comments are given. The Commission is considering holding field hearings in this case. We will also seek to determine whether the Postal Service will maintain adequate levels of service within the framework of its Universal Service Obligation.

In the event offices are closed, the Postal Service will be required to provide appropriate public notice as set forth in Title 39.

Five-day Delivery

The Postal Service has also requested that Congress lift restrictions currently contained in annual appropriations language that prohibit the Postal Service from reducing mail delivery from six days a week. In a study issued last summer, the Postal Service stated that a one-day reduction could save as much as \$3.5 billion a year. The Commission, in its study of universal service released in December 2008, found the savings to be closer to \$1.9 billion. Utilizing data for FY 2008, we now estimate savings of about \$2.2 billion. In both cases, the amount of savings is reduced because of anticipated modest declines in mail volume as a result of the service reduction. The Postal Service has stated that it is currently conducting a new, comprehensive study of this issue.

Future of Universal Service

Whether it is 5-day delivery, collection box removal or the closure of facilities, the Postal Service is intent on reducing its physical presence. No proposals have been put forward to find new sources of revenue at Post Offices, such as partnering with other public agencies or reinvigorating its brand. Their actions bring into question long-held concepts of how the Postal Service fits into the framework of American society. The Commission is well aware from its

proceedings of the impact that the Postal Service has on our nation's charities, educational institutions, political processes and the overall flow of information. It was not long ago that the Postal Service demonstrated its ability to be a binding force for the Nation, when it allowed residents of New Orleans to elect a Mayor even though they themselves had been dislocated from the city by Hurricane Katrina.

The Postal Service continues to be an economic pillar for the nation and the world's largest postal system, accounting for about 45 percent of global mail volume. The Postal Service is highly regarded by the American people. In a recent Gallup Poll, ninety-five percent of those polled indicated that it was personally important to them that the Postal Service continue to stay in business.

The Postal Service is at a very uncertain moment in its history. It is contending with historic mail losses driven by an exceptionally difficult economic environment. There is no question, however, that the increased transparency, accountability and flexibility provided by the PAEA have been beneficial. Within the current law, there remains considerable room for innovation. Postal products continue to be shaped by historic class differences, largely in place since the 1920's that may not make sense today. Potentially new markets could be developed around hybrid products that combine characteristics between classes – for example, a standard mail product with guaranteed date of delivery. Opportunities to better use its existing facilities have yet to be explored.

The American public continues to demand effective, reliable and affordable nationwide postal service. Nevertheless, the Postal Service's ability to continue to be self-sustaining is in question. The model of the past four decades – that mail volume growth would be sufficient to support an expanding delivery network, fully fund Postal Service operations and future health care benefit costs and maintain universal service at existing levels – may need to be reexamined.

Chairman Carper, this concludes my written statement. I appreciate the invitation to testify and welcome the opportunity to answer any questions that you or members of the Subcommittee may have.

**Hearing before the Subcommittee on Federal Financial
Management, Government Information,
Federal Services, and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate**



**Oral Statement
on the
U.S. Postal Service in Crisis**

August 6, 2009

**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 retiree health care liabilities. The Postal Service's financial stability is currently threatened by the disruptive effects of new communication technologies and the massive and sudden economic downturn. This situation has turned into an immediate crisis because of the significant diversion of cash to pay for future retiree health care benefits. For example, the first 6 months of this year's payment to the Postal Service Retiree Health Benefits Fund was \$2.7 billion. If not for this payment, the Postal Service would have made \$400 million instead of losing \$2.3 billion in the first half of 2009.

The Postal Accountability and Enhancement Act of 2006 requires the Postal Service to make 10 annual payments of over \$5 billion each in addition to the \$20 billion already set aside for prefunding its retiree health benefits. The size of the \$5 billion payments has little foundation, and the current payment method is damaging to the financial viability of the Postal Service even in profitable times.

- The payment amounts were not actuarially based. Instead, the required payments were built to ensure that the Postal Act did not affect the federal budget deficit. This seems inexplicable since the Postal Service is not part of the federal budget, does not receive an appropriation for operations, and makes its money from the sale of postal services.
- The payment amounts are fixed through 2016 and do not reflect the fund's earnings or estimates of the Postal Service's liabilities as a result of

changing economic circumstances, declining staff size, or developments in the health care and pharmaceutical industries.

- The payments do not take into account the Postal Service's ability to pay and are too challenging even in normal economic times. In the current economic climate, the Postal Service is forced to borrow and place its solvency at risk. Borrowing to pay a debt that will be incurred in the future is a controversial practice — not seen in business or government.

Beyond the problems with the payments, we believe it is important to know if the Postal Service's obligation is reasonably estimated. My office asked an actuarial consulting firm, the Hay Group, to

- Benchmark OPM's assumptions against those commonly used in the public and private sector;
- Review OPM's estimates of the Postal Service's liabilities;
- Estimate how well the Postal Service will have funded its retiree health obligations when the mandated payments end; and
- Estimate proper funding levels given adjustments to assumptions.

In brief, the actuaries found that

- OPM's assumption that health care inflation will average 7 percent indefinitely is unreasonably high when compared to the 5 percent health care inflation rate commonly used by Fortune 100 companies, state and local governments, and public utilities.

- The payments are aggressive, reducing the Postal Service's unfunded liabilities more quickly than typical prefunding plans.
- When the broadly accepted 5 percent for growth of health care costs is used, the estimates show the Postal Service will have overfunded its obligations by an extravagant \$13 billion at the end of 2016.

By the end of 2016, the current payments will have essentially created an accidental annuity. At 5 percent interest, the \$104 billion fund will earn more than \$5 billion a year. This is a significant amount of money to cover retiree premiums, which are predicted to be \$2 billion this year.

The punishing payments threaten Postal Service solvency in the current crisis. Because the Postal Service has been forced to borrow during its profitable years, borrowing levels are now stressed during times of need.

Resetting the annual payments from over \$5 billion to \$1.57 billion will leave only \$26 billion unfunded by the end of 2016.

- Resetting payment levels will provide a more achievable financial goal.
- New payments will take into account the substantial annual earnings of the fund. Last year, the fund earned \$1.3 billion.
- Payments should be reset periodically to recognize factors such as
 - Medical/technical innovations and breakthroughs;
 - Current efforts to reduce inflation within the medical sector; and

- Changing interest rates on the fund.

The Postal Service must meet its retiree benefit obligations, while acting like a business and paying its expenses from the sale of postal services. As a result, retiree health benefit obligations and all other Postal Service liabilities should be derived mathematically and not politically. I am aware that there were voices on your committee and in the House that called for the proper payment level to be set at the time that the payments were distorted. I am hopeful that these voices will now be heard to correct this debilitating problem. If this distortion is corrected, the Postal Service can more realistically address the remaining serious challenges and opportunities before it. Thank you.

STATEMENT OF
NANCY H. KICHAK
ASSOCIATE DIRECTOR FOR STRATEGIC HUMAN RESOURCES POLICY
U.S. OFFICE OF PERSONNEL MANAGEMENT

before the

SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT
INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

on

FUNDING OF POST-RETIREMENT HEALTH BENEFITS FOR EMPLOYEES OF THE
UNITED STATES POSTAL SERVICE

AUGUST 6, 2009

Chairman Carper, Senator McCain, and Members of the Subcommittee:

I appreciate this opportunity to provide the Office of Personnel Management's (OPM's) views regarding the funding of Federal Employee Health Benefits (FEHB) for retired employees of the Postal Service. We understand there are challenges facing the Postal Service in meeting the financial obligations for the costs of health insurance for current and future retirees. Therefore, we welcomed the introduction of S. 1507, which is intended to provide relief to the Postal Service in meeting its obligations to fund its share of retiree health benefits costs.

Background

Subject to the same qualifying criteria that apply to all Federal retirees, Postal employees are permitted to continue their FEHB coverage after retirement. The Postal Service is responsible for the Government contribution toward the retirees' FEHB premiums based on the portion of service accrued after 1971. Due to its unique status as an independent establishment, the Postal Service funds its pension costs differently than other Federal agencies. Prior to Public Law 109-435, the "Postal Accountability and Enhancement Act," enacted December 20, 2006, the employer contributions made by the Postal Service were on an annual "pay-as-you-go" basis. That is, each year the Postal Service paid the amount of FEHB Government premium contributions actually made that year for Postal retirees.

Public Law 109-435 established a funding mechanism where the Postal Service pays the employer share of post-retirement FEHB premiums for its employees in advance of when the actual payments are required. This pre-funding mechanism is similar in concept to the way that Federal agencies fund employee retirement costs under the Federal Employees' Retirement

System (FERS). Under FERS, employing agencies pay the cost of future retirement benefits into the Civil Service Retirement and Disability (CSRD) Fund while individuals are employed. Pre-funding retirement benefits assures there is sufficient money set aside for the retirement benefits to be paid without further agency contributions. In the same way, the purpose of pre-funding post-retirement FEHB premiums by the Postal Service is to ensure Postal employees will have employer funding available for their health insurance after retirement.

Public Law 109-435 also established a new Postal Service Retiree Health Benefit Fund (PSRHB), administered by OPM, to provide for transfer from the CSRD Fund to the PSRHB Fund certain specified surpluses related to the Civil Service Retirement System. This, plus an amount held in escrow as a result of prior legislation (Public Law 108-18), established an initial balance in the PSRHB to pre-fund the post-retiree health benefit costs for the Postal Service.

Public Law 109-435 established separate Postal payment structures through Fiscal Year 2016 and created a different payment structure thereafter. During the initial transition period, which continues through Fiscal Year 2016, the Postal Service will make the annual “pay-as-you-go” costs for current Postal retirees. The Postal Service will also make annual payments into the PSRHB in amounts specified by 5 U.S.C. 8909a(d)(3)(A) that range from \$5.4 to \$5.8 billion per year.

Beginning with Fiscal Year 2017, a different structure is implemented. First, the “pay-as-you-go” costs will no longer be paid directly from the Postal Service, but will be paid from the Fund. The Postal Service’s annual payments to the PSRHB will no longer be on the basis of a statutory schedule, but will be based upon the net amount of two parts. First, OPM actuaries will annually compute the amount, attributable to that year’s Postal employment, necessary to pay the future employer share of employees’ post-retirement FEHB premiums. That amount, referred to as the “normal cost payment,” will constitute the first portion of the annual payments for the current Postal employees. The second part will be based on an amortization schedule providing for the liquidation by September 30, 2056, or within 15 years, whichever is later, of any liability or surplus including interest. However, while the law makes provision for liquidation of either a surplus or unfunded liability, current projections are that, for the foreseeable future, there will be a substantial unfunded liability, which will result in an increase required for the post-Fiscal Year 2016 annual Postal Service payments.

The Postal Service Inspector General’s Report

You specifically requested that we address the retiree health funding issues raised in the recent report from the Postal Service’s Office of Inspector General (OIG) entitled “Estimates of Postal Service Liability for Retiree Health Care Benefits” (Report Number ESS-MA-09-001). Our views differ from the conclusions in that report, and I will explain why we believe our conclusions are sound.

The Postal OIG position is based upon a study by the Hay Group, which used different assumptions from those used by OPM. In particular, the Hay report takes issue with the health benefits trend assumption used by OPM in its valuation. The most significant difference

between the two views is that the Postal Service OIG assumes health insurance costs will increase at 5 percent per year, a lower rate than our current estimate of 7 percent.

We believe OPM's 7 percent trend is reasonable and appropriate. This assumption is based on careful consideration of historical trends of the FEHB Program. The FEHB Program differs from other retiree medical programs in several respects. Most retiree medical plans are stand-alone, with active employees covered under a different program. In the FEHB Program, retirees and employees are covered under a single program. Participation in Medicare is also a requirement in many retiree medical plans, although this is not the case in the FEHB Program.

In the Postal-OIG report, Hay selected a 5 percent trend based on a survey of ultimate trend rates used in the valuation of public and private sector retiree medical plans. Hay used an average ultimate trend rate projection based on substantially higher trend rates in the initial years, graded down to 5 percent in the later years. However, Hay's assumption as applied to the Postal Service appears to use a level 5 percent assumption even in the initial years of its projection.

Last week, the Postal Regulatory Commission (PRC) released a report on this issue prepared by Mercer Health & Benefits, a major private sector consulting firm in the field of health and benefits. In its valuation for the PRC, Mercer applied a variable select and ultimate trend rate, with increases higher than 7 percent until 2016, and lower thereafter. Use of the Mercer select and ultimate trend assumption is a reasonable approach and produces results that are similar to the level 7 percent trend assumption used by OPM. The Mercer report finds the OPM approach reasonable and states that "a 7% trend rate or higher would be a reasonable trend assumption and is indeed consistent with the historical results achieved."

In summarizing the Hay projection, the PRC report notes "Mercer considers a selection of a static trend rate of 5% for the entire valuation to be too much reliance on a recent occurrence where it is known that reserve reductions have been incorporated in the overall increase." That is, reserve funds have been used to hold down recent premium increases, and this has contributed to recent trend rates being lower than historical averages. The Mercer report went on to state that "[i]n short, we deem the static 5% trend assumption for all years to be optimistic and not likely a best estimate assumption."

With regard to income return on investments, both OPM and Hay employ an assumed discount rate of 6.25%. However, had Hay applied the same methodology in selecting a discount rate for their analysis as they did for their trend assumption, they should have used something substantially less than the 6.25 %. A lower discount rate would have resulted in a larger liability. We believe it is extremely important to make and apply assumptions consistently.

Potential Legislative Changes

Under current law, the selection of assumptions has no effect until 2017. The Postal Service funding for its retiree medical costs is established in statute, and it must pay according to a fixed schedule, plus the “pay-as-you go” costs for its retiree FEHB Program premiums.

Beginning in 2017, the “pay-as-you-go” premiums are paid from the PSRHB and the Postal Service must pay the accruing “normal cost” of retiree health benefits for its employees plus an amortization of its unfunded liability as determined by OPM. OPM’s determination of these amounts will be based on actual cost experience and Postal populations through that date – not on determinations made today.

OPM has no objections to legislative changes that provide for a solution in a manner that does not jeopardize the funding for employee and retiree benefits. S. 1507 meets that requirement. In other words, it is our view that S. 1507 would provide temporary relief to the Postal Service in a financially responsible manner. It provides that the Postal Service would begin paying the “normal cost” for its employees today, along with a stream of payments that represents the amortization of the existing unfunded liability.

Under the bill, the “pay-as-you-go” costs of FEHB premiums for Postal retirees would immediately begin to come from the PSRHB. During the period from Fiscal Year 2009 through Fiscal Year 2019, the Postal Service would pay the “normal-cost” of retiree health benefits for its employees, plus specified scheduled payments that represent payments toward the existing unfunded health benefits liability. The specified schedule of payments would be constructed to provide the Postal Service financial relief in the early years, but the Postal Service would have to pay more in the later years to make up for the lower initial payments. Beginning in Fiscal Year 2020, the Postal Service would pay the “normal cost” of retiree health benefits for its employees, plus a 40-year level amortization of the remaining unfunded liability for future retiree FEHB premiums. It is estimated that the net effect would be reduced Postal Service payments for the period through Fiscal Year 2013. While this is a temporary reprieve, it would provide additional time to allow the Postal Service to develop longer term solutions to the financial viability challenges it faces.

Thank you for the opportunity to represent Director Berry on this important issue. I would be happy to answer any questions.

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Federal Financial Management,
Government Information, Federal Services, and
International Security, Committee on Homeland Security
and Governmental Affairs, U.S. Senate

For Release on Delivery
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U.S. POSTAL SERVICE

**Restructuring Urgently
Needed to Achieve
Financial Viability**

Statement of Phillip Herr, Director
Physical Infrastructure Issues



August 6, 2009

G A O
Accountability · Integrity · Reliability

Highlights

Highlights of GAO-09-958T, a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

The U.S. Postal Service's (USPS) financial condition has worsened since GAO testified before this Subcommittee last January, with the recession and changing mail use causing dramatic declines in mail volume and revenues despite postal rate increases. USPS expects these declines to lead to losses and cash shortfalls even if ambitious cost-cutting is achieved.

Mail use has been changing over the past decade as businesses and consumers have moved to electronic communication and payment alternatives. Mail volume peaked in 2006, and USPS expects that much of the lost volume will not return after the recession is over.

USPS's business model has relied on growth in mail volume to cover costs, but USPS has not been able to cut costs fast enough to offset the accelerated decline in mail volume and revenue. Thus, GAO added USPS's financial condition to the High-Risk List in July 2009.

This testimony (1) updates USPS's financial condition and outlook and explains GAO's decision to place USPS's financial condition on the High-Risk List and (2) discusses the need for USPS to restructure and presents options and actions that USPS can take. It is based on GAO's past and ongoing work.

View GAO-09-958T or key components. For more information, contact Phillip Herr at (202) 512-2834 or herrp@gao.gov.

U.S. POSTAL SERVICE

Restructuring Urgently Needed to Achieve Financial Viability

What GAO Found

USPS's financial condition and outlook continue to deteriorate with a worsening outlook for mail volume and revenue. USPS now projects mail volume to decline to 175 billion pieces in fiscal year 2009, a 13.7 percent decrease from fiscal year 2008. As a result, USPS projects for fiscal year 2009:

- a net loss of \$7 billion, even if it achieves record savings of more than \$6 billion;
- an increase in outstanding debt to a total of \$10.2 billion; and,
- despite this borrowing, an unprecedented \$1 billion cash shortfall.

Thus, USPS expects to generate insufficient cash to fully make its mandated payment of \$5.4 billion for future retiree health benefits due by September 30, 2009.

When GAO added USPS's financial condition to its high-risk list, it reported that USPS urgently needs to restructure to address its current and long-term financial viability. The short-term challenge for USPS is to cut costs quickly enough to offset the unprecedented volume and revenue declines, so that it can cover its operating expenses. The long-term challenge is to restructure USPS operations, networks, and workforce to reflect changes in mail volume, use of the mail, and revenue. Accordingly, GAO called for USPS to develop and implement a broad restructuring plan—with input from the Postal Regulatory Commission and other stakeholders and approval by Congress and the administration—that includes key milestones, time frames for actions, identifies what steps Congress and other stakeholders may need to take, and addresses how USPS plans to:

- realign postal services, such as delivery frequency, delivery standards, and access to retail services, with changes in the use of mail by consumers and businesses;
- better align costs and revenues, including compensation and benefit costs;
- optimize its operations, networks, and workforce;
- increase mail volumes and revenues; and
- retain earnings, so that it can finance needed capital investments and repay its growing debt.

To achieve financial viability, USPS must align its costs with revenues, generate sufficient earnings to finance capital investment, and manage its debt. Key restructuring actions that USPS could take include the following:

- reduce compensation and benefit costs,
- consolidate retail and processing networks and field structure, and
- generate revenue through new or enhanced products.

USPS has proposed two actions that would require congressional approval: 1) changing funding requirements for retiree health benefits and 2) reducing mail delivery from 6 to 5 days. USPS's financial viability is critical as it plays a vital role in the U.S. economy and in providing postal services to all communities.

Mr. Chairman and Members of the Subcommittee:

I am pleased to participate in this hearing on the U.S. Postal Service's (USPS) financial condition. My statement will (1) provide updated information on USPS's financial condition and outlook and explain our recent decision to place USPS's financial condition on our High-Risk List and (2) discuss the need for USPS to restructure and present options and actions USPS can take to address both its current and its long-term challenges.

My statement is based upon on our past and ongoing work, including our report adding USPS to our High-Risk List,¹ and our continued monitoring of USPS's financial condition and outlook. We conducted our work for this statement from May 2009 to August 2009 in accordance with all sections of GAO's quality assurance framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

USPS's Financial Condition Continues to Deteriorate, and We Have Added Its Financial Condition to Our High-Risk List

USPS's financial condition and outlook have continued to deteriorate since I testified before this Subcommittee last January, as the prospects for both mail volume and revenue worsen. USPS currently projects fiscal year 2009 mail volumes of about 175 billion, which would be 28 billion fewer pieces than fiscal year 2008. This 13.7 percent decline, triple the 4.5 percent decline for fiscal year 2008, would be the largest percentage decline since the Great Depression. As a result, USPS is projecting the following for fiscal year 2009:

- a net loss of about \$7 billion, even if USPS achieves record cost savings of about \$6 billion;
- an increase in outstanding debt to a total of \$10.2 billion; and
- despite this borrowing, an unprecedented \$1 billion cash shortfall.

USPS has reported that it does not expect to generate sufficient cash from operations to fully make its mandated fiscal year 2009 payment of \$5.4

¹GAO, *High-Risk Series: Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, GAO-09-937SP (Washington, D.C.: July 28, 2009).

billion for future retiree health benefits that is due by September 30, 2009—even if it receives legislative relief from these payments.

USPS also expects continued financial problems in fiscal year 2010 (see table 1), including a similar deficit and a larger cash shortfall, even if it achieves larger cost savings. Under this scenario, USPS would increase its outstanding debt by an additional \$3 billion, which would bring its total debt to \$13.2 billion at the end of fiscal year 2010—only \$1.8 billion less than its \$15 billion statutory limit.²

Table 1: USPS's Financial Results and Projections, Fiscal Years 2006 through 2010

Dollars in billions

Fiscal year	Net income (loss)	Year-end cash	Year-end debt
2006	\$0.9	1.0	2.1
2007	(5.1)	0.9	4.2
2008	(2.8)	1.4	7.2
2009 (projected)	(7.0)	(1.0)	10.2
2010 (projected)	(7.0)	(4.5)	13.2

Source: USPS.

Note: Cash projections assume cost savings of \$5.9 billion in 2009 and \$8 billion in 2010 and no relief from retiree health benefits payments.

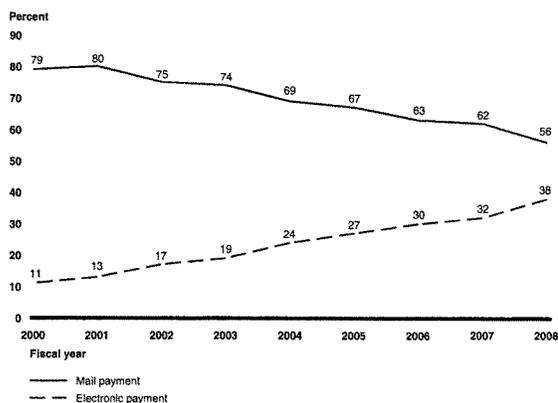
USPS's projected cost cutting of about \$6 billion for this fiscal year is much larger than its previous annual cost-cutting targets, which have ranged from nearly \$900 million to \$2 billion since 2001. However, USPS projects cash shortfalls because cost cutting and rate increases will not fully offset the impact of mail volume declines and other factors that increase costs—notably semiannual cost-of-living allowances (COLA) for employees covered by collective bargaining agreements. Compensation and benefits constitute close to 80 percent of USPS's costs—a percentage that has remained similar over the years despite major advances in technology and the automation of postal operations. Also, USPS continues to pay a higher share of employee health benefit premiums than other federal agencies. Finally, USPS has high overhead (institutional) costs that are hard to change in the short term, such as the costs of providing universal service with 6-day delivery, a network of 37,000 post offices and retail facilities, and a delivery network of more than 149 million addresses.

²39 U.S.C. § 2005(a).

Last week, we added USPS's financial condition to the list of high-risk areas needing attention by Congress and the executive branch to achieve broad-based transformation. We reported that USPS urgently needs to restructure to address its current and long-term financial viability. USPS has not cut its cost structure fast enough to offset accelerated declines in mail volume and revenue. To achieve financial viability, USPS must align its costs with revenues, generate sufficient earnings to finance capital investment, and manage its debt.

We also noted that mail use has been changing over the past decade as businesses and consumers have moved to electronic communication and payment alternatives. For example, the percentage of household bills paid by mail is declining while the percentage paid electronically is increasing (see fig. 1). Mail volume peaked in 2006, and its decline has accelerated with the economic recession, particularly among major mail users in the advertising, financial, and housing sectors. Mail volume has typically returned after recessions, but USPS's 5-year forecast suggests that much of the lost volume will not return.

Figure 1: Percentage of Household Bill Payments Made by Mail and Electronically, Fiscal Years 2000 through 2008



Source: USPS.

Addressing USPS's financial viability is critical because USPS plays a vital role in the U.S. economy and provides postal services to all communities. Moreover, it is the largest civilian federal agency, employing about 633,000 career and 94,000 noncareer employees and operating a total of about 38,000 facilities nationwide.

USPS has had difficulty reducing costs in two areas because of limited flexibility. First, as we have testified, USPS needs to make changes to its compensation and benefits, which compose about 80 percent of its costs. To do so, USPS will need to negotiate with its four largest unions on collective bargaining agreements that will expire in 2010 and 2011. These agreements cover about 85 percent of postal employees and include items such as cost-of-living adjustments, work rules, and layoff protections. USPS will also need to consult on compensation and benefits with three management associations representing most of its other employees. USPS has a window of opportunity to reduce the cost and size of its workforce through attrition and a large number of upcoming retirements, thereby also minimizing the potential for layoffs.

Second, as we have also testified, USPS needs to optimize its retail, mail processing, and delivery networks to eliminate growing excess capacity and maintenance backlogs, reduce costs, and improve efficiency. USPS has made limited progress in optimizing its networks and must work with employees, local communities, and others affected by these changes to address resistance to closing and consolidating facilities.

Broad Restructuring Needed to Help USPS Achieve Financial Viability

USPS needs to address weaknesses in its business model, which has relied on growth in mail volume to cover costs and enable USPS to be self-supporting. Despite increasingly ambitious cost-cutting efforts, USPS has not been able to cut costs fast enough to offset the accelerating declines in mail volume and revenue. For these reasons, we concluded that restructuring action is needed in multiple areas, including possible action and support by Congress, since no single change will be sufficient to address USPS's challenges.

- The short-term challenge for USPS is to cut costs quickly enough to offset the unprecedented volume and revenue declines, so that it can cover its operating expenses.
- The long-term challenge is to restructure USPS's operations, networks, and workforce to reflect changes in mail volume, use of the mail, and revenue.

We also identified key restructuring options and actions USPS could take, including the following:

1. Reduce compensation and benefit costs through

- *retirements*: About 162,000 USPS employees are eligible to retire this year, and this number will increase to almost 300,000 within the next 4 years.
- *early retirements*: About 150,000 USPS employees were recently offered voluntary early retirement, but fewer than 3 percent accepted.
- *lower benefit costs*: USPS pays a higher percentage of employee health benefit premiums than other federal agencies (80 percent versus 72 percent, respectively). In addition, USPS pays 100 percent of employee life insurance premiums, while other federal agencies pay about 33 percent.

2. Consolidate retail and processing networks

- Remove excess capacity in USPS's mail processing network, where processing capacity for First-Class Mail exceeds needs by 50 percent.
- Maximize use of lower-cost retail alternatives: A growing amount of USPS's retail revenue comes through alternative channels—for example, stamps are sold by mail, on the Internet, and at grocery stores.
- Reduce the network of 37,000 retail facilities, where maintenance has been underfunded for years, resulting in deteriorating facilities and a maintenance backlog.

3. Consolidate field structure: Review the need for 74 district offices and 9 area offices.

4. Generate revenue through new or enhanced products: Use USPS's pricing and product flexibility to maximize profitable mail volume.

Other options and actions that USPS has proposed that would require congressional approval include the following:

1. Change funding requirements for retiree health benefits: USPS has asked Congress to revise the funding requirements for its retiree health benefit obligation as it does not expect to make the full amount of its \$5.4 billion retiree health benefit payment at the end of this fiscal year because of a cash shortage.

2. Realign delivery services with changing use of mail: USPS has asked Congress to allow it to reduce delivery from 6 days to 5 days per week as revenue and mail volume have declined. Specifically, USPS's revenue per delivery has declined 20 percent from fiscal year 2000 to fiscal year 2009, paralleling a comparable decline in the number of mail pieces delivered per address.

Accordingly, we have called for USPS to develop and implement a broad restructuring plan—with input from the Postal Regulatory Commission and other stakeholders, and approval by Congress and the administration—that includes key milestones and time frames for actions, addresses key issues, and identifies what steps Congress and other stakeholders may need to take. We stated that the restructuring plan should address how USPS plans to

-
- realign postal services, such as delivery frequency, delivery standards, and access to retail services, with changes in the use of mail by consumers and businesses;
 - better align costs and revenues, including compensation and benefit costs;
 - optimize its operations, networks, and workforce;
 - increase mail volumes and revenues; and
 - retain earnings, so that it can finance needed capital investments and repay its growing debt.

In addition, GAO has initiated a review, as required by the Postal Accountability and Enhancement Act of 2006,³ to evaluate these and other options and actions for the long-term structural and operational reforms of USPS.

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

**GAO Contact and
Staff
Acknowledgments**

For further information regarding this statement, please contact Phillip Herr at (202) 512-2834 or herrp@gao.gov. Individuals who made key contributions to this statement include Shirley Abel, Teresa Anderson, Gerald P. Barnes, Josh Bartzen, Elizabeth Eisenstadt, Paul Hobart, Kenneth E. John, Hannah Laufé, Josh Ormond, Travis Thomson, and Crystal Wesco.

³Pub. L. No. 109-435, § 710 (Dec. 20, 2006).



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Subcommittee on Federal Financial Management,
Government Information, and International Security
August 6, 2009

Good morning Chairman Carper, Ranking Member McCain (full committee Ranking Member Collins) and other distinguished members of the Sub-Committee. My name is Fred Rolando. I am the President of the National Association of Letter Carriers, which represents more than 300,000 active and retired letter carriers nationwide. Thank you for inviting me to testify.

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This is my first time testifying before the Senate. Although I am now in my fifth week serving as the NALC's President, I am in my 31st year as a postal employee and have served more than 20 years as a union officer. I have seen the Postal Service thrive and I have seen it struggle through some very difficult times, but I have never seen a crisis like the one we are facing today.

Because the worst recession in decades began in some of the most mail-intensive industries in our economy – housing, real estate and banking – mail volume has plummeted over the past 18 months. In fact, volume is expected to drop by 30 billion pieces this year -- the worst decline since the 1930s. This comes at a time when the Internet had already begun to divert key segments of the mail,



especially invoices and bill payments. The PAEA was designed to help the Postal Service deal with the public's increased internet use by giving it more flexibility to compete in competitive services that continue to grow. I believe that more and more innovative ways of using the mail and the network are within reach. However, when this Committee led the charge for Postal Reform and successfully passed it, one of the key components was to prefund retiree health benefits. Your intent to shore up any unfunded liability for our retirees was commendable. Nevertheless, the crippling economy has forced us to re-study the unfunded liability a little closer and it is now even more clear that the aggressive schedule of payments is only part of the problem. I will focus first on the short-term issues we are faced with and then move into the long-term strategy.

The requirement for the Postal Service to pre-fund the massive 75 year liability over just a 10 year period is no longer feasible. No other company in America is required to prefund future retirement benefits at all, much less at such an accelerated pace. The exorbitant cost of prefunding – \$5.4 billion this year – accounts for most of the \$6-7 billion that the USPS has indicated it will lose this year.

As a reaction to a possible 15% drop in mail volume this year and in view of a potential year-end cash flow crisis due to the excessive cost of the prefunding schedule, the Postal Service has put forth a blueprint for dismantling its core business with service cuts and downsizing. Its *branch and station optimization program* and the 5-day delivery study are part of that response. As Congress reviews these developments, it should ensure that the Postal Service does not make structural decisions that will do more harm than good over the long run. Down-sizing to meet depression-level demand without considering the long-term impacts on the ability of the Postal Service to meet new demands when the economy recovers would be short-

sighted. Short-term savings that undermine the Postal Service's capacity to offer new services and to take advantage of future growth opportunities (such as Vote by Mail, e-commerce deliveries, and the other potential uses of our incomparable delivery network) would be self-defeating.

Indeed, over the long run, rather than downsizing the Postal Service we should be looking at how we can better use its unique network to expand business opportunities in new ways. We should experiment with utilizing our "last mile" advantage in areas beyond traditional mail, whether that means conducting the census or national polling, delivering medications or helping law enforcement in any number of ways. There are endless opportunities for the Postal Service, but it will never be able to take advantage of them if we begin closing our doors and limiting our services to our customers as a knee jerk reaction to a temporary and fixable problem.

I would like to commend this sub-committee for the attention and dedication it has given to the Postal Service and your obvious commitment to see it survive this downturn in the economy. That is why I believe there has got to be a two-tiered legislative approach. The first, as I have mentioned already, must address the cash-flow problems associated with the pre-funding payment. I believe that H.R. 22 and the OMB proposal both do this effectively. Members of this committee and every stakeholder in the postal industry have discussed and debated at length the pending CBO "score" of both of these proposals. So I will not get into that except to say that when a relief bill as important to the country as this one does not cost the taxpayer or increase the federal deficit a single cent, it seems criminal to me that there is no way to bring it to Congress for consideration.

I would be remiss if I did not place emphasis on this next statement - - using the short-term emergency relief legislation as a last minute vehicle during a markup session to address long-term labor practices is short sighted, unbalanced in its nature, and is an inappropriate vehicle for such an important and labor specific issue. I sincerely wish I had this opportunity to testify before this committee took such an amendment under consideration. At the very least I would have liked to discuss the factual information behind it, that was discussed inaccurately at the Committee's markup.

In any event, the NALC is completely opposed to the amendment offered by Senator Coburn. S. 1507 was intended to responsibly address the Postal Service's financial challenges. However, inclusion of this amendment serves only to upset the balanced collective bargaining procedure established by President Nixon nearly 40 years ago, which was incorporated into Postal Reorganization Act of 1970. During those 40 years numerous interest arbitrations have been conducted in accordance with the existing provisions of the Act. I can assure you that in resolving critical collective bargaining impasses, the arbitrators and the parties have consistently examined and taken into account the financial condition of the Postal Service, along with many other relevant factors.

Once this amendment issue is worked out and the immediate short-term relief is passed it will be crucial for Congress to begin looking at ways to strengthen the Postal Service for the long run. At a minimum, it must act to ensure that we are not right back here in a year or two dealing with the same issues. Long-term reforms will be critical to not only the survival of the Postal Service, but the continued growth of the broad industry that relies on its network. Congress can take the first step by reforming the retiree health prefunding provisions in the law. The current schedule of prefunding payments – designed to fund 80% of a 75-year liability by

adopted by OPM to implement the prefunding policy discriminate against the Postal Service and significantly increase its costs.

As the USPS Inspector General confirmed in a study released July 22, the OPM has inflated the cost of future postal retiree health benefits by tens of billions of dollars by using an unreasonable assumption about the long-term growth rate of health care costs under FEHBP. While most Fortune 1000 companies and the Centers for Medicare and Medicaid Services use a higher rate of cost inflation in the short run (7%-9%) and a lower rate in the long run (5%), OPM uses a 7% assumption in both the short and long term. This substantially raises USPS prefunding costs -- by some \$3.5 billion annually according to the USPS OIG (see http://uspsoidg.gov/foia_files/ESS-MA-09-001R.pdf). OPM says it uses this rate for all its accounting of FEHBP costs and does not support a "carve-out" for the Postal Service. Yet the law has already carved out the Postal Service by making it the only agency in the government required to prefund retiree health insurance. While NALC supports prefunding our retiree health benefits, we do not support being overcharged for it.

The OPM also severely short-changed the Postal Service when it set up the Postal Retiree Health Benefit Fund by grossly underestimating the "postal surplus" in the CSRS pension plan, a surplus that was transferred to the Retiree Fund in 2007. Indeed, a significant portion of the cost of pension benefits earned by employees of the taxpayer-funded Post Office Department was shifted to the rate-payer funded U.S. Postal Service in this transaction. And for employees with both POD and USPS service, the OPM unfairly assigned the high-cost years of service under the CSRS benefit formula to the USPS instead of attributing the cost equitably. Together these decisions cost the Postal Service tens of billions of dollars that could have and should been used to fund the Postal Service Retiree Health Benefits Fund (see *Actuarial*

Report in Support of U. S. Postal Service Request to the Board of Actuaries of the Civil Service Retirement System, The Hay Group, January 22, 2004.)

As things now stand, the Postal Service finds itself in the bizarre position of using scarce borrowing authority that might better be used to weather the worst economic crisis in 80 years to instead borrow money from the Treasury, only to hand it over to the OPM where it will be placed into a retiree health fund that already has \$32 billion in it. In this economic environment, no company would make such an absurd allocation of resources. Indeed, two thirds of Fortune 1000 companies do not prefund at all, and those that do are likely to suspend prefunding payments until the recession ends (see pages 13-16, ***Accounting for Pensions and Other Post Retirement Benefits 2008: Reporting Under FAS 87 and FAS 106 Among the Fortune 1000, A Watson Wyatt Survey Report***).

So, as Congress begins to look at what the larger more comprehensive reform legislation should look like, you should resist radical reforms to the Postal Service -- like 5-day delivery, massive closures and consolidations, and interference in the carefully balanced and successful collective bargaining process -- in favor of practical reforms that will stabilize the Postal Service's finances and give it time to take advantage of the new commercial freedoms provided by the PAEA when the economy recovers. I urge you to look at the overall methodology of the pre-funding payments as well as the network opportunities sitting before the Postal Service. We do not need to destroy the Postal Service to save it.

Thank you for this opportunity to testify here today, I would be happy to answer any questions you may have.

APWU CONGRESSIONAL TESTIMONY

**American
Postal
Workers
Union,
AFL-CIO**

WILLIAM BURRUS
PRESIDENT

Before The
SUBCOMMITTEE ON FEDERAL
FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION,
FEDERAL SERVICES AND
INTERNATIONAL SECURITY

The U.S. Postal Service in Crisis

TESTIMONY OF WILLIAM BURRUS
PRESIDENT
AMERICAN POSTAL WORKERS UNION,
AFL-CIO

August 6, 2009

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01019

Mr. Chairman and Members of the Subcommittee: Thank you for providing the American Postal Workers Union the opportunity to testify on behalf of the members that we are privileged to represent.

The Postal Service is in midst of a severe financial crisis, caused in large part by the nation's economic difficulties and the resulting decline in mail volume – and compounded by the oppressive burden of pre-funding retiree healthcare costs.

The interest of the Chairman and this subcommittee in drafting legislation that would mitigate the pre-funding requirement was welcomed by the postal community. We were aware of the concerns associated with “scoring” such legislation, and looked to the administration and the Chairman for their assistance in achieving a reasonable solution.

The introduction of the Postal Service Retiree Health Benefits Funding Reform Act of 2009 (S. 1507) gave us hope that legislation would soon be enacted that would provide substantial short-term relief to the cash-strapped agency. Progress was well underway, until the Committee on Homeland Security and Governmental Affairs voted to amend S. 1507.

One amendment, which requires arbitrators in the negotiation of postal labor agreements to “*take the financial health of the Postal Service into account*,” drastically changed the focus of the committee's efforts from assisting a troubled industry to an assault on postal workers. It is a mean-spirited amendment that is intended to shift the payment of the employer's share of retiree healthcare liabilities to employees. The committee did not consider imposing a surtax on postage rates to pay the unfunded liability, but adopted an amendment that would, in effect, assess a tax on postal workers.

Let us be clear, the Postal Service's obligation to pay \$68 billion over an 8-year period was the product of the Postal Accountability and Enhancement Act of 2006 (PAEA) – which was endorsed by senators who serve on this subcommittee. The authors of the PAEA did not anticipate the recession that would soon grip the nation, and failed to appreciate the impact it would have on mail volume and postal revenue. Instead, they erroneously identified e-mail and the Internet as the most serious threats to the viability of the Postal Service.

One goal of the PAEA was to force postal management to reduce its network and labor force; it sought to accomplish this objective by squeezing postal finances to such an extent that management was left with no other options. The advocates of postal “reform” imposed on the Postal Service the burden of pre-funding retiree healthcare payments, exacerbating the crisis. By requiring payments of \$14 billion over the last two years – with more payments to come – the supporters of the PAEA share the blame for the Postal Service's inability to ride out the economic crises.

S. 1507 would have alleviated the problem, but the amendment – which is not at all germane to the subject of the main legislation – would subvert the collective bargaining process. By endorsing the amendment, the Committee has declared war on postal workers.

When I began my government career 55 years ago, postal employees labored under the absolute control of Congress, and suffered from serious neglect. After years of struggle, in 1971, the Postal Service was converted to an independent agency of the federal government, and postal workers were granted the right to organize and engage in collective bargaining. Negotiations over the following 38 years have resulted in postal wages that have tracked the Consumer Price Index.

Arbitrator Clark Kerr, a renowned economist, issued a seminal decision in 1984 that interpreted “comparability,” the standard for postal wages. Since then, the parties have been guided by his decision. The recent action of the Committee would jettison this history, and require the unions and management to embark on a contentious journey aimed at applying competing standards.

In the abstract, supporters can make the case that requiring arbitrators to consider the financial health of the Postal Service is a reasonable standard that should be applied universally. But one only has to look at recent history to see that such application has been selective. Wall Street executives who nearly bankrupted the financial institutions of our country awarded themselves indecent bonuses from the treasuries of the companies they nearly destroyed, and massive bailouts were funded by the taxpayers. If there was ever a time to consider financial health, one would think the Wall Street debacle would have been it.

The financial health of the USPS *has* been a consideration in the arbitration of every contract, but the amendment is intended to elevate this factor above all others. It would leave workers at a severe disadvantage, and make the bargaining process more subject to manipulation. One does not have to be a rocket scientist to understand the purpose: Clearly, the authors of the amendment hope it will constrain wages and benefits.

The amendment to S.1507 is not an effort to be fair or reasonable. It is an attempt to turn back the clock and penalize postal employees. And penalize them for what? For abiding by the rules and managing to attain a middle-class wage. Binding arbitration was intended to replace the constitutional right of workers to withhold their labor. A full range of issues have been presented to contract arbitrators, including the financial health of the Postal Service – without the heavy hand of Congress.

I repeat: This is a mean-spirited amendment that undermines the collective bargaining process. The American Postal Workers Union will oppose S. 1507 because we believe its enactment would be disastrous for the American public and for postal employees.

The crisis facing the United States Postal Service is real, and this union offers positive solutions. The amendment to S. 1507 is not positive, and it will not solve the problems of the United States Postal Service.



**NATIONAL ASSOCIATION OF POSTMASTERS
OF THE UNITED STATES**

TESTIMONY OF

DALE GOFF

PRESIDENT

POSTMASTER OF COVINGTON, LA

BEFORE THE

SENATE SUBCOMMITTEE ON FEDERAL FINANCIAL
MANAGEMENT, GOVERNMENT INFORMATION,
FEDERAL SERVICES, AND INTERNATIONAL
SECURITY

WASHINGTON, DC

AUGUST 6, 2009

Mr. Chairman, members of the Committee, I am privileged to share with you the thoughts of the 40,000 members of the National Association of Postmasters of the U.S. regarding the fiscal and operational difficulties confronting the U.S. Postal Service. In all likelihood, this will be my final appearance before the Committee; I will be leaving office at the end of the year. I would like to thank the Chairman and Senator Collins for the courtesies extended to me during my tenure, and for carefully and constructively considering NAPUS' views on postal related issues.

Over the years, members of this committee have addressed Postmasters about the importance of a universal Postal Service, and our collective responsibility to ensure its continued vitality. I recall Chairman Lieberman's 2005 not-so-tongue-in-cheek observation, at a NAPUS Leadership Conference: The U.S. Constitution states congressional authority to establish post offices before referencing the power to create a court system, declare war, or build a navy. I do not presume that national defense or a federal judiciary is not paramount; nevertheless, a healthy government-run Postal Service continues to be in our national interest, fostering commerce and communications.

The Committee has consistently reinforced this perspective by conducting constructive oversight and reporting essential legislation. A prime example was enactment of the 2006 Postal Reform Act. The measure equipped the Postal Service with a variety of tools to respond to a shifting economy and evolving mailer preference. However, the current state of affairs is considerably more daunting than the environment preceding enactment of Postal Reform. In 2006, Postal revenue surpassed expenses and mail volume peaked at 213 billion pieces; since then, the recession has wreaked havoc on the \$900 billion postal economy, collapsing mail volume and decimating postal revenue. NAPUS believes the current 2½-year-old recession is the fundamental reason behind a troubled postal economy. Major sectors of the U.S. economy collapsed, and with it a substantial part of mail volume. In fiscal years 2005, 2006 and 2007, mail volume stabilized at over 210 billion pieces. However, as the economy tanked in mid-2007, mail volume began its steep decline, primarily affecting marketing mail – mail that is economy-driven. In my view, the economy played a pivotal role in influencing the Government Accountability Office's

restoration of the Postal Service's High-Risk designation. Please recall that GAO's January 2007 removal of the "High Risk" designation coincided with postal cost-cutting, implementation of a transformation plan, enactment of postal reform, and pre-funding its retiree health liability. In the subsequent 2½ years, the agency did not abate from cost-cutting, pre-funding, and implementing reform. The crucial change was the economy, and, as a result, the falling economy hampered the Postal Service's ability to maintain the required pre-funding schedule. In 2006, the schedule to pre-fund the health benefits was challenging; in 2009, it is suicidal.

However, I would respectfully caution the Postal Service and postal observers against making apocalyptic divinations about the agency and of universal service. In addition to being speculative, such assertions undermine employee morale and depress product demand, creating a self-fulfilling prophesy. Rather, the Postal Service should constructively engage its workers, especially its frontline managers, to craft a coherent and responsible plan for the future, and transmit that plan responsibly. Few and far between Postal Service-employee get-togethers only go through motions; Postmaster views are dismissed or completely ignored. We ought to collaborate, not work cross-purposes. I strongly urge the Postal Service and its Board of Governors to conduct and be committed to bi-weekly high-level meetings with their employee associations to help chart a clear path for the future.

Despite the Postal Service's recession-induced revenue decline, the mailing public is still legally required to pre-fund future retiree health benefits at the rate set in the 2006, prior to the recession. Due to economic circumstances that are beyond the Postal Service's control, it is imperative that Congress enact emergency postal relief legislation now before the Senate and House. NAPUS agrees with the Chairman's characterization of S. 1507 as a refinancing plan, akin to a "mortgage modification." NAPUS fully understands that neither S. 1507, nor its House counterpart, H.R. 22, is a long-term answer to fundamental issues facing the Postal Service. However, without a refinancing plan, the next crucial steps may be rendered moot.

A component of the next legislative step ought to be statutory reconsideration of the Postal Service's retiree health liability. Today, we have a better understanding of the liability than the day reform legislation was finalized. In 2006, the Office of Personnel Management projected a liability of \$57 billion greater than one calculated by a recent Inspector General-commissioned analysis. Moreover, the Postal Regulatory Commission commissioned its own review and concluded the liability to be about \$35 billion less than the original OPM estimate. These differences have a tremendous impact on the fiscal health of the USPS. It could be a variation of up to \$4 billion per year in unnecessary and fiscally harmful payments. NAPUS urges the Committee to re-evaluate the Postal pre-funding schedule in light of this new analysis.

It is important to recognize that impulsive acts force us to embrace artificial solutions that may make matters far worse. I caution Postal management about the clamor to reduce the frequency of mail delivery from six to five days a week. I cite the 2003 Presidents' Commission Report warning that lessening deliver frequency may save money, but the Postal Service's "value to the nation would suffer." In addition, the Commission admonished us that "scaling back to a five-day delivery regimen could create difficult logistics, mail flow and storage problems." These thorny issues will confront Postmasters should five-day mail delivery come to fruition. I have relayed these deep concerns to Postal Headquarters, and now I share them with the Committee.

The Postal Service is presently engaged in a national review of its retail network, focusing on the closing or consolidation of branches and stations. Presently, the USPS has not indicated how many retail locations will be discontinued, or how much money will be saved. I commend the Congressional Research Service for its recent and useful overview of *Post Office and Retail Facilities Closures*. The report includes a detailed explanation of the differences among postal retail facilities. It is important to recognize the key differences between Post Offices and other retail operations – a Post Office is the basic organizational unit of the Postal Service, managed by a Postmaster; and stations and branches are subordinate to the Post Office. In addition, the CRS added an interesting

tidbit: Since 1970, the number of Post Offices declined by about 15%, while the number of stations and branches grew by over 25%.

Although the Postal Service's retail facility review does not appear to jeopardize Post Offices, NAPUS is attentive to a possible wayward gaze toward Post Offices serving rural and small communities. I would remind the Postal Service and the Committee of the PRC's 2008 Universal Service Obligations Report, which concluded that Postal Service would save only \$586 million if all small and rural Post Offices were shuttered. Such a misguided act would deny vast areas of this nation with accessible and affordable postal services, yet make no more than a dimple in the Postal Service's financial health. On a related note, NAPUS has been discussing with the Postal Services and the Postal Regulatory Commission, the agency's failure to follow rules and regulations relating to Post Office "temporary emergency suspensions". Many of these Post Office closures do not result from an "emergency", nor are they "temporary".

Returning to branch and station closings, Postmasters would manage proposed station and branch consolidations or closings. Therefore, community and employee involvement is essential in facility decision-making. As a practical matter, Postmasters will have to respond to community outrage, should their facility be targeted for closure. The realignment process must be transparent and cannot be an after-the-fact defense of the decision, nor can community input be merely cosmetic. Different communities have different postal needs, and a one-size fits all decision template would be disastrous. For example, post box service is paramount in some areas, while window service for "accountable mail" is a prime product in others. The Postal Service must ensure that communities will continue to have access to all postal products, and that surviving facilities will not be overwhelmed. At the same time, a steep decline in a physical Postal presence could lead to a further reduction in revenue generation.

As we move further along the legislative decision tree, changing consumer preferences and mailer behavior should not be ignored. The mail mix reflects this phenomenon. In

sensibly responding to these trends, we should not mimic Chicken Little; but, also, we should not emulate an ostrich. We live in dynamic cultural milieu, where there are significant generational and geographic preferences in communications and commerce. Electronic social networking is a growing phenomenon. Digital commerce is replacing hardcopy catalogues. Internet banking and electronic fund transfers are routine. Web-based periodicals are commonplace. What does this mean for the Postal Service? How should the Postal Service respond? Is contraction the only option? Or should Congress provide the Postal Service expanded opportunities to embrace the sprouting communications and commercial marketplace? Ossifying on the sidelines renders the Postal Service archaic and irrelevant, both now and the in future.

Postmasters strongly believe that there remains tremendous demand for a universal accessible Postal Service, reaching every community in this nation, no matter its size or location. Postal employees continue to be among the most trusted public employees and the Postal Service one of the most valued public institutions. Being a federal agency and performing inherently governmental functions should not disqualify the Postal Service from evolving with the market. Emerging legislation should liberate the Postal Service from entrepreneurial handcuffs that hamper its capability to effectively and quickly offer Americans 21st century products and services. The Postal Service must be able to use its physical presence in the far-flung corners of this country and high trust-value to be a kiosk for a diversity of traditional governmental and untraditional services. The Postal Service has yet to exploit its tremendous national retail footprint to partner with other governmental entities – national, state, and municipal – and associate with complementary private sector endeavors. For example, there is absolutely no reason why the Post Office should not be able to offer financial services to rural and small communities, or partner with major retailers to serve as an ordering outlet. However, to make the institution relevant to a generation of Americans who have traded in pens for keyboards, the Postal Service must also undergo structural reformation. These operational changes must permit its frontline workers to better serve the mailing public. On the other hand, the Postal Service should not undertake initiatives that effectively depress retail revenue. For example, its star-crossed decision to remove postal vending machines from

post office lobbies, and impeding the installation of automated postal centers in urban locations weakens lobby traffic, and drives away income. Closing stations and branches makes mechanical and automated revenue generators crucial to limiting lobby wait time. As a manager of a retail postal facility, I can assure you that the expectation of internet sales diminishing the need for local retail transactions was not met – 75% of all postal transactions continue to be made a postal retail facility.

Employee trust-holders, including Postmasters, play a key part towards a long-term plan for postal sustainability, promoting changes and making sacrifices. Postmasters, as well as other postal employees have contributed substantial sums in reduced compensation through increased health premium contributions over the past few years. In addition, many Postmasters have worked way beyond the normal workday – without additional compensation or staff – to ensure that mail is delivered, accepted and processed. And, Postmasters were compelled to relinquish an 80-year old leave program to help the Postal Service. For its part, Postal Headquarters must take a closer look at its own generous benefit package, and more aggressively put into effect a top down reorganization, to implement postal policies more efficiently, effectively and successfully.

Structural reform that prunes wasteful, unnecessary and counter-productive programs and policies will reap rewards for the Postal Service and its customers under all scenarios. NAPUS has long called for the *de-layering* of the Postal Service bureaucracy and redevelop along functional lines, rather than geographic ones. It continues to evade common sense to support a mammoth Washington-centric Postal infrastructure, on top of 8 Postal Areas, and 74 Postal Districts. This structure breeds inefficiency and the perpetuation of costly programs that interfere with, rather than enhance productivity and creativity. Postmasters believe that there are savings and visions to be realized in the retail network through the elimination of meaningless and counterproductive operational requirements. These pointless prerequisites add substantial work hours and the accompanying costs associated with those added hours. For example, the USPS “Mystery Shopper Program”, which is a privatized operation, is a waste of postal revenue. PRC Chairman Dan Blair referred to the program as “not statistically valid”; consequently, it is

not used by the Commission as part of its annual compliance determination. The program is used to harass local postal employees, including Postmasters, and use its derived erroneous data as the basis for arbitrary disciplinary decisions. One bizarre aspect of the Mystery Shopper Program is that the program penalizes postal employees who fail to successfully push a “premium” postal service, in lieu of, for example, “first class mail” or “parcel post” – even when these postal services are requested by the postal customer. The Mystery Shopper Program is a disservice to postal customers, a waste of postal dollars, and harms local postal employee morale. It should be terminated.

In addition, Postal Districts should be paired down beyond 74; they contribute significant unnecessary costs to retail operations. Many of their make-work directives do not add value to postal products, and do nothing to improve customer service. In fact, many of the directives diminish service. In order to justify their existence, the Districts require Postmasters to participate in pointless teleconferences and file worthless reports, created simply to generate work for District staff. As a result of this waste of time and money, many Postmasters and their staffs must request overtime and/or compromise the staffing needs of their local post offices. For example, Postmasters file a “tracking report” – get this – to track if the Postmasters are completing other requested reports. Talk about folly and redundancy.

In order to extract more savings out of retail operations, I encourage the Postmaster General to negotiate with our unions about cross-craft training. An agreement in this area would augment the skills of individual postal employees, and enable Postmasters to more effectively utilize the talents of their employees. We would be able to calibrate, on a daily or hourly basis, the staffing to meet post office lobby traffic and mail volume. Also, we will be able to maximize the skills of our workforce. This would be a win-win-win proposition. On a related note, the Postal Service has abolished training for its frontline managers; the outcome of this wrong-headed decision is that new Postmasters, and even veteran ones, are denied the necessary tools to more efficiently operate their facilities, save money for their post office, and collaborate with Headquarters personnel to cultivate

new products and services. Many of the best and most innovative ideas are conceived beyond the walls of Postal Headquarters.

Broad legislative or operational solutions to the current postal crisis will not happen overnight. In addition, we will need to quantify how much of the mail will return as the economy recovers. For this reason, Congress must quickly reconcile the differences between S. 1507 and H.R. 22, which have yet to reach the floor in either House, and send the resulting emergency postal relief legislation to the President for his signature. Admittedly, the legislation provides only a temporary repair; however, failure to enact the legislation would result in the agency's default of a required payment, and calls into question Congressional commitment to the U.S. Postal Service.

Thank you.

BEFORE THE
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENT AFFAIRS
SUBCOMMITTEE OF FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL
SERVICES AND INTERNATIONAL SECURITY

UNITED STATES SENATE
Washington DC

August 6, 2009

Written Testimony of
James West
Director, Postal and Government Affairs
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San Francisco CA 94109

Mr. Chairman and members of the Subcommittee:

My name is James West, and I am Director of Postal and Government Affairs for Williams-Sonoma, Inc. I thank you for the opportunity to testify with regard to the actions necessary to preserve the United States Postal Service (USPS) as a viable and healthy business entity. In addition to my oral testimony at this hearing, I have submitted written testimony that I request be entered into the official record.

My company, Williams-Sonoma, Inc., was founded in 1956. When we first started mailing catalogs in 1972, our annual sales were less than \$1 million and we had just one store in San Francisco. We have since grown to achieve sales exceeding \$3 billion across six brands, seven direct mail catalogs, six e-commerce websites and 630 stores. Our stores are located in 45 states, Puerto Rico and Canada, and we employ up to 30,000 associates.

We have achieved this growth in large part by using catalogs as our primary advertising vehicle, and our strategic partnership with the Postal Service is an essential part of our execution strategy. We will mail approximately 250 million catalogs this year, making us one of the largest catalog mailers in the United States.

Our ability to recover from the current economic recession and ensure our future success depends to a significant degree on the continued ability of the USPS to provide us with effective and increasingly cost-efficient mail delivery.

To this end, we see the following as essential for recovery of the U.S. Postal Service:

- Maintain pricing levels to mitigate further mail volume decline;
- Develop sound business plans based on realistic volume and revenue expectations;
- Seek prudent congressional support and oversight; and
- Transform the USPS business model and operations to meet customer needs in the future.

It is imperative that mail volume be stabilized. Without a doubt, increased postage costs on consumers or commercial mailers will only serve to drive more mail out of the system. Any increase, especially an exigent rate increase to cover expected losses, must be avoided.

It is our opinion that the most immediate threat to recovery of the USPS is any further decline in mail volume and revenue. The Postal Service is experiencing record operating deficits, and recovery is dependent on, at a minimum, stable volume going forward.

Postal customers, especially commercial mailers, cannot at this time absorb any further cost increases, and any increase in postage costs will only result in reduced mail volume. When mailers are faced with continuing economic challenges, alternate means of communicating become more attractive, and those means will replace traditional communication, often permanently.

We therefore consider it vital to prevent postal rate increases in any form, especially when there are alternate means to off-set current financial deficits.

It must also be noted that commercial mailers similar to ourselves need stabilized costs now, and for at least the next 12-18 months. We do not know when there will be a substantive positive shift in economic conditions, or in consumer buying activity that many of us depend upon. It must be recognized that rate related decisions now will impact the recovery of those that depend on postal services and ultimately their contribution to the overall recovery of the American economy.

Financial savings are available from many sources: Relief from current financial obligations, additional operational cost savings, retention and expansion of the current cost-avoidance practices, and the right-sizing of the Postal Service infrastructure to fulfill the demands of lower mail volume.

Legislation currently under consideration, S 1507, provides modifications to Postal Service financial obligations which, at the minimum, are needed to relieve the USPS of excessive financial burdens. My company, along with the Direct Marketing Association, Association for Postal Commerce, and American Catalog Mailers Association to name a few, supports passage of this legislation.

Obviously we see the current Health Benefits payments to be extraordinary and believe these payments should be modified. It is also our hope that the current payment schedule be evaluated, with due consideration given to the OIG's report on the funding requirements, to insure that it is a true and just assessment of costs, and be made subject to periodic evaluation in the future to insure that assessments remain in line with a changing postal organization.

The Postal Service must be commended for its success in reducing operating expenses. Arguably the next most significant contribution would come from a modification to the universal service requirement. Reduction in the number of delivery days is a very difficult decision and it will require compromise in which we must all share, but the unfortunate reality is that mail volume no longer supports six days of delivery.

A change from the six day delivery tradition is, as I said, a very difficult consideration. But if the Postal Service can consider a compromise to total elimination of the sixth delivery day and provide a service that can meet the needs for essential delivery on the sixth day, then this change can likely be implemented with minimal negative impact to the public and postal revenues. A survey taken in June of this year showed that 66% of Americans have indicated that reducing postal delivery days from five to six is an acceptable way to save operational costs. Public opinion can provide valuable guidance and must be given consideration. This change impacts all of us, some more than others. There could be impact to my company and companies similar to my own, but given sufficient notification for planning we all can find the way to meet our needs in a reduced delivery environment. Extraordinary conditions require extraordinary measures, and it requires that we all participate in the compromise.

Processing facilities and retail services likewise must be brought in line with mail volume.

Prudent business practices dictate that a company must continually modify its infrastructure to match the volume of its business, and the USPS can no longer be an exception.

The consolidation of processing and retail facilities is simply good and sound business practice. My own company has faced declines in revenues that we thought we would never experience. The change in business forced us to make painful adjustments to our operating costs and infrastructure. We have reduced costs, and we closed facilities that no longer were experiencing demand. We faced the reality, made the necessary decisions, and implemented the changes without sacrificing service to our customers. Our retail store network has been and always will be subject to closures, moves and modifications based on evolving customer demand. When we close a retail store we may disappoint and inconvenience some customers, but we make sure that they have an introduction to our e-commerce websites and that they know where the nearest alternate retail location is located.

Finally, and perhaps most important, is that our own experience has taught us that difficult challenges have brought about positive change. We find new and more efficient ways to serve our customers, and we implement changes to processes and facilities that provide continuing benefit far beyond their initial need.

The Postal Service must become more aggressive in developing realistic business plans and forecasts. Volume and revenue expectations for near-term, as well as for the next two to three years, must reflect the most conservative forecasts for mail volume. The USPS should be

encouraged to actively engage with its largest commercial partners in developing business plans that reflect the expectations of those who produce the largest portion of its mail volume.

Accurate forecasting of mail volume is more crucial than ever before, and I would hope that the USPS becomes aggressive in seeking guidance to develop the most accurate forecasts possible. Since an increasing portion of the mail comes from a small number of producers, logic would dictate that there is information available that can give reliable guidance. These companies continually evaluate their business forecasts and the USPS must take every possible advantage of this resource.

Recently the USPS surveyed the industry and industry organizations for postal volume expectations. It would be encouraging to see the results of that survey shared with industry partners with the goal of gauging the accuracy of the survey results, followed by making changes to the survey process as necessary to improve its accuracy, and then repeating such a survey on a beneficial schedule.

The Postal Service's business and volume forecasting should provide for different levels of expectation. Business plans that have provision for the 'best case' to 'worst case' scenarios may seem to be overly time consuming, but they encourage development of 'plans for action' in the event of unforeseen circumstances. Detailed planning and forecasting should be not just for the coming twelve month fiscal period but for the next 24 to 36 months as well.

Completing the transformation of the USPS into a modern business enterprise will require more and sometimes difficult support from Congress. We encourage continued oversight, but this oversight must not overly scrutinize or inhibit changes, nor should it burden the Postal Service

with such obligations that a typical enterprise would find untenable. Flexibility, adaptability and competitive positioning must be goals of the transformation that Congress will be called on to support, but not micro-manage.

To be a viable entity in the future the USPS MUST run as a business similar to those it serves. Since its inception, the universal service requirement has been an extraordinary burden that it has met without fail, but to continue fulfilling this burden Congress must be prudent in its intervention in the day to day operations of the Postal Service. Further, Congress must recognize that the service must have the flexibility to execute changes and maintain an organization and infrastructure which is consistent with the demands of customers.

We are now aware that over three quarters of postal volume and revenues come from commercial mailers, and commercial mailers, such as my own company, are operating in an increasingly multi-channel environment. Service expectations from our customers and the need for economic performance are forcing us to be increasingly demanding of our business partners and to utilize new and efficient ways to reach out to our customers. We have more choice in effective ways to communicate with our customers than ever before.

Williams-Sonoma, Inc., as with most other companies, is evolving to meet the new economy that is driven by new and innovative methods of communicating with and serving our customers.

The only way that the Postal Service can retain its role in our own marketing strategy will rest on its ability to operate competitively and with the same flexibility that is required of the companies that it serves.

The USPS has suffered the effects of the current economy the same as have many others. It has experienced a decline in mail volume and revenue that no one could have ever foreseen. Mail volume has plummeted before, but this time it is different. The economy will recover, but mail volume is not likely to return to the levels seen in recent years. New channels of communication exist for both business and consumers, and these channels have attractions to each that are difficult for the USPS to compete against. Electronic communication is the medium that is commonly cited as that which is undermining the traditional role of hard copy communication for both personal and business purposes. We all recognize that that medium has the potential and capacity to change faster than we can imagine. The new "Social Media" as a communication tool is rapidly becoming a new marketing medium.

It must be noted that the growing public concern with regard to the environment has had an impact on mail volume as well. The sensitivity of consumers to the impact that their daily lives has on the environment has extended to the amount of mail they receive, and they are becoming more vocal about expressing the manner and frequency in which they want to receive marketing communications.

The postal service must change. It must become competitive flexible and be a customer driven organization. The USPS owns a network, and it owns a very special relationship with every American household that it touches every day. The letter carriers that deliver the mail know each and every home and business that they visit every day. The USPS has tremendous partners that are actively engaged with their customers. These abilities and relationships would, I hope, allow the USPS to leverage its strengths and work with its partners to fulfill its needs and the needs of its customers. At the same time, the

USPS can gain the experience, insight and knowledge necessary to build a strategic plan for the future.

In closing, I would like to reiterate our recommendations: 1) mitigate further mail volume decline by maintaining current postage rates; 2) develop business plans in partnership with the Postal Service's largest commercial customers; 3) provide prudent congressional oversight and support of the USPS; and 4) transform the Postal Service into an efficient business organization that will remain viable for the years ahead.

I thank you for this opportunity to submit this testimony.

Mark Suwyn
Testimony on behalf of NewPage Corporation
August 6, 2009

I appreciate the opportunity to appear before the subcommittee today. My name is Mark Suwyn. I am Executive Chairman of NewPage Corporation, the nation's largest producer of coated paper – a type of paper primarily used in print advertising. We have nine paper manufacturing operations in the United States and one in Canada. NewPage is also a major paper supplier to magazine publishers, an industry that is a vital source of news and information and important to our country socially and economically. In fact, more than 80 percent of our paper is used for magazines, catalogs and advertising. As you can imagine, the viability of the United States Postal Service (USPS) is very important to the future of our company.

In 2008, almost 190 million Americans – and four out of five adults – read and enjoyed magazines. There are more than 7,000 consumer periodicals in this country, with titles spanning virtually every industry, interest, and opinion – and publishers met readers' needs by producing nearly 325 million subscription copies in 2008. Despite this, for many of the same reasons the Postal Service is struggling, so is the magazine industry.

In the first half of 2009, publisher advertising revenue is down 21 percent from last year and ad pages are down 28 percent. Already this year 279 magazines have closed, and an additional 43 titles shut down their print editions and continued online only. Like the Postal Service, changes in media consumption patterns and a focus on digital advertising has put the industry under great strain, and the 135,000 Americans who work in periodicals publishing are at risk of losing their jobs. With nearly 90 percent of periodicals delivered by the Postal Service, magazine publishers can afford neither a systemic failure of the postal system nor significant increases in postage rates, which represent fully a third of magazine production costs.

These are challenging times for the entire U.S. economy and paper based industries have been severely affected. NewPage has been dealing with the sharp economic downturn by reducing capacity to match demand, dramatically reducing costs and focusing on new products and services to expand the scope of what we can produce at our mills. Our view is the USPS is faced with doing much of the same.

The Postal Service represents an enormous part of the paper based communication channel. The industries that rely on the Postal Service for distribution employ roughly 8.3 million workers and represent 9 percent of the U.S. economy. Industries including printing, printing equipment manufacture, ink companies, mail service providers, advertisers, ad agencies and many others are part of this supply chain. There is a tendency to look at postal issues only from the standpoint of the Postal Service. It is important to remember, however, that the Postal Service is part of this large economic network. If we do not repair this part of the chain, we risk these more than 8 million jobs – not just the employees at the Postal Service.

In most ways, the Postal Service is no different from any other large business. Like NewPage, it must try to anticipate the rapidly changing market and economic conditions and make adjustments accordingly. There are a number of trends, unrelated to the economic downturn,

that are having a significant impact on mail. The volume in first class mail has been declining in recent years as more people communicate electronically and more and more people adjust to bill paying on line. Financial services companies particularly encourage customers to move toward electronic transactions as a cost saving measure. Email, Facebook, MySpace and Twitter have essentially replaced personal correspondence by letter. Likewise, the trend in periodicals has been toward reduced size as advertisers find alternative promotional channels and readers go on-line for content. While the number of magazine titles has increased, circulation and the number of pages per issue has declined. Still, over 90 percent of periodicals are delivered by the USPS. Similar trends are seen in catalogs.

The bright spot for the mailing industry had been advertising mail. Until the current economic problems began, advertising mail was increasing. Although its rate of growth was not as significant as internet and email advertising, its total dollar volume was six times greater than internet ads.

Unfortunately, the economic collapse has taken its toll on all forms of advertising but nowhere is this being felt as dramatically as print ads. Newspapers, magazines, catalogs and advertising mail have declined resulting in the drops in total mail volume at the levels mentioned earlier. There are some who say these trends are being accelerated by the recession while others believe this volume will return when the economy bounces back. The reality is that no one knows for sure. However, some of the trends we observed prior to the economic collapse will not reverse.

I think it is important to put this in context. There are numerous studies that show clearly that print advertising through the mail has the lowest cost per response rate compared to any other advertising media. However, with substantial rate increases over the past eight years, postage now accounts for up to 50 percent of the total cost of print advertising delivered through the mail. Therefore we need significant increases in efficiency and lowering of costs to ensure that this effective communications medium continues to be competitive and offers opportunities for the 8 million employees who support this channel of information. While cost is critical, it cannot be the whole answer. We believe a number of revenue enhancements and capital reinvestments could also contribute to a brighter future.

From our perspective, Congress needs to take a broader view of the economic challenges in this sector of the economy, not just the Postal Service. The Postal Service is a big part of the economy and a huge portion of the government. But, it does not exist alone. It exists to provide service for a product that is increasingly optional. While there are products that have to be delivered by mail and there are areas of the country that are not served by any delivery service other than the USPS, the vast majority of USPS customers choose to use or not use the system. If that choice continues to move to other options – electronic or otherwise – there will be significant loss to the economy.

We would suggest three areas for consideration involving costs, revenue enhancement and capital reinvestment.

The Postal Service must reduce costs

Businesses throughout the country, and the world, must reduce expenses to survive. The Postal Service has to do likewise. With roughly 80 percent of the expense of the Postal Service in people, this means the overall cost of labor has to be reduced for the Postal Service to remain viable. Our own experience suggests that the most successful way to reduce costs is to engage all your employees in the quest for reduced costs. While a number of costs can be lowered without reducing the number of employees, hard decisions will need to be made about how many people are necessary to compete in the new communication environment as well as how these people will need to be compensated. Our company, along with virtually every company in our sector, is making those hard decisions every day.

Reducing service from six days to five or fewer days per week must be part of the discussion. As an isolated action, a reduction of service will only serve to diminish the value of the Postal Service but taken as part of a broader restructuring program, changes in delivery can be beneficial.

The Postal Service must seek to enhance revenue

Growth incentives, similar to the successful incentive for third quarter of 2009, to encourage highest volume mailers should continue to be evaluated and utilized. New services, such as a regional "saturation mail" service for coupons and inserts to replace and/or provide cost competitive alternatives to the increasingly eroding newspaper delivery channel, need to be part of the mix. And collaborative efforts, such as a recovery recycling service similar to the one NewPage and the USPS intend to pilot in the Chicago area, may lead to new market and revenue opportunities.

- The history of the Postal Service suggests that rising costs can only be covered by increasing prices. In the new communication market, increased prices will only lead to decreased "sales." Companies wanting to communicate or advertise have options and in many cases lower cost options. In order for the Postal Service to retain and perhaps grow volume, it will need to take bolder steps such as the one underway right now in its Summer Sale. The logic of the Summer Sale is sound. The Postal Service has built an infrastructure to process 300 billion pieces of mail while volume this year is expected to be 175 billion. In other words, they have excess capacity. Any new revenue they bring in through lowering the cost to mail products will be a net gain.
- The Postal Service must look at creative and revenue generating ways to expand the delivery of the products customers want including additional advertising material such as inserts and coupons. Such actions will also need to address concerns that customers might have about options for avoiding unwanted mail while providing service to those who do want the products.
- We also think the Postal Service is a perfect partner for the industry in working with recycling programs. Our company is currently engaged in a dialog with the Postal Service about such a program. Again this is a positive use of the infrastructure the Postal Service has in place.

The Postal Service and its strategic partners must promote the value of mail

- Our company and others have been working in partnership with the Postal Service to promote the use and value of mail. This past week, our company participated with other strategic partners in the industry as well as the Postal Service in a presentation to a major national ad agency on the value of mail. This is the second presentation of its type in a series that we are doing. There are countless studies by the Postal Service and private analysts attesting to the value of mail. Some of the facts worth mentioning are that 22 percent of all advertising spending is direct mail. Direct mail has the strongest return on investment of any channel at 34 percent for direct mail, followed by email at 24 percent and search engine marketing at 8 percent. Direct mail is also the major driver of response to websites. A website supported by a catalog has a “revenue lift” of 163 percent compared to a website not supported by a catalog.
- To do our part in this effort, we launched a campaign in May called “Free Paper to Reach More” to support the efforts of the Postal Service by giving away 500 tons of paper to help catalogers reach more prospects. Catalogers and their buying partners – brokers, merchants, printers and catalog consultants – could all participate. Five lucky winners of 100 tons of paper (equal to 500,000 additional mailings) can now reach new prospects, attract more customers and generate catalog sales with more paper. We delivered this message through print advertising and direct mail, and received great insight into cataloger’s current business challenges. At the top of their concerns were reducing costs while optimizing circulation of their catalogs.

Clearly the USPS needs to adjust its operating platform in response to the recent and dramatic loss of volume to remain viable. Some of the modifications being considered will be painful but are necessary. The USPS also has to engage its customers and suppliers to find new services to offer. We believe there are opportunities that can best be filled by a nationwide delivery service. We believe that the USPS and its Board of Governors are in the best position to make these changes and should be empowered to make them.

These are times of unprecedented challenges and opportunities. This committee and its members have taken bold steps in recent years to put the Postal Service on a path to success. I know you share our belief that more is needed.



The U.S. Postal Service and Six-Day Delivery: Issues for Congress

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CRS Report for Congress

Prepared for Members and Committees of Congress

Summary

In FY2008, USPS reported a \$2.8 billion dollar loss and a drop in mail volume (9.5 billion fewer pieces than in 2007, a 4.5% drop in volume). The first quarter of FY2009 showed continued economic decline, with a \$380 million loss over three months. USPS anticipates an even larger drop in mail volume (10 to 15 billion fewer pieces than in 2008, a 4.9%-7.4% drop in volume) in FY2009. The bleak economic forecast for USPS prompted its leaders, Congress, and the public to suggest methods that may increase revenue or reduce expenses. Among these cost-saving suggestions is reducing the number of delivery days.

At a 2009 congressional hearing Postmaster General John E. Potter stated that six-day delivery "may simply prove to be unaffordable." He then "reluctantly" requested that Congress eliminate the six-day delivery requirement that is placed annually in appropriations laws. Some lawmakers criticized Mr. Potter's request, stating that reducing service days could cause even greater reductions in mail volume and lead to a "death spiral" for USPS. Other lawmakers are uncertain about the future of six-day mail delivery.

In 2008, two studies were conducted on the possible economic effects of reducing USPS delivery services. One study, conducted by USPS, estimated the financial savings of a five-day delivery week at \$3.5 billion annually, with no anticipated reduction in sales volume. The other study, conducted by the Postal Regulatory Commission (PRC), estimated the savings at \$1.94 billion annually, which includes a significant estimated loss of sales volume. One lawmaker stated that Congress may consider commissioning a third study to more accurately determine how much money five-day delivery could save USPS.

Other countries' mail services vary in their delivery schedules. Australia, Sweden, and Canada offer five-day delivery services. France, Germany, the Netherlands, and the United Kingdom (UK) have six-day delivery. New Zealand offers some customers a six-day delivery option, but charges additional fees for weekend deliveries. Significant differences among the various global postal services may prevent USPS from borrowing operating techniques that have been successful in other countries.

This report will examine the history of six-day mail delivery and analyze potential effects of reducing USPS delivery from six to five days. It will then examine legislative options for the 111th Congress.

This report will be updated as events warrant.

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Since 1775, the Postal Service has delivered mail throughout the United States. The Service began as a conduit for communication between “Congress and the armies” during the Revolutionary War.¹ In 1863, USPS, pursuant to statute, began delivering mail to certain addresses in cities if postage was enough to “pay for all expenses of the service.”² By 1896, the Postal Service was making deliveries to certain rural and urban homes six days per week. In some cities, in fact, delivery occurred more than once per day until 1950.³ In other, more remote rural areas, deliveries continue to occur fewer than six days per week. Today, the U.S. Postal Service (USPS) delivers to “146 million homes and businesses, six days a week.”⁴ Throughout the Service’s history, however, there have been discussions about reducing the number of delivery days in order to conserve fuel and reduce costs.

In FY2008, USPS reported a \$2.8 billion dollar loss and a drop in mail volume (9.5 billion fewer pieces than in 2007, a 4.5% drop in volume).⁵ The first quarter of FY2009 indicated continued economic decline, with a \$380 million loss over three months.⁶ USPS anticipates an even larger drop in mail volume (10 to 15 billion fewer pieces than in 2008, a 4.9%-7.4% drop in volume) and revenue in FY2009.⁷ The bleak economic forecast for USPS has prompted its leaders, Congress, and the public to suggest methods that may increase revenue or reduce expenses for the quasi-governmental entity.⁸ Among these suggestions is to reduce the number of delivery days for USPS from six to five.

At a January 28, 2009, hearing before the Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Postmaster General John E. Potter stated that six-day delivery “may simply prove to be unaffordable.” Potter requested that Congress eliminate the six-day delivery requirement that annually is placed in appropriations laws.⁹ Some lawmakers criticized Mr. Potter’s request, and one Senator stated that reducing service days could cause even greater reductions in mail volume and lead to a “death spiral” for USPS.¹⁰ At a March 25, 2009, hearing before the House Committee on Oversight and

¹ U.S. Postal Service, *The United States Postal Service: An American History, 1775-2006*, p. 6, at <http://www.usps.com/cpim/ftp/pubs/pub100.pdf>.

² U.S. Postal Service, “City Delivery,” at http://www.usps.com/postalhistory/_pdf/CityDelivery.pdf.

³ *Ibid.*

⁴ U.S. Postal Service, “Grow Your Business: National Postal Forum Debuts Special Session – and Discount – for Small Businesses,” press release, April 2, 2009, at http://www.usps.com/communications/newsroom/2009/pr09_034.htm.

⁵ U.S. Postal Service, *Form 10-Q, U.S. Postal Service Quarterly Report*, February 9, 2009, p. 8, at http://www.usps.com/financials/_pdf/FinalQuarterFY0910Q.pdf.

⁶ *Ibid.*

⁷ *Ibid.*, p. 24.

⁸ For information on other actions USPS is taking to cut costs, see U.S. Government Accountability Office, *U.S. Postal Service: Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs*, GAO-09-332T, January 28, 2009, at <http://www.gao.gov/new.items/d09332t.pdf>.

⁹ U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *The Impact of the Economic Crisis on the U.S. Postal Service*, 111th Cong., 1st sess., January 28, 2009, at <http://hsgac.senate.gov/public/index.cfm?Fuseaction=Hearings.Detail&HearingID=ce8899e6-d08e-4d07-a6df-6aecebc9c12e>.

¹⁰ Comments of Senator Susan M. Collins, *ibid.* A similar statement can be found in U.S. Senator Susan Collins, “Senator Collins Criticizes U.S. Postal Service for Proposing Elimination of Services,” press release, January 28, 2009, http://collins.senate.gov/public/continuc.cfm?FuseAction=PressRoom.PressReleases&ContentRecord_id=22d3f0b2-802a-23ad-47be-7a88b075995c&Region_id=&Issue_id=&CFID=15709811&CFTOKEN=35683692.

Government Reform, Subcommittee on the Federal Workforce, Postal Service, and the District of Columbia, Potter again requested that Congress eliminate the six-day mail delivery requirement.¹¹

Two studies of the possible economic effects of reducing USPS delivery were conducted in 2008.¹² One study, conducted by USPS, estimated the financial savings of a five-day delivery week at \$3.5 billion annually, with no anticipated reduction in sales volume. The other study, by the Postal Regulatory Commission (PRC),¹³ estimated the savings at \$1.93 billion annually, and includes an expected loss of \$580 million in sales volume. Representative Stephen F. Lynch stated at a May 20, 2009, hearing that Congress may consider commissioning a third study that would more conclusively determine how much money USPS could save if it moved to five-day delivery.¹⁴

Other countries have varied mail delivery schedules. Royal Mail, which delivers mail in the United Kingdom (UK) six days per week, reportedly contemplated eliminating Saturday delivery in 2008 because of economic concerns.¹⁵ Royal Mail, however, continues to deliver six days per week. Canada Post offers letter-carrier services five days per week, and does not deliver mail or parcels on most Saturdays.¹⁶ Canada Post, which receives no national appropriation, paid the Canadian government \$720 million (\$670 million USD) in taxes in 2008 and generated \$54 million (roughly \$46 million USD) in profit after taxes.¹⁷ New Zealand Post offers six-day mail delivery services to some customers, but not to customers living in rural areas. Customers who use Saturday delivery must pay an additional fee.¹⁸ Parcels are not delivered on Saturdays in New Zealand. A sampling of various countries' mail delivery practices found that some countries deliver mail five days per week (Australia and Sweden) while others deliver mail six days per week (France, Germany, and The Netherlands). Significant differences among the various mail services, however, may prevent USPS from borrowing techniques that were successful in other countries. The United States, for example, is much larger geographically than most of the other countries. Also, union contracts may prohibit USPS from adopting certain practices that could cut costs.

This report examines the history of six-day delivery at USPS and outlines potential effects of reducing delivery service. It then analyzes legislative options for the 111th Congress.

¹¹ Statement of Postmaster General John E. Potter in U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Post Office, and the District of Columbia, *Restoring the Financial Stability of the U.S. Postal Service: What Needs to Be Done?*, 111th Cong., 1st sess., March 25, 2009, at <http://federalworkforce.oversight.house.gov/documents/20090325092625.pdf>.

¹² U.S. Postal Service, *Report on Universal Postal Service and the Postal Monopoly*, October 2008, p. 55, at http://www.usps.com/postallaw/_pdf/USPSUSOReport.pdf; and U.S. Postal Regulatory Commission, *Report on Universal Postal Service and the Postal Monopoly* (Washington: PRC, December 19, 2008), pp. 123-124, at <http://www.prc.gov/prc-docs/home/whatsnew/USO%20Report.pdf>.

¹³ The Postal Regulatory Commission is an independent agency created by Congress that has regulatory oversight over the Postal Service.

¹⁴ U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Post Office, and the District of Columbia, *Nip and Tuck: The Impact of Current Cost Cutting Efforts on Postal Service Operations and Network*, 111th Cong., 1st sess., May 20, 2009, at <http://federalworkforce.oversight.house.gov/documents/20090520142353.pdf>.

¹⁵ Harry Wallop, "Royal Mail Cuts May End Saturday Post," *The Telegraph*, May 10, 2008.

¹⁶ Information provided by telephone to author by Canada Post on April 28, 2009.

¹⁷ Canada Post, *About Us: Fast Facts*, at <http://www.canadapost.ca/cps/mc/aboutus/corporate/fastfacts.jsf>.

¹⁸ New Zealand Post, *Sending Letters Around New Zealand*, at <http://www.nzpost.co.nz/Cultures/en-NZ/OnlineTools/Ratefinder/LettersNZ>.

History of Six-Day Delivery

Currently, all but 25,000 of USPS's 135 million residential mail recipients receive six-day mail delivery.¹⁹ The history of six-day delivery, however, is not well documented. Delivery to homes and businesses in cities was instituted, pursuant to statute, in 1863.²⁰ In some cities, deliveries occurred several times per day, until most cities eliminated multiple deliveries in 1950.²¹ Certain rural homes and businesses received deliveries starting in 1896. In some remote, rural areas—like homes at the bottom of the Grand Canyon—six-day delivery still does not occur.²² Based on a review of legislative and postal history, it appears that six-day delivery was not legally required until FY1981, when Congress placed language requiring six-day delivery in USPS's appropriation.²³

Congressional and USPS History

The first statute governing general postal delivery was enacted in 1863 when Congress passed a law that authorized the Postmaster General “to make delivery, within any prescribed postal district, of mail matter by letter-carrier, as frequently as the public convenience in such district shall require, and shall make all proper regulations for that purpose.”²⁴

According to USPS, prior to 1863, postage payments did not include home or office delivery and included only “the delivery of mail from Post Office to Post Office.”²⁵ Patrons, however, “could pay an extra two-cent fee for letter delivery” to private homes and businesses.²⁶ Private delivery firms also delivered items to homes or businesses.

By 1888, however, mail carriers “were instructed to deliver letters frequently and promptly—generally twice a day to homes and up to four times a day to businesses.... The second residential delivery was discontinued on April 17, 1950, in most cities.”²⁷ Current USPS policies limit deliveries to one per day in all locations.²⁸ USPS initiated rural home delivery on October 1, 1896, with deliveries to homes in Charles Town, Halltown, and Uvilla, West Virginia. With the advent of rural delivery, the Postal Service grew at a rapid pace and began to resemble the modern-day USPS.

¹⁹ “25,009 of the approximately 135 million [USPS] residential delivery points receive delivery 3 days per week because they are exceptionally difficult to serve, such as those at the bottom of the Grand Canyon.” U.S. Postal Regulatory Commission, *Report on the Universal Postal Service and the Postal Monopoly*.

²⁰ U.S. Postal Service, “City Delivery.”

²¹ *Ibid.*

²² Mules deliver mail to homes at the bottom of the Grand Canyon five days per week. Information provided electronically to the author by USPS on June 3, 2009.

²³ P.L. 96-499; 94 Stat. 2607.

²⁴ 12 Stat. 701, Sec. 12.

²⁵ U.S. Postal Service, “City Delivery.”

²⁶ *Ibid.*

²⁷ *Ibid.*, p. 2.

²⁸ U.S. Postal Service, “Deliveries Per Day,” at http://www.usps.com/postalhistory/_pdf/DeliveriesperDay.pdf.

The 94th and 95th Congresses

Representative Tom Corcoran stated at a congressional hearing that the Postal Service took its first formal step toward eliminating one delivery day per week in 1976 when it conducted a study to examine the possible effects of such delivery reduction.²⁹ That study, according to Corcoran, was completed, but a formal proposal stemming from the study was not drafted. Instead, in 1977, the congressionally created Commission on Postal Service (created in 1975) submitted to Congress and the President a report that discussed the possibility of transitioning to five-day delivery. The members of the congressional commission were divided on whether to recommend eliminating a day of Postal Service delivery. The commission's final report said that five of the seven commissioners reluctantly recommended the reduction in delivery, but did not say which day of the week would be the optimal day off.

While the Commission would prefer not to recommend a reduction in delivery standards, the alternative of increased postal costs and rates causing volume declines is less acceptable.

The other alternative is to increase the public service appropriation to provide six-day delivery. A majority of the Commission does not favor this course. We find that six-day delivery, although convenient, is not considered essential by a great majority of our citizens when compared with the costs of providing that service.³⁰

According to the *New York Times*, the Postal Service had already been reducing a variety of services and deliveries in early 1976 to cut rising costs.³¹ The *New York Times* reported that Representative James M. Hanley, then-chairman of the House Postal Service Subcommittee, called for "a moratorium on service cutbacks and rural office closings that were meant to save money."³² According to the article, Postmaster General Benjamin F. Bailar agreed to stop the service cutbacks.

On July 12, 1977, Representative Charles H. Wilson introduced a resolution (H.Con.Res. 277) that stated the Postal Service should not reduce its service delivery days.³³ On August 4, 1977, the House Committee on the Post Office and Civil Service recommended the passage of the resolution. On September 26, 1977, the resolution passed the House by a vote of 377 to 9. H.Con.Res. 277 was referred to the Senate Committee on Governmental Affairs, which took no further action on the bill.³⁴

On September 27, 1977, Representative John B. Breckenridge released a statement criticizing the delivery cut, claiming it would "likely affect the people in rural American more than any other group of postal customers" and "would eventually result in less delivery routes and less

²⁹ U.S. Congress, House Committee on Post Office and Civil Service, *Six-Day Mail Delivery*, Hearing, 95th Cong., 2nd sess., January 12, 1978 (Washington: GPO, 1978), p. 405.

³⁰ Commission on Postal Service, *Report on the Commission on Postal Service, Volume 1* (Washington, DC: GPO, April 1977), p. 50.

³¹ Ernest Holsendolph, "Postal Service is Warned Mail Cuts Jeopardize Aid," *The New York Times*, March 27, 1976, p. A1.

³² *Ibid.*

³³ U.S. Congress, House Committee on Post Office and Civil Service, *Saturday Mail Delivery*, H.Con.Res. 277, 95th Cong., 1st sess., August 4, 1977, 95-568 (Washington: GPO, 1977).

³⁴ Several identical versions of the resolution were introduced in the 95th Congress. H.Con.Res. 237 was selected because it was the first resolution introduced.

employment for rural carriers and other delivery employees at a time when unemployment is a national problem.”³⁵

A series of congressional hearings were held on six-day delivery from November 1977 through March 1978. According to Representative Patricia Schroeder, who opened the hearings, the Postal Service prompted the hearings by proposing a cut back in delivery service.³⁶ Although the Postal Service had made no formal indication that it supported the elimination of one service day, one Member of Congress said that “statements made by postal officials indicate[d] they [were] leaning toward making such a recommendation.”³⁷

In all, Congress held 12 hearings in as many cities with more than 500 testimonies offered between November and March. Those who testified included Members of Congress, union representatives, editors and publishers, the general public, and representatives of the aging. Most of those who testified did not support a reduction in Postal Service deliveries, finding such cuts a “diservice”³⁸ that could result in “possible delay in the receipt of welfare, social security, pension checks, and so forth—the kind of mail that people receive ... on weekends and through Saturday mail.”³⁹

In addition to concerns about mail delivery in general, much of the testimony framed the debate over six-day delivery as a tension innately embedded in the mission of the Postal Service: is it a profit-driven organization, or a public service? Representative Timothy E. Wirth stated at one hearing that the six-day service was a “social value,” and that cutting a day of service at a time when people were “losing some of their faith in what government can do for them” would exacerbate their disillusionment.⁴⁰

Thirteen bills were introduced in the 95th Congress (1977-1978) that would have affected Postal Service delivery, but none were reported from committee.⁴¹

The 96th and 97th Congresses

In 1980, the House Committee on the Budget was expected to propose an \$836 million reduction in Postal Service appropriations for FY1981.⁴² According to Representative James M. Hanley, the chairman of the House Committee on Post Office and Civil Service, the reduction in appropriations would have eliminated “all of the public service appropriations” and other

³⁵ The Honorable John B. Breckinridge, “Statement on the Proposed Five Day Home Delivery,” press release, September 27, 1977. For a copy of the statement, contact the author.

³⁶ The hearings were a collection of relatively small, informal hearings held around the country.

³⁷ U.S. Congress, House Committee on Post Office and Civil Service, *Six-day Mail Delivery*, p. 137.

³⁸ Testimony of Melvin Schwartz, representative of Ads Advertising and Mail Service, *ibid.*, p. 79.

³⁹ Testimony of Joseph Sawyer, President of the Board of Directors of the Wynnefield Residents Association, *ibid.*, p. 154.

⁴⁰ Testimony of Representative Timothy E. Wirth, *ibid.*, p. 5.

⁴¹ H.R. 5549; H.R. 6690; H.R. 7297; H.R. 7569; H.R. 7612; H.R. 7921; H.R. 7943; H.R. 8048; H.R. 8235; H.R. 8445; H.R. 8609; H.R. 9043; and S. 651.

⁴² Testimony of Representative James M. Hanley, chairman of the Committee on Post Office and Civil Service in U.S. Congress, House Committee on Post Office and Civil Service, *Implications of Proposed Reductions in Postal Service Appropriations*, 96th Cong., 2nd sess., April 17, 1980, S.Hrg. 96-80 (Washington: GPO, 1980), p. 1.

subsidies for the Postal Service.⁴³ At a March 26, 1980, hearing before the House Committee on Post Office and Civil Service, then-Postmaster General William F. Bolger stated that eliminating Saturday delivery was one option the Postal Service was considering to ensure its economic stability in the face of the budget cuts. Bolger estimated the service reduction could result in the elimination of 15,000 to 20,000 Postal Service jobs, but would save the Service about \$588 million.⁴⁴

The Washington Post quoted Bolger as saying the service cuts could be the “only one workable alternative” for the Service as a result of anticipated cuts in federal subsidies.⁴⁵ *Congressional Quarterly* reported that in response to the possible service day elimination, Postal Service employees teamed with companies who would be affected by the change to form an ad hoc coalition to lobby Members of Congress to block the service cut.⁴⁶

Five bills related to Postal Service delivery days were introduced during the 96th Congress.⁴⁷ Four of the bills were not reported from committee;⁴⁸ one bill, H.R. 79, passed the House and was referred to the Senate Committee on Governmental Affairs. No further action was taken on H.R. 79. In addition, the Omnibus Reconciliation Act included a provision affecting mail delivery. The act (P.L. 96-499; 94 Stat. 2607), which was signed into law on December 5, 1980, included a requirement that the Postal Service “take no action to reduce or to plan to reduce ... the number of days each week for regular mail delivery.” The statute expired on October 1, 1981. As noted earlier, based on a review of legislative history, P.L. 96-499 appears to mark the first time Congress required six-day delivery in statute.

In the 97th Congress, five other bills related to Postal Service delivery were introduced, but none were reported from committee.⁴⁹ In addition, the House-passed Treasury, Postal Service and General Government Appropriation Act, FY1982 (H.R. 4121) contained a provision prohibiting the Postal Service from using federal funds to implement a reduction in service. The bill, however, did not pass the Senate. The continuing resolution Congress enacted (P.L. 97-92) to provide the necessary funding for that year contains no explicit language that would have prohibited USPS from reducing the number of delivery days. Although no such language was in the continuing resolution, the Omnibus Reconciliation Act of 1981 (P.L. 97-35), which authorized funding levels for USPS, did contain the following explicit six-day delivery requirement:

⁴³ *Ibid.*, p. 30.

⁴⁴ U.S. Congress, House Committee on Post Office and Civil Service, *Implications of Proposed Reductions in Postal Service Appropriations*, 96th Cong., 2nd sess., March 26, 1980, S.Hrg. 96-80 (Washington: GPO, 1980), p. 5. Bolger estimated the savings for the first full year of implementation would be \$683 million, but the Postal Service would have to pay out one-time costs and unemployment benefits that would cut into the financial savings.

⁴⁵ “Bolger Says Lower U.S. Postal Subsidies Likely to Mean 5-Day-a-Week Deliveries,” *The Washington Post*, April 2, 1980, p. 7. See also Peter C. Stuart, “Axing Saturday Mail Won’t Be Easy,” *The Christian Science Monitor*, April 3, 1980, p. 3.

⁴⁶ “Postal Workers, Business Organizing In Effort to Save Saturday Mail Delivery,” *Congressional Quarterly*, April 12, 1980, pp. 953-954.

⁴⁷ H.R. 79; H.R. 2833; H.R. 7337; H.R. 7622; and H.R. 7876.

⁴⁸ H.R. 2833; H.R. 7337; H.R. 7622; H.R. 7765; and H.R. 7876.

⁴⁹ H.R. 172; H.R. 1275; H.R. 1997; H.R. 2492; and H.R. 3969. H.R. 3969 is not directly related to six-day delivery. The bill would have required mail delivery to individual homes in certain housing developments where USPS instead may deliver to centralized locations.

During fiscal years 1982 through 1984, the Postal Service shall take no action to reduce or to plan to reduce the number of days each week for regular mail delivery. (95 Stat. 759)

This law appears to be the only instance when Congress placed six-day delivery language in authorizing legislation.

An additional six-day delivery requirement was placed in appropriations legislation for FY1983. The Further Continuing Appropriations Act, 1983 (P.L. 97-377; 96 Stat. 1830) required the Postal Service to “continue six-day delivery of mail and rural delivery of mail ... at the 1982 level.” Six-day delivery was assured through the end of FY1983.

The 1983 Standard

Since 1984, Congress annually has placed language in appropriations legislation requiring the Postal Service to provide “six-day delivery ... at the 1983 level.”⁵⁰ Why Congress cites 1983 as the touchstone year for USPS delivery service is uncertain. It is also unclear what 1983 delivery levels are. The Postal Regulatory Commission (PRC), an independent agency that exercises regulatory oversight, wrote in a December 2008 report that its “meaning and application are problematic”⁵¹ because “several interpretations [of the mandate] are possible.”⁵²

For example, the rider could be interpreted to mean that all cities, towns, and rural areas that received 6-day delivery at any time during 1983 must continue to receive 6-day delivery and that cities, towns, and rural areas that did not receive 6-day delivery in 1983 or were served for the first time after 1983 do not have the receive 6-day delivery service today. Another possible interpretation is that the same percentage of customers that received 6-day delivery in 1983 should continue to receive 6-day delivery today. As a result of demographic changes, under either interpretation, the actual addresses receiving 6-day delivery service could be substantially different today than it was in 1983.⁵³

In 2008, the ambiguity of the delivery provision led the PRC to conclude that “the Postal Service exercises considerable flexibility in determining how it delivers the mail.”⁵⁴ USPS stated in its own 2008 report on its service obligations that it would like Congress to remove the six-day service provision requirement to allow “flexibility to meet future needs for delivery frequency, in accordance with a careful balancing of various considerations.”⁵⁵

The Economics of USPS

The U.S. Postal Service generates nearly all of its funding—about \$74.8 billion annually—by charging users of the mail for the costs of its services.⁵⁶ Congress does provide an annual

⁵⁰ See, e.g., Consolidated Appropriations Act, 2008, Title V, P.L. 110-161; 121 Stat. 1844 (2007).

⁵¹ *Ibid.*, p. 20.

⁵² U.S. Postal Service, *Report on Universal Postal Service and the Postal Monopoly*, (Washington, DC: USPS, October 2008), p. 29.

⁵³ *Ibid.*, pg. 29, footnote 8.

⁵⁴ *Ibid.*, pg. 29.

⁵⁵ U.S. Postal Service, *Report on Universal Postal Service and the Postal Monopoly*, p. 21.

⁵⁶ United States Postal Service, *Annual Report of the U.S. Postal Service 2008* (Washington, DC: USPS, 2008), p. 3.

appropriation of approximately \$100 million to compensate USPS for revenue it forgoes in providing free mailing privileges to the blind and overseas voters, and for other purposes.⁵⁷ Over the past eight years, USPS has experienced a significant shift in the composition of its mail volume. The largest product profit margin is created by First Class Mail sales, which have been in decline since 2000. USPS, therefore, has to rely more heavily on Standard Mail sales, which consist mainly of advertising mail.

Standard and First Class Mail

In 2008, 49% of all mail volume was Standard Mail, a USPS classification for items that weigh fewer than 16 ounces, and includes printed matter, flyers, circulars, advertising, newsletters, bulletins, catalogs, and small parcels.⁵⁸ Any item can be delivered as First Class Mail, which is more expensive to send than Standard Mail. Certain items must be mailed First Class—including handwritten or typewritten material, bills, statements of account or invoices, credit cards, personal correspondence, personalized business correspondence, and all matter sealed against inspection.⁵⁹ First Class Mail comprised 45% of all mail volume.

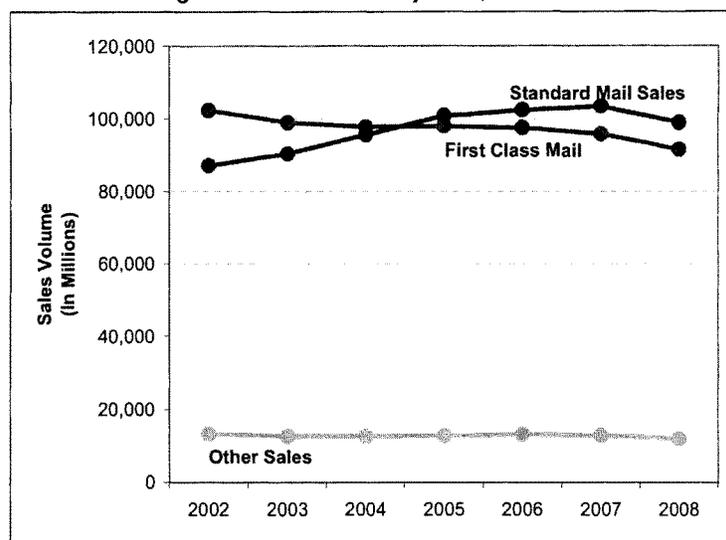
As stated earlier, since 2000, First Class Mail volume has steadily declined. In 2005, for the first time in USPS history, the amount of Standard Mail exceeded that of First Class Mail (see **Figure 1**). Because it is sold at a higher price and costs roughly the same for USPS to deliver,⁶⁰ First Class Mail provides the Postal Service with a higher profit per piece of mail.

⁵⁷ See CRS Report RL34523, *Financial Services and General Government (FSGG): FY2009 Appropriations*, coordinated by Garrett Hatch, pp. 58-61. Free mailing privileges do not extend to Congress. Instead, Congress pays the Postal Service for franked and other congressional mail by way of an annual appropriation for the legislative branch. For more information on franking, see CRS Report RS22771, *Congressional Franking Privilege: Background and Current Legislation*, by Matthew Eric Glassman. Placing the six-day mail delivery requirement in appropriations legislation places only congressionally appropriated funding under the restrictions on spending in the bill. Although the vast majority of USPS funding is not legally constricted to fund six-day mail delivery, all agencies, including USPS, ignore the congressional intent of appropriations conditions at their own peril.

⁵⁸ U.S. Postal Service, "Business Mail 101, Classes of Mail: Standard Mail," at <http://www.usps.com/businessmail101/classes/standard.htm>.

⁵⁹ USPS, *Domestic Mail Manual*, 133 Prices and Eligibility, Section 3.0, at <http://pe.usps.gov/text/dmm300/133.htm>.

⁶⁰ First Class Mail can cost more to deliver if USPS must forward the mail to a different address if, for example, a resident has moved.

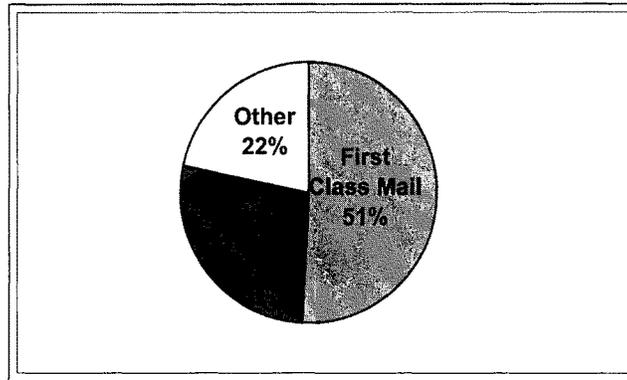
Figure 1. Volume of Mail by Class, 2002-2008

Source: CRS calculations using data from U.S. Postal Service, *Annual Report of the U.S. Postal Service* (Washington: USPS, 2004-2008).

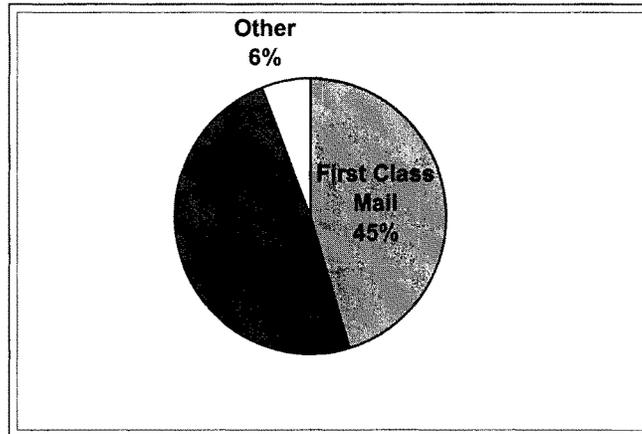
Note: "Other Mail" includes additional USPS mail categories, including Priority Mail, Express Mail, international mail, and package services.

Both First Class Mail and Standard Mail declined in volume between 2007 and 2008 (**Figure 1**). First Class Mail volume dropped by 4.6 billion pieces, and Standard Mail dropped by 4.432 billion pieces between 2007 and 2008.⁶¹ In 2008, Standard Mail generated 28% (\$20.6 billion) of USPS's total revenue (**Figure 2**), and made up 49% of the 203 billion mail pieces delivered (**Figure 3**).

⁶¹ U.S. Postal Service, *Annual Report of the U.S. Postal Service* (Washington, USPS, 2008), p. 31.

Figure 2. USPS Revenue Percentages by Mail Class, 2008

Source: Annual Report of the U.S. Postal Service (Washington, USPS, 2008). Numbers may not add to 100% because of rounding.

Figure 3. Composition of Mail by Class, 2008

Source: Annual Report of the U.S. Postal Service (Washington, USPS, 2008).

The USPS annual report's financial projections anticipate a revenue increase of 1%-2% for FY2009, but a 3%-4% decrease in volume. The revenue increase was expected because of "anticipated price increases."⁶² Although USPS anticipated that Standard Mail sales and revenue would continue to grow,⁶³ the first two quarters of 2009 show a loss of Standard Mail volume.

⁶² Ibid., p. 44.

⁶³ U.S. Government Accountability Office, *U.S. Postal Service: Mail-Related Recycling Initiatives and Possible Opportunities for Improvement*, GAO Report GAO-08-599, June 2008.

Sales of Standard Mail have dropped 19.8% (5 billion pieces) in the second quarter of 2009 when compared to the same quarter in 2008.⁶⁴ New financial projections estimate USPS will process between 20 and 25 billion fewer pieces of mail in FY2009 than it did in FY2008 and revenues will drop \$6 million from the previous year.⁶⁵ Furthermore, USPS does not anticipate mail volume increases in 2010.⁶⁶ Continued reduction in Standard Mail volume—for example, volume losses caused by the enactment of Do Not Mail initiatives or a decline in advertising sales prompted by the economic downturn—could lead to greater revenue losses for USPS.⁶⁷

As the volume of First Class Mail has dropped, USPS has increased the postage rate. However, as **Figure 4** shows, revenue for First Class Mail remained relatively constant.⁶⁸ Meanwhile USPS's annual operating costs have increased. Standard Mail revenue, on the other hand, grew from more than \$15.8 billion in FY2002 to nearly \$20.6 billion in FY2008.⁶⁹ **Figure 4** also shows USPS projections for FY2009 in which costs are reduced by \$5.9 billion, but revenues decline by \$6 billion, leaving the Service with a budget shortfall nearly identical to that of FY2008.

⁶⁴ U.S. Postal Service, *United States Postal Service Quarterly Financial Report Index, Form 10-Q*, quarterly period ended March 31, 2009, p. 17.

⁶⁵ *Ibid.*, pp. 24-25

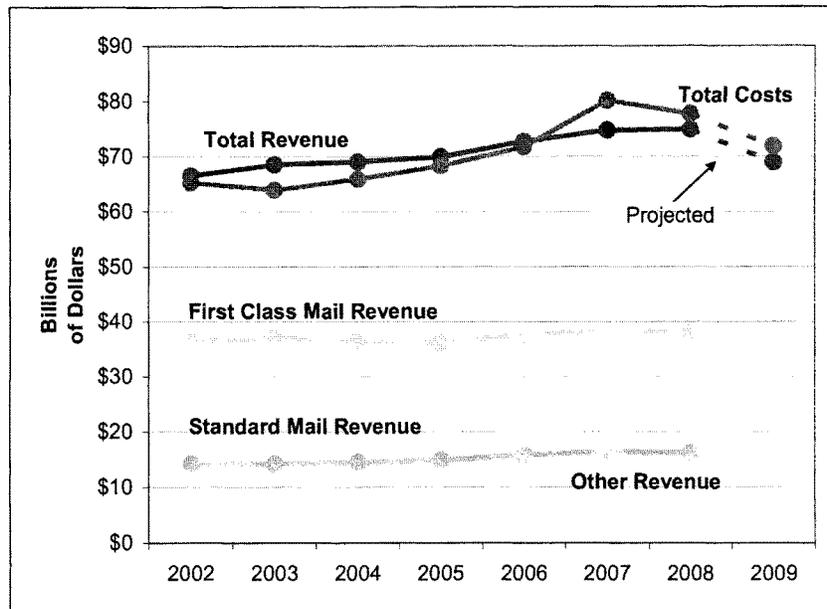
⁶⁶ *Ibid.*, p. 23.

⁶⁷ According to congressional testimony by USPS Postmaster General John E. Potter, the current economic slump in the global and national economies has "made [USPS] far more sensitive to downturns in the economic cycle, as advertising spending is extremely vulnerable to periods of retrenchment." Testimony of U.S. Postmaster General John E. Potter in U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *Postal Accountability and Enhancement Act*, hearing on the implementation of P.L. 109-435, 110th Cong., 2nd sess., March 5, 2008.

⁶⁸ First Class mail revenue remained relatively constant through FY2008. In the first two quarters of FY2009, however, USPS announced a decrease of \$762 million prompted by a reduction of volume of 7.2 billion pieces of mail when compared to the same quarter in FY2008. See U.S. Postal Service, *United States Postal Service Quarterly Financial Report Index, Form 10-Q*, quarterly period ended March 31, 2009.

⁶⁹ As noted earlier, revenues from Standard Mail have decreased in FY2009.

Figure 4. USPS Revenue, 2002-2008 and 2009 Projected



Source: CRS calculations using data from U.S. Postal Service, *Annual Report of the U.S. Postal Service* (Washington: USPS, 2004-2008). Projected revenues come from U.S. Postal Service, *United States Postal Service Quarterly Financial Report Index, Form 10-Q*, quarterly period ended March 31, 2009, p. 25.

Note: "Other" includes USPS revenue from the sales of Priority Mail, Express Mail, international mail, and package services.

Operating Costs

As USPS operating costs have increased steadily, revenue has not kept pace (Table 1). In 2008, USPS experienced a \$2.8 billion loss in revenue—\$2.6 billion less than the \$5.3 billion loss for 2007.

**Table 1. Revenue, Operating Costs, and Sales Volume
by Mail Class for USPS, 2002-2008 and 2009 Projected**
(in millions)

	2002	2003	2004	2005	2006	2007	2008	Projected 2009
Revenue								
First Class Mail	\$36,483	\$37,048	\$36,377	\$36,062	\$37,605	\$38,405	\$38,179	N/A
Standard Mail	\$15,819	\$17,231	\$18,123	\$18,953	\$19,876	\$20,779	\$20,586	N/A
Other	\$14,161	\$14,250	\$14,496	\$14,892	\$15,734	\$16,435	\$16,167	N/A
Total Operating Revenue	\$66,463	\$68,529	\$68,996	\$69,907	\$72,650	\$74,778	\$74,932	\$68,932
Operating Costs								
(Loss) Income from Operations	\$1,229	\$4,627	\$3,145	\$1,626	\$969	(\$5,327)	(\$2,806)	(\$2,906)
Sales Volume								
First Class Mail	102,379	99,059	97,926	98,071	97,617	95,898	91,697	N/A
Standard Mail	87,231	90,492	95,640	100,942	102,460	103,516	99,084	N/A
Other	13,212	12,634	12,616	12,730	13,061	12,820	11,922	N/A
Total Sales Volume	202,822	202,185	206,106	211,743	213,138	212,234	202,703	177,703 - 182,703

Source: *Annual Report of the U.S. Postal Service* (Washington: USPS 2004-2008). Projected revenues come from U.S. Postal Service, *United States Postal Service Quarterly Financial Report Index, Form 10-Q*, quarterly period ended March 31, 2009, pp. 24-25.

Note: Other includes USPS revenue related to Priority Mail, Express Mail, international mail, and package services.

A June 3, 2008, GAO report found USPS's \$5.3 billion shortfall in FY2007 was largely caused by advance payments into a fund for future retiree health benefits.⁷⁰ At a March 5, 2008, congressional oversight hearing, USPS Postmaster General John Potter stated that the service was already attempting to cut costs by reducing "expenditures for supplies, services and other non-personnel expenses."⁷¹ USPS employees are not receiving as much overtime pay, and the service is "selling unused or under-utilized postal facilities."⁷²

According to Postmaster General Potter, USPS has reduced annual costs by \$1 billion since 2002, significantly reduced the workforce through attrition, held off on construction of a variety of new

⁷⁰ U.S. Government Accountability Office, *U.S. Postal Service: Mail-Related Recycling Initiatives and Possible Opportunities for Improvement*, GAO Report GAO-08-599, June 2008, p. 1.

⁷¹ U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *Postal Accountability Enhancement Act*, hearing on the implementation of P.L. 109-435, 110th Cong. 2nd sess., (Washington: GPO, March 5, 2008). According to USPS, 150,000 employees have been offered early retirement options (more than 20% of the total USPS workforce). See U.S. Postal Service, "Postal Service Continues Aggressive Steps to Cut Costs," press release March 20, 2009, at http://www.usps.com/communications/newsroom/2009/pr09_028.htm.

⁷² *Ibid.*

facilities, and frozen salaries for those in the Service's executive ranks. In addition, Potter stated that he is in the process of reducing executive level employees by 15%.⁷³

Despite these reductions, in FY2008, USPS reported a \$2.8 billion dollar loss and a drop in mail volume of 9.5 billion pieces.⁷⁴ The first quarter of FY2009 showed continued economic erosion, with a \$380 million loss over three months.⁷⁵ USPS anticipates an even larger drop in mail volume (10 to 15 billion fewer pieces than in FY2008, a 4.9%-7.4% drop in volume) and revenue in FY2009.⁷⁶ As noted earlier, in the second quarter of FY2009, both volume and revenue dropped when compared with the same quarter in FY2008. Despite a rise in the prices of products and services of 2.9% (on average), revenues dropped 10.5% from the same three-month period in FY2008.⁷⁷ Sales of First Class Mail and Standard Mail were down 7.2 billion pieces in the second quarter of FY2009 when compared to the same time in FY2008.⁷⁸

Budget shortfalls, declining sales volume, and vacillating fuel prices have prompted USPS to discuss ways to close the budget gap. Among these options was reducing the number of delivery days, which has proven to be controversial.

Studies on Six-Day Delivery

Since 1976, Congress, the Postal Service, and other entities have conducted studies on the possible effects of changing USPS delivery days. The studies have a variety of conclusions, but all find that USPS would save considerable money if delivery were reduced to five days. **Table 2** includes five studies that examined the possibility of USPS transitioning to five-day delivery.

Table 2. Studies That Examined the Possible Transition to Five-Day Delivery at USPS

Report	Year	Estimated Money Saved if USPS Moved to Five-Day Delivery	Key Points and Study Limitations
Report of the Congressional Commission on Postal Service	1977	More than \$400 million annually	<ul style="list-style-type: none"> • Did not factor in a possible loss in sales volume • Did not factor in a possible reduction in workforce

⁷³ Testimony of John E. Potter in U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *Impact of the Financial Crisis on the U.S. Postal Service*, 111th Cong., 1st sess., January 28, 2009, at <http://hsgac.senate.gov/public/index.cfm?Fuseaction=Hearings.Detail&HearingID=ce8899e6-d08e-4d07-a6df-6aacebc9c12e>.

⁷⁴ U.S. Postal Service, *U.S. Postal Service Quarterly Financial Report Index, Form 10-Q*, February 9, 2009, p. 8.

⁷⁵ *Ibid.*

⁷⁶ *Ibid.*, p. 24.

⁷⁷ U.S. Postal Service, *U.S. Postal Service Quarterly Financial Report Index, Form 10-Q*, p. 17.

⁷⁸ *Ibid.*, p. 18.

Report	Year	Estimated Money Saved if USPS Moved to Five-Day Delivery	Key Points and Study Limitations
Report of the 1980 Task Force	1980	\$588 million in the first full year of implementation, and up to \$1 billion annually in future years	<ul style="list-style-type: none"> Acknowledged, but did not calculate a loss in sales volume Had concerns about how five-day delivery would affect speed of service on remaining delivery days Did not factor in a possible reduction in workforce
Report of the President's Commission on Postal Service	2003	Up to \$1.9 billion annually	<ul style="list-style-type: none"> Did not factor in a possible loss in sales volume Did not factor in a possible reduction in workforce Stated that if mail volume continues to decline, eliminating a delivery day should be reconsidered
USPS Report on Universal Postal Service and the Postal Monopoly	2008	\$3.5 billion annually	<ul style="list-style-type: none"> Acknowledged, but did not factor in a loss in sales volume Did not factor in a possible reduction in workforce
PRC Universal Service Obligation Report	2008	\$1.93 billion annually	<ul style="list-style-type: none"> Anticipated \$1.57 billion in reduced volume if a delivery day were eliminated Did not factor in a possible reduction in workforce

Source: U.S. Congress, Senate Committee on Governmental Affairs, Subcommittee on Energy, Nuclear Proliferation, and Federal Services, *Evaluation of the Report of the Commission on Postal Service*, 95th Cong., 2nd sess., May 2, 1977, S.Hrg. 94-180 (Washington: GPO, 1977); *Five-Day Delivery Task Force Report/Operations*, May 19, 1980; Report of the President's Commission on the United States Postal Service, *Embracing the Future: Making Tough Choices to Preserve Universal Mail Service*, Washington, DC, July 31, 2003; U.S. Postal Service, *Report on the Universal Postal Service and the Postal Monopoly*, October 2008; and U.S. Postal Regulatory Commission, *Report on the Universal Postal Service and the Postal Monopoly*, December 19, 2008. Key points and limitations are determined by CRS analysis.

Notes: Dollar values are not modified to reflect inflation.

Congressional Commission on Postal Service

On September 24, 1976, an act (P.L. 94-421; 90 Stat. 1307) creating the Commission on Postal Service to examine the Postal Service and offer possible solutions to its economic woes was signed into law. At a multi-day hearing of the Senate Committee on Governmental Affairs, Subcommittee on Energy, Nuclear Proliferation, and Federal Services in May and June of 1977, several members of the commission discussed their findings. According to the committee's chairman, Gaylord Freeman, the Postal Service was struggling to keep up with rising labor costs. The commission suggested four possible actions that could help USPS remain financially stable:

1. Increase the Postal Service efficiency, if possible
2. Substantially increase postal rates

3. Substantially increase appropriations
4. Reduce the levels of service⁷⁹

Freeman went on to call six-day delivery an “extravagance” that is “taken for granted,” noting that “the average family no longer expects its groceries, its milk, or its medical services to be delivered to the home.”⁸⁰ Freeman continued, “[i]f the costs of delivery of the mail were charged directly to the recipient, the public would probably not care to pay for the elaborate delivery system which it now enjoys.⁸¹ The committee estimated that eliminating six-day service in rural areas would save USPS more than \$400 million annually.⁸²

The committee’s vice chairman, James Rademacher, disagreed with the commission’s recommendation to eliminate six-day delivery. Instead, he said that the commission’s study only examined what the Postal Service would save, and did not acknowledge that the change in delivery services could affect senior citizens relying on the delivery of their Social Security checks or farmers who need agricultural projections that are sent through the mail.⁸³ Rademacher also noted that moving to five-day delivery could jeopardize the job security of more than 20,000 Postal Service letter carriers, and possibly more than 90,000 postal employees overall.⁸⁴

The 1980 Task Force

On March 25, 1980, Postmaster General William F. Bolger established a task force to analyze the possible effects of moving from a six- to a five-day delivery schedule. The task force conducted a study, which consisted of telephone interviews of 320 major mailers and 13 selected industries and government agencies. It found that moving to five-day delivery could save \$588 million in the first full year of implementation.⁸⁵ The savings were estimated to “exceed \$1 billion annually in future years.”⁸⁶

With the cost savings, however, were predicted increases in other stresses for the Postal Service, like loss of patrons to private mailing services or adverse effects on “the levels of service provided to mail on the remaining delivery days.”⁸⁷ In spite of the projected cost and fuel savings, the task force stopped short of endorsing a reduction in delivery service, saying “[t]he potential cost reduction is extremely attractive; but it is clear that the risks to service and future postal revenues are high.”⁸⁸

⁷⁹ U.S. Congress, Senate Committee on Governmental Affairs, Subcommittee on Energy, Nuclear Proliferation, and Federal Services, *Evaluation of the Report of the Commission on Postal Service*, 95th Cong., 2nd sess., May 2, 1977, S.Hrg. 94-180 (Washington: GPO, 1977), p. 4.

⁸⁰ *Ibid.*, p. 5.

⁸¹ *Ibid.*

⁸² *Ibid.*, p. 8.

⁸³ *Ibid.*

⁸⁴ *Ibid.*, p. 9. The number of jobs lost were estimated over several years and would not be attributed to one year of Postal Service delivery reduction.

⁸⁵ *Five-Day Delivery Task Force Report/Operations*, May 19, 1980. For a copy of the report, contact the author.

⁸⁶ *Ibid.*, p. 8.

⁸⁷ *Ibid.*, p. 8.

⁸⁸ *Ibid.*, p. 9.

The task force recommended a 12- to 18-month planning period if any action to move to five-day delivery was to be made. No such planning period occurred. In addition, the task force suggested that if five-day delivery were to occur, Saturday should be the eliminated day because it “will not greatly affect the majority of ... business mailers.”⁸⁹

The President’s Commission on the Postal Service

In 2003, the President’s Commission on the United States Postal Service, created by President George W. Bush, anticipated an “unstable financial outlook” for USPS.⁹⁰ The commission, however, adamantly rejected any action that would reduce delivery days to five.

The Commission firmly recommends continuing the Postal Service’s current Monday through Saturday delivery regimen. While the Postal Service could save as much as \$1.9 billion (less than 3% of its annual budget) by reducing its delivery schedule by one day a week, its value to the nation’s economy would suffer. Beyond the universal reach of the nation’s postal network, the regularity of pick-up and delivery is an essential element of its worth in the current climate. Elimination of Saturday delivery, for example, could make the mail less attractive to business mailers and advertisers who depend upon reaching their target audience on that day. In addition, given the volume of mail the nation sends each day, scaling back to a five-day delivery regimen could create difficult logistics, mail flow, and storage problems.⁹¹

While the report advised continuing six-day service, the commission noted that increasing use of electronic mail was leading to “a reduction in the demand for mail services” that could lead to a “relaxation of the six-day delivery requirement” in the future.⁹²

The report concluded that “[i]f that time does arrive, the Commission believes that the Postal Service should have flexibility to adapt with the changing postal needs of the nation.”⁹³

The USPS and Postal Regulatory Commission Studies of 2008

In 2008, two studies on USPS delivery obligations were conducted—one by the PRC and another by USPS.⁹⁴ The USPS study determined that the elimination of a delivery day could save the Service \$3.5 billion per year.⁹⁵ The PRC study estimated the savings at \$1.93 billion. The lower total estimated savings of the PRC study was anticipated because of an expected loss in sales volume.

⁸⁹ *Ibid.*, p. 7.

⁹⁰ Report of the President’s Commission on the United States Postal Service, *Embracing the Future: Making Tough Choices to Preserve Universal Mail Service* (Washington, DC: GPO July 31, 2003), p. vii, at <http://treas.gov/offices/domestic-finance/usps/pdf/freport.pdf>.

⁹¹ *Ibid.*, p. 28.

⁹² *Ibid.*, p. 29.

⁹³ *Ibid.*

⁹⁴ U.S. Postal Service, *Report on the Universal Postal Service and the Postal Monopoly*; and U.S. Postal Regulatory Commission, *Report on the Universal Postal Service and the Postal Monopoly*.

⁹⁵ This study did not consider any fluctuation in fuel costs, nor did it include possible volume reductions prompted by the reduction in service days.

The USPS study does not state whether it endorses continuation of six-day delivery. The PRC study, however, did state a need for USPS to have flexibility in determining its delivery obligations.

Delivery mode could be explicitly defined to protect the public interest by ensuring a uniform level of service across the Nation. However, the Postal Service has throughout its history used flexibility in delivery mode to accommodate budgetary restrictions. Any determination by Congress of delivery mode should balance the public interest in a universal standard of delivery against the need for the Postal Service to be flexible to contain costs.⁹⁶

The 111th Congress

Hearings

Early in the 111th Congress, the Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, held a hearing entitled “The Impact of the Economic Crisis on the U.S. Postal Service.” At that hearing, Postmaster General John E. Potter “reluctantly” requested “that Congress remove the annual appropriation bill rider, first added in 1983, that requires the Postal Service to deliver mail six days each week.”⁹⁷

[I]t is possible that the cost of six-day delivery may simply prove to be unaffordable. If that should occur, it could become necessary to temporarily reduce mail delivery to only five days a week. We would do this by suspending delivery on the lightest volume days. ... Any such action would be taken under the direction of our Board of Governors and only when absolutely warranted by financial circumstances. Were we to do so, we would make every effort to maximize the benefits to our customers while minimizing any disruption to our mailers.⁹⁸

During the question-and-answer period at the hearing, Potter said that USPS would not likely have six-day delivery in the future because of changes in mail volume, much of which is related to increasing use of electronic mail services.

PRC Chairman Dan G. Blair also addressed the possibility of eliminating six-day delivery at the hearing, calling such action a “double-edged sword.” He noted that moving to a five-day delivery schedule could save billions of dollars annually for the Postal Service, but he was unsure whether the move would “exacerbate the already declining mail volumes.”⁹⁹ Blair said that even if Congress removed the six-day delivery provision from appropriations legislation, existing statutes would require USPS to gain approval from the PRC in order to change the delivery schedule. He

⁹⁶ U.S. Postal Regulatory Commission, *Report on Universal Postal Service and the Postal Monopoly*, p. 184.

⁹⁷ Statement of U.S. Postmaster General John E. Potter in U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *Impact of the Financial Crisis on the U.S. Postal Service*, 111th Cong., 1st sess., January 28, 2009, at <http://hsgac.senate.gov/public/index.cfm?Fuseaction=Hearings.Detail&HearingID=ce8899e6-d08e-4d07-a6df-6aecebc9c12e>.

⁹⁸ *Ibid.*

⁹⁹ Testimony of Dan G. Blair, *ibid.*, at http://hsgac.senate.gov/public/_files/BlairStatementt.pdf.

also said that if USPS sought PRC approval, the commission would collect public comments before rendering a determination.

At the hearing, Senator Susan Collins stated that service cutbacks would lead to “an even bigger drop” in mail volume that could lead to a “death spiral” for USPS.¹⁰⁰

On March 25, 2009, the House Committee on Oversight and Government Reform’s Subcommittee on Federal Workforce, Postal Service, and the District of Columbia held a hearing on the financial stability of the U.S. Postal Service. At the hearing, Potter again asked for flexibility for USPS to determine its delivery days.¹⁰¹ Carolyn Gallagher, chairperson of the USPS Board of Directors, concurred.

Adjusting our delivery network makes good business sense given the falling demand for our products and services. On a daily basis, the Postal Service is delivering fewer pieces of mail to each address we serve. The reality is that the reduced volume no longer produces enough revenue to pay for the cost of six-day delivery to the 150 million households and businesses that make up our delivery network.¹⁰²

Phillip Herr, director of physical infrastructure issues at GAO, testified at the hearing that USPS had “provided little information on where it would reduce delivery frequency, and the potential impact on cost, mail volume, revenue, and mail users.”¹⁰³

Because the number of delivery days is fundamental to universal service, Congress should have more complete information before it considers any statutory changes in this area. A mechanism to obtain such information would be for USPS to request an advisory opinion from PRC, which would lead to a public proceeding that could generate information on USPS’s request and stakeholder input.¹⁰⁴

At a May 20, 2009, hearing before the House Committee on Government Oversight’s Subcommittee on the Federal Workforce, the Postal Service and the District of Columbia, Herr reiterated the need for Congress to have a more thorough analysis of the effects of delivery reduction, adding that five-day delivery “could affect time-sensitive payments, correspondence, advertising, or packages.”¹⁰⁵

¹⁰⁰ Comments of Senator Susan M. Collins, *ibid.* A similar statement can be found in U.S. Senator Susan Collins, “Senator Collins Criticizes U.S. Postal Service for Proposing Elimination of Services,” press release, January 28, 2009, http://collins.senate.gov/public/continue.cfm?FuseAction=PressRoom.PressReleases&ContentRecord_id=22d3f0b2-802a-23ad-47be-7a88b075995c&Region_id=&Issue_id=&CFID=15709811&CFTOKEN=35683692.

¹⁰¹ Testimony of John E. Potter in U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Post Office, and the District of Columbia, *Restoring the Financial Stability of the U.S. Postal Service*, March 25, 2009, 111th Cong., 1st sess., at <http://federalworkforce.oversight.house.gov/documents/20090325092625.pdf>.

¹⁰² Testimony of Carolyn Gallagher, *ibid.*, at <http://federalworkforce.oversight.house.gov/documents/20090325091804.pdf>.

¹⁰³ Testimony of Phillip Herr, *ibid.*, at <http://federalworkforce.oversight.house.gov/documents/20090325092707.pdf>.

¹⁰⁴ *Ibid.*

¹⁰⁵ Testimony of Phillip Herr, U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Post Office, and the District of Columbia, *Nip and Tuck: The Impact of Current Cost Cutting Efforts on Postal Service Operations and Network*, 111th Cong., 1st sess., May 20, 2009, at <http://federalworkforce.oversight.house.gov/documents/20090520142743.pdf>.

At that same hearing, Committee Chairman Stephen F. Lynch stated that “[t]he only way” the committee would “embrace” a move to five-day delivery would be when “we have no other choice, and we’re getting to that point.”¹⁰⁶ Representative Jason Chaffetz echoed Mr. Lynch’s hesitance to move to five-day delivery, but added he would consider a mixture of public funding and delivery reduction that could help USPS’s economic condition.

At the hearing, William Galligan, vice president of operations at USPS, said that a move to five-day delivery was inevitable and “an appropriate response to sobering realities.” Later Galligan added that there simply was not enough demand for six-day mail delivery to continue.¹⁰⁷

Legislation

On February 13, 2009, Representative Sam Graves introduced H.Res. 173 that, if passed, would express that it is the sense of the House that six-day mail delivery continue:

Whereas Social Security is the primary or sole source of income for many senior citizens, and any delay in the delivery of their Social Security checks would make it difficult for them to purchase even essential items, such as food and medicine; and

Whereas reducing mail delivery service to 5 days a week would inevitably cause not only delays in the delivery of mail, but higher postal costs, due to the many hours of additional overtime that the Postal Service would require in order to handle the resulting back-up of mail; Now, therefore, be it

Resolved, That it is the sense of the House of Representatives that the United States Postal Service should take all appropriate measures to ensure the continuation of its 6-day mail delivery service.

House appropriators recommended that Congress include a six-day mail requirement in the FY2010 USPS appropriation.¹⁰⁸ Senate appropriators also recommended the inclusion of a six-day mail requirement.¹⁰⁹ Senate appropriators, however, were more explicit than their House counterparts. Pursuant to the report, six-day mail was to “be maintained in fiscal year 2010 and beyond.”¹¹⁰ The appropriators continued:

These are services that must be maintained in fiscal year 2010 and beyond. The Committee believes that 6-day mail delivery is one of the most important services provided by the Federal Government to its citizens. Especially in rural and small town America, this critical postal service is the linchpin that serves to bind the Nation together.¹¹¹

¹⁰⁶ Statement of Representative Stephen F. Lynch, *ibid.*

¹⁰⁷ Testimony of William Galligan, *ibid.*

¹⁰⁸ U.S. Congress, House Committee on Appropriations, Subcommittee on Financial Services and General Government, *Financial Services and General Government Appropriations Bill, 2010*, report to accompany H.R. 3170, 111th Cong., 1st sess., July 10, 2009, H.Rept. 111-202 (Washington: GPO, 2009), p. 109.

¹⁰⁹ U.S. Congress, Senate Committee on Appropriations, Subcommittee on Financial Services and General Government, *Financial Services and General Government Appropriation, 2010*, report to accompany S. 1432, 111th Cong., 1st sess., July 9, 2009, S.Rept. 111-43 (Washington: GPO, 2009), p. 129.

¹¹⁰ *Ibid.*

¹¹¹ *Ibid.*

International Comparisons

Other countries' mail services have a variety of delivery schedules. Royal Mail, which delivers mail in the United Kingdom (UK), reportedly contemplated eliminating Saturday delivery in 2008 because of economic concerns.¹¹² Despite these concerns, Royal Mail, which maintains six-day delivery, generated £177 million (roughly \$260 million USD) in profit in the first half of 2008.¹¹³ This profit margin was aided by a £150 million (roughly \$233 million USD) "Social Network Payment" from the national government that is used to continue services at Post Office branches that do not generate a profit. In addition, Royal Mail has also moved from full-time to part-time employment for many workers, streamlined spending on information technology, and added new products.¹¹⁴

Unlike Royal Mail, Canada Post offers letter carrier services five days per week and does not deliver mail or parcels on most Saturdays.¹¹⁵ Canada Post is a Crown Corporation that is owned by the government but free from many federal regulations. The entity, however, must report operations and revenues to an appointed minister.¹¹⁶ Canada Post, which receives no national appropriation, paid the Canadian government \$720 million (\$670 million USD) in taxes in 2008 and generated \$54 million (roughly \$46 million USD) in profit after taxes.¹¹⁷ Unlike USPS, however, Canada Mail contracts out much of its rural delivery service. **Table 3** includes the mail services of a selected group of countries around the world and shows how many days per week they make deliveries as well as offers additional information about the service's structure and operations.

Table 3. Number of Mail Delivery Days Per Week, By Country
(in 2009)

Country	Number of Delivery Days Per Week	Structure and Operations
Australia (Australia Post)	5	Quasi-governmental entity, known as a Government Business Enterprise, that is governed by a variety of statutes.
Canada (Canada Post)	5	Canada Post is quasi-governmental entity, known as a Crown Corporation, that is owned by the government, but free from certain governmental regulations.

¹¹² Harry Wallop, "Royal Mail Cuts May End Saturday Post," *The Telegraph*, May 10, 2008.

¹¹³ Royal Mail Holdings Plc, *Trading Update for the Half Year Ended 28 September 2008*, p. 1, at ftp://ftp.royalmail.com/Downloads/public/ctf/rmg/200809_Trading_Statement.pdf.

¹¹⁴ *Ibid.*, p. 2.

¹¹⁵ Information provided by telephone to author by Canada Post on April 28, 2009. Saturday services are offered in late November and throughout December when the holiday season prompts greater use of the Post's delivery services. Additionally, some Canada Post offices and service windows are open on Saturdays if they are located within businesses that have Saturday hours, like a pharmacy.

¹¹⁶ Canada Post, *About Us: Corporate Governance*, at <http://canadapost.ca/cpo/mc/aboutus/corporate/governance/default.jsf>.

¹¹⁷ Canada Post, *About Us: Fast Facts*, at <http://www.canadapost.ca/cpo/mc/aboutus/corporate/fastfacts.jsf>.

The U.S. Postal Service and Six-Day Delivery: Issues for Congress

Country	Number of Delivery Days Per Week	Structure and Operations
France (La Poste)	6	La Poste is a state-owned company. It eliminated Sunday delivery in 1941.
Germany (Deutsche Post DHL)	6	Deutsche Post DHL is a private company, which owns DHL—one of the largest global private mail and package delivery companies. Deutsche Post offers Saturday delivery for an additional fee.
The Netherlands (TNT)	6	TNT is a private entity that is the largest mail carrier in The Netherlands, but also operates globally.
New Zealand (New Zealand Post)	5 (in certain areas)	New Zealand Post is a state-owned enterprise. Customers outside of rural areas can pay extra for Saturday deliveries, but parcels cannot be mailed on Saturdays to any location.
Sweden (Posten)	5	In 2008, Posten—formerly a government-owned company—merged with Post Danmark (of Denmark) and CVC Capital Partners (a private entity). The merger makes the two governments and the private entity shared owners.
United Kingdom (Royal Mail)	6	Royal Mail is a public limited company that is wholly owned by the government. Standard Parcels are not delivered on Saturdays.

Source: U.S. Postal Service, *A Strategic Review of Progressive Postal Administrations: Competition, Commercialization, and Deregulation*, February, 1995. Available in U.S. Congress, joint hearing between the Senate Committee on Governmental Affairs' Subcommittee on Post Office and Civil Service and the House Committee on Government Reform and Oversight's Subcommittee on Postal Service, *United States Postal Service Reform: The International Experience*, 104th Cong., 2nd sess., January 25, 1996, S.Hrg. 104-442 (Washington: GPO, 1996). Information on 2009 comes from a variety of sources. Australia Post provided the information electronically to the author on May 12, 2009. Canada Post provided information to the author by telephone on April 28, 2009. La Poste, which serves France, provides information at <http://www.laposte.com/parcels-and-express?lang=en>. TNT, which is The Netherlands largest deliverer of mail, provided information to the author electronically on May 13, 2009. Deutsche Post DHL provided information electronically to the author on May 13, 2009. Information on New Zealand Post is available at <http://www.nzpost.co.nz/Cultures/en-NZ/OnlineTools/Ratefinder/LettersNZ>. The Swedish Post Group provided information electronically to the author on May 12, 2009. Information on the merger with Post Danmark and CVC Capital Partners can be found at <http://www.cvc.com/Content/En/MediaCentre/PressRelease.aspx?PRID=144>. Royal Mail provides information at <http://www.royalmail.com/portal/rm/jump2?catId=400028&mediald=400030&keyname=2CLASS> and <http://www.royalmail.com/portal/rm/jump2?catId=400028&mediald=400029&keyname=1CLASS>.

On January 25, 1996, the Senate Committee on Governmental Affairs' Subcommittee on Post Office and Civil Service and the House Committee on Government Reform and Oversight's

Subcommittee on Postal Service held a joint hearing.¹¹⁸ At the hearing, USPS unveiled a study on mail delivery services around the world.

Michael E. Motley, associate director of government business operation issues at the General Accounting Office (now the Government Accountability Office), testified that Canada Post offered the United States its best case study comparison “because of its proximity to the United States and its similarities in geographic size, business environment, and market-oriented economic systems.”¹¹⁹ Despite the similarities between Canada Post and USPS, however, Motley said “Canada Post has about 6 percent of the U.S. Postal Service’s mail volume and about 6 percent of its number of employees.”¹²⁰ Motley stated that the vast size and volume differences between the United States and the other countries could make successful actions taken in other countries impossible to implement in the United States. Motley added, however, that “issues surrounding the extent and quality of universal mail service, e.g., delivery to all communities 6 days a week, could surface in this country as they have in some other countries.”¹²¹

Analysis

Arguably, USPS remains a vital asset for communication across the United States. The Service delivers mail to millions of homes six days per week. With current economic hardships and a reduction in volume of more lucrative USPS products, the Service is struggling economically. One option to reduce the economic stresses on USPS is to reduce service delivery from six days per week to five days per week.

As noted earlier in this report, USPS derives a vast majority of its funding from sources other than congressional appropriations. Use of congressional appropriations legislation to place restrictions on the entirety of USPS funding, therefore, may not be legally enforceable. Some legal scholars, however, state that even non-appropriated funds are sometimes deposited into the Treasury (which is the case with USPS funding), and that “all spending in the name of the United States must be pursuant to legislative appropriation.”¹²² Although the laws governing Congress’s use of restrictions on appropriations are unclear, agencies that choose not to heed such restrictions may do so at their own peril.

Despite repeated requests to eliminate the six-day delivery requirement, USPS officials have said that reducing the number of delivery days is not their preferred option to bridge the revenue

¹¹⁸ U.S. Congress, joint hearing between the Senate Committee on Governmental Affairs’ Subcommittee on Post Office and Civil Service and the House Committee on Government Reform and Oversight’s Subcommittee on Postal Service, *United States Postal Service Reform: The International Experience*, 104th Cong., 2nd sess., January 25, 1996, S.Hrg. 104-442 (Washington: GPO, 1996).

¹¹⁹ Testimony of Michael E. Motley, *ibid.* Also available at <http://www.gao.gov/archive/1996/gg96060t.pdf>.

¹²⁰ *Ibid.*

¹²¹ U.S. Congress, joint hearing between the Senate Committee on Governmental Affairs’ Subcommittee on Post Office and Civil Service and the House Committee on Government Reform and Oversight’s Subcommittee on Postal Service, *United States Postal Service Reform: The International Experience*, 104th Cong., 2nd sess., January 25, 1996, S.Hrg. 104-442 (Washington: GPO, 1996), p. 257.

¹²² Kate Stith, “Congress’ Power of the Purse,” *The Yale Law Journal*, vol. 97 (1988), p. 1345. For more information on congressional influence through appropriations restrictions, see CRS Report RL34354, *Congressional Influence on Rulemaking and Regulation Through Appropriations Restrictions*.

shortage.¹²³ Among the cost-cutting options preferred by USPS are obtaining flexibility from Congress to pay less into the fund for future retiree benefits (H.R. 22 offers this as an option), obtaining flexibility from Congress to raise the price of stamps and other services higher than currently permitted by law, closing less-used post offices and distribution facilities, and obtaining additional appropriations from Congress. Although there are a variety of options USPS could pursue to reduce costs or increase revenue, this report addresses only the possible transition from six- to five-day service.

Moving to five-day delivery is estimated to save USPS between \$1.94 and \$3.5 billion per year. The difference in total estimated savings would depend on how much mail volume would drop as a result of the service delivery reduction. The \$1.94 billion in estimated cost savings for eliminating a delivery day is \$860 million less than the budget shortfall for FY2008 (\$2.8 billion). In the *U.S. Postal Service Quarterly Financial Report Index*, USPS stated that it does “not anticipate being able to realize any savings in 2009 if five-day delivery were instituted, but the service “would capture savings in future years.”¹²⁴ A reduction in delivery days alone, therefore, may not be sufficient to bridge existing or anticipated future budget gaps at USPS.

Continued Drop in Mail Volume

In 1977, the President’s Commission on Postal Service did not endorse a move to five-day delivery, but stated that the possibility of such a transition should be revisited if mail volume continued to shrink. A primary concern related to a move to five-day delivery has been the ability of the Postal Service to provide services of the same quality on a five-day schedule that is currently offered on a six-day schedule. Mail volume has dropped significantly in recent years, largely because of electronic mail and electronic bill-paying options. Mail volume is expected to continue its decline. Congress may choose to revisit the need for six-day delivery if the decline does continue. With a decline in volume comes a decline in the number of mail pieces delivered on each of the six delivery days. With mail volume in decline, concerns about overwhelming volumes of mail needing delivery on the five remaining delivery days may be mitigated.

Customer Reliance on Six-day Delivery

Congress may choose to remove the six-day delivery provision from appropriation legislation and grant USPS greater flexibility to eliminate delivery days if the Service finds such action to be beneficial economically. Such flexibility would save USPS money in employee pay and fuel costs.¹²⁵ The action, however, may prompt fewer people to use USPS services and instead to opt for private companies to deliver their mail. In addition, certain mail customers rely on six-day delivery to receive vital mail or packages, like baby formula, social security checks, or climate

¹²³ U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *Impact of the Financial Crisis on the U.S. Postal Service*, testimony of John E. Potter, 111th Cong., 1st sess., January 28, 2009, at <http://hsgac.senate.gov/public/index.cfm?fuseaction=Hearings.Detail&HearingID=ce8899e6-d08e-4d07-a6df-6aeece9c12e>.

¹²⁴ U.S. Postal Service, *United States Postal Service Quarterly Financial Report Index, Form 10-Q*, quarterly period ended March 31, 2009, p. 26.

¹²⁵ USPS spent nearly \$2.4 billion on fuel and oil in FY2008. U.S. Postal Service, “Make/Model and Component Cost Report, National Summary for Quarter 4, FY08, September 2008,” Report AEL302P12, September 2008.

predictions. Slower receipt of such items may cause additional stresses to populations that are already vulnerable, like the aged, the poor, or those who live in remote areas.

A January 30, 2009 *Washington Post* Article, reported that William Burrus, president of the American Postal Workers Union, said the union would “vigorously resist any legislative attempt to slash the number of days of delivery.” Mr. Burrus reportedly said that a five-day delivery schedule “would stretch to three days when the additional day is combined with Sunday and a Monday holiday. Such delays will drive essential mail to private carriers, who will continue to deliver seven days a week.”¹²⁶

Congress could consider eliminating a delivery day while maintaining Saturday window service at USPS post offices. If a postal patron needed to receive mail or a package on a day without delivery service, USPS might be able to provide such services at a USPS location. This option may be difficult for USPS because employees who work in post offices must have access to a variety of mail and parcels that would normally be delivered to a patron’s home, office, post office box, or other location. In addition, postal customers who, for medical or other reasons, are unable to leave their homes would not be able to access postal services. Window service, however, might assuage concerns from most customers who would seek access to mail or parcels that normally would have been delivered on the sixth delivery day.

Which Day Would Be Eliminated?

Were Congress to reduce the number of USPS delivery days, it might then choose to determine which day of service to eliminate. Previous studies have recommended the elimination of Saturday delivery because it was the most cost effective option.¹²⁷ Many businesses that are closed on Saturdays would be unaffected by the elimination of Saturday delivery. USPS has also stated that elimination of Wednesday delivery could be a possibility.¹²⁸ If Saturday delivery were eliminated, on weeks that have Friday or Monday holidays, deliveries would not occur for three consecutive days. Alternatively, as noted in the 1980 Task Force study, if Wednesday delivery were eliminated, many businesses that would not be affected by the elimination of Saturday delivery would be affected by the change.¹²⁹

Congress could choose to adopt delivery practices similar to Canada Post, and have six-day delivery only at specified, mail-heavy times of the year. Congress could opt to delegate authority to USPS to shift from six- to five-day delivery as mail volume fluctuates throughout the year. This option would allow USPS the ability to adjust to macroeconomic and seasonal influences that affect mail volume. This delegation of authority, however, may cause confusion for USPS customers who may be unaware of service changes and who rely on consistent USPS delivery services.

Congress could grant USPS flexibility to charge more for Saturday delivery services, as is done in New Zealand. Such action may allow USPS to operate on with a streamlined weekend staff,

¹²⁶ Joe Davidson, “Five-Day Mail Delivery? Not So Fast,” *The Washington Post*, January 30, 2009, p. D3.

¹²⁷ Five-Day Delivery Task Force Report/Operations, May 19, 1980. For a copy of the report, contact the author.

¹²⁸ Wednesday could be selected as a non-delivery day because its removal from the USPS work week because it is in the middle of the week. As noted earlier, removing delivery on Saturday would cause some weeks with holidays on Monday to have four consecutive days without mail delivery (Saturday through Monday).

¹²⁹ *Ibid.*

thereby eliminating work hours and saving overhead costs. This option, however, could negatively affect poorer populations that rely on Saturday delivery for prescriptions, monthly stipends, or other mail or parcels. Many of the other methods foreign countries have used to bridge their mail services' economic gaps—like contracting out carrier service—would be difficult to apply in the United States. Union contracts, geographic vastness, and other variables may make USPS's economic situation unique.

U.S. Postal Service and Public Expectations

A January 2009 Gallop/USA Today poll found that 57% of 1,027 people surveyed said they would prefer to see a reduction in USPS services, like Saturday delivery, in lieu of other measures such as increasing government funding (27% favored) or significant increases in stamp prices (14% favored).¹³⁰

Congress may determine that mail delivery is deeply embedded in America's history. USPS customers expect timely, consistent, and reliable delivery. Providing USPS with the flexibility to vary its delivery schedule may confuse or frustrate customers who think of mail delivery as a necessary public good. Such aggravation may prompt patrons to reflect negatively on the abilities of the federal government to provide services to the public.

Congress may choose to continue placing the six-day delivery provision in appropriations legislation. If six-day delivery continues, USPS would have to find other ways to increase revenue or reduce delivery costs in order to bridge USPS's recurring budget shortfall.

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¹³⁰ Survey by USA Today and Gallup Organization, January 30-February 1, 2009. Retrieved April 23, 2009 from the iPOLL Databank, The Roper Center for Public Opinion Research, University of Connecticut. Three percent of respondents did not have an opinion. Numbers do not equal 100% due to rounding.



Post Office and Retail Postal Facility Closures: Overview and Issues for Congress

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Summary

In common parlance, "post office" is used to refer to a wide variety of facilities operated by the United States Postal Service (USPS). In administrative practice, the USPS differentiates among several categories of postal facilities. Regarding one category of its facilities, the USPS announced in May 2009 that it was considering the closure of 3,105 of its 4,851 post office branches and stations. These facilities provide the public with postal services, such as stamp sales, post office boxes, and package shipping. Since the original announcement, the USPS has indicated that the number of possible closures may be fewer than 1,000.

This report provides (1) information on this recent announcement; (2) historical data on the number of post offices and other retail postal facilities; (3) an explanation of the legal authorities relevant to retail postal facility closures; (4) a review of the retail postal facility closure processes, including data on public appeals of closures, and H.R. 658's proposed alterations to the processes; and (5) a concluding discussion that suggests observations and possible issues for Congress.

The USPS has cited financial duress as a reason for its proposed closure of post office branches and stations. According to the USPS, the post office branches and stations under consideration for closure are located in metropolitan areas. The USPS has not indicated whether any employees would lose their positions. Most postal employees are protected from layoffs by collective bargaining agreements.

As of FY2008, the USPS had 36,065 retail postal facilities, including post offices, post office branches and stations, community post offices, and contract postal units. This is 16.3% fewer than existed in 1970 when the USPS was established as an independent establishment of the executive branch. The closure of 1,000 branches and stations would reduce the current number of retail postal facilities by 2.7%, and the number of post office branches and stations by 20.6%.

By law, the USPS does not rely on appropriations to fund its operations. It must support itself through the sales of postal services. Congress has given the USPS considerable discretion to decide how many post offices to erect and where to place them. The USPS also is obliged to provide the public with adequate access to postal services.

Both federal law and the USPS's rules prescribe a post office closure process. The U.S. Postal Service must notify the affected public and hold a 60-day comment period prior to closing a post office. Should it decide to close a post office, the public has 30 days to appeal the decision to the Postal Regulatory Commission (PRC). Between FY1998 and FY2007, 25 of the approximately 676 post office closures were appealed to the PRC. The USPS uses an expedited version of this process to close post office branches, stations, and community post offices. On January 22, 2009, Representative Albio Sires introduced H.R. 658, which would require the USPS to employ the more lengthy post office closure process on all retail facility closures, and expand the current statutory public notification requirements.

Federal law requires the USPS to arrange its delivery and service network to most efficiently serve the public. However, the proposed closures may raise a number of issues, including public participation in the closure process, the effects on postal workers, and the possible effects of closures on communities. Congress may wish to consider a variety of measures to address these possible issues.

This report will be updated to reflect significant legislative action.

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The Post Office Closure Announcement

The USPS Announces Branch and Station Closures

In a May 15, 2009, letter to the American Postal Workers Union, AFL-CIO (APWU), the U.S. Postal Service (USPS) wrote,

As you know, the Postal Service has responded to dramatic decreases in mail volume, but more needs to be done.... Like mail volume, window transactions at our retail units have substantially declined. The Postal Service is considering consolidating operations in our larger stations and branches.... These offices have experienced serious volume, transaction, and revenue declines. The Postal Service will be using the current procedures that are in place for studying the activities of an office for possible discontinuance. Many factors including impact on employees, service standards, cost savings, customer access, environmental impact, real estate values, and long-term needs of the service would be taken into account during the reviews. We would expect these local manager reviews to result in a significant increase in the number of lease terminations and/or facility disposals.¹

The USPS enclosed with the letter an 87-page list of 3,105 post office branches and stations.² (As explained further on page 7, post office branches and stations greatly resemble post offices. These USPS-operated facilities provide the public with postal services, such as stamp sales, post office boxes, and package shipping.) Subsequently, the APWU has said that the USPS considered 3,243 post office branches and stations for possible closure.³

In making the announcement, the U.S. Postal Service did not indicate whether any employees would lose their positions. Most postal employees are protected from layoffs by collective bargaining agreements. The APWU, whose members would be affected by this action, has not expressed any concerns over the possibility of layoffs as Article 6 of its contract with USPS largely forbids involuntary reductions in force.⁴

The USPS has said that no closures will occur before October 2, 2009.⁵

GAO Urges Retail Facility Reductions

Five days after the USPS contacted the APWU, Phillip Herr of the Government Accountability Office (GAO) testified before the House Committee on Oversight and Government Reform's

¹ John W. Dockins, U.S. Postal Service, "letter to William Burrus, President, American Postal Workers Union, AFL-CIO," May 15, 2009, at <http://www.apwu.org/news/webart/2009/09-064-consolidation-retail-090609-uspsletter.pdf>.

² To access this list, see *ibid*.

³ American Postal Workers Union, "APWU Web News Article #076-09, July 1, 2009," at <http://www.apwu.org/news/webart/2009/09-076-consolidatingstations-090701.htm>. The APWU has posted a list of the 3,243 facilities at <http://www.apwu.org/news/webart/2009/09-076-consolidatingstations-090701-d-list.xls>.

⁴ *Collective Bargaining Agreement Between American Postal Workers Union, AFL-CIO and U.S. Postal Service, November 21, 2006-November 20, 2010* (Washington: APWU, 2006), pp. 9-18, at <http://www.apwu.org/dept/ind-rel/sc/APWU%20Contract%202006-2010.pdf>.

⁵ Direct Testimony of Alice M. Vangorder on Behalf of the United States Postal Service, Postal Regulatory Commission Docket N2009-1, p. 11, at <http://www.prc.gov/Docs/63/63567/FINAL.VANGORDER.W.ATTACH.pdf>.

Subcommittee on Federal Workforce, Postal Service, and the District of Columbia.⁶ He reported that the USPS had “made progress in expanding the alternatives to traditional post offices and retail postal branches,” which the Postal Accountability and Enhancement Act of 2006 encouraged (PAEA; P.L. 109-435; 120 Stat. 3221). As of February 2008, customers could access stamps and postal services at 71,555 grocery stores, retail outlets, and self-serve kiosks. The USPS earned approximately 25% of its retail revenue through these retail outlets.⁷

However, Herr said that the USPS had not reduced its number of retail postal facilities sufficiently:

Rightsizing [the] USPS’s retail and mail processing networks is needed to eliminate excess capacity, improve efficiency that is critical to maintaining affordable postal rates, and facilitate streamlining [the] USPS’s workforce, which generates close to 80 percent of its costs. Excess capacity has grown with unprecedented declines of mail volume, which are projected to continue through fiscal year 2010... [A]s its mail volumes decline, [the] USPS does not have sufficient revenues to cover the growing costs of providing service to new residences and businesses while also maintaining its large network of retail and processing facilities.⁸

House Hearing on Retail Facility Closures

The Subcommittee on Federal Workforce, Postal Service, and the District of Columbia examined the USPS’s proposed closure of retail postal facilities in a hearing on July 30, 2009.⁹ In his submitted testimony, Jordan M. Small, Vice President, USPS Network Operations, stated,

In our review of stations and branches, we began the review with some 3,200 locations that handle the most retail transactions and the most deliveries. We anticipate that out of these 3,200 stations and branches, under 1,000 offices could be considered as viable candidates to study further. No decisions will be made regarding which, if any, facilities will be consolidated until these reviews are finalized, and we have incorporated a community notification process into the review.¹⁰

Small also said in response to a question during the hearing that there would be no layoffs.

⁶ For witness statements, see U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, *Nip and Tuck: The Impact of Current Cost Cutting Efforts on Postal Service Operations and Network*, May 20, 2009, at <http://federalworkforce.oversight.house.gov/story.asp?ID=2444>.

⁷ Statement of Phillip Herr, Director, Physical Infrastructure Issues, Government Accountability Office, *U.S. Postal Service: Network Rightsizing Needed to Help Keep USPS Financially Viable*, GAO-09-674-T (Washington: GAO, May 20, 1009), at <http://www.gao.gov/new.items/d09674t.pdf>, pp. 6-8.

⁸ *Ibid.*, pp. 3-4.

⁹ See <http://federalworkforce.oversight.house.gov/story.asp?ID=2561> for a list of witnesses and their submitted testimony.

¹⁰ Statement of Jordan M. Small, Vice President, USPS Network Operations in U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, *Making Sense of It All: An Examination of USPS’s Station and Branch Optimization Initiative and Delivery Route Adjustments*, hearing, 111th Congress, 1st sess., at <http://federalworkforce.oversight.house.gov/documents/20090730130955.pdf>.

Phillip Herr reiterated GAO's view that the USPS needed to reduce the number of retail facilities as part of a "broad restructuring" to address its financial challenges.¹¹ Some other witnesses concurred that the USPS should reduce the number of its retail facilities. Arthur B. Sackler, Executive Director, National Postal Policy Council, an organization representing large mailers, called the closures "necessary not only in the short term, but also the longer term."¹²

Other witnesses, though, expressed concerns that the closures could have negative effects on access to postal services and postal workers. Frederic Rolando, President of the National Association of Letter Carriers, AFL-CIO, asked Congress to

ensure that the Postal Service does not make structural decisions that will do more harm than good over the long run. Down-sizing to meet depression-level demand [by mailers] without considering the long-term impacts on the ability of the Postal Service to meet new demands when the economy recovers would be short-sighted.¹³

The USPS Releases a List of 677 Retail Facilities to be Considered for Possible Closure

On July 28, 2009, the USPS submitted a list to the PRC of 677 retail facilities that would be studied for possible closure.¹⁴ **Figure 1** depicts the states in which these 677 facilities are located, and the number of facilities to be considered for possible closure in each state. **Figure 2** depicts the location of the cities in which these facilities are located.

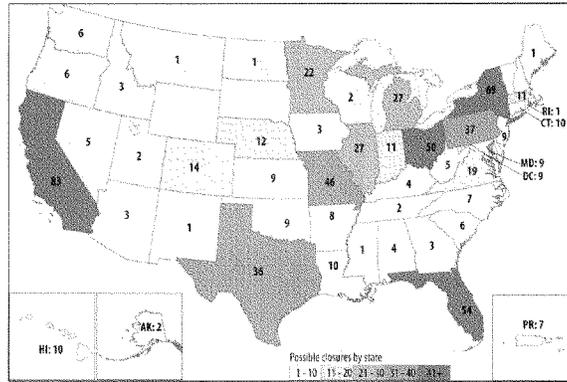
¹¹ Statement of Phillip Herr, Director, Physical Infrastructure Issues, Government Accountability Office, *U.S. Postal Service: Broad Restructuring Needed to Address Deteriorating Finances*, GAO-09-790T (Washington: GAO, July 30, 2009), at <http://www.gao.gov/new.items/d09790t.pdf>, pp. 4-5.

¹² Statement of Arthur B. Sackler, Executive Director, National Postal Policy Council, in U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, *Making Sense of It All*, p. 2, at <http://federalworkforce.oversight.house.gov/documents/20090730130419.pdf>.

¹³ Statement of Frederic Rolando, President of the National Association of Letter Carriers, AFL-CIO, in *ibid.*, p. 2, at <http://federalworkforce.oversight.house.gov/documents/20090730130525.pdf>.

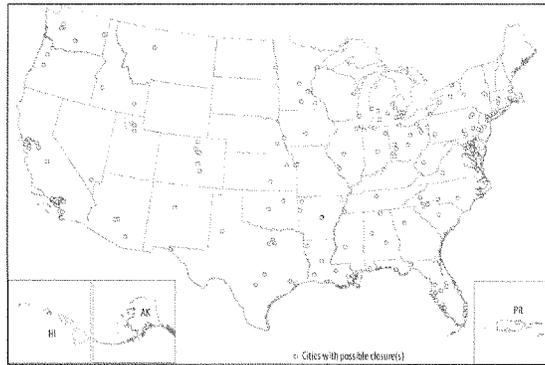
¹⁴ U.S. Postal Service, "Stations/Branches Identified for Full Study," July 28, 2009, submitted to the Postal Regulatory Commission, at <http://www.prc.gov/Docs/63/63990/SBOC%20Full%20Study%20July%20List.pdf>.

Figure 1. Location and Number of Post Office Branches and Stations Identified for Possible Closure by State



Source: Congressional Research Service, based upon the list of 677 post office branches and stations submitted to the Postal Regulatory Commission by the U.S. Postal Service on July 28, 2009.

Figure 2. Location of Post Office Branches and Stations Identified for Possible Closure by City



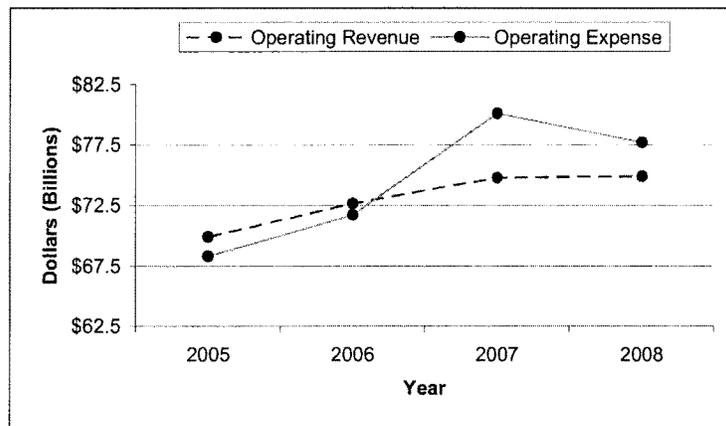
Source: Congressional Research Service, based upon the list of 677 post office branches and stations submitted to the Postal Regulatory Commission by the U.S. Postal Service on July 28, 2009.

The USPS has not said whether facilities in addition to the 677 depicted above will be studied for possible closure.

The USPS's Financial Challenges

The USPS is experiencing significant financial challenges.¹⁵ It lost \$5.3 billion in FY2007 and \$2.8 billion in FY2008 (Error! Reference source not found.3). This fiscal year, the USPS's operating costs have exceeded revenues by \$4.2 billion thus far.¹⁶ These operating income shortfalls are a result of significantly increased operating costs, which are attributable in part to the Postal Accountability and Enhancement Act of 2006.¹⁷ These losses also are the product of flattening operating revenues, the result of a drop in mail volume and attendant postage purchases.¹⁸

Figure 3.USPS's Operating Income



Source: U.S. Postal Service, *Annual Reports 2007 and 2008*, p. 3.

The USPS's statutory debt limit is \$15 billion (39 U.S.C. 2005(a)(2)(C)). Between FY2005 and FY2008, the USPS's debt rose from \$0 to \$7.2 billion. The USPS has said it may run out of cash in September 2009.¹⁹

¹⁵ For further details, see Government Accountability Office, *U.S. Postal Service: Escalating Financial Problems Require Major Cost Reductions to Limit Losses*, GAO-09-475T (Washington: GAO, March 25, 2009).

¹⁶ U.S. Postal Service, "Postal Service Ends Third Quarter with \$2.4 Billion Loss," press release, August 5, 2009, at http://www.usps.com/communications/newsroom/2009/pr09_066.htm.

¹⁷ PAEA requires the USPS to prefund its future retirees' health benefits at a cost of approximately \$5.6 billion per year. U.S. Postal Service, *Annual Report 2008* (Washington: USPS, 2008), p. 20.

¹⁸ Between FY2006 and FY2008, mail volume declined from 213.1 billion mail pieces to 202.7 billion mail pieces. U.S. Postal Service, "Form 10-K," November 26, 2008, p. 13.

¹⁹ U.S. Postal Service, "Postal Service Ends Second Quarter with \$1.9 Billion Loss," press release, May 6, 2009.

On July 28, 2009, GAO added the USPS's financial condition "to the list of high-risk areas needing attention by the Congress and the executive branch."²⁰

The USPS's Request for an Advisory Opinion

The USPS has asked the Postal Regulatory Commission (PRC) for an advisory opinion to determine whether its proposed closure of the post office branches and stations "would constitute "a substantially nationwide change in the nature of postal services, within the meaning of 39 U.S.C. 3661(b)."²¹ This portion of federal law reads,

When the Postal Service determines that there should be a change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis, it shall submit a proposal, within a reasonable time prior to the effective date of such proposal, to the Postal Regulatory Commission requesting an advisory opinion on the change (39 U.S.C. 3661(b)).

The USPS's request does not make clear precisely how many branch and station post offices will be considered for possible closure. It states that the retail facilities under review constitute "approximately two-thirds of the universe of over 4,800 postal stations and branches nationwide," which would be 3,168.²²

The PRC has initiated Docket No. N2009-1 "to provide a public hearing and issue an advisory opinion on the national service implications" of the USPS's proposed closures.²³ According to 39 U.S.C. 3661(e), the PRC's hearing permits participation by "the Postal Service, users of the mail, and an officer of the Commission [PRC] who shall be required to represent the interests of the general public." Those who wish to participate must file a request by July 28, 2009.²⁴

²⁰ Government Accountability Office, *Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, GAO-09-937SP (Washington: GAO, July 28, 2009), p. 1, at <http://www.gao.gov/press/d09937sp.pdf>.

²¹ Daniel J. Foucheaux, Chief Counsel, Ratemaking, U.S. Postal Service, "Request for an Advisory Opinion on Postal Services: Station and Branch Optimization and Consolidation Initiative, 2009," July 2, 2009, at <http://www.prc.gov/Docs/63/63556/FINAL.Request.pdf>, p. 1. The USPS has stated that it is not necessarily required by law to seek this advisory opinion. See *Ibid.*, p. 2, footnote 1.

²² *Ibid.*, p. 6.

²³ Postal Regulatory Commission, "PRC Initiates Docket to Review USPS Retail Network Optimization Plan," press release, July 10, 2009. The docket may be found at <http://www.prc.gov/prc-pages/library/dockets.aspx?activeview=DocketView&docketType=Single&docketid=N2009-1>.

²⁴ For further details, see Postal Regulatory Commission, "Notice and Order Concerning a Postal Service Request for an Advisory Opinion on a Plan to Optimize the Retail Network," July 10, 2009, at http://www.prc.gov/Docs/63/63656/Order_No_244_Final.pdf.

Historical Data on the Number of Retail Postal Facilities

What Is a Post Office?

Colloquially, the term “post office” often is employed to refer to any place where stamps are sold and postal services are provided. Post offices, branches, stations, and community post offices all offer to the public a range of postal services. They are where many individuals go to buy stamps and ship packages.

The USPS, however, administratively differentiates the types of retail postal facilities that conduct these same activities:

main post office - The basic organizational unit of the USPS. Generally, each post office has primary responsibility for collection, delivery, and retail operations in a specific geographic area. [Also called post office.]

post office branch - A unit of a main post office that is outside the corporate limits of the city or town of the main post office. [Also called classified branch.]

post office station - A unit of a main post office that is within the corporate limits of the city or town of the main post office. [Also called classified station].²⁵

The USPS also provides postal services to customers through privately operated facilities:

community post office - A contract postal unit that provides service in small communities where independent post offices have been discontinued. [It] bears its community’s name and ZIP Code as part of a recognized address.

contract postal unit - A postal unit that is a subordinate unit within the service area of a main post office. It is usually located in a store or place of business and is operated by a contractor who accepts mail from the public, sells postage and supplies, and provides selected special services (for example, postal money order or registered mail).²⁶

For the purpose of this report, the term “USPS retail postal facilities” will encompass all five of the aforementioned postal facilities—post offices, post office branches, post office stations, community post offices, and contract postal units.

The Number of USPS Retail Postal Facilities

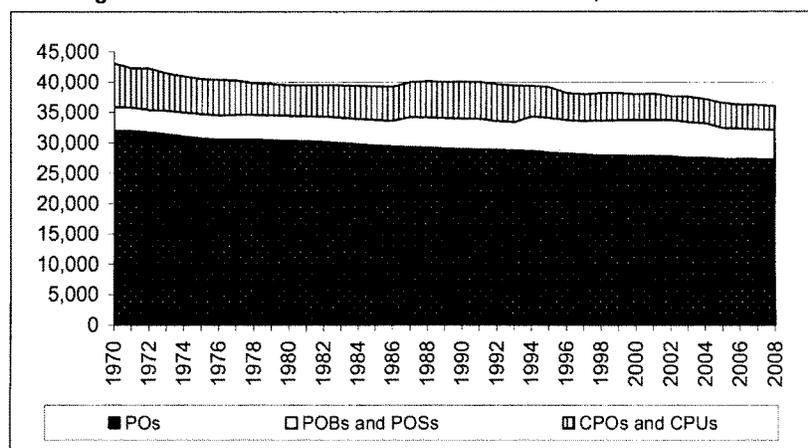
The USPS’s annual reports contain tabulations of the number of USPS retail postal facilities in existence at the end of each fiscal year. Data on the number of facilities from the FY1970 through FY2008 annual reports are presented in Error! Reference source not found.4. Over time, the USPS has altered the terms used to refer to some of these facilities. Additionally, the USPS’s

²⁵ U.S. Postal Service, *Publication 32: Glossary of Postal Terms* (Washington: USPS, July 5, 2007), at http://www.usps.com/cpim/ftp/pubs/pub32/pub32h_p.html.

²⁶ *Ibid.*, at http://www.usps.com/cpim/ftp/pubs/pub32/pub32a_g.html.

annual reports have disaggregated post office branches from post office stations only since FY2004. Hence, Error! Reference source not found.4 and Table 1 present the retail postal facilities data as compiled into three categories: post offices (POs), post office branches and stations (POBs and POSs), and community post offices and contract postal units (CPOs and CPUs).

Figure 4. The Number of USPS Retail Postal Facilities, FY1970-FY2008



Source: U.S. Postal Service, *Annual Reports*, 1970-2008.

Error! Reference source not found.4 and Table 1 indicate that the total number of USPS retail postal facilities has declined steadily.²⁷ In FY1970, the USPS had 43,112 retail facilities; in FY2008 it had 36,065—16.3% fewer. The number of POs has dropped 14.9%; and the number of CPUs and CPOs has declined 45.0%. Meanwhile, the number of POBs and POSs has increased 25.4%.

Table 1. The Number of USPS Retail Postal Facilities, FY1970 vs. FY2008

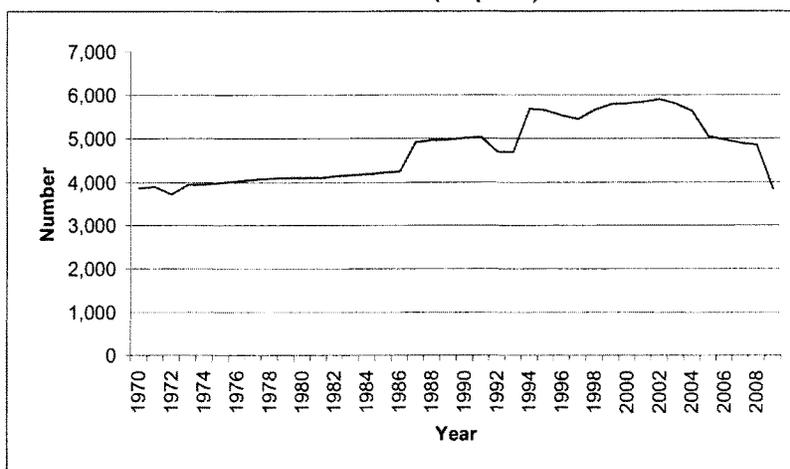
Retail Postal Facility Type	1970	2008	% Change
Post Offices	32,002	27,232	-14.9%
Post Office Branches and Post Office Stations	3,869	4,851	25.4%
Community Post Offices and Contract Postal Units	7,241	3,982	-45.0%

²⁷ These data should not be interpreted to mean that customer access to postal services has declined. Customer access to postal services depends on many variables. For example, these data exclude non-USPS retail outlets that provide postal services, such as grocery stores that sell postage stamps. On USPS's retail access, see Government Accountability Office, *USPS Needs to Clearly Communicate How Postal Services May Be Affected by Its Optimization Plans*, GAO-04-803, July 13, 2004, at <http://www.gao.gov/new.items/d04803.pdf>.

Retail Postal Facility Type	1970	2008	% Change
Total	43,112	36,605	-16.3%

Source: U.S. Postal Service, *Annual Reports*, 1970-2008.

Figure 5. The Number of USPS Post Office Branches and Stations, FY1970-FY2009 (Proposed)



Source: U.S. Postal Service, *Annual Reports*, 1970-2008.

Error! Reference source not found.5 above depicts the magnitude of the USPS's possible closure of 1,000 branches and stations. Were the USPS to close all 1,000 facilities, it would amount to a 20.6% reduction in POBs and POSs, from 4,851 to 3,851.

Additionally, such a reduction would lower the number of retail postal facilities 2.7%, from 36,605 to 35,605. The closure of 1,000 post office branches and stations also would be a dramatic increase from the number of closures in recent years. According to the USPS, it closed a total of 96 post office branches and stations between FY2005 and FY2008, an average of 24 per year.²⁸

Relevant Legal Authorities

The USPS: A Self-Supporting, Independent Entity

The USPS was established in 1971 by the Postal Reorganization Act (PRA; P.L. 91-375; 84 Stat. 725). Hitherto, postal services had been provided by the U.S. Post Office Department (USPOD),

²⁸ Direct Testimony of Alice M. Vangorder on Behalf of the United States Postal Service, Postal Regulatory Commission Docket N2009-1, p. 6, at <http://www.prc.gov/Docs/63/63567/FINAL.VANGORDER.W.ATTACH.pdf>.

a government agency that received annual appropriations from Congress. Members were involved in many aspects of the USPOD's operations, including the selection of managers (e.g., postmasters) and the pricing of postal services. Under this configuration, the Post Office had operational difficulties and developed a reputation for incompetence and corruption.²⁹

PRA abolished USPOD and replaced it with the U.S. Postal Service, an "independent establishment of the executive branch" (39 U.S.C. 201). The USPS is a marketized government agency that has far greater freedom to run its operations than the former Post Office Department.³⁰ It does not rely on appropriations for its operating revenue.³¹

Congress assigned the USPS the "general duty" to "maintain an efficient system of collection, sorting, and delivery of the mail nationwide" (39 U.S.C. 403(b)). In order to carry out this obligation, the law gives the USPS the "specific powers" to

- "provide for the collection, handling, transportation, delivery, forwarding, returning, and holding of mail, and for the disposition of undeliverable mail" (39 U.S.C. 404(a)(1)); and
- "determine the need for post offices, postal and training facilities and equipment, and ... provide such offices, facilities, and equipment as it determines are needed" (39 U.S.C. 404(a)(13)).³²

The USPS's Public Service Obligation

In enacting the PRA, Congress sought to establish the USPS as a financially self-sufficient governmental entity, but one that also would serve the public satisfactorily. The USPS's public service obligations are located in the PRA's chapters on "postal policy" (39 U.S.C. 101) and the USPS's "general authority" (39 U.S.C. 403).

The nation's postal policies contain language relevant to the issue of retail postal facilities:

- "The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people. The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide

²⁹ The view of USPOD as an agency riddled with patronage and scandal began long ago. For example, Joseph L. Bristow, who served as an assistant postmaster general from 1897 to 1905, provides accounts in his book, *Fraud and Politics at the Turn of the Century* (New York: Exposition Press, 1952).

³⁰ The term "marketization" refers to the redesign of a government agency in order to make it provide goods and services in the manner of a private firm. On marketization as an alternative to privatization, see CRS Report RL33777, *Privatization and the Federal Government: An Introduction*, by Kevin R. Kosar, pp. 23-29.

³¹ Congress does provide an annual appropriation to the USPS to compensate it for the revenue it forgoes in providing, at congressional direction, free mailing privileges to the blind and overseas voters. For further information on the USPS and the appropriations process, see CRS Report RL34523, *Financial Services and General Government (FSGG): FY2009 Appropriations*, coordinated by Garrett Hatch, pp. 58-61.

³² Similarly, Congress requires the USPS in "selecting modes of transportation, the Postal Service shall give highest consideration to the prompt and economical delivery of all mail" (39 U.S.C. 101(f)).

prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities” (39 U.S.C. 101(a)); and

- “The Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining. No small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities” (39 U.S.C. 101(b)).

Congress assigned the USPS the general duties to

- “receive, transmit, and deliver throughout the United States, its territories and possessions ... written and printed matter, parcels, and like materials and provide such other services incidental thereto as it finds appropriate to its functions and in the public interest... (39 U.S.C. 403(a))”; and
- “establish and maintain postal facilities of such character and in such locations, that postal patrons throughout the Nation will, consistent with reasonable economies of postal operations, have ready access to essential postal services” (39 U.S.C. 403(b)).

Congress has underscored the USPS’s duty to serve less densely populated areas by including a provision in annual appropriation laws that reads, “none of the funds provided in this Act shall be used to consolidate or close small rural and other small post offices in [this] fiscal year.”³³

Post Office Closures and the Public

Federal postal law sets forth the basic rules by which the USPS may proceed to close a post office. The USPS must “provide adequate notice of its intention to close or consolidate such post office at least 60 days prior to the proposed date of such closing or consolidation to persons served by such post office to ensure that such persons will have an opportunity to present their views” (39 U.S.C. 404(d)(1)).

In deciding whether to close a post office, the USPS must consider

- (i) the effect of such closing or consolidation on the community served by such post office;
 - (ii) the effect of such closing or consolidation on employees of the Postal Service employed at such office;
 - (iii) whether such closing or consolidation is consistent with the policy of the Government ... that the Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining;
 - (iv) the economic savings to the Postal Service resulting from such closing or consolidation;
- and

³³ For example, see P.L. 110-161; 121 Stat. 2013.

(v) such other factors as the Postal Service determines are necessary (39 U.S.C. 404(d)(2)(A)).

If the USPS decides to move forward with the closure, it must notify the persons served by the post office of its decision and the findings used to arrive at this decision. The USPS must wait at least 60 days before proceeding with the closure, and any person served by the post office slated for closure may appeal the closure to the PRC, which has 120 days to consider the appeal.

The PRC may fault the USPS's decision to close a post office only if the PRC finds the decision to be "(A) arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with the law; (B) without observance of procedure required by law; or (C) unsupported by substantial evidence on the record" (39 U.S.C. 404(d)(5)). The PRC may require the USPS to reconsider its decision, but the ultimate authority to close a post office rests with the USPS.

The USPS's Retail Facilities Closure Processes

The USPS's Post Office Closure Process

The general public probably does not see much difference between the various types of retail postal facilities. Indeed, in her filing with the PRC, the USPS's Alice Vangorder wrote the following of the USPS's differentiation between post offices and other retail postal facilities:

These important facility designations and administrative relationships often do not matter to members of the general public. In the common vernacular, virtually every postal facility offering retail services is referred to as a 'post office.' And the Postal Service does not always clearly communicate these differences.³⁴

The USPS's administrative differentiation of these retail postal facilities has at least one major consequence to the USPS's customers—the closure process differs. The USPS uses one closure process for post offices, and another for other retail postal facilities.

The *Postal Operations Manual (POM)* "sets forth the policies, regulations, and procedures of the Postal Service governing retail, philatelic, collection, mail processing, transportation, delivery, and vehicle operations."³⁵ It contains many of the rules that the USPS has adopted to implement federal postal laws.³⁶

The *POM*'s Section 123.6 provides the process for closing a post office.³⁷ It requires the USPS to provide public notice, and to receive public comments for 60 days. The USPS then must review the comments and issue a decision, after which anyone who is regularly served by the post office

³⁴ "Direct Testimony of Alice M. Vangorder on Behalf of the United States Postal Service," Postal Regulatory Commission, Docket No. N2009-1, p. 4, footnote 2, at <http://www.prc.gov/Docs/63/63567/FINAL.VANGORDER.W.ATTACH.pdf>.

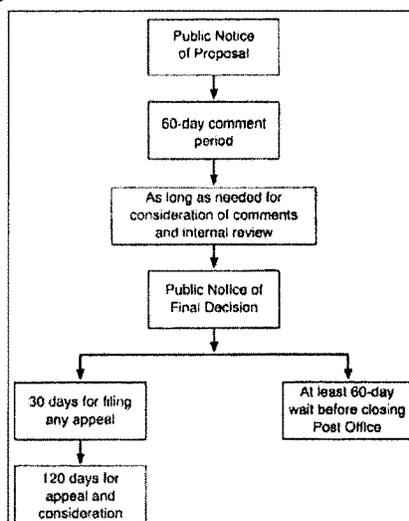
³⁵ U.S. Postal Service, *Postal Operations Manual* (Washington: December 18, 2008), p. i.

³⁶ On the rulemaking process generally, see CRS Report RL32240, *The Federal Rulemaking Process: An Overview*, by Curtis W. Copeland.

³⁷ These procedures also may be found in U.S. Postal Service, *Post Office Discontinuance Guide*, Handbook PO-101 (Washington: USPS, June 2004), at <http://www.prc.gov/Docs/63/63880/Handbook%20PO%20101.pdf>.

in question may appeal the proposed closure to the Postal Regulatory Commission.³⁸ The PRC has 120 days to determine the merits of the appeal (Figure 6).

Figure 6. The USPS's Post Office Closure Process



Source: Reproduced from U.S. Postal Service, *Postal Operations Manual*, Section 123.12, p. 12.

The USPS's Expedited Closure Process for Other Retail Postal Facilities

Section 123.611 of the *POM* on "post office discontinuance" states that the above process only applies to "any proposal to replace a Post Office with a community Post Office, station, or branch by consolidation with another Post Office and any proposal to discontinue a Post Office without providing a replacement facility."³⁹

In contrast, Section 123.8 of the *POM* treats "station, branch, and community post office discontinuance."⁴⁰ It does not require public notification or provide an appeals process. Instead, a USPS district manager must produce written justification to the USPS's vice president for delivery and retail, who may approve or disapprove the decision. According to the *POM*, the process concludes with the filing of PS Form 1362, *Post Office Status Change Report*, a document that the USPS forwards to its accounting service center in St. Louis, Missouri.

³⁸ This process is for non-emergency closures of post offices. Section 123.7 of the *POM* provides the USPS's approach to the emergency suspension of service at a post office.

³⁹ U.S. Postal Service, *Postal Operations Manual*, p. 11.

⁴⁰ It is unclear whether this policy applies to the closure of contract postal units.

Although the *POM* does not explicitly say so, it would appear that the USPS holds that 39 U.S.C. 404(d) on post office closures does not apply to post office branch and station closures. This interpretation is substantiated by the following statement from the USPS's *Post Office Discontinuance Guide*:

Although thorough investigation and customer participation are encouraged in the discontinuance of a classified station, branch, or a community Post Office (CPO), the formal process followed in the discontinuance of independent Post Offices is not required.⁴¹

In 2006, the Postal Rate Commission, the predecessor of the Postal Regulatory Commission, considered a USPS motion to dismiss the appeal of a post office closure case involving a post office station.⁴² The USPS argued that the 39 U.S.C. 404(d) did not apply in this instance because the law's use of the term "post office" applied only to

an independent post office, which is a facility occupied and immediately supervised by a postmaster, and not the closing or consolidation of a station, branch, contract unit, or other subordinate facility under the administrative supervision of a post office.⁴³

The PRC responded that it had "repeatedly rejected" this argument since 1978.⁴⁴ For the purposes of 39 U.S.C. 404(d), it stated, the term "post office" should be defined in "its ordinary sense" as a "fixed retail facility serving the public and acting as a point of origin for delivery routes."⁴⁵

The USPS has developed an expedited closure process for post office branches, stations, and community post offices. In one of its submissions to the PRC, the USPS has said that it "has in place a longstanding process through which District offices routinely initiate studies and submit proposals to [USPS's] Headquarters for the discontinuance of operations in a particular retail station or branch."⁴⁶ This document carries a "process flowchart" that indicates the USPS provides the public with a 20-day comment period, and that no appeals are permitted.⁴⁷

Similarly, the APWU has made publicly available a June 2009 USPS document stating that an affected community is given 20 days to comment on a proposed post office branch or post office station closure, but that no appeal is permitted.⁴⁸ This document suggests that the post office closure process typically takes 100 days (if no appeal is filed), and that the discontinuance of other USPS retail facilities takes only 60 days.

⁴¹ U.S. Postal Service, *Post Office Discontinuance Guide*, p. 55.

⁴² Postal Rate Commission, "Order Denying Postal Service Motion to Dismiss and Remanding for Further Consideration," Docket No. A2006-1, September 29, 2006, at [http://www.prc.gov/\(S\(n1s0xjy3u40bmm55teccwo55\)\)/Docs/53/53679/A2006-1Decision.pdf](http://www.prc.gov/(S(n1s0xjy3u40bmm55teccwo55))/Docs/53/53679/A2006-1Decision.pdf).

⁴³ U.S. Postal Service, "Motion to Dismiss Proceeding," Docket No. A2006-1, July 26, 2006, p. 4, at [http://www.prc.gov/\(S\(n1s0xjy3u40bmm55teccwo55\)\)/Docs/51/51287/Motion_to_Dismiss.pdf](http://www.prc.gov/(S(n1s0xjy3u40bmm55teccwo55))/Docs/51/51287/Motion_to_Dismiss.pdf).

⁴⁴ Postal Rate Commission, "Order Denying Postal Service Motion to Dismiss and Remanding for Further Consideration," p. 5.

⁴⁵ *Ibid.*, p. 6.

⁴⁶ Direct Testimony of Kimberly I. Matalik on behalf of the United States Postal Service, Postal regulatory Commission Docket No. N2009-1, at <http://www.prc.gov/Docs/63/63568/FINAL.MATALIK.TESTIMONY.pdf>, p. 3.

⁴⁷ *Ibid.*, p. 12.

⁴⁸ U.S. Postal Service, "Station/Branch Optimization and Consolidation," (Washington: USPS: June 2009), p. 3, at <http://www.apwu.org/news/webart/2009/09-076-consolidatingstations-090701-c-uspsbriefing.pdf>.

Post Office Closure Appeals

Appeals of post office closures are rare. According to the PRC, it received 25 appeals between FY1998 and FY2007. The number of post offices dropped from 27,952 to 27,276 during this period, so the USPS closed at least 676 post offices.⁴⁹ This means that at most 3.7% of post office closures were appealed to the PRC.

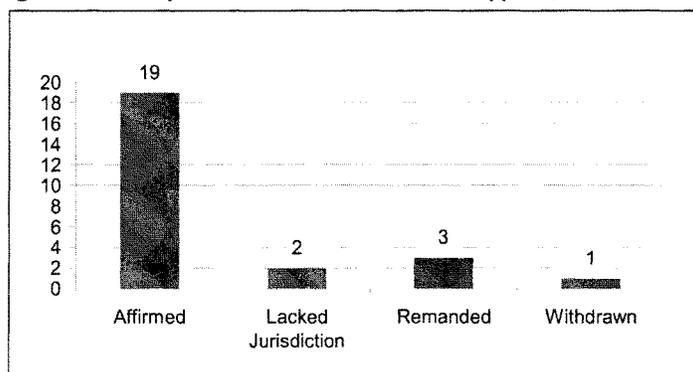
When it receives an appeal, the PRC may dispose of it in three ways; it may

1. affirm the USPS's proposed closure as in accordance with the law;
2. dismiss the case for lack of jurisdiction; or
3. remand the case to the USPS for reconsideration.

The appellant also may withdraw the case, thereby relieving the PRC of making a determination.

Error! Reference source not found.7 indicates that the PRC remanded the proposed closure for reconsideration by the USPS in three instances.

Figure 7. PRC Disposition of Post Office Closure Appeals, FY1998-FY2007



Source: Postal Regulatory Commission.

Disposal of a Closed USPS Retail Postal Facility

By law, the USPS may

enter into and perform contracts, execute instruments, and determine the character of, and necessity for, its expenditures... acquire, in any lawful manner, such personal or real property, or any interest therein, as it deems necessary or convenient in the transaction of its business; to hold, maintain, sell, lease, or otherwise dispose of such property or any interest

⁴⁹ As noted earlier, data on the number of post offices closed and opened each year are unavailable. If the USPS opened any new post offices between FY1998 and FY2007, then the number of closures would be higher than 676.

therein.... [and] to construct, operate, lease, and maintain buildings, facilities, equipment, and other improvements on any property owned or controlled by it (39 U.S.C. 401(3)-(6)).

The USPS has sited retail facilities in spaces that it leased from other parties as well as on its own properties. After the USPS closes a facility in a rented space, it clears out its property and terminates its lease. After the USPS shuts a retail postal facility on property that it owns, “Postal Service policy is to dispose of excess real property under the terms and conditions that provide the greatest value to the Postal Service. Disposition may be by sale, exchange, outlease, sublease, or by other means determined to be in the best interest of the Postal Service.”⁵⁰

Recent Legislation

On January 22, 2009, Representative Albio Sires introduced H.R. 658, which would alter the statutory post office closure process. As of July 24, 2009, 74 Members of Congress have cosponsored H.R. 658. The bill was referred to the House Committee on Oversight and Government Reform’s Subcommittee on Federal Workforce, Post Office, and the District of Columbia.

H.R. 658 would reduce the USPS’s discretion to close retail postal facilities. In effect, the bill would require the USPS to apply the POM’s section 123.6 post office discontinuance process to post office branches, stations, and other USPS-operated retail postal facilities. H.R. 658 also would expand the public notification provisions by requiring the USPS to

- notify the affected public of the possible closure of a facility via newspapers and mail, and invite public comment for 90 days;
- conduct a study prior to the closure of a facility, and in the event of a decision to proceed with a closure, publish the results of this study in the facility under consideration, and notify affected members of the public of this posting via mail; and
- post a copy of its decision in the post office under consideration, and in the event of a decision to discontinue a facility, notify the public via mail of its rights to appeal the decision to the PRC.

H.R. 658 also would strike the requirement in 39 U.S.C. 404(d)(2)(A)(4) that the USPS consider in its decision to close a post office “the economic savings to the Postal Service resulting from such closing or consolidation.”

H.R. 658 is a revision of a bill from the 110th Congress—H.R. 6217, which Representative Sires introduced on June 9, 2008. One hundred Members cosponsored that measure.

Issues and Possible Options for Congress

As noted earlier, Congress established the USPS as

⁵⁰ U.S. Postal Service, *Facilities Guide to Real Property Acquisition and Related Services*, Handbook Re-1 (Washington: USPS, October 2008), p. 15, at <http://www.usps.com/cpim/ftp/hand/re1.pdf>.

a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution ... and supported by the people. The Postal Service shall... provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities (39 U.S.C. 101(a)).

Intending the USPS to operate as a financially self-supporting commercial entity, Congress authorized it to arrange its delivery and service network to most efficiently serve the public. Yet, Congress also assigned the USPS the duty to offer “prompt, reliable, and efficient postal services to all communities.”

The USPS’s recent financial challenges have illuminated the inherent tension in this model for delivering public services. In an attempt to balance its flattening operating revenues and increasing operating costs, the USPS has undertaken a variety of cost-cutting measures. For example, the USPS has reduced its total employment by nearly 41,000 persons in the past five years, from 805,796 (FY2004) to 765,088 (FY2008).⁵¹ The USPS now is undertaking more significant reductions to its overhead, including the closure of post office branches and stations.

The USPS’s possible closure of 1,000 post office branches and stations prompts a number of observations and suggests some possible issues that Congress may wish to examine.

- To directly address possible public discontent over retail postal facility closures, Congress has at least two direct policy options.⁵² It could either amend law to forbid the closures, or it could enact permanent appropriations to cover the cost of keeping open all or some portion of the USPS’s retail postal facilities. Both of these measures would be substantial departures from current postal law and policy, which designed the USPS as an independent and financially self-sustaining entity.
- Congress also may devise other policies to avert retail postal facility closures. If the root cause for the USPS’s movement to shutter branches and stations is its financial troubles, Congress might take actions to ameliorate the USPS’s deficits, thereby relieving the Postal Service of the need to shutter retail postal facilities. GAO has suggested a handful of cost-cutting suggestions, such as reducing the frequency of mail delivery from six to five days, raising the USPS’s statutory debt cap, and lowering the USPS’s annual payment to its future retiree health benefits fund.⁵³ Additionally, the PRC has found that the USPS carries some types of mail at postage rates that are below their costs.⁵⁴ Congress may wish to

⁵¹ U.S. Postal Service, *Annual Report 2008* (Washington: USPS, 2008), p. 64. Additionally, the USPS recently reported that efforts to “match work hours to reduced volume have resulted in a work-hour decline of 58 million hours—the equivalent of a reduction of 33,000 full-time employees—in the first half of FY2009, despite an increase in the number of delivery points by 1.1 million from the same period last year.” U.S. Postal Service, “Postal Service Ends Second Quarter with \$1.9 Billion Loss,” at http://www.usps.com/communications/newsroom/2009/pr09_047.htm.

⁵² See Government Accountability Office, *U.S. Postal Service: Network Rightsizing Needed to Help Keep USPS Financially Viable*, pp. 11-12.

⁵³ GAO, *U.S. Postal Service: Networking Rightsizing Needed to Help Keep USPS Financially Viable*, pp. 11-12. On 6 day mail delivery, see CRS Report R40626, *The U.S. Postal Service and Six-Day Delivery: Issues for Congress*, by Wendy R. Ginsberg.

⁵⁴ Postal Regulatory Commission, *Annual Compliance Determination* (Washington: PRC, March 30, 2009), pp. 5-6, at http://www.prc.gov/Docs/62/62784/ACD_Report_2008_FINAL.pdf.

examine the reasons for these disparities and consider policies to ameliorate them.

- The USPS has cited financial duress as an impetus for the possible closure of 1,000 post office branches and stations. However, the USPS has said that it would not close any of these facilities before October 2, 2009—after the start of FY2010. It would appear, then, that these closures will not ameliorate the USPS's FY2009 cash shortage. The USPS also has not said how much money it may save from this undertaking. Congress may wish to ask the USPS what its projected savings are and when these savings might be realized.
- The USPS has not said whether any employees at closed retail facilities will lose their jobs. Most, however, probably will be offered positions at new facilities. It is unclear how many employees will want to accept these transfers. For example, an employee may be reassigned to a facility that is located a great distance from his former post office branch or station. Also, it is unclear whether these transfers might create collective bargaining issues.⁵⁵ Congress may wish to solicit the opinions of the USPS and the leaders of affected employees on these matters.⁵⁶
- Whenever the USPS moves to close a retail postal facility, there is the potential for public concern over a decline in the adequacy of postal services. Additionally, some members of the public may view their post offices as an integral part of their communities, and they may turn to their Members of Congress to ask for the protection of their postal facilities from closure. Both Congress and the USPS may wish to devise steps to prepare for public inquiries. Furthermore, the USPS might wish to provide affected communities with clear standards for what constitutes adequate retail service under federal law, and indicate how the USPS will meet those standards after closing retail facilities. In addition, Congress may wish to require the USPS to provide it with periodic reports to show that the USPS is providing adequate service to areas affected by postal facility closures.
- The USPS suggests that much of the public probably does not understand the difference between post offices and other retail postal facilities, and the differing processes for their closure and options for public participation. Thus, should the USPS's large scale postal facility closure proposal go forward, there may be public confusion and duress. Congress and the USPS may wish to consider whether the USPS should be permitted to continue to use two different retail postal facility closure processes.
- The small number of appeals of post office closures between FY1998 and FY2007 may indicate that the public is unaware of the right to appeal, or that some significant barrier is impeding public appeals.⁵⁷ Congress may wish to

⁵⁵ One news article has reported of postal facility closures resulting in workers being reassigned to facilities located up to 300 miles away from their former facilities. Gregg Carlstrom, "Postal Service Relocating More Employees," *Federal Times*, July 27, 2009, p. 8.

⁵⁶ The APWU already has expressed concerns regarding collective bargaining agreements and retail facility closures. American Postal Workers Union, "Changes and Challenges," July 14, 2009, at <http://www.apwu.org/news/burris/2009/update08-2009-090714.htm>.

⁵⁷ Alternatively, should the USPS's proposed closures elicit a large public response, both the USPS and the PRC may have to allot additional resources toward handling a spike in closure appeals.

solicit the USPS's and PRC's opinions on why so few post office closures have been appealed.

- Should the post office branch and station closure initiative go forward, affected members of the public may grow concerned about the fate of the properties occupied by the USPS. As noted earlier, the current USPS real estate disposition policy is to “dispose of excess real property under the terms and conditions that provide the greatest value to the Postal Service.”⁵⁸ Whether the USPS's interest here coincides or collides with the interests of communities affected by post office closures is unclear. Persons in affected communities may worry about blight, and local governments may express the desire to acquire discontinued post offices for the purpose of redeveloping them. Congress may wish to consider whether a policy should be developed to assist communities affected by closures.
- Inherent to the current postal law is the assumption that some portions of the United States provide profitable markets for postal services, while others do not, and that the former should subsidize the latter. Thus, current law forbids the USPS from closing “small post offices solely for operating at a deficit,” and it requires the USPS to “provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining (39 U.S.C. 101(b)). The law does not forbid closures of large facilities located in suburban and metropolitan places. The USPS's present facility closure proposal may steer clear of the law's prohibitions. However, the USPS's selection of facilities in metropolitan areas for closures may raise equity concerns in affected areas, especially if these urban areas already are subsidizing more rural places. The USPS and Congress may wish to devise some means to address possible complaints about equity.

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Acknowledgments

The author thanks CRS's Amber Hope Wilhelm, graphics specialist, and Paul F. Schirle, geographic/geospatial information systems analyst, for creating the maps in this report at **Figure 1** and **Figure 2**.

⁵⁸ U.S. Postal Service, *U.S. Postal Service Facilities Guide to Real Property Acquisitions and Related Services*, p. 15.

OBSERVATIONS BY THE BOARD

1. Arbitration of interests, as this arbitration is, sometimes may be necessary. It is never desirable. Arbitration of interests, if it becomes the practice, instead of the occasional exception, can become lethal in the long run. It is far, far better for the parties, and for American society, that the parties themselves write their own contracts. They know their own situations better than any outsiders possibly can. They must live with the contract on a daily basis after the arbitrators have left. It is also better that the parties take responsibility, not only for the terms of the contract, but also for its explanation -- where explanation is needed, and even for its defense. It should be "our" contract, not the contract of a third party. This Board looks upon itself as necessary in this instance but as an evil if it should become the first in a series of such Boards.

2. This admonition, we believe, is of general value but may not apply to the situation before us. These parties have negotiated the five prior contracts among themselves. We were also impressed, despite the wide gulf separating them over the current issues, how much personal respect their representatives showed for each other, as individuals, and with the courtesy and civility in the exchanges among them.

3. The parties, together, have much to be proud about. Relationships have been vastly improved. In the late 1960's, the Postal Service was in disarray. Employee dissatisfaction

resulted in a very high turnover rate in a service that requires continuity of performance. A strike took place in early 1970 that resulted in the use of the United States Army by the President of the United States and in the intervention of Congress with the passage of the Postal Reorganization Act of 1970. This Postal Reorganization Act established the United States Postal Service as an independent agency with its own Board of Governors. It also provided for collective bargaining between this independent agency and the unions of its employees. Wages and conditions of employment were no longer to be set by act of Congress.

4. The postal reorganization has been a great, but too little appreciated, success. We were impressed by many accomplishments, including:

(1) That items delivered have increased by almost 50 percent to over 130 billion per year, with 10 percent fewer employees; an increase of 4 percent per work year in items handled and delivered.

(2) That postal rates have been kept remarkably low. Only the territorially small country of Switzerland has had lower rates (after the new rates have gone into effect, it will be joined by Belgium and Austria). Canada and Australia, also with vast continental spaces to cover, have had and will continue to have higher rates, as do Germany, the United Kingdom, France, among many other countries.

(3) That the turnover rate among employees has gone down by 80% to a virtually irreducible level.

(4) That the Postal Service has a non-discriminatory policy in hiring employees and paying compensation. No evidence was placed before us indicating any discriminatory practices.

5. These, and other, successes are the result of joint effort -- joint effort by the executives of the USPS, by the 700,000 employees, and by the unions that represent them. To make this commendable record possible, postal management had to initiate constant change and improvements. The unions had to be understanding and cooperative. The employees had to adjust and adapt and make it all work effectively at the operating level. They all deserve a vote of confidence from the American people.

6. We should like to commend the very high quality of the presentations made by counsel on both sides and the extraordinary preparations made for the hearings. Aside from over 2000 pages of oral testimony, we received just under 300 exhibits and over 4000 pages of documentation. We doubt that ever before in American history has a similar case been so well prepared on both sides. We, as a Board, were extremely well served by presentations and preparations at the highest level of professional standards.

7. Finally, we observe that we look upon our award as a sequel to the agreement which the parties negotiated for themselves in 1981 and as a prelude to the one we hope they

will again negotiate for themselves in 1987. We look upon ourselves as only serving an interim purpose in bridging what should be a short-term gap in what should be a very long-term history between the parties in free collective bargaining in the American tradition.

COMMENTS BY THE CHAIRMAN

1. This arbitration is an unusual one. It involves directly half a million people - the largest number ever covered by an arbitration in the history of the United States. It also involves \$13 billion - the difference between what the unions are demanding and what the USPS, on its side, is demanding. It also involves the prospective cost and quality of postal delivery that almost daily affects the lives and welfare of nearly every single resident of America and many living abroad.

2. This Arbitration Board has had to absorb an extraordinary amount of information over a very brief period of time. This Arbitration Board has also had to decide on a substantial number of complex issues that the parties in nine months of bargaining have been unable to agree upon among themselves.

3. The Board members nominated by the parties have had a particularly difficult task for they have had to resolve the conflicts engendered by their ties to parties separated by a chasm they have failed to bridge - a chasm \$13 billion across.

as against their obligations as Board members to exercise their own best judgements in accord with the responsibilities placed upon them by the Congress and by the President of the United States in the Postal Reorganization Act to consider first the welfare of the American nation. They have worked very hard. They have been frank and honest and very vigorous in their statements and arguments. They have served well both the parties which appointed them and the national welfare.

My admiration for them individually and together is enormous. In the midst of all these pressures, many words were spoken in great earnestness but no words were ever spoken in anger or in personal recrimination.

4. A note should be made of how generous in their time and how competent in their performances have been staff members on all sides in the midst of the most important holiday season of the year. No request we made to calculate numbers, to retrieve data from the massive record, to prepare typed copy, to render general language into contractual terms, or to do a great variety of other necessary tasks ever failed to be met in record time or ever failed to be accomplished in ways that challenged perfection.

5. I shall comment on only a few of the issues before us and these in the brief compass that the limits of time impose.

6. Length of Contract. We set it at three years in accord with the past practice of the parties.

7. Retroactivity. Except as otherwise stated, we provide for retroactivity in all appropriate areas to the day following the expiration of the last contract, July 20, 1984. We do this, in part, because the employees have no right to strike to speed up the decision making process.

8. Martin Luther King Holiday. This holiday is merited in its own right. It is also mandated by Congress for federal employees, to become effective in 1986, and, by implication at least, for employees of independent federal agencies such as the Postal Service.

9. COLA. We continue the COLA formula as agreed to by the parties in the past -- it provides for about a 60 percent offset to the rise in the CPI-W (the most used cost-of-living index).

To the extent consistent with law, and with no intent here to interpret the law or resolve questions of interpretation of the 1981 contract, and with no intent to prejudice the legal position of any of the parties or limit their rights to argue their interpretations, we continue the 1981 agreement of the parties concerning the COLA roll-in.

10. Health Costs. We have made no changes here. We recognize, however, that there are grave problems in this area. Therefore, we recommended and the parties have agreed to establish a Joint Task Force to study these problems.

11. Compression Of The Wage Structure. Congress, when it established the USPS in 1970, was very concerned with career opportunities. We find, however, that the wage

structure has become very compressed since that date. This compression occurred primarily through across-the-board dollar increases over a period when the cost of living rose very rapidly. Today, the most skilled and long service employees receive only 50 percent more than the least skilled and newest hires. The wage structure that Congress had established had a spread of 150 percent.

This award reinstates some of the earlier Congressional policy by providing approximately a spread of 100 percent. It does so by adding some steps at the top, since we found rates there to be slightly low. The award also establishes some new grades and steps at the other end of a unitary structure where we found rates to be substantially high. The award also abandons the across-the-board dollar approach to increases in favor of a percentage approach.

12. Comparability. Congress said that wage rates should be "comparable to the rates and type of compensation in the private sector of the economy." Had Congress not specified comparability, this Board would have been much concerned with it anyway, since it is a fundamental consideration in setting wages.

Since July 1970, when the last increases mandated by Congress went into effect (presumably reflecting Congress's interpretation of comparability at that time), rates in the Postal Service have gone up substantially faster than in the private sector. This came about, as the Chairman sees the record, because the USPS wanted to restore badly deteriorated

morale in the early 1970s and to develop a conducive atmosphere for the introduction of a whole series of desirable organizational and technological changes to increase efficiency and productivity; and this was the result. Also, COLA provisions were introduced to protect the real wages of employees in a period that included greatly accelerated inflation; and this was the result. However, the 1970's were a restrictive period for wage increases generally in the private sector, in part, because the vast majority of employees were not and still are not covered by COLA. Discrepancies in comparability were the consequence.

This Board received vast amounts of data on comparability. Comparability, like beauty, quite obviously, is in the eye of the beholder. We received and reviewed econometric studies, comparisons with rates in Bureau of Labor Statistics compilations, contracts with other employers, job content analyses and much much more. It all added up to the same conclusion as did the review of the historical record: discrepancies in comparability have emerged.

This award reflects a policy of "moderate restraint". Such discrepancies as now exist developed over a substantial period of time (13 years) and because of the agreed-upon actions of all parties. These discrepancies did not develop over-night and it would be a mistake to try to correct them too hastily.

This award interprets moderate restraint as a slowing of wage increases, as against the private sector, by one percent

a year or for three percent in total over the life of this contract.

In the opinion of the Chairman, this does not dispose of the problem. Moderate restraint may also be necessary in future years to approximate the guideline of comparability as established by Congress.

This policy of moderate restraint will provide substantial protection for the real wages of employees and also allow them to share modestly in the improvement of productivity in American society.

13. The Future. The future is uncertain -- very uncertain. This award covers three years of uncertainty -- the past half year now concluding for which developments are not yet fully known and then two and one half years for which developments can be guessed at but are totally unknown.

Despite this uncertainty, we still must write terms of a contract that will run to July 20, 1987.

This award provides for a 2.7 percent increase in wages annually. This 2.7 percent, along with the existing COLA provisions, will cover, in full, cost of living increases up to 5.5 percent. After that level, the existing COLA will cover any additional increases in the cost of living on a 50 percent offset basis. In addition, there is an improvement factor of 0.5 percent per year to provide some sharing in the rising productivity of the American economy. This 2.7 percent per year compares with a compounded rate of 8.8 percent over the three years of the 1981 contract in the general increase

CLOSING STATEMENT

This award is signed this 24th day of December, 1984.
The signatures at the end of this award signify that the signers agree that this award, in its totality, falls within the range of reasonable solutions given the full situation surrounding this case, the complete evidence submitted by the parties, and the contractual history among those parties.

DR. CLARK KERR, CHAIRMAN

BRUCE H. SIMON
Board Member

THEODORE W. KHEEL
Board Member

PETER G. NASH
Board Member

JOSEPH J. MAHON
Board Member

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POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Ruth Y. Goldway
Chairman

August 20, 2009

Hon. Senator Joseph Lieberman
Chairman
Senate Homeland Security
and Governmental Affairs Committee
Room 340
Senate Dirksen Building
Washington, DC 20510

Dear Senator Lieberman:

During the recent hearing before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, you asked that I:

Submit to the Committee what the definition [of a post office] is. In other words, where do you draw the line? The Postal Service definition is quite clear in terms of administrative functions. But when does a "branch" become a "post office" in the definition of the Commission?

I am pleased to provide a response to this important question and clarify the Postal Regulatory Commission's definition of a "post office" as used in 39 U.S.C. § 404(d), which provides for post office closing appeals.

The Commission and the Postal Service disagree on the proper definition of the term "post office" as it is used in 39 U.S.C. § 404(d).

Hon. Senator Joseph Lieberman
August 20, 2009
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The Commission's long-held position is that the term "post office" is used in that section in its ordinary sense—a fixed retail facility providing the public with a wide range of postal services. This holding is consistent with the understanding that Congress intended § 404(d) to provide notice and an avenue for appeal for citizens faced with the prospect of losing essential postal services. The Commission finds nothing in § 404(d) to suggest that the term should be defined by reference to the Postal Service's characterization of facilities for internal administrative or managerial purposes. The mailing public, for whom these protections were enacted, is not aware of whether or how the Postal Service categorizes facilities for its internal purposes. Therefore, the Commission has concluded that the procedural safeguards and right to appeal provided to the American public in § 404(d) apply to "post offices" as that term is understood by the public.

The Postal Service's interpretation limits the scope of § 404(d) to those postal facilities which it defines as post offices for administrative or managerial purposes. Specifically, it defines the term "post office" (which it often styles as "Post Office") as the basic organizational unit of the Postal Service, which generally has responsibility for collection, delivery, and retail operations in a specific geographic area. In addition, it is usually headed by a Postmaster. As a corollary, the Postal Service believes it has the right to close or consolidate retail facilities it denominates as branches, stations, and community post offices without notice or a right to appeal.

Plainly, § 404(d) does not operate as a complete bar to the Postal Service closing or consolidating post offices. Instead, § 404(d) simply imposes certain basic procedural safeguards that must be followed. These include requiring the Postal Service to give 60 days' notice and the opportunity for postal patrons to comment prior to the office being closed, and to notify those affected of their right to appeal to the Commission. On appeal, the Commission does not review the merits of the Postal Service decision, but does assure the statutory process was followed.

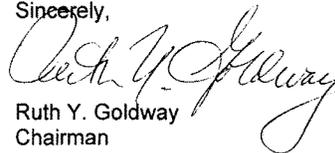
In early Commission post office closing appeals, intervenors raised the issue that if the Postal Service is free to close "branches and stations" or community post offices without the statutory notice and avenue of appeal, it may skirt the requirements of the statute by redesignating a post office as a branch, station, or community post office, and then subsequently close it. These arguments, which the Commission finds persuasive, underscore a telling flaw in the Postal Service's position.

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As yet, the meaning of the term "post office" in § 404(d) has not been judicially resolved. As a consequence and to avoid uncertainty, Congress may wish to clarify the meaning of the term "post office" as used in § 404(d). I would be happy to make Commission staff available to provide additional background and develop a means for preventing this difference of opinion from disrupting any justified adjustments to the Postal Service retail network.

Thank you for your time and consideration. Please do not hesitate to request any follow-up information that I may provide.

Sincerely,



Ruth Y. Goldway
Chairman

Enclosures

cc: Members of the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security

Hon. Senator Thomas R. Carper, Chairman
Hon. Senator John McCain, Ranking Member
Hon. Senator Carl Levin
Hon. Senator Tom Coburn
Hon. Senator Daniel K. Akaka
Hon. Senator George V. Voinovich
Hon. Senator Mark L. Pryor
Hon. Senator John Ensign
Hon. Senator Claire McCaskill
Hon. Senator Roland Burris

Post-Hearing Questions for the Record

**Submitted to John E. Potter
From Senator Thomas R. Carper**

"The U.S. Postal Service in Crisis"

August 6, 2009

1. There was some difference of opinion on the opening panel at the hearing about how much the Postal Service owes the Treasury for its health care obligations to its future retirees. What is the best way to resolve this debate and ensure that the Postal Service is not paying any more than it owes?

The Subcommittee was presented three views of the potential future costs and liabilities of the Postal Service's retiree health benefits (PSRHB) obligations (Chairman Goldway's testimony at page 4). These projections were developed by three different groups of experienced, professional actuaries after evaluating the program in detail. The primary difference between the estimates is the assumption regarding long term inflationary trend of PSRHB premiums with judgments varying between 5% and 7%. A secondary difference is the expected change in the Postal Service's career workforce over the period 2009 through 2016. The result is a range of potential liabilities and the level of payments required to adequately fund the liabilities over time.

While there may be no consensus among the actuarial groups concerning their projections of the future, the issue centers on funding the PSRHB in a reasonable and sustainable manner while not overpaying the obligation or hampering the Postal Service's operations during recessionary periods. From the Postal Service's perspective several issues and considerations come into play:

- **Under the Postal Accountability and Enhancement Act (PAEA), the Postal Service has already accumulated over \$34 billion in the PSRHB fund. This is a substantial level of funding, and even under the most conservative of the estimates, the current fund balance is sufficient to fund the PSRHB premium payments beyond 2016.**
- **The Postal Service is continuing to borrow from the Treasury to fund future retiree health benefits costs.**
- **This borrowing is exhausting our debt authority. The resulting pressure on our financial resources is severely limiting investment in our physical infrastructure and reducing our ability to invest in productivity improvement efforts. Reduced investment will begin to affect our operational ability in the coming years.**

- **Private sector businesses and other agencies of the federal government are not required to pre-fund retiree health benefits as PAEA has prescribed for the Postal Service.**

Section 710 of PAEA requires that GAO perform an in-depth evaluation of the “various options and strategies for long-term structural and operational reforms of the United States Postal Service.” The long-term funding of retiree health benefits is only one of the multiple issues that must be addressed to ensure a comprehensive, integrated, and effective solution to the financial and operational issues the Postal Service is experiencing, particularly during this recessionary period. We stand ready to work with the GAO in this effort to devise a reasoned structure for a modern Postal Service.

We appreciate Congressional action to avert a default in 2009. We urge Congress to address the PAEA-required scheduled payment to ensure the Postal Service can both meet a restructured obligation and maintain its operational needs.

2. **The Postal Service's contracts with its four major unions expire in 2010 and 2011. I assume that you are looking to those upcoming negotiations as an opportunity to find significant cost savings. Without giving away your negotiating strategy, what are the major issues that you intend to concentrate on in those negotiations? Also, what cost-cutting goals have you achieved and plan to achieve in partnership with your employees outside of the upcoming negotiations?**

Labor costs are the result of a number of factors, including the wages paid to employees, number of paid hours, mix of employees utilized, work rules that impact productivity and benefits paid on behalf of active and retired employees. Without reference to any specific negotiating priorities at this time, the above referenced issues are likely to be part of the negotiations process in some form.

The Postal Service and its unions have reached several agreements outside of collective bargaining negotiations that help to reduce Postal Service costs. For example, the Postal Service and the National Association of Letters Carriers, AFL-CIO, reached agreements in 2008 and 2009 on modified processes to adjust city carrier routes in light of declining mail volume. The Postal Service and the American Postal Workers Union, AFL-CIO reached an agreement to modify work rules in the motor vehicle craft to provide for a more efficient operation. Just this past August, the Postal Service reached agreements with the APWU and the National Postal Mail Handlers Union, AFL-CIO, to provide retirement and separation incentives to reduce excess employee complement in mail processing operations.

We will continue those efforts to achieve needed efficiencies.

3. You state in your testimony that, absent legislative change, you will not make your required \$5.4 billion retiree health pre-funding payment at the end of the fiscal year in September. I understand that this move on your part would be necessary in order to preserve sufficient cash to fund operations in October. How much would the enactment of S. 1507 or similar legislation help with the Postal Service's ability to fulfill its year-end obligations? How would it improve your cash position?

As reported out of Committee, S. 1507 would provide \$2.4 billion of cash savings this fiscal year. This amount would be sufficient to alleviate our liquidity concerns through October. Given the additional \$2.4 billion of cash in fiscal year 2009, and our financial assumptions regarding fiscal year 2010, the additional annual borrowing authority of \$2 billion provided by S. 1507 (subject to our \$15 billion statutory limit) would provide a liquidity cushion that should prove sufficient through the end of Fiscal Year 2010. However, to the extent that liquidity is preserved through increased debt, our long-term challenges become all the more difficult to address.

4. At one point in your testimony, you say "the chilling effect of today's economic climate has certainly accelerated the diversion of some mail to other channels." What makes you say that? Is there evidence that some of the mail lost as a result of the economic slowdown has left the postal system for good? How much of what has been lost can be brought back using either the competitive tools you currently have at your disposal or perhaps some others that you would like to have?

Electronic diversion affects all parts of the mail stream. Our econometric research indicates that the recession has increased electronic diversion in areas where it has been evident for some time, such as in bill payments and presentments. Moreover, feedback we have received from leaders in the financial industry suggests that the industry will pursue more aggressive marketing efforts in the future to encourage their customers to move bill and statement presentment online. We believe it is reasonable to assume that once this business has moved to the Internet, it will not return to First-Class Mail.

There is also evidence that electronic diversion may be spreading to other aspects of our business such as overnight documents and direct mail marketing. During recessions, businesses often look at express services as an area for economizing. With the availability of electronic data transmission, this latent threat to our business is greater than it has been in the past. The primary advantages of direct mail marketing are its measurability and targetability, traits shared by Internet advertising. It is reasonable to assume that the growth in Internet advertising may eventually begin to adversely affect advertising by mail.

5. You mention in your testimony that 29 percent of the Postal Service's retail revenue is generated through alternate channels. What are your long-term goals for expanding access to and the use of alternate retail? What impact will these plans have on the number of retail facilities the Postal Service maintains?

Our Alternate Access programs are an important component to continuously improve retail service by offering customers convenient shipping and mailing options outside of the traditional Post Office. Alternate Access channels leverage the strength of our brand and provide customers ease of access for our products and services where they live, work and shop. Many locations provide 24 hour service – seven days a week.

Outside of our 32,000 brick and mortar Post Office footprint, today, there are over 62,000 locations that provide a combination of postal services. These include nearly 4,000 contract postal units, operated by independent businesses in conjunction with their primary businesses; postage stamps at Post Office prices, available at more than 57,000 retail locations, including grocery stores, drug stores and office supply stores; and shipping services at over 2,600 Approved Shipper locations. Customers also have the ability to order postal products online on usps.com, by phone or mail from their home or office.

We continue to work toward enhancements for other Alternate Access channels driven by changes in technology, the competition and our customers' behavior. Retailers want to expand their offers to customers by becoming Approved Shippers and are exploring offering a larger variety of stamp options to customers. As customers demand one-stop shopping, we also will explore expanding the set of services offered at alternate locations, including shipping supplies and P.O. Boxes.

The Internet and a new generation of customers are redefining expectations for convenience and access. Reflecting the recent dramatic growth of online services in virtually all consumer and business oriented service industries, customers are demonstrating a desire to do business with the Postal Service via alternate channels. Accordingly, we are investing in online services, particularly at the usps.com website, to make it even easier to perform some of the most common postal services from the convenience of home or office, using an internet connection. Some of these transactions include ordering merchandise, printing shipping labels with postage, arranging for carrier pickup, reviewing order history, tracking packages and receiving customer service. We are also investing to improve customer service and align the data and support available at retail locations, by phone, and online so customers can do business and get help in the channel they prefer. The enhancements to our website will make it easier for customers to find the products they need by creating a more streamlined and intuitive user interface.

Expansion will be in tandem with the changing needs of our customers' as well as necessary adjustments to the Post Office network, maximizing the customer experience while minimizing cost.

6. There was some discussion at the hearing about the non-postal products and services that foreign postal administrations are permitted to offer. You mentioned banking, cell phones and logistics in your testimony. What kinds of non-postal services do you think the Postal Service should be permitted to offer? How does current law need to be altered to allow you the flexibility you think you need?

In order to better support its universal service obligation, the Postal Service seeks additional statutory flexibility to pursue additional revenue generating activities for which the existing statutory authority presently is lacking or unclear. One specific change that we would like to suggest is an expansion of the authority granted to the Postal Service in Section 411 of Title 39 which currently permits the provision of (and remuneration for) a wide variety of services to "Executive agencies with the meaning of section 105 of title 5 and the Government Printing Office." The authority of the Postal Service to cooperate with and provide services to state and local authorities, and perhaps to federal entities not currently specified, is not specifically set out in the current law. We would like to have clear authority to cooperate not just with a limited selection of federal entities, but with all federal, state and local governmental authorities. This authority could potentially be used to assist states with enrollment services for various benefits programs, or for a wide variety of other initiatives where the ubiquity of the Postal Service's retail and other facilities would be of value.

Another area in which the PAEA could be modified is in its definition of services allowed to be provided by the Postal Service. Currently, the law contains a definition of postal services that is strictly limited to "the delivery of letters, printed matter, or mailable packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto." While the Postal Service understands that this definition is descriptive of the core function that it has served in our country's history, the lack of clear authority to provide purely electronic equivalents of the traditional physical services is likely to hinder the Postal Service's ability to bind the nation together in the electronic age. It also runs counter to the definition of postal services adopted by the Postal Rate Commission prior to the passage of the PAEA, which explicitly included electronic services. Although the Postal Regulatory Commission has indicated that under the PAEA certain purely electronic services, such as international electronic funds transfers, are permissible extensions of existing hardcopy services, the authority to provide such services should be set out explicitly in the current law.

Beyond these specific suggestions, the Postal Service is interested in exploring whether, like other postal administrations around the globe, our

core operations could be supported by revenue generating activities that might be considered by some to extend beyond the scope of that core. For example, the Postal Service is interested in exploring whether the provision of logistical, financial, real estate management, and services to underserved rural and inner-city markets, subject to reasonable regulation by the Postal Regulatory Commission, might be a sound means to secure revenues needed to support universal service. Another example might be looking for services that leverage existing assets, such as our retail outlets, where we already sell money order and international wire transfers. The Postal Service would like to explore whether it would be feasible to provide these type services directly or in partnership with private sector entities.

7. There has been some discussion about the fact that the CPI cap on postal rates will likely not allow for a rate increase at all this coming spring. How are you working with the PRC and with the mailing community to find a way to ensure that the Postal Service is able to raise sufficient revenue next year? Is the so-called "exigency clause" which allows for rate increases above inflation an option?

An exigent rate increase is an option for raising revenue, but we recognize this is an important decision.

We are concerned about the mailing industry's ability to absorb a rate increase. Reflecting economy-wide cost deflation, competing media and enterprises have frozen and/or reduced their prices. At the same time, revenues have declined for many of our commercial customers, limiting their ability to pay higher rates.

The Postal Service has, therefore, focused on opportunities to selectively decrease rates to stimulate new revenue while simultaneously implementing our continued aggressive cost reductions.

As the economy continues to recover and strengthen, we will continue to consider the option of an exigent rate increase to raise revenue. In doing so, we will continue to act carefully and with restraint. We will also continue to aggressively pursue our cost reduction efforts.

8. There was some discussion at the end of the hearing about worksharing. Some postal employees, as you know, are of the opinion that worksharing discounts are often excessive and result in wasteful outsourcing. They claim that much of the work that mailers currently do to their mail could be performed cheaper and more efficiently by postal employees? How would you react to this sentiment? How, in your view, does worksharing benefit the Postal Service?

In the Postal Accountability and Enhancement Act (PAEA), the Congress limited the Postal Service's ability to offer worksharing discounts that exceeded the estimated costs avoided by the worksharing activities. In its

most recent price change filing for market-dominant products (Docket No. R2009-2), the Postal Service filed documentation that showed that the great majority of worksharing discounts did not exceed avoided costs. Indeed, many of the worksharing discounts were *below* avoided costs.

The PAEA provided for a limited number of exceptions to the avoided cost pricing rule. Before approving exceptional discounts, the Commission is generally required to determine either that (i) the excess discount is temporary and will be phased out over time or, (ii) that removing the excess discount would impede the efficient operation of the Postal Service. The Postal Service requested exemption under the Congressionally-approved exception for those few discounts that did exceed the avoided costs and the Commission found in each case that the exceptions were justified.

Most of the discounts for which exceptions were requested involve small categories of mail. The principal exceptions that involved larger mail volumes were “automation” discounts. Workshare discounts are given for prebarcoding, presorting, handling, and transportation. Additional requirements for automation workshare prices also exist. For example, compared to mail that is presorted but not barcoded, Automation mail is required to meet a higher standard of address completeness; this reduces Postal Service costs by making Delivery Point Sequencing more precise.

The statement that work performed by customers receiving worksharing discounts could be done more cheaply and efficiently by the Postal Service assumes that, for example, the customer performs a physical sortation in the same way that the Postal Service would. In some cases, that is the case; however, in many cases, customers prepare mail using computers to sort mailing lists and print the mail. This process is much cheaper than physical sortation. Therefore, if we substantially increased workshare prices (reduced workshare discounts), it is not realistic to assume that customers just would pay the higher price. Instead, much of the mail would simply disappear.

It is important to note that workshared mail is profitable for the Postal Service to handle, process, and deliver. It makes a large contribution to covering the Postal Service’s fixed costs including the cost of the delivery network. If the volume of workshare mail were to decrease, these fixed costs would have to be shared among a much smaller pool of mail putting upward pressure on prices. Worksharing helps to spread fixed operational costs to customers who value using the mail at the current prices (net of the workshare discounts.) This helps to keep mail an affordable communications option for the American public.

Post-Hearing Questions for the Record

**Submitted to John E. Potter
From Senator Claire McCaskill**

“The U.S. Postal Service in Crisis”

August 6, 2009

1. Please provide more details about the study and action the USPS will be conducting in the process of retail station and branch consolidation. How will the USPS ensure that affected consumers and employees have an opportunity to voice their preferences or concerns?

The retail station and branch discontinuance review process starts with local initiation of a study at the direction of the District Manager in whose service area the station or branch in question is located. A study begins with review of the facility's business activity. District management analyzes operational and service information to determine if the discontinuance proposal ensures that customers would continue to have ready access to essential postal services. If the proposal is deemed worthy of further consideration, the District proceeds with customer notification and solicits customer comments either through a questionnaire or a community meeting. From the time that a study is initiated, on average, it takes about four months before a proposal is submitted to Headquarters for review. A final decision is made by the Vice President, Delivery and Post Office Operations at Headquarters. All customer comments are considered before the proposal is forwarded to Headquarters and again before a final decision is made at Headquarters. Postal employee union and associations are notified by letter of the intent to study these stations and branches. Local notice to employees and implementation of changes are conducted in accordance with applicable collective bargaining agreement provisions and personnel policies.

2. In the remarks made by Mr. Goff of the National Association of Postmasters of the United States, the 2003 Presidents' Commission Report's warning that, despite saving money, the USPS's five-day delivery proposal would lead to the Postal Service's "value to the nation would suffer." How do you respond to concerns that five-day delivery would lead to greater long-term difficulty for the public image of the USPS?

We are currently in the process of performing independent consumer and market research in order to determine the potential impact of a change from 6 to 5 day delivery on our business.

Preliminary polls such as the one conducted by Gallup this past June revealed that 95% of those surveyed indicated it was personally very important (76%) and somewhat important (19%) to them that the Postal Service continues to stay in business. Also, 66% favored reducing the number of delivery days from 6 to 5 when provided other choices such as raising stamp prices or reducing services offered at Post Offices.

Another recent poll, conducted by Rasmussen in July, indicated that 83% of adult consumers believe that there will be a need for the Postal Service over the next 10 years and 70% possess a favorable view of the Postal Service. Fifty percent also indicated that they would prefer a cutback in the number of delivery days rather than have the federal government subsidize the Postal Service to maintain its current level of service.

Responses to Post-Hearing Questions for the Record
The U.S. Postal Service in Crisis
August 6, 2009 Hearing
Subcommittee on Federal Financial Management, Government Information,
Federal Services and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate

Questions for Phillip Herr, Director
Physical Infrastructure Issues
U.S. Government Accountability Office

Questions from Chairman Thomas R. Carper

1. There was some difference of opinion on the opening panel at the hearing about how much the Postal Service owes the Treasury for its health care obligations to its future retirees. What is the best way to resolve this debate and ensure that the Postal Service is not paying any more than it owes?

When the Postal Accountability and Enhancement Act (PAEA) established the Postal Service's annual funding requirements for its retiree health benefits, it gave the Office of Personnel Management (OPM) responsibility for determining these obligations. If Congress would like to revisit this issue, it could have OPM review and update the level of prefunding that is needed based on the latest data from the Postal Service regarding its number of current employees and projected number of retirees. Then, Congress could determine what is both affordable for the Postal Service in light of its current financial condition and fair for current and future ratepayers. Any changes in the level of prefunding could have an impact on the federal budget that would also need to be considered.

2. There was some discussion at the hearing about how an alternate retiree health payment schedule proposed by Senator Collins to the one included in S. 1507 would result in a \$4 billion reduction in the Postal Service's total retiree health obligation. My understanding, however, is that this \$4 billion reduction would occur solely because Senator Collins' proposal features higher payments at the beginning of the payment schedule. As a result, more interest would be earned on the contents of the Postal Service's retiree health fund in Treasury. Is this accurate? Is it true that any proposal to provide the Postal Service a measure of relief would result in a loss of interest income?

The payment schedule under S. 1507 would result in about \$4 billion less in the Postal Service Retiree Health Benefits Fund compared to current law. Senator Collins' proposed payment schedule would also reduce the amount in the fund, but by less than S. 1507. The Postal Service's retiree health care obligation would not change under Senator Collins' proposal but the unfunded portion of the obligation would decrease compared with S. 1507. Although the total amount paid at the end of the payment schedules would be equal under Senator Collins' proposal or S. 1507, Senator Collins' proposal would require the Service to make larger initial contributions and correspondingly smaller contributions at the end of the period. The difference between the two alternatives would result from greater interest credited to the fund under Senator Collins' proposal. Finally, any proposal to provide relief from payments into the fund would result in a loss of interest income to the fund. However, the amount of the interest lost would vary depending on which year the relief is given.

3. You mention in your testimony that the Postal Service offered 150,000 employees early retirement recently but that only 3 percent of them accepted the offer. What does the Postal Service need to do to encourage more employees to retire where appropriate?

One possible response would be to offer monetary incentives to encourage more retirements. In August 2009, the Postal Service announced an initiative to encourage certain employees, including those in the mail handler, clerk, maintenance, and vehicle service crafts, who are eligible for optional or early retirement to retire or voluntarily separate by offering a monetary incentive of \$15,000, to be paid in fiscal years 2010 and 2011. The Postal Service limited this offer to a maximum of 30,000 employees.

4. In your testimony, you reiterate the need for the Postal Service to consolidate its retail and processing networks. How has the Postal Service made progress in this area in recent years? What else would you like to see them do?

Overall, the Postal Service has made limited progress toward consolidating its retail and processing networks. With regard to its retail facilities, the Postal Service's network of close to 37,000 post offices, branches, and stations has remained largely static despite expanded use of retail alternatives and shifts in population. For example, between 2004 and 2008, the number of these facilities declined by about one percent. Meanwhile, fewer retail transactions are occurring at these facilities. Instead, the Postal Service generates an increasingly larger portion of retail revenue—more than 30 percent—through alternative channels, such as through the Postal Service's website, Automated Postal Centers, and from the sale of stamps at drugstores and supermarkets. The Postal Service has made some limited progress in streamlining its mail processing network by closing some facilities, such as Airport Mail and Remote Encoding Centers, and consolidating mail processing operations. However, the Postal Service has closed only 1 of its approximately 400 major mail processing facilities.

The Postal Service recently began an initiative to study closing or consolidating about 3,200 retail branches and stations but, since then, it has excluded most of these facilities from consideration. In a September 2, 2009 press release, the Postal Service announced that 413 stations and branches remained under consideration and that it will not take any final action on these facilities until after the start of fiscal year 2010.

Under its Area Mail Processing initiative, the Postal Service is evaluating the feasibility of consolidating some mail processing operations. It is also consolidating processing and transportation operations at Bulk Mail and Surface Transfer Centers into what it refers to as Network Distribution Centers. The Postal Service expects this initiative, which is planned to be completed in November 2009, to improve efficiency and reduce transportation costs.

These are needed efforts to realign and consolidate some retail and mail processing operations and GAO recognizes that the Postal Service faces formidable resistance to restructuring facilities because of concerns that closures and consolidations could affect service, employees, and communities. However, much more is urgently needed to eliminate growing excess capacity and maintenance backlogs, reduce costs, and improve efficiency.¹

Questions from Senator Susan M. Collins

1. After removing it from the "High Risk" list in 2007 following enactment of the postal reform law, GAO announced last week, unfortunately, that it is returning the Postal Service to the list. Can you please tell us, specifically, what structural and management changes need to be made in order for the Postal Service to attain long-term fiscal viability?

In general, the Postal Service needs to become a much leaner and more flexible organization and rightsize its networks and workforce to better adapt to changes in mail volume and revenue. In our High Risk report,² we identified four key areas where the Postal Service could take action, including:

- Reducing compensation and benefit costs,
- Consolidating retail and processing networks,
- Consolidating field structure, and,
- Generating revenue through new or enhanced products.

We are identifying and analyzing options in these and other areas as part of our Postal Service business model study, mandated by the Postal Accountability and Enhancement Act. We anticipate completing our study by late March, 2010.

¹ *U.S. Postal Service: Broad Restructuring Needed to Address Deteriorating Finances*, GAO-09-790T (Washington, D.C., July 30, 2009).

² *High-Risk Series: Restructuring the U. S. Postal Service to Achieve Sustainable Financial Viability*, GAO-09-937SP (Washington, D.C., July 2009).

2. What steps should be taken in the short-term to provide some relief?

The short-term challenge for the Postal Service is to cut costs quickly enough to offset unprecedented volume and revenue declines, so that it can cover its operating expenses. The Postal Service took steps to reduce its costs by about \$6 billion for fiscal year 2009 and it currently plans to achieve cost savings of about \$3.5 billion in fiscal year 2010. The Service is also implementing initiatives to generate new revenue, but the net revenue is expected to be small in comparison to this year's deficit. These actions are not expected to be sufficient to meet its cash needs in the short term. As we testified before this Subcommittee in January of this year, we believe some short-term relief from its retiree health benefits payments is needed to help the Service cover its expenses while it determines and implements actions to help ensure its long-term sustainability.

3. Postmaster General Potter's testimony requested that Congress provide the Postal Service with legislative authority to introduce new, non-postal lines of business at its retail facilities. His testimony cited banking, cell phones, and logistics as possible new lines of business. He indicated that this might allow the U.S. Postal Service to generate additional revenue to support the Service's existing retail and delivery network.

The Postal Service's past forays into non-postal services have had little success. For example, a December 2001 GAO report highlighted serious deficiencies in the Postal Service's "e-commerce" program. GAO concluded that none of these initiatives were profitable.

Moreover, I find it hard to believe that there is insufficient competition in the private sector for the services the Postmaster General has proposed. And investing the Postal Service's limited resources in new lines of business is inherently risky with little guarantees of returns. Why we would even consider this proposal when the Postal Service is about to post a loss of \$7 billion is beyond me.

That is why the Postal Reform Act prohibits the Postal Service from performing any new "non-postal" services.

In light of the Postal Service's history with these "non-postal" products, would GAO recommend lifting the prohibition on "non-postal" products in existing law?

Since the Postal Service has encountered difficulties with past, non-postal initiatives and it is unclear exactly what business lines it is considering, we believe careful consideration is required before changes are made that would allow the Postal Service to perform non-postal services. As noted, we reported in 2001 that Postal Service management of e-commerce initiatives was fragmented, implementation was

inconsistent, and the efforts did not achieve anticipated performance.³ In a 2003 testimony,⁴ we raised several questions for Congress to consider in this area, including

- Should the Service be allowed to compete in areas where there are private-sector providers? If so, in what areas and on what terms?
- What laws should be applied equally to the Service and to its competitors?
- What transparency and accountability mechanisms are needed to prevent unfair competition and inappropriate cross-subsidization?
- Should the Service's competitive products and services be subject to antitrust and general competition-related laws?
- Should the Service be subject to consumer protection laws?

³ See *U.S. Postal Service: Update on E-Commerce Activities and Privacy Protections*, GAO-02-79 (Washington, D.C., Dec. 21, 2001).

⁴ *U.S. Postal Service: Bold Action Needed to Continue Progress on Postal Transformation*, GAO-04-108T (Washington, D.C., November 5, 2003)

**Responses of NALC President Fredric Rolando to
Questions for the Record Submitted by Sen. Tom Coburn**

Questions

1. Do you support Congress allowing the Postal Service the flexibility that was giv[en] to them in the 2006 Postal reform bill to reduce mail delivery from 6 to 5 days? If no, please explain why.

Answer: The 2006 postal reform law did give the Postal Service some additional flexibility in setting its rates as well as in some other operational areas, but it did not give the USPS the explicit freedom to reduce the frequency of delivery from six days to five days. The policy to maintain six-day delivery has been approved by Congress through the annual appropriation to fund military voting and free mail for the blind.

NALC opposes eliminating Saturday delivery. American business is conducted six and even seven days a week, and far too many businesses (e.g., Netflix, e-Bay, Time and Newsweek, etc.) rely on Saturday delivery to simply end it. Such a drastic decision may save money in the short-run, but is likely to drive away business and revenue as the Postal Service becomes less valuable to businesses and households. As such, it would be self defeating. USPS estimates of a potential savings of \$3.4-3.8 billion are inflated – the PRC believes it is roughly half this level. Beyond the negative impact on the Postal Service's viability, it would not only eliminate postal jobs, it would also negatively affect employment among business mailers and postal-related businesses. In any case, Congress could take other measures (such as reforming the pre-funding provisions of the PAEA) that would save the USPS more than reducing delivery service, without hurting service, destroying jobs or burdening America's taxpayers

2. Do you support allowing the Postal Service the flexibility to close facilities that are under performing or can be consolidated to improve the financial health of the Postal Service? If no, please explain why.

Answer: *NALC opposes mass closures of post offices. Reducing service and downsizing is not a good strategy for success. This would make the Postal Service less valuable to customers. Rather than close post offices, the Postal Service should be given new flexibility to provide services that Americans value to help maintain the post office network.*

3. Besides addressing the Retiree Health Benefits payments, what other solutions are you recommending that Congress, the Postal unions or the Postal Service should do to ensure the long-term financial viability of the Postal Service?

Answer: *In addition to adopting a more accurate and reasonable schedule for prefunding retiree health benefits, Congress should end the subsidy of taxpayers by postage ratepayers involved with charging the Postal Service for the cost of military pension benefits earned by postal employees under FERS before they are hired (under Veterans' preference rules) by the Postal Service. The cost of such military service – like the CSRS cost that was returned to Treasury by the PAEA – are rightfully born by all American taxpayers, not just the users of the Postal Service. In addition, Congress should direct the administration to accept the Postal Service's application for already authorized subsidies provided under the Medicare Modernization Act to employers that provide prescription drug coverage to retired workers. The USPS does pay for such coverage under the Federal Employees Health Benefit Program (FEHBP) and should be allowed to receive the subsidies as other companies do. The Bush administration rejected the Postal Service's rationale in 200X because it did not want to use taxpayer funds to subsidize other taxpayer (FEHBP) costs. That rationale makes sense for most federal agencies, but the USPS is not taxpayer funded; it is funded by postage ratepayers.*

4. Do you think the Federal government should subsidize the Postal Service?

Answer: *We believe the Postal Service provides a vitally important infrastructure service to all American businesses and households – by facilitating commerce as a still important part of the country's financial payments system and distributor of mail-order products, by promoting democracy through the dissemination of ideas via books, magazines and other periodicals, and by promoting economic growth through directly targeted advertising and integrating rural Americans into the national economy. As such, Congress would be justified in providing taxpayer support to the Postal Service. However, we do not think such support is necessary – the USPS has operated independent of any taxpayer subsidies since the early 1980s. Reforming the retiree health prefunding schedule is the best way to avoid the need to use taxpayer funds to subsidize the USPS.*

5. Not taking into account the Retiree Health Benefit payments, do you think that the Postal Service currently has a viable business plan?

Answer: *NALC is not consulted by the USPS on its business plans. However, to the extent that it relies exclusively on cost-cutting and downsizing instead of expanding revenues and maximizing the value of the Postal Service's last mile delivery network, then the USPS business plan is not viable. The Postal Service cannot downsize itself to health and Congress must not destroy the Postal Service in order to save the Postal Service.*

**Questions and Answers for the Record
Submitted to William Burrus**

I am pleased to respond to the questions submitted by Senators McCaskill and Coburn for inclusion in the record of the Senate Homeland Security and Governmental Affairs Committee hearing, which was held on Aug. 6, 2009. I regret that the senators were unavailable during my testimony, when we could have engaged in discussion of the pending legislation, but I respect the competing demands on their time.

1) Keeping in mind your organization's opposition to S. 1507, what are the substantial steps the APWU is willing to take to assist the Postal Service in weathering its severe crisis?

Before I address the substance of the inquiry, I want to point out that the question misstates the position of the American Postal Workers Union: We support S.1507 as it was originally drafted. We oppose the amendment that would require interest arbitrators to consider the financial health of the Postal Service. During the hearing, I explained in some detail the reason for our opposition to the amendment.

In response to the question: The financial problems of the Postal Service transcend the wages and benefits of postal employees. They are caused by three major factors: the nation's economic crisis; the requirement to pre-fund retiree healthcare costs, and excessive workshare discounts. The economy will eventually rebound, and I am optimistic that Congress will correct the pre-funding debacle. Excessive discounts also must be eliminated.

The American Postal Workers Union has challenged the postmaster general to discontinue the excessive discounts the USPS offers to large mailers, and instead to compensate postal employees for processing letters and flats at a cheaper per-piece rate. This would reduce the Postal Service's costs; improve efficiency, and make better use of underutilized equipment and employees. As an added incentive, we propose to process parcels at no charge.

Regrettably, the USPS vigorously defends the excessive discounts, which, under the law, may not exceed the "postal costs avoided." If the discounts are indeed below the costs avoided, our offer would lower expenses substantially.

The entire postal community has a responsibility to help eradicate the USPS deficit, so I hope that you also have asked other stakeholders what actions they are willing to take to assist the Postal Service. If all postal parties undertake serious steps to enhance the viability of the USPS, we would be willing participants.

- 2) Do you support Congress allowing the Postal Service the flexibility that was giv[en] to them in the 2006 Postal reform bill to reduce mail delivery from 6 to 5 days? If no, please explain why.**

Before I explain the APWU's position, I want to note that the Postal Accountability and Enhancement Act of 2006 (PAEA) did not authorize the Postal Service to reduce the number of delivery days. The Postal Service requested such authority, but the Fiscal Year 2010 Financial Services and General Government Appropriations Bill continued the requirement of six-day delivery.

The American Postal Workers Union strenuously opposes a reduction in the number of delivery days, because we believe it would lead to the demise of the Postal Service. Eliminating Saturday delivery would enhance privatization and undercut the Postal Service's ability to serve citizens and businesses. In the long run, it would undermine universal service at uniform rates.

It is doubtful Congress would dictate that mail *cannot* be delivered on Saturdays; more than likely, legislation would simply abolish the Postal Service's *obligation* to deliver on the sixth day. Private companies would welcome the opportunity to deliver mail on Saturdays – in *some* locations – and the march to privatization would begin.

The proposal to reduce mail delivery to five days per week raises the question: If private firms are permitted to deliver mail on Saturdays, why not on Fridays or Thursdays?

Furthermore, as the economy improves, we expect mail volume to return to the height it reached in 2006. If delivery is reduced in the meantime, the Postal Service would not have the ability to handle the higher volume once it returns.

For example, during weeks with holidays, the Postal Service would be required to deliver 100 percent of the workload during a work week set at 42 percent.

- 3) Do you support allowing the Postal Service the flexibility to close facilities that are under performing or can be consolidated to improve the financial health of the Postal Service? If no, please explain why.**

Existing law limits the right of the Postal Service to close post offices solely because they operate at a deficit, noting that it is the specific intent of Congress to ensure that effective postal services be provided to residents of both urban and rural communities. The APWU supports Congress' intent, and we believe the USPS has sufficient flexibility to optimize its operations.

The basic question we must ask is, "Do we want a Postal Service that generates profits, or do we want a Postal Service that serves the communication needs of the country?" I am convinced that the Postal Service can serve our nation's needs at 1971 costs adjusted for inflation without the significant reduction in service that would be caused by the closure of a substantial number of stations and branches.

4) Besides addressing the Retiree Health Benefits payments, what other solutions are you recommending that Congress, the Postal unions or the Postal Service should do to ensure the long-term financial viability of the Postal Service?

The requirement that the Postal Service fully fund future retiree health benefits over an arbitrary period of time was unwise and unreasonable; it has severely damaged the institution and will continue to do so if it is not corrected. Between 2006 and 2009, the USPS paid approximately \$15 billion from its operating budget to pre-fund retiree healthcare benefits. This requirement has destabilized the Postal Service at the same time that volume was seriously eroded by a weak economy.

I ask that Congress permanently correct this colossal mistake by recalculating the future healthcare costs to reflect reality, and that Congress provide the USPS with a flexible payment schedule, unrelated to the "scoring" process of the federal government.

In addition, any comprehensive review of the Postal Service should analyze the entire postal system, including private providers of mail service. To date, all examinations of the mail system have focused on the USPS, with the stated objective of promoting efficiency and eliminating redundancy. The fallacy of this approach is that it artificially limits the definition of the postal network.

All stakeholders – including postal unions, management, major mailers, private mail consolidators and pre-sorters, transportation providers and suppliers – have a role to play in ensuring the long-term viability of the institution. Focusing on any single entity within an industry that employs 9

million people and generates \$900 billion ignores major components of the vast enterprise and serves only to meet political objectives.

5) Do you think the Federal government should subsidize the Postal Service?

Having spent 52 years as a postal employee or representative of employees, I have personally experienced the effect of federal subsidies on the USPS: My response is an unequivocal *No!*

6) Not taking into account the Retiree health Benefit payments, do you think that the Postal Service currently has a viable business plan?

It is difficult to answer this question because it ignores the fundamental predictor of the Postal Service's future viability. It is akin to asking **if an individual has a plan for crossing the street after being hit by a car.**

However, setting aside our concerns about the retiree healthcare benefits, we must conclude that the Postal Service lacks a viable business plan.

In the 21st century, with advances in computerization, the Postal Service must evolve beyond serving as the conduit of messages generated by others. Over the 230-year history of the Postal Service, hard-copy communications have been generated in sufficient quantity to support a national network. Technology has improved communication in critical areas, often at the expense of mail volume. I believe that civilization will continue to use mail as a means of communication; the question is, communicating what?

Many personal and business transactions have or will migrate to other forms because of the advantages in speed and cost. This is a sign of progress and it serves no purpose to bemoan such change. But mail has unique advantages in conveying graphics and text messages that must be absorbed in order to influence behavior. In a capitalistic environment, this is a golden opportunity for mail. To realize the benefits, the USPS must grow beyond a passive conveyer and become an enterprise that serves as a catalyst for hard-copy communication.

The USPS must combine the benefits of technology and hard-copy communication, enabling commercial enterprises and individual citizens to convey messages. Under the traditional system, a company or citizen purchases paper and envelopes; combines them into a single item (mail); affixes an address and postage, and deposits the product at a post office or mailbox for delivery. These multiple steps and purchases can be combined into "one-stop shopping" on the Internet, and can be delivered to the addresses of 200 million homes and businesses, six days per week. The Postal Service can perform the printing or permit the sender to create the message using the Internet. The entire process can be billed after the fact. This is a business model that can survive far into the future.