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INQUIRING MINDS WANT TO KNOW: WHAT IS THE POSTAL SERVICE CONTRACTING OUT?

HEARING

BEFORE THE

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

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

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INQUIRING MINDS WANT TO KNOW: WHAT IS THE POSTAL SERVICE CONTRACTING OUT?

THURSDAY, JULY 19, 2007

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

The subcommittee met, pursuant to notice, at 2:37 p.m., in room 2154, Rayburn House Office Building, Hon. Danny K. Davis (chairman of the subcommittee) presiding.

Present: Representatives Davis, Norton, Sarbanes, Cummings, Clay, Lynch, Marchant, and McHugh.

Staff present: Tania Shand, staff director; Caleb Gilchrist, professional staff member; Lori Hayman, counsel; Cecelia Morton, clerk; Ashley Buxton, intern; John Brosnan, minority senior procurement counsel; Ed Puccerella, minority professional staff member; Patrick Lyden, minority parliamentarian and Member services coordinator; Brian McNicoll, minority communications director; and Benjamin Chance, minority clerk.

Mr. DAVIS. The committee will come to order.

Let me, first of all, apologize for the delay. Of course, we say that this is one of the most worked rooms in the Capitol, the Committee on Oversight and Government Refrom. There are a lot of things to oversee. But let me thank you all for your patience and for being here.

Welcome, Ranking Member Marchant, members of the subcommittee, hearing witnesses and all of those in attendance. Welcome to the Federal Workforce, Postal Service, and the District of Columbia Subcommittee hearing entitled, "Inquiring Minds Want to Know: What is the Postal Service contracting out?"

Hearing no objection, the Chair, ranking member and subcommittee members will each have 5 minutes to make opening statements; and all Members will have 3 days to submit statements for the record. I will begin.

Mr. Marchant, members of the subcommittee and hearing witnesses, welcome to the subcommittee's hearing on contracting out services within the U.S. Postal Service. Today's hearing will examine the Postal Service's use of private contractors to deliver and collect mail and the Postal Service's plans to contract out future services.

At the first postal oversight hearing on April 17, 2007, many of the labor unions expressed concerns about the contracting out of the Postal Services. This hearing is to engage the postal commu-

nity in a discussion about outsourcing new mail delivery routes to contractors rather than career postal employees.

It has been long established and accepted that highway contract routes are performed by contractors for bulk mail and delivery services in rural areas. What is less established is the Postal Service's use of contractors to deliver the mail to suburban and rural areas and whether or not this practice is good public policy. In addition, the subcommittee would like to know generally what current and future services the Postal Service intends to contract out.

In discussions with the Postal Service, I have been assured that only new postal routes will be considered for outsourcing and that established routes would be given to postal employees. The Postal Service and the National Association of Letter Carriers, as part of the collective bargaining process, have agreed that existing city routes will no longer be contracted out. For example, an abandoned building in the middle of the Bronx, New York, was renovated and converted into apartments. It was classified as a new route by the Postal Service, and a contractor was assigned to deliver the mail, even though this building had been within an established route that could have been divided among current letter carriers.

Postal unions were concerned that the practice of contracting out is being extended into what, up until a year ago, would have been city routes serviced by career, uniformed, unionized letter carriers. Due to the new collective bargaining agreement, the Bronx and similarly awarded contracts have been canceled and are now being divided amongst the existing city carriers.

The President, as part of his management agenda, championed the idea of privatization and contracting out government services, but at what cost? Currently, contractors are only 2.6 percent of all city and rural routes, but that number is increasing, especially in the Midwest where neighborhoods are growing the fastest.

Where does it stop? Is a 50 percent contractor rate acceptable? Do we want all letter carriers to be contractors in order to save on mail delivery? What other services would be contracted out and what assurances do we have that contract staff would be held accountable for their actions and that the mail is secure?

As part of its mission, the Postal Service states that it shall provide prompt, reliable and efficient services to patrons in all areas and shall render postal services to all communities. Mail delivery in the United States is, for the most part, affordable and reliable. Outsourcing postal services is a tool among many that could be used to keep postal costs down while maintaining efficient and reliable mail delivery.

I am pleased that the Postal Service and the National Association of Letter Carriers have reached an agreement on how existing city routes will be serviced. However, this subcommittee intends to engage the postal communities in discussions to answer the broader question policy of what postal services are "inherently postal" and whether or not they should be contracted out.

I thank you very much for coming and look forward to the testimony of the witnesses.

[The prepared statement of Hon. Danny K. Davis follows:]

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

STATEMENT OF CHAIRMAN DANNY K. DAVIS

HEARING ON "INQUIRING MINDS WANT TO KNOW: WHAT IS THE POSTAL SERVICE CONTRACTING OUT?"

Thursday, July 19, 2007

Ranking Member Marchant, members of the Subcommittee, and hearing witnesses, welcome to the Subcommittee's hearing on contracting out services within the United States Postal Service (the Postal Service). Today's hearing will examine the Postal Service's use of private contractors to deliver and collect mail and the Postal Service's plans to contract out future services.

At the first postal oversight hearing on April 17, 2007, many of the labor unions expressed concerns about the contracting out of postal services. This hearing is to engage the postal community in a discussion about outsourcing new mail delivery routes to contractors rather than career postal employees. It has been long-established and accepted that highway contract routes are performed by contractors for bulk mail and delivery services in rural areas. What is less established is the Postal Service's use of contractors to deliver the mail to suburban and rural areas and whether or not this practice is good public policy. In addition, the Subcommittee would like to know, generally, what current and future services the Postal Service intends to contract out.

In discussions with the Postal Service, I have been assured that only new postal routes will be considered for outsourcing and that established routes will be given to postal employees. The Postal Service and the National Association of Letter Carriers, as part of the collective bargaining process, have agreed that exiting city routes will no longer be contracted out. For example, an abandoned building in the middle of Bronx, New York, was renovated and converted into apartments it was classified as a new route by the Postal Service and a contractor was assigned to deliver the mail -- even though this building was within an established route that could have been divided among the current letter carriers.

Postal unions were concerned that the practice of contracting out is being extended into what, up until a year ago, would have been city routes serviced by career, uniformed, unionized letter carriers. Due to the new collective bargaining agreement, the Bronx, and similarly awarded contracts have been cancelled and are now being divided among the existing city letter carriers.

The President has, as part of his management agenda, championed the idea of privatization and contracting our government services but at what cost? Currently, contractors are only 2.6 percent of all city and rural routes, but that number is increasing, especially in the Midwest where neighborhoods are growing fastest. Where does it stop? Is a fifty percent contractor rate acceptable, do we want all letter carriers to be contractors in order to save on mail delivery? What other services will be contracted out and what assurances do we have that contract staff will be held accountable for their actions and that the mail is secure?

As part of its mission the Postal Service states that it shall provide prompt, reliable and efficient services to patrons in all areas and shall render postal services to all communities. Mail delivery in the United States is, for the most part, affordable and reliable. Outsourcing postal services is a tool among many that could be used to keep postal costs down while maintaining efficient and reliable mail delivery.

I am pleased that the Postal Service and NALC have reached an agreement on how existing city routes will be serviced. However, this Subcommittee intends to engage the postal communities in discussions to answer the broader public policy question of what postal services are "inherently postal" and whether or not they should be contracted out.

Thank you and I look forward to the testimony of today's witnesses.

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Mr. DAVIS. Now I would like to yield to the ranking member, Mr. Marchant.

Mr. MARCHANT. Thank you, Chairman Davis, and good afternoon. I would like to commend Chairman Davis for holding this hearing on the Postal Service's ongoing ability to contract out certain postal functions. The operations of the Postal Service and its ability to contract cost and be more efficient are important oversight issues for this committee.

First, I was pleased to hear that the Postal Service and the National Association of Letter Carriers reached a tentative labor agreement on July 12th for the 222,000 city delivery letter carriers. The Postal Service performs a national service, and its workers are among the hardest working of all working employees in this country.

As we begin to review the use of contractors by the Postal Service today, I remind my colleagues that the Postal Service has been using contractors to deliver the mail since the late 1700's. The Postal Service gains roughly 1.8 million new deliveries each year, with the vast majority of these deliveries being assigned to Postal Service employees.

This should be an informative hearing today, and I look forward to hearing from our colleague from New Jersey and as well as our two panels of witnesses. Thank you, Mr. Chairman.

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

I will ask if any of the Members have any opening remarks they would like to make, and beginning with Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman. I want to thank you for holding this very important hearing. I also want to thank all of the panelists who have come here, including Mr. Sires, to help us with our work.

I usually begin my statement in this committee with a little disclosure. As most people know by now, my mom was a 30-year employee of the Post Office. My 2 sisters are currently employed at the general mail facility in Boston; and I have a brother-in-law, 4 aunts and 12 members of my extended family, my cousins, all employed at the Postal Service either with the mail handlers, the clerks or the letter carriers. None are supervisors yet. But I have to make that general disclosure, because if people think that somehow makes me biased, they are probably correct.

Mr. Chairman, I would like to thank you for holding this hearing. As a former union president, I afford the greatest deference to the collective bargaining process as the primary avenue through which workplace concerns should be resolved. Accordingly, I am greatly encouraged that the main issue before us today, the outsourcing of postal delivery work, has been I think meaningfully addressed via the tentative 5-year collective bargaining agreement between the U.S. Postal Service and the National Association of Letter Carriers; and I assume that will also be addressed in agreements with the letter—not only the letter carriers but the mail handlers and the clerks as well.

However, as a Member of Congress and a member of the Oversight Committee, in particular, I also believe that the contracting out of basic postal service functions bears much broader policy implications than just the allocation of that work; and from speaking

to a lot of the postal workers, mail handlers and others in my district, there is general agreement from those workers who actually work at the Post Office. Many postal workers, mail handlers, city and rural letter carriers serving in my congressional district have great concerns about the contracting out of their work.

Albert Einstein defined insanity as doing the same thing over and over and expecting different results. And as this administration has learned time and time again, whether it be from the outsourcing of patient care at Walter Reed Army Medical Center or the outsourcing of what was normally considered public work to private entities during the Katrina recovery effort or the outsourcing to private industry or logistical operations in Iraq, such as to Halliburton, or the outsourcing of core governmental functions in general, it simply has had a very poor record, at least for very core functions.

And make no mistake about it, it is a responsibility of our government to ensure the free flow of information, communication and commerce through the U.S. Postal Service. This was never more evident I think to all of us than in the weeks following September 11th during which a series of anthrax attacks—this was my first week in Congress. I was elected in the primary on September 11th; and when I arrived here, a number of the buildings had been contaminated by anthrax, including one of our mail facilities. Tragically, two employees of the Brentwood mail sorting facility here in Washington, DC, Mr. Joseph Curseen, Jr., and Thomas Morris, Jr., were among the victims of those attacks.

At that time, I know that every one of our postal workers, every clerk, every carrier, every mail handler, was faced with a very difficult choice between continuing to come to work in contaminated environments every day under very difficult and dangerous conditions, not only for themselves but for their families, or the choice of staying home, thereby risking the stability of our own economy in stopping the flow of mail and upsetting the flow of commerce and probably shaking the confidence of the American people.

The burden heavily fell upon the shoulders of the union leaders of those unions that I mentioned, the mail handlers, the letter carriers and the clerks. And, as we all know, in the end, America's postal union leaders and their workers chose to come to work because they considered their—they considered it their patriotic duty to do so.

Accordingly, the continued prospect of contracting out our postal delivery work and other work to private employees who possess significantly less experience, significantly less training and very likely considerably less dedication and commitment and responsibility in a governmental sense greatly concerns me.

Mr. Chairman, I thank you for holding this hearing. I welcome our panelists and their testimony regarding this very important issue, and I yield back the balance of my time.

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

Mr. McHugh.

Mr. MCHUGH. Thank you, Mr. Chairman. I don't have a prepared statement, but that never got in my way before, and it won't now. Let me just say a few words.

First of all, I want to add words of welcome to my colleague from New Jersey. We look forward to his comments and appreciate the leadership that he has shown on this issue in the introduction of the bill that I am sure he will go into depth about. But I want to thank you as well, Mr. Chairman, and to the distinguished ranking member.

As you noted, Mr. Chairman, this is an issue that has importance still. As we learned in our inaugural oversight hearing this year, there is far from unanimity of agreement of how to approach the issue, even amongst the workers, representative organizations. There is some disagreement. But that, if anything, argues at our continued attention.

I want to give a tip of the hat to the Postmaster General and to the NALC president, Bill Young, for reaching out, working together, bringing the two sides together and I think coming up with a contract agreement that establishes a 6-month moratorium that is going to have a joint union/management task force to look at a way to develop an approach to this in the future. And that truly is the definition of leadership.

But it seems to me, Mr. Chairman, it also argues for our continued oversight; and I know we will be working with you and the ranking member to try to ensure that when that joint task force comes out with its recommendations we have the opportunity to review those as well in our continuing oversight. So thank you for calling this hearing.

I welcome so many friends that I have had the opportunity of knowing them, most of them pretty happily—not all, but most of them—pretty happily over the past 15 years or so and yield back, Mr. Chairman.

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

Delegate Norton.

Ms. NORTON. Thank you, Mr. Chairman.

I want to, first, commend the postal unions and postal management for trying to deal with this very important issue through the collective bargaining process. The very grown-up way in which the promise they have already made, it seems to me, is itself an indication of the wisdom of congressional decision to make sure that collective bargaining remains in place.

When the Post Office turned over in the early 1970's, the joint committee tried to deal with this problem, the problem of the existing practices of contracting out. Their 6-month moratorium, that is how grown-up labor management relationships occur and how problem solving through collective bargaining occurs.

This hearing, however, is appropriate, consistent with collective bargaining; and the reason is is that there is a mandate from this Congress that the Postal Service better deliver to every little place in the United States of America and it better do it cheaply. So here they are put in an almost impossible position unless we make it clear that we support their efforts and that we do not intend to see the Postal Service privatized or outsourced through the back door.

The challenge of the Post Office is to some time, some how assure a healthy Postal Service, fully competitive with all of the private actors, most of whom, by the way, have a much freer hand, no mandate from us, be competitive with these private sector folks,

and deliver the mail cheaply everywhere in the United States. Now hearing, for example, complaints to publications because they don't want their fees raised.

This is a unique entity. It is the only private entity I know that has an ironclad public mandate while being forced to operate precisely as if it were 100 percent private business.

Understanding that, if we simply allow privatization of much of the Postal Service business and the outsourcing of business as our country expands, we will wake up 1 day and find that the mandate to deliver the mail is completely inconsistent with the mandate we have given the Postal Service to operate like a private business. That means that everybody has to pull this ore, and I must say that I think management and labor and the Postal Service are pulling us in the right direction. And if they are able, beginning with their 6-month moratorium, to figure this out, I think you will find the U.S. Congress pulling back.

But one thing we will never pull back from is the universality of the Post Office's mandate, and we will never leave the Post Office with its business so shriveled that it cannot meet that mandate. Thank you very much, Mr. Chairman.

Mr. DAVIS. Thank you very much, Delegate Norton.

Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman. Thank you for calling the hearing today. I also want to thank my colleague from New Jersey for coming forward and giving testimony today.

The topic of the hearing, "Inquiring Minds Want to Know: What is the Postal Service Contracting Out," is very fitting because I am very inquisitive about the testimony that will come today as far as what the benefits are to contracting out and what the drawbacks are to postal customers.

I am also pleased to hear that our colleague's family has full employment because of the Postal Service, the gentleman from Massachusetts. We are glad to know that, Mr. Lynch.

But what will be the differences in comparison to the hourly postal workers serving the postal customers as compared to the contracted employee? As the chairman mentioned in his opening statement, the Midwest is expanding rapidly into the suburbs. I think about an area around St. Louis, Belleville, IL, to be exact, right around Scott Air Force Base, new subdivisions are popping up; and I had a conversation recently with the gateway district director of the Postal Service who explained to me that, after several members from that area had complained to me, as well as people who live there or are going to move there and had complained about the fact that their postal services will be done by contracted employees, and they complained that they wanted the same services that their neighbors were getting from the hourly postal worker. So I am interested to hear that explanation. The gateway district director told us that it was a cost savings, and I would like to hear more about what the cost savings are and how effective those savings would be.

So, Mr. Chairman, I will yield back the balance of my time and await the testimony.

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

Mr. Sarbanes.

Mr. SARBANES. Thank you very much, Mr. Chairman, for calling the hearing.

I also want to congratulate the parties on reaching an agreement but agree that the continued oversight on this issue from the committee makes a lot of sense. To me, it is very easily put, which is that if it is not broken, don't fix it. And the history of the Postal Service working hand in hand with a work force by which they are doing the right thing is one of an organization that works and works well, and I think there is a certain arbitrary nature or there has been in this move to contract services out, and we are right to push back against that and ask tough questions.

The Postal Service, again, working in combination with its incredible work force, is really a unique infrastructure and a unique distribution system, because it is built fundamentally on a set of relationships, human relationships, and that is what makes it so different. And I think we tamper with that when we move aggressively or arguably at all into the area of contracting these services out. So I think the hearing is certainly warranted.

I want to salute Congressman Sires for gathering up the sense of the House as he is trying to do on this issue and exercising leadership. Thank you.

Mr. DAVIS. Thank you very much.

We are very pleased that our first witness is seated. He is Representative Albio Sires, who is elected to serve the 13th Congressional District of New Jersey in the United States of America, served two terms as New Jersey's speaker of the general assembly. Mr. Sires was serving his fourth term as an assemblyman from the 33rd District in New Jersey when he was elected to Congress. Albio Sires is the first legislator of Hispanic origin to be named assembly speaker and the first Cuban to be named assembly speaker in the Nation. We welcome you, Representative Sires.

It is the custom of this committee to swear all witnesses. So even though you were sworn in as a Member of Congress, if you would stand and raise your right hand.

[Witness sworn.]

Mr. DAVIS. The record will show that the witness answered in the affirmative. Representative, you know the drill for these in terms of the 5 minutes. If you would proceed, and we would be delighted to hear your testimony.

STATEMENT OF HON. ALBIO SIRES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. SIRES. Mr. Chairman, ranking member, members of the subcommittee, I would like to thank you for allowing me to testify before you today regarding a resolution I introduced, H. Res. 282, conveying the sense of Congress that the U.S. Postal Service should discontinue its practice of contracting out mail delivery services. This resolution has been cosponsored by 225 Members of the House of Representatives. It has been endorsed by the National Association of Letter Carriers.

Today, the U.S. Postal Service provides mail delivery services to over 144 million homes and businesses across the Nation and adds about 1.8 million new delivery addresses each year. With this unfettered access, the U.S. Postal Service has been shifting away from

allowing letter carriers to deliver and collect the mail to contracting with private individuals or firms.

Traditionally, the U.S. Postal Service has used contractors along highway contract routes to transport mail in bulk and to deliver along sparsely populated rural areas. These are well accepted and legitimate uses of contractors. This past year, however, the Postal Service has expanded its use of contractors to establish contract routes in areas where there is new development in both urban and suburban communities. This practice is endangering the quality and security of our Nation's mail.

By contracting out mail delivery services, the U.S. Postal Service is bypassing the hiring processes that ensure only qualified individuals handle the mail. The checks performed by the Postal Service for career employees include criminal history and outstanding warrant checks, fingerprinting, application reviews, driving record reviews and drug screenings. Most of these checks are performed for contractors, but according to the U.S. Postal Service the drug screening were not conducted on all of its contractors. According to the Postal Service, they will begin to perform drug screenings on all its contractors beginning July 31, 2007.

Performing background checks on contractors is one thing, but we encounter a real problem when contractors subcontract. Postal Service contractors often subcontract the delivery work to individuals who go through minimal or no background screening procedures. Independent contractors do not use the same extensive recruiting and screening process that the U.S. Postal Service uses when it hires and trains its mail carriers. This practice can open the door to felons, identity thieves and terrorists to gain access to the mail and mailboxes of millions of Americans.

Our Nation's mail workers handle bills, credit card statements, medical records, personal correspondence and other secure and vital information. Our letter carriers also have access to almost every home and business 6 days a week. Granting this type of access to low-paid contract workers who receive no benefits, no potential for career advancement and who have no incentive to provide first-class service comprises the security of our mail system.

I was pleased to have learned this last weekend that the Postal Service and Letter Carriers Union had reached an agreement during their contract negotiations not to assign new urban routes to contractors for at least the next 6 months. This agreement would ensure that the new residential and business developments in my district and districts across the country would not be assigned to contractors but would remain in the hands of our trusted letter carriers. This is an initiative, however, that must be addressed by Congress. We must permanently stop this practice.

The contracting out by the Postal Service of its functions is a broad issue that has been gaining momentum. It was recently brought to my attention that the Postal Service has contracted out the processing of military mail at the New Jersey International and Bulk Mail Center located in Jersey City, NJ, which is my district. It is my understanding that the Postal Service has moved all the processing of military mail from a site that already had adequate personnel and infrastructure to conduct these services to a completely different location. This action not only pose national secu-

rity questions but also a concern of why the Postal Service would remove the processing of military mail from its career employees, many of whom are veterans that have a personal interest in seeing that this mail is properly and efficiently processed.

I understand that others on this panel will be going into greater details concerning this particular issue, and I thank the subcommittee for looking into what I consider to be a major problem.

The protecting of our mail delivery service is a vital component of our national security. At a time when our country wages a war against terror and security precautions at an all-time high, we must not allow the U.S. Postal Service to jeopardize the safety and security of mail delivery to our homes and our business. The issue of contracting out mail delivery services is a legitimate public policy and a national security issue that we as Members of Congress shall decide.

I want to take this time and thank the chairman for allowing me 5 minutes.

Mr. DAVIS. Thank you very much, Representative Sires.

[The prepared statement of Hon. Albio Sires follows:]

Congressman Sires
Testimony on H.Res. 282 for the House Subcommittee on Federal Workforce, Postal Service, and the District of Columbia
July 19, 2007

Mr. Chairman, Ranking Member Marchant, and Members of the Subcommittee, I would like to thank you for allowing me to testify before you today regarding a resolution I introduced, H.Res. 282, conveying the sense of Congress that the United States Postal Service should discontinue its practice of contracting out mail delivery services. This resolution has been cosponsored by 225 members of the House of Representatives and has been endorsed by the National Association of Letter Carriers.

Today, the U.S. Postal Service provides mail delivery services to over 144,000,000 homes and businesses across the nation and adds about 1.8 million new delivery addresses each year. With this unfettered access, the U.S. Postal Service has been shifting away from allowing letter carriers to deliver and collect the mail to contracting with private individuals or firms. Traditionally, the U.S. Postal Service has used contractors along Highway Contract Routes to transport mail in bulk and to deliver along sparsely populated rural areas. These are well accepted and legitimate uses of contractors. This past year, however, the Postal Service has expanded its use of contractors to establish contract routes in areas where there is new development in both urban and suburban communities.

This practice is endangering the quality and security of our nation's mail. By contracting out mail delivery services, the U.S. Postal Service is bypassing the hiring processes that

ensure only qualified individuals handle the mail. The checks performed by the Postal Service for career employees include criminal history and outstanding warrant checks, fingerprinting, application reviews, driving record reviews, and drug screenings. Most of these checks are performed for contractors, but according to the U.S. Postal Service the drug screening were not conducted on all of its contractors. According to the Postal Service, they will begin to perform drug screenings on all of its contractors beginning July 31, 2007.

Performing background checks on contractors is one thing, but we encounter a real problem when contractors subcontract. Postal Service contractors often subcontract the delivery work to individuals who go through minimal or no background screening procedures. Independent contractors do not use the same extensive recruiting and screening processes that the U.S. Postal Service uses when it hires and trains its mail carriers. This practice can open the door for felons, identity thieves, and terrorists to gain access to the mail and mail boxes of millions of Americans. Our nation's mail workers handle bills, credit card statements, medical records, personal correspondences, and other secure and vital information. Our letter carriers also have access to almost every home and business six days a week. Granting this type of access to low paid contract workers who receive no benefits, no potential for career advancement, and who have no incentive to provide first class service compromises the security of our mail system.

I was pleased to have learned this past weekend that the Postal Service and letter carrier unions had reached an agreement during their contract negotiations not to assign new

urban routes to contractors for at least the next six months. This agreement will ensure that new residential and business developments in my district and districts across the country will not be assigned to contractors, but will remain in the hands of our trusted letter carriers. This is an issue, however, that must be addressed by the Congress. We must permanently stop this practice.

The contracting out by the Postal Service of its functions is a broad issue that has been gaining momentum. It was recently brought to my attention that the Postal Service has contracted out the processing of military mail at the New Jersey International and Bulk Mail Center located in Jersey City, New Jersey which is in my district. It is my understanding that the Postal Service has moved all the processing of military mail from a site that already had adequate personnel and infrastructure to conduct these services to a completely different location. These actions not only pose national security questions, but it is also a concern of why the Postal Service would remove the processing of military mail from its career employees, many of whom are veterans that have a personal interest in seeing that this mail is properly and efficiently processed. I understand that others on this panel will be going into greater detail concerning this particular issue, and I thank the subcommittee for looking into what I consider to be a major problem.

The protection of our mail delivery services is a vital component to our national security. At a time when our country has waged a war against terror and security precautions are at an all time high, we must not allow the U.S. Postal Service to jeopardize the safety and

security of mail delivery to our homes and businesses. The issue of contracting out of mail delivery services is a legitimate public policy and national security issue that we as members of Congress should decide.

Thank you, Mr. Chairman for your time.

Mr. DAVIS. Let me just ask you one question. I was impressed with the more than 200 signatures that you collected. In the process of doing so, are there any comments that you recall from any of the Members that would give one a greater sense of how the Members of Congress expressed a feeling about your resolution?

Mr. SIRES. Well, chairman, the comment that I received or went over again is the concern for security and the concern that this is something that has worked for many years, why are we looking to change it? And many Members expressed that.

Mr. DAVIS. Thank you very much. I have no further questions.

Mr. Marchant.

Mr. MARCHANT. Thank you very much for your testimony. I admire your hard work on this subject. I don't have any questions at this time, though. Thank you.

Mr. DAVIS. Are there other Members with questions of the witness?

Mr. LYNCH. Mr. Chairman, thank you. No questions. Just a comment.

I noted that my name was not on that resolution; and I would just ask you if I could please, with all due respect, be added to that resolution.

Mr. SIRES. If I may enter a comment, I was a mayor before I was speaker, and I represented a town that was 9/10 of a square mile and had 50,000 people according to the census. In my 12 years as mayor, I never received a complaint regarding the mail. I received a lot of complaints about something else, but I think that says something about the Postal Service of this country.

Thank you.

Mr. DAVIS. Any other questions of the witness?

Thank you very much. We appreciate you coming and certainly appreciate your having introduced the resolution.

We would ask our second panel if they would be seated: Mr. Alan Kessler and Mr. John Potter and Mr. David C. Williams.

Mr. Alan Kessler, vice chairman of the Board of Governors, is a Philadelphia attorney and partner in the firm of Wolf, Block, Schorr and Solis-Cohen, LLP, with substantial experience in the defense of class-action litigation, including securities, antitrust, tort and civil rights cases. He was appointed the Governor of the U.S. Postal Service in November 2000 for a term that expires in December 2008. Governor Kessler also serves as chairman of the Board of Governors and Strategic Planning Committee.

Mr. John Potter was named the 72nd Postmaster General of the United States of America on June 1, 2001. He has led the Postal Service to record levels of service, efficiency and financial performance. He has served as chief operating officer, vice president of labor relations and in a number of other senior operational positions both at postal headquarters and in the field.

Mr. David C. Williams was sworn in as the second independent Inspector General for the U.S. Postal Service on August 20, 2003. Mr. Williams is responsible for a staff of more than 1,100 employees located in major offices nationwide that conducts independent audits and investigations for a work force of about 700,000 career employees and nearly 37,000 retail facilities.

Gentlemen, let me thank you so much for coming; and, as is the custom of this subcommittee, we swear in the witnesses. If you would stand, raise your right hands.

[Witnesses sworn.]

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

We will begin with you, Mr. Kessler. All of you have done this a number of times. You know the 5-minute rule as well as the meaning of the signal lights, and of course we try and observe these sometimes.

STATEMENTS OF ALAN KESSLER, VICE CHAIRMAN, U.S. POSTAL SERVICE BOARD OF GOVERNORS; JOHN POTTER, POSTMASTER GENERAL/CEO, U.S. POSTAL SERVICE; AND DAVID WILLIAMS, INSPECTOR GENERAL, U.S. POSTAL SERVICE

STATEMENT OF ALAN KESSLER

Mr. KESSLER. Good afternoon, Chairman Davis and members of the subcommittee. I appreciate the opportunity to testify today on behalf of the Board of Governors and the U.S. Postal Service about the use of contract delivery services. I have to say that while I'm here representing all of the Governors, by way of background, I'm an active resident from a city steeped in the tradition of labor, Philadelphia, with many good friends in and of the organized labor movement, including my good friend who did some introductions at the outset, Congressman Brady from Philadelphia. On a personal level, I recognize therefore the importance and the impact that contracting has on employees, and I believe that I understand the concerns that has been have been expressed.

But while the issue being discussed here today is contracting, the real issue for the Governors and the Postal Service is broader and more fundamental. That is, we respectfully submit that the Postal Service must retain its ability to collectively bargain on a level playing field and know that the agreements that are reached in good faith after good-faith negotiations, and the subject of those negotiations and agreements, will not be altered as a result of legislative action.

I thank Congresswoman Norton for understanding our challenges and for the fundamental role of the collective bargaining process. I've had the honor of serving on the board for almost 7 years, and I've seen firsthand the financial, operational and human capital challenges confronting the Postal Service continue to mount. I've lived through competition from the Internet, as was referred to earlier, the Internet, the 9/11 anthrax in the mail and escalating gas prices.

The business model for the Postal Service, where steady growth in first-class mail finances the expansion of our delivery network, adding almost 2 million new delivery points a year to allow for affordable universal service, and with the utmost respect to Congressman Sarbanes's comments, simply is no longer working.

The trend is clear: First-class mail, particularly single-piece first-class mail, is no longer growing steadily. Standard mail, which contributes significantly less than first-class mail to the Postal Service institutional cost, now comprises the majority of our volume. The

Postal Service is seeing a decline as a result of this per delivery point from $469 in 2003—this is per delivery point—to $433 in 2006, a $36 drop per delivery point in just 6 years; and this drop has occurred notwithstanding or despite a 21 percent increase in postal rates over the same period.

I do want to applaud postal employees who have made this possible. By increasing—with the efforts of our management, senior management—productivity, our employees have allowed the Postal Service to remain financially sound.

Governors are also aware of the new responsibility placed upon the Postal Service by the Postal Act of 2006 which mandated that the Postal Service accelerate the funding of its retiree health benefits. Because of this, the Postal Service reported a $3.8 billion loss at the end of the second quarter of fiscal year 2007, with a projected loss of $5.7 billion by the end of the fiscal year.

That same act also broke the link between cost and prices by imposing a Consumer Price Index price cap on 90 percent of postal revenues. Now we know this change was intended to encourage further cost reductions and efficiencies. However, in mandating a price gap, the new law did not provide the Board of Governors with any new cost controls. Consequently, productivity improvements, automation investments and cost control measures remain critical elements in controlling rapidly escalating delivery costs.

We would stress that the Postal Service is not considering taking work away from career carriers who perform such an outstanding job. Nor is what is being discussed contracting out all new deliveries. Ninety-two percent of all new deliveries continue to be assigned to Postal Service employees represented by unions.

The Postal Service is facing significant growing cost pressures. If Congress were to completely eliminate the ability of the Postal Service to even consider the option of selectively using contract delivery service, its ability to effectively manage its vast delivery operations and associated costs would be significantly restricted.

I was on the Board when the Postal Service had more than $11 billion in debt. That was a huge burden to carry. I think currently our debt is a fraction of that, $1.5 billion.

As Governors again, respectfully, we have to be very concerned about the precedent of legislative action in collective bargaining agreements. It is not hard to imagine a future Congress with a different composition tilting the playing field dramatically in a different direction.

Since the mid-1970's, the collective bargaining agreements with the four major postal unions have contained provisions that govern contracting out, including the adjustment in contracting out of delivery routes. I would like to emphasize that these same collective bargaining agreements protect the vast majority of union-represented postal employees from layoffs. No career carrier is being laid off or will be laid off so that we can contract out his or her job.

Now, I should just add quickly that the Governors provide policy guidance to senior management of the Postal Service but do not engage in negotiations. That's the responsibility of our management.

Just last week, after a positive briefing on the subject, however, with the Board, the Postal Service reached an agreement with the

National Association of Letter Carriers that, among other things, included a provision dealing with contract delivery services.

In short, our responsibility as Governors is to ensure the Postal Service provides universal service at a reasonable rate. We must balance the provision of that service with the cost of providing the service. We, as a group, are committed to providing a high level of service to the American people. Our mandate is to achieve this goal under the requirements of the new law and our collective bargaining agreements.

Mr. Chairman, I would again like to thank you for holding this hearing on a very important topic and would be happy to answer any questions that you or any others may have.

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

[The prepared statement of Mr. Kessler follows:]

UNITED STATES POSTAL SERVICE

STATEMENT OF
THE HONORABLE ALAN KESSLER
VICE CHAIRMAN
BOARD OF GOVERNORS
UNITED STATES POSTAL SERVICE
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA

JULY 19, 2007

Good afternoon, Chairman Davis and members of the Subcommittee. I appreciate the opportunity to testify today on behalf of the Governors of the Postal Service about the use of contract delivery services. While I am here today representing all the Governors, by way of background, I am an active resident from a city steeped in the tradition of labor, Philadelphia. I recognize the importance and impact that contracting has on employees and I believe I understand the concerns that have been expressed.

The issue being discussed here today is contracting. However, the issue for the Governors and the Postal Service is broader and more fundamental. The Postal Service must retain its ability to collectively bargain on a level playing field, and know that agreements that are reached after good faith negotiations, and the subjects of those negotiations and agreements, not be altered as a result of legislative action. The precedent set by legislatively over-riding a long-standing provision of a collective bargaining agreement is very dangerous for all parties. It is not hard to imagine how a future Congress with a different composition could tilt the playing field dramatically in a different direction.

I have had the honor of serving on the Board for almost seven years and the make-up of Congress has changed even in that time. One of the perspectives that I have gained as a Governor during that time is the importance of providing universal service to the American public at affordable rates. A touchstone for all Board decisions is to ensure that the citizens of our nation receive the quality service they deserve. However, I have seen the financial, operational, and human capital challenges confronting the Postal Service continue to mount. The Governors fully recognize and take very seriously the concerns the employee organizations have raised about the use of contractors to provide delivery service to the American public. We are also painfully aware, however, of the significant financial obstacles facing the Postal Service.

As you know, this country's population continues to grow -- and to expand geographically, with the creation of new suburban developments and urban high-rises, adding nearly 2 million new addresses to the Postal Service's delivery network each year. At the same time, however, the growth in mail volume has slowed in the face of competition from electronic mail, online bill paying, and other forces.

The business model for the Postal Service – where steady growth in First-Class Mail finances the expansion of our delivery network to allow for affordable, universal service – is no longer working. The trend is clear. First-Class Mail,

particularly single piece First-Class Mail, is no longer growing steadily. Standard Mail, which contributes significantly less than First-Class Mail to the Postal Service's institutional costs, now comprises the majority of our volume.

As a result, we are delivering fewer pieces of First-Class Mail to each household and business, which means we can no longer rely on mail volume increases to cover the costs of an ever-expanding delivery network. The Postal Service has seen a decline in revenue per delivery point from $469 in 2000 to $433 in 2006 – a $36 drop per delivery point in just six years. This drop in revenue per delivery has occurred despite a 21% increase in postage rates over the same period. Despite this decline, the Postal Service has achieved positive financial results in the past few years. I want to applaud the Postal employees who have made this possible. By increasing productivity, our employees have allowed the Postal Service to remain financially sound. However, this volume trend is disturbing, as it clearly shows that the Postal Service cannot price its way out of this dilemma.

The Governors are also acutely aware of the new responsibilities placed upon the Postal Service by the Postal Act of 2006. The Act eliminated the escrow account and returned the military service obligation to the Department of Treasury. It also mandated that the Postal Service accelerate the funding of its retiree health benefits. Because of this requirement, the Postal Service reported a $3.8 billion loss at the end of the 2nd quarter of FY 2007, with a projected loss of $5.7 billion by end of the Fiscal Year.

In addition, the new law restricts the Postal Service's flexibility when it comes to raising prices to cover its cost increases. The Postal Act broke the link between costs and prices by imposing a Consumer Price Index price cap on 90% of Postal revenues. This change was intended to encourage further cost reductions and efficiencies. In mandating a price cap, however, the new law did not provide the Board of Governors with any new cost control tools. The Governors are well aware of our fiduciary responsibility to the American public. Part of our duty in guiding the Postal Service and implementing the new law is to continually look for new ways to control costs: 80 percent of which are tied to labor. Consequently, productivity improvements, automation investments, and cost-control measures remain critical elements in controlling rapidly escalating delivery costs.

I would stress that the Postal Service is not considering taking work away from career carriers, who, I might add, perform an outstanding job. Nor is what is being discussed contracting out every new delivery. It is important to note that 92% of all new deliveries in 2007 continue to be assigned to Postal Service employees represented by unions. We are, however, prudently evaluating and debating whether it makes sense to assign distinct new work to career employees or to contractors. It is a valid and responsible business consideration.

And you may be assured that a number of factors are considered when determining whether to assign new deliveries to Postal Service employees or to contractors. While cost is a significant factor, it is just one of several factors

contained in a long-established provision of our collective bargaining agreements. Other factors that must be evaluated, pursuant to those agreements, are efficiency, public interest, availability of equipment, and qualifications of employees.

As I have stated, the Postal Service is facing significant, growing cost pressures. If Congress were to completely eliminate the ability of the Postal Service to even consider the option of selectively using contract delivery service, its ability to effectively manage its vast delivery operations, and the associated costs, would be significantly restricted. I was on the Board when the Postal Service had more that $11 billion in debt. That was a huge burden to carry; simply servicing the debt was expensive. It is very clear that the Postal Service has to take thoughtful, serious actions to continue to control costs or we will be back on track to potentially incurring significant debt.

As Governors, with the responsibility of guiding the Postal Service, we have to be very concerned about the precedent of legislative intervention in the collective bargaining agreements with our employees. If Congress acts on restricting or eliminating the option of contract delivery, what other work would be next? This is a dangerous step on a very slippery slope. While today it might advantage the employees, in the future, a different Congress might intervene on issues adverse to employees interests.

In addition, a virtual prohibition on contract delivery service would also impact small businesses, which would be denied the opportunity to bid on contracts for transporting and delivering mail. I am not overstating this point -- 99% of our existing contract delivery services are performed by small businesses. Of these small business contracts, 15% are to minority-owned small businesses and 45% are with women-owned small businesses.

The Postal Service's use of private sector services is not a 21st Century development. The Postal Service has used contractors to transport and deliver mail since 1785, when Congress first authorized the Post Office Department to contract with stagecoach companies. In fact, the storied Pony Express was a contractor to the Postal Service.

Much of the mail you receive each day—whether delivered by a City Letter Carrier or a Rural Letter Carrier—has been handled by contractors providing over-the-road or air transportation. Moreover, the postage stamp that paid for that mail may have been purchased at a supermarket, convenience, stationery, or greeting card store. In addition, it is quite possible that the postage was applied by a postage meter, which are all owned and leased by a private-sector provider. And it is very likely that many of you have had experience with one of our contract postal retail units, nearly 4,000 of which are operated by respected local business people in their communities.

In addition, the Postal Service, with the concurrence of the Postal Regulatory Commission, uses our rate schedule to effectively incent mailers and consolidators to presort and transport the mail. Through the use of workshare discounts, valued at roughly $18 billion last year, an entire industry has flourished which led to increased mail volume and revenue. These are just a few of the ways that the Postal Service, in cooperation with the private sector, provides high-quality, consistent service to the American public in the most cost-effective and efficient manner.

By augmenting the services that the Postal Service provides directly with those services provided by our partners in private industry, we have been able to contribute to the economy. The Postal Service and the industries it supports account for roughly 9% of Gross Domestic Product or $900 billion. The Postal Service has been able to sustain this contribution by better managing costs, improving efficiency, and providing access that is even more convenient for our customers. When viewed within the context of all Postal services, contract delivery service represents less than 2% of our total deliveries.

The Governors recognize the legitimate questions that have been raised about the qualifications of contractors. The Postal Service takes a number of steps in assessing contractors and subcontractors who are selected to provide mail delivery service. Potential contractors undergo background checks, screening, and fingerprinting, just as our career employees do. The Postal Inspection

Service, the federal law enforcement agency charged with protecting the security of the mail, ultimately determines the suitability of contractors.

As I mentioned earlier, and significantly, contract delivery services are not a new development in the Postal Service. Since the mid-1970's, the collective bargaining agreements with the four major Postal unions have contained provisions that govern contracting out, including the adjustment and contracting out of delivery routes. This issue continues to be an appropriate subject for collective bargaining.

I would like to emphasize that these same collective bargaining agreements protect the vast majority of union-represented Postal employees from lay-offs. No career carrier is being laid-off, or will be laid off, so that we can contract out his or her job. Both the contracting-out provision and the no lay-off provision of these agreements were the product of negotiations, a give and take between two parties, the Postal Service and the union, each of whom gained some rights and lost some rights during the negotiations.

As you are all aware, the collective-bargaining process is a complex exchange of positions, ideas, and proposals, which the Postal Act of 2006 did not change. In fact, the Act emphasized that parties should try to come to an agreement by adding a mediation step to the process. Negotiations require each party to consider and adjust its own priorities in light of the priorities of the other party.

Ultimately, the process is intended to produce a working agreement containing provisions that are acceptable both to management and to the labor unions—provisions that also work for our customers. If the parties are unable to agree, Title 39 requires the use of binding arbitration to settle the dispute.

The current contracting provisions in the collective bargaining agreements are the product of good faith negotiations conducted regularly since the first contracting Article was included in the agreements in the early 1970's. The Postal Service is bound by these collective bargaining agreements and operates under them. To the extent that either party wants changes to the agreement, the collective bargaining process is the place to discuss those proposals. I would note that this process is currently on-going with our one of our carrier unions.

The Governors are fully aware of our responsibility under Title 39. We provide policy guidance to senior management of the Postal Service, but the Governors do not negotiate – that is the responsibility of management. The Governors have encouraged Postmaster General Potter and his management team to do their best to achieve a negotiated settlement with our unions. Just last week, after a positive briefing on the subject with the Board, the Postal Service reached an agreement with the National Association of Letter Carriers (NALC) that, among other things, included provisions dealing with contract delivery services. The Postal Service is still working through the statutory process to conclude an agreement with the National Rural Letter Carriers' Association (NRLCA).

During my time on the Board, I have seen that the collective bargaining process has worked. The Postal Service and its unions have succeeded in reaching negotiated agreements that were beneficial for both parties. Prior to 1998, and prior to my service on the Board, it was commonplace for the parties to resolve their differences through third-party arbitrators. It is our sincere belief that negotiated agreements, where the parties decide their own fate, are far preferable. Since December, the Postal Service has reached negotiated agreements with all four of its largest unions. While one was not ratified and remains under discussion, we are proud that these agreements dealt with important issues that will lead to increased productivity and quality service.

In short, our responsibility as Governors is to ensure the Postal Service provides universal service at a reasonable price. We must balance the provision of that service with the cost of providing the service. We, as a group, are committed to providing a high level of service to the American people. Our mandate is to achieve this goal under the requirements of the new law and our collective bargaining agreements.

Mr. Chairman, I would again like to thank you for holding a hearing on this important topic and I would be happy to answer any questions you may have.

Mr. DAVIS. We will proceed to Mr. Potter.

STATEMENT OF JOHN POTTER

Mr. POTTER. Good afternoon, Mr. Chairman and members of the subcommittee. I'm pleased to be with you this afternoon to discuss one of the most difficult challenges faced by the U.S. Postal Service today, the need to balance rising costs with a rate structure defined by a rate cap.

By law, we are required to keep price adjustments at or below the rate of inflation for market-dominant products, which is over 90 percent of our revenue base. Unfortunately, our costs are not governed by the same standard, and many have been rising faster than the consumer price index.

Like other employers, we have been affected by sharp increases in the costs of energy and health benefits; and, for the Postal Service, costs per work hour for our career employees have been growing at a rate above inflation. At the same time, first-class mail volume, which represents over 50 percent of our revenue base, is declining. The number of addresses we serve is increasing by almost 2 million new households and businesses each year. This means on average, even with the recent rate change, we are delivering fewer pieces of mail to each address and average revenue per delivery is decreasing.

This is not a formula for long-term success. The challenge is to close the gap between prices and costs while maintaining and rather improving quality service. The question is, how do you do that? As I see it, management can proceed along any of three paths.

First, we can continue to operate as we've been operating for more than three decades. After all, that brought us a level of success that no one could have imagined when the modern Postal Service was created in 1970. Service rose to record heights. We achieved our statutory "break-even" mandate, and we reached unprecedented levels of efficiency.

But the environment in which we operated and achieved this success has changed and is continuing to change. The business model that was created in 1970 is broken. We can no longer depend on mail volume growth to produce the revenue needed to cover the costs of a growing delivery network. That model helped us to limit increases in postage to the rate of inflation since 1970. But the mail volume growth necessary to do this going forward is no longer there.

To proceed along the path of business as usual would be inconsistent with our obligations under the Postal Accountability and Enhancement Act of 2006. With the statutory rate cap imposed by the act, we no longer have the option of adjusting rates to balance costs. We are experiencing competition in all product categories, including first-class mail. We have to do more, much more if we are going to keep our costs in check with overall growth and prices no higher than the rate of inflation and continue to provide universal service to the American public.

A second path to choose to closing the gap between rates and cost would be the absolute expansion of the outsourcing work now performed by Postal Service employees, whenever and wherever it would help the bottom line. But I believe there's more at stake

than simply reducing costs. Pursuing the strategy would undermine the strong relationship we have with our craft employees who were on the front line doing a great job serving America day in and day out. We do not want to affect this relationship by breaking that bond. In addition, this could potentially affect service that we provide and damage our brand.

That is why I prefer a third path, working directly with our unions to confront the critical issues that we are facing as an organization to address the demands of growing our business, the needs of our customers to better serve America and to protect universal service for the next generation.

I'm personally committed to the process of collective bargaining as an important tool in achieving these goals, and I have seen time and again that it works. The latest example is a tentative collective bargaining agreement we reached last week with the National Association of Letter Carriers. It keeps the most important focus where it must be, on our customers, by helping us to improve service and operational efficiency; and it provides our employees with a fair wage. This is more important than ever as we operate in a competitive environment in which customers vote with their feet, no longer bound by a monopoly that is meaningless in today's world.

We were successful in reaching negotiated agreements with each of our major unions in this year's round of bargaining. We do not expect that we can agree on every issue every time, but we have demonstrated our ability to overcome our differences, confront our shared challenges and negotiate working agreements that benefit the Postal Service, our employees and the people we serve. I strongly believe that we should continue to rely on the collective bargaining process to do this and that the parties should be challenged to make the collective bargaining process work.

I appreciate the opportunity to share the Postal Service's views on this very important subject, and I would be pleased to respond to any questions that you might have.

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

[The prepared statement of Mr. Potter follows:]

UNITED STATES
POSTAL SERVICE

STATEMENT OF
POSTMASTER GENERAL/CEO
JOHN E. POTTER
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE,
AND THE DISTRICT OF COLUMBIA
OF THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES
WASHINGTON, DC

JULY 19, 2007

Good afternoon, Mr. Chairman and members of the Subcommittee. I am pleased to be with you this afternoon to discuss one of the most difficult challenges faced by the Postal Service today – the need to balance rising costs within a rate structure defined by a price cap. By law, we are required to keep price adjustments at or below the rate of inflation for market-dominant products, over 90 percent of our revenue base.

In an ideal world, this would mean that our costs would not exceed the rate of inflation. Unfortunately, our costs are not governed by this same standard and many have been rising faster than the consumer price index.

Work-hour costs for our career employees have been growing at a rate above inflation. At the same time, First-Class Mail volume, which represents 50 percent of our revenue base, is declining. The number of addresses we serve is increasing by almost two million new households and businesses each year. This means that, on average – even with the recent rate change – we are delivering fewer pieces of mail to each address and average revenue per delivery is decreasing.

This is not a formula for long-term success. The challenge is to close the gap between prices and costs while maintaining quality service. The question is, "How do you do that?" As I see it, management can proceed along any of three paths.

First, we can continue to operate as we've been operating for more than three decades. After all, that brought us a level of success that no one could have imagined when the modern Postal Service was created in 1970. Service rose to record heights. We achieved our statutory "break even" mandate. And we reached unprecedented levels of efficiency.

The problem with this approach is that the ground rules have changed. To proceed along the path of business-as-usual would be inconsistent with our obligations under the Postal Accountability and Enhancement Act of 2006. With the statutory rate cap imposed by the Act, we no longer have the option of adjusting rates to balance costs, and we experiencing competition in all product categories, including First-Class Mail. We have to do more, much more, if we are to keep our costs in check, with overall growth no higher than the rate of inflation. Prudent exercise of our fiduciary responsibility demands that we intensify our focus on the business imperative of driving costs out the system. We cannot afford to do any less.

A second path to closing the gap between rates and costs would be the absolute expansion of cost-reduction strategies such as the outsourcing of work now performed by Postal Service employees – whenever and wherever possible. This would certainly be effective when viewed from a pure cost-management perspective. But business success is not solely a factor of reducing costs. It is also a reflection of the entire organization working cooperatively to meet the needs of its customers. Proceeding along this path, while potentially reducing significant direct costs, could come with the intangible – but just as significant – costs, of undermining this primary goal.

That is why I prefer a third path – working directly with our unions to confront the critical issues we are facing as an organization, such as improving service to meet the changing needs of our customers in the marketplace, as well as the need to increase revenue and reduce costs. By doing this, we can develop the solutions that can help us overcome them.

The tentative collective-bargaining agreement we reached with the National Association of Letter Carriers last week does this. It keeps the most important focus where it must be – on our customers – by helping us to improve service and operational efficiency. It provides our employees with a fair wage. And it commits both parties to growing the business. This is more important than ever, as we operate in a competitive environment in which customers vote with their feet, no longer bound by a monopoly that is meaningless in today's wired world.

We were successful in reaching negotiated agreements along similar principles with each of our major unions in this year's round of bargaining. This is a reflection of the value of cooperative labor-management relations. We do not expect that we can agree on every issue, every time, but we have demonstrated our ability to overcome our differences, confront our shared challenges, and negotiate working agreements that benefit the Postal Service, our employees, and the people we serve.

The Postal Service occupies an unusual position within the federal government. It is required to be operated ". . . as a basic and fundamental service provided to the people by the Government." Yet, unlike most other agencies, the cost of providing our service is not borne by taxpayer-funded Congressional appropriations. Rather, is paid for by its customers through the purchase of postal products and services.

Since the modern Postal Service assumed operations from the heavily-subsidized Post Office Department in 1971, it has been required to operate like a business. With the enactment of the Postal Accountability and Enhancement Act of 2006, this requirement has been underlined significantly, since we must now operate within the restraints of a price cap – although there are no offsetting restraints on our cost drivers.

To overcome this considerable limitation, the Postal Service must redouble its efforts to reduce costs and increase productivity and efficiency. But if we are to do that, it is necessary that management retain the flexibility to explore and implement cost-reduction initiatives that support the fulfillment of our mission of providing high-quality, affordable, universal mail service. In doing this, we are also protecting the interests of all postal stakeholders, including our employees, by offering the attraction of minimal rate adjustments, so as to maximize mail volume in a hyper-competitive communications and delivery marketplace.

This means we must continue to change. We must question our assumptions about what we do and how we do it. We must be open to new ways of doing business. We cannot assume that what worked in the past will work today – or tomorrow. And we must consider our expectations about the Postal Service within the context of today's financial reality.

Over the past several years, we have been very successful in managing costs. But that very success – which has eliminated the low-hanging fruit – requires us to reach even higher and to look at our operations more intensely to build on this success. As we work to take this to the next level, my approach is to look at every event as an opportunity to lower costs. By an "event," I mean a situation that requires us to make a decision to continue doing what we've been doing or to make a change. Events can take many different forms.

For example, when a lease expires for a postal facility, we have to take a hard look at our needs going forward. Do we need as much space as the old lease provided? As we deploy new equipment that can sort larger mail pieces into delivery sequences at our larger processing facilities, we might need less space for carriers to sort mail at their local delivery offices. If that's the case, we should negotiate for less space, for a more favorable rate per square foot, or try to lease a smaller facility.

When a highway mail transportation contract comes up for renewal, we need to take a realistic looks at our transportation needs. Are we paying for vehicle capacity beyond our actual requirements – space we haven't fully used and aren't likely to use in the future? Are we paying the contractor to haul a half empty truck from one Post Office to another? In the simplest terms, are we paying for more space than we have mail? If we are, we have to use the opportunity to change the contract specifications and match mail volume with truck size.

And we have to continue to examine new deliveries as well, since this function is one of our largest cost drivers. Unlike many mail processing, support, and retail functions, delivery itself cannot be automated. With delivery-point growth approaching two million new homes and businesses each year, it makes good business sense to examine the available options when preparing to serve new delivery areas, beyond simple "fill-ins" in existing delivery areas. It could mean that some new deliveries would be served by more economical contact services. But it worth emphasizing that the overwhelming majority of new delivery continues to be assigned to Postal Service carriers and that contract service represents less than two percent of the nation's deliveries.

As you know, expansion of contract delivery services has become the subject of a great deal of discussion over the last several months. This is one of the reasons we are here today. I am hopeful that the information I can provide today will assist in your understanding of this matter.

Through testimony at previous hearings and through correspondence, I have stated the views of the Postal Service in support of contract delivery services as a valuable tool in helping us to provide quality service to our customers while helping us to manage costs. They are worth repeating.

Contract delivery would affect only a portion of new deliveries, not existing delivery already provided by Postal Service carriers. Contract delivery expansion would not result in the layoff of any letter carriers. Contractors and Postal Service employees are governed by the same legal and administrative standards regarding the sanctity and security of the mail entrusted to them. There is no appreciable difference between the care exercised by Postal Service employees and delivery contractors in this respect. The independent Ponemon Institute has named the Postal Service the "most trusted" government agency for the last three years and, for 2007, among the ten "most trusted" of all organizations. This is a judgment of the organization as a whole – reflecting the combined accomplishment of all groups, working together.

From my perspective, looking beyond the specific subject of contract delivery, there is a bigger issue at stake. That is the ability of the parties, the Postal Service and its unions, to resolve their differences through the collective-bargaining process. One of the most important accomplishments of the Postal Reorganization Act of 1970 was the extension of full collective-bargaining rights to the postal unions. Over the course of more than three decades, these have served our employees, our unions, and the Postal Service well. And in serving the Postal Service well, they have served our customers well.

As difficult as negotiations may sometimes be, the process is designed to produce consensus, maintain stability, and protect uninterrupted mail service for our nation. Because the Postal Service is a public service, federal law forbids our employees from striking. This principle also takes the form of a provision in our collective-bargaining agreements.

In its wisdom, however, Congress recognized that bargaining impasses can occur and understood that there must be a mechanism to resolve seemingly insoluble disputes that, in other situations, might result in work stoppages. That method, enshrined in the Postal Reorganization Act of 1970 and continued through the provisions of the Postal Accountability and Enhancement Act of 2006, calls for fact finding and mandatory arbitration if the parties reach impasse.

The current round of bargaining between the Postal Service and the National Association of Letter Carriers (NALC) was lengthy, difficult and, at one point, seemed headed for arbitration. Yet, as intractable as some of the issues appeared, we continued discussions at the highest levels of both organizations and, as I have noted, arrived at a tentative agreement just last week – without the need for arbitration. Among its other terms, the new agreement contains specific provisions addressing the issue of delivery outsourcing.

I have always been a strong believer in the value of the collective-bargaining process. No one understands the issues we face better than Postal Service people – management and our unions. No one understands our shared challenges better than we do. No one understands the opportunities better than we do. Our future is the future of the organization. There is no one in a better position than we are to build the agreements that will help us face that future together – successfully. And, as we have seen, the process can – and does – work.

Of course, we are not unmindful that many others have taken an interest in the subject of contract delivery. While there are different thoughts as to the relative advantages of one form of delivery compared to another, I am extremely encouraged by the level of interest. It represents widespread agreement that the mail and, in particular, mail delivery service, continues to offer unique value to our customers, their communities, and the American economy.

Having participated closely in the collective-bargaining process over the last decade, I am no longer be surprised at its amazing flexibility. Even when the issues it is asked to take on can seem larger than the ability of the parties to resolve them, the process itself often brings out the very best in its participants. I have seen this time and time again. And I remain impressed that such a simple process, when approached in good faith, allows the parties to see beyond their individual and immediate interests and act for the greater good. Because in doing that, all parties – including those we serve – are the winners.

I appreciate the opportunity to share the Postal Service's views on this important subject. I would be pleased to respond to any questions you may have.

# # # #

Mr. DAVIS. Mr. Williams.

STATEMENT OF DAVID WILLIAMS

Mr. WILLIAMS. Mr. Chairman and Mr. Marchant and members of the subcommittee, I appreciate the opportunity to appear today to discuss the Postal Service's contracting out of services. As you know, the Postal Accountability and Enhancement Act directs the Postal Service to adopt an optimization plan to increase the efficiency and effectiveness of its mail delivery systems and facilities, while doing business in the new postage rate environment constrained by the Consumer Price Index. With key elements of current labor costs rising much faster than the CPI, the Postal Service has no alternative than to consider lower labor costs in order to comply with the new law.

The Clinton and Bush administrations have favored public sector outsourcing. It was previously part of the Reinventing Government Initiative and is now one of the four Presidential Management Initiatives, to move functions not inherently governmental to the private sector where possible. The President's Commission on the Postal Service also recommended outsourcing functions, believing that the private sector can perform services better on a lower cost. It's an idea less aggressive than the White House.

Historically, the Postal Service has relied heavily on contractors, outsourcing most long-haul mail transportation to commercial airlines and package shippers and trucking companies and contracting out most research and development and major automation development projects. The Postal Service has more than 3,000 contract post offices operated and staffed by contractors. In sparsely populated areas of the country, contractors have traditionally performed some of the delivery functions.

By offering mailers discounts to perform postal processing and transportation functions, the Postal Service is engaging in a form of outsourcing through work sharing. Today, 75 percent of all mail has a work share discount, savings resulting to the Post Office in over $11 billion.

The Postal Service is not required to comply with OMB circular A–76 regarding outsourcing requirements. Negotiations between the Postal Service and its unions traditionally determine outsourcing decisions as anticipated in the Postal Reorganization Act of 1970. Today, the policy question before Congress is whether to take outsourcing of delivery off the bargaining table.

Annually, the Postal Service manages a contract portfolio valued in excess of $40 billion. The integrity of contract awards and contract management are essential for such a major portfolio. The Postal Service uses commercial purchasing procedures rather than the government's Federal Accusation Regulation. As a result, the Postal Service and its stakeholders are unusually dependent on the OIG for assuring the integrity of contract awards, since court challenges are more restricted. Misconduct by contractors also represents a significant area of concern.

My office dedicates considerable resources to reviewing and investigating contractual activities. Audits of contract administration over the past several years have allowed for increased management action to reduce costs and recoup funds. Our audit work in 2007

identified more than $300 million in questionable costs for management's action. Contract investigations resulted in cost recoveries as large as $10 million. We've also investigated individual contractors, such as contract postal units and highway contract routes. In the last 12 months, we've conducted 47 contract postal unit embezzlement cases, resulting in the termination of contracts and arrests. In one case, OIG agents arrested a contract Post Office operator for embezzling over $100,000 in postal money orders to finance a gambling habit.

To present a balanced picture, the OIG has also apprehended substantial numbers of letter carriers, postmasters and clerks for theft, embezzlement and misconduct. The process of contract worker and postal employee investigations is virtually the same by my office.

To conclude, Congress is demanding a leaner and more efficient Postal Service. The Postal Service will need to employ all the tools at its disposal to meet this demand. There are opportunities to find efficiencies through additional outsourcing. However, the Postal Service is faced with powerful and contradictory imperatives from its stakeholders regarding such cost control measures.

There are compelling calls for lean networks for mail processing and delivery to keep postage as inexpensive as possible. Conversely, stakeholders also exert pressure for legislation to maintain a large public work force and unneeded facilities. The challenge of the Postal Service is to find a way to navigate through this difficult environment of contradicting imperatives while fulfilling the requirements of the new postal law.

Thank you.

[The prepared statement of Mr. Williams follows:]

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

Oral Statement On Contracting Out of Services By the United States Postal Service

David C. Williams
Inspector General
United States Postal Service

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear today to discuss the Postal Service's contracting out of services. As you know, the Postal Accountability and Enhancement Act directs the Postal Service to develop an optimization plan to increase the efficiency and effectiveness of its mail delivery systems and facilities, while doing business in a new postage rate environment constrained by the Consumer Price Index. With key elements of current labor costs rising much faster than CPI, the Postal Service has no alternative but to consider lower labor costs in order to comply with the new law.

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Postal Service Outsourcing

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populated areas of the country, contractors have traditionally performed some delivery functions.

By offering mailers discounts to perform postal processing and transportation functions, the Postal Service is engaging in a form of outsourcing through worksharing. Today 75 percent of all mail has a workshare discount, saving the Postal Service over $11 billion a year.

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Office of Inspector General (OIG) Work

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To present a balanced picture, the OIG has also apprehended substantial numbers of letter carriers, postmasters, and clerks for theft, embezzlement, and misconduct. The process for contract worker and postal employee investigations is virtually the same.

Conclusion

To conclude, Congress is demanding a leaner and more efficient Postal Service. The Postal Service will need to employ all the tools at its disposal to meet this demand. There are opportunities to find efficiencies through additional

outsourcing; however, the Postal Service is faced with powerful and contradictory imperatives from its stakeholders regarding such cost control measures.

There are compelling calls for lean networks for mail processing and delivery to keep postage as inexpensive as possible. Conversely stakeholders also exert pressure for legislation to maintain a large public workforce and unneeded facilities. The challenge for the Postal Service is to find a way to navigate through this very difficult environment of contradicting imperatives while fulfilling the requirements of the new postal law.

Mr. DAVIS. Thank you, gentlemen, very much. We all appreciate your testimony.

Mr. Kessler, perhaps I would begin with you. Does the Board of Governors view contracting out as a cost-containment policy or a management tool to promote efficiency. Or is there some other something maybe in between that it looks at in terms of a policy for its contracting out?

Mr. KESSLER. Thank you, Mr. Chairman. I think I can speak on behalf of the Board of Governors. And this is an issue that I would suggest or submit recently has been one that we have spent a little more time on simply because it was an issue that came up in the most recent round of negotiations.

I would submit that the Board probably use it both ways, but more importantly it uses it as a—I don't mean to not answer your question, but more importantly, it sees it as a fundamental issue of collective bargaining. And we understand the issues that have been created fiscally for us. We understand what the new act has done, and all we have tried to do is give management where possible the most flexibility in dealing with that issue in a responsible way. And I think we did that when we briefed the Postmaster General a few weeks ago on the status of negotiations. We were concerned about the issue. But we have also been satisfied that it still represents a relatively minor, small number of—even on new routes. So we do see it as one of those tools. If we told management that you have to find ways of being more productive, this is part of the charge to you in terms of finding that productivity, but at least preserving it as one of the issues for collective bargaining.

Mr. DAVIS. In your testimony you talked a great deal about the economic climate, about the environment in which the Postal Service has to operate. Some changes which have occurred during the last decade and the decade before that have actually impacted greatly on the Service and how the Service does service. Do you see anything on the horizon that will perhaps lighten in any kind of way the economic pressures that currently exist on the Postal Service or any changes in competition that might alter the way the Service operates?

Mr. KESSLER. Mr. Chairman, let me say as probably, I guess, the member of our Board that has been on the Board the longest, I do remember my first Board meeting, and I was almost blown out of my seat by hearing that the Postal Service at that time was facing, I guess, a $2 billion deficit a year. It has been one of the greatest challenges that I have ever encountered because of the competition from the Internet, competition from other competitors who don't play—or don't have to play by the same rules that the Postal Service has to play by, and, you know, very circumscribed, the process on rates that has been approved by the act last year. But until that time, you know, gas prices went through the roof. We had to go through a 10-month, 11-month rate process to try to catch up where our competitors didn't.

I wish I could say that, you know, the sun is shining over the horizon. Postmaster General, senior management and our great employees have worked hard through productivity savings to help keep this a viable and healthy organization. And I guess the greatest sense I have as I approach almost the end of my term on the

Board is an absolute commitment by senior management, by all of our 700,000 employees to do what is necessary to make a mandate for universal service one that continues on for the future.

So I am optimistic, but at the same time I will say the challenges will continue. And we meet almost monthly. From month to month and year to year, the challenges are daunting. I am just very appreciative that we have people that are willing to put the effort into it that they have.

Mr. DAVIS. Thank you, very much.

And we will go to you, Mr. Marchant.

Mr. MARCHANT. Thank you, Mr. Chairman.

Mr. Potter, what are the biggest hurdles that remain in the 2006 through 2010——

Mr. POTTER. I think the biggest hurdle that this organization has in general is what are our sources of revenue going forward. And I am excited about the fact that the new law, the Postal Enhancement Accountability Act of 2006, gives us greater flexibility when it comes to pricing of products just as a company, but we have the latitude to use the room under the cap to make the right room and behavior to make mail more efficient.

I am excited about the opportunity to compete with others when it comes to package services and the flexibility that is inherent in that bill, but the only way that we are going to be successful in overcoming the challenges to the revenue base for first class mail is to have all 700,000 people in the Postal Service begin to focus on revenue and begin to—not that we haven't been, but rising them higher than we have to meet the demanding and changing needs of our customers going forward.

So I am excited about the NALC agreement as an agreement if it includes an agreement that we are going to work together to have the carriers through the Customer Connect Program continue to grow revenue for the Postal Service, because I view that as the No. 1 challenge. Cutting costs is not the way to ultimate success here. We have to be relevant to the American public. We have to have products and services that they want to use and will use so that we can remain viable going forward. And I am happy with the fact that we have some new freedoms. We have to test those freedoms, push those freedoms, but collectively we have to work together to take advantage as best we can of the changes we are making.

Mr. MARCHANT. What consequences could you foresee that would be a result of the passing of this resolution?

Mr. POTTER. Well, I think that there are some consequences in terms of if the Senate bill were to pass and said we have to roll back the seven or so thousand routes that we currently have and bring them and make them be delivered by contract employees, the cost to us over a 10-year period would be over $1 billion. So there is a direct economic hit if that were to come into play.

Mr. MARCHANT. I am talking about the gentleman's resolution presented today.

Mr. POTTER. The resolution would be sent to the House, and I think we responded to the Senate. To the House we would be able to reach agreement on with the National Association of——

Mr. MARCHANT. If we adopted this resolution, it would have no impact whatsoever on what you already decided to do?

Mr. POTTER. Again, I think what we have decided to do speaks for itself. The fact that we have made a commitment for the life of this agreement not to contract out any city delivery in big cities and to work on those suburban and rural areas through a task force over the next 6 months, I think that speaks for itself. It says that we are aware of the issue. We are trying to respond to the issue, but our focus is more on how we are going to run the business, and how can we do that in a cooperative manner that addresses our need for efficiency, and built into the contract our mutual agreement on how we are going to handle the deployment of a future piece of equipment called the flat sequencer to make sure we get the efficiencies out of it that we can that gives people the confidence about their jobs through a no-contracting-out provision. And that helps the Postal Service grow the business through an agreement to work on revenue generation.

So, you know, I think that we have already reacted to the sense of the House. We don't have to wait for something to be passed. But I think we have responded already, and I would hope that the Members would view it as not necessary, given the fact that we have responded already, and we are committed to working with our unions to again make sure that the Postal Service is around for a long time to come delivering high levels of service to everyone, regardless of where they are in America.

Mr. MARCHANT. Thank you, Mr. Potter.

Mr. LYNCH. Again, I want to thank you, Mr. Kessler, Mr. Potter and Mr. Williams, for coming before us and trying to help us with the work. I appreciate the complexity of what you are doing. There are some real challenges here. And even though, obviously, my sympathies lie with the workers here, I do appreciate that you have to induce change.

Sometimes when folks have been at the job a long time, there is a resistance to change, but I want to point out sometimes we rush into ideas, like privatization. And as we have seen at Walter Reed and the contract there, they went from 400 government employees doing a great job to 130 contract privatized employees doing a horrible job. They have a horror show over there because of that.

We had some examples right in the Post Office. For example, the largest subcontract on mail handler work ever signed by the Postal Service was implemented 10 years ago. I think you recall at the time the Postal Service decided to contract with Emery Worldwide Airlines to process priority mail at a network of 10 facilities along the eastern seaboard. Nearly 1,000 mail handler jobs were privatized. Today the work of those facilities in terms of mail handers and other career—but not before the Postal Service suffered severe losses in the hundreds of millions of dollars.

At a meeting of the USPS Board of Governors, one Governor stated publicly that the Emery subcontract was one of the worst decisions that the Board ever made, and this was not just idle speculation, because in September 1999, the Postal Service Office of the Inspector General audited the priority processing work, and they reached a conclusion—and I quote this—we disclosed that priority mail processed through the network, Emery using private workers

cost 23 percent more than priority mail processed by career employees. In the Postal Service, without—in addition, we found that priority mail processing network was, "not meeting overall delivery rate goals referenced in contract."

Now, to its credit, the postal management eventually recognized the mistake and concluded that—again I am quoting from the report—an early end to the Emery private contract would limit the Postal Service's financial exposure. As noted, the work of processing priority mail was returned to mail handlers and other career postal employees, but not before postal consumers suffered a significant loss.

So I am just asking—you know, I negotiated a number of collective bargaining agreements as the chairman of the union collective bargaining side with the ironworkers. I was there for 18 years. I was their president, and I know a whole lot about prospective agreements, and I know the one you have right now is somewhat prospective in terms of this task force in the next 6 months trying to work something out for the rural folks. But I just ask you, try to use some innovation. Don't just be lockstep with this privatization idea.

I think you have some very, very talented folks over there in the Post Office. You know, you have a great reputation in my district and the communities. Folks love their clerks, they love their letter carriers, they love their mail handlers. You have a good branding out there. You know, for a little bit, you are closing down some local post offices during noon hour when everyone was going to their mail. I don't know who came up with that idea. But I think you have a lot of positive things.

What was that, Mr. Potter?

Mr. POTTER. He is no longer with us.

Mr. LYNCH. As long as it wasn't one of my family.

I just urge you—look, again, I go back to the fact I appreciate the complexity. I appreciate the way you are working on this problem. I really do. I think it is positive, and I think it has been reflected a lot in the workers who are, you know, working under you, and just saying anything we can do here—we understand about the collective bargaining process, although I have to say that given that the employees don't have the right to strike, I don't really think that it is genuine to say that it is a somehow tilted playing field because the employees can come to their congressional representatives to try to get grievances addressed and to petition their government. I think that is their constitutional right to come before Congress and have me and other Members of this Congress address their problems because we have taken away their right to strike. So that is why they have the petitions.

And I know you are going to say something about the binding arbitration, the wonderful binding arbitration process they have. They have to keep working while they complain. That is not such a great argument when you are working and in some cases throwing mail and delivering sacks of mail, and you are carrying around big packages.

But anyway, I appreciate your good effort. It is in good faith, and I just want to see it continue. Thank you.

Mr. POTTER. If I can comment just on the Emery contracting out. I was the one who went to the Board and said we had to pull the plug on it. I am not the one that contracted it out. I am the one that brought it back in house.

But I do want to say that when it came to why it failed—because we created a separate network, not because the cost per hour or different fact that it was much less expensive to process the mail, but the network would not work the way it had been set up, and there was no incentive for the contractor to become more productive. We are incentivized collectively, management and labor, to be more productive to keep costs under control. With my commitment, we will work together to try to do the best we can. We do have challenges. You know, if you want to help us, use the mail. That is the best way one can help the Postal Service. Use the mail and provide an opportunity for us to show you how good we can do.

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

Mr. McHugh.

Mr. MCHUGH. Thank you, Mr. Chairman.

Gentlemen, welcome, and thank you for your continued efforts.

Mr. Williams, in your testimony you said in the last 12 months, it conducted 47 contract postal embezzlement cases resulting in termination of contracts and arrests. Then you went on to say they also presented a substantial number of letter carriers, postmasters, etc. We have a definitive number on the contracts, 47 in 12 months. What is the balance of the picture in terms of the employees? How many cases?

Mr. WILLIAMS. There are 992 of those investigations.

Mr. MCHUGH. How many contract employees versus how many postal employees?

Mr. WILLIAMS. There were 47 contract employees that were investigated for embezzlement, which represent about 8 percent—I am sorry, 5 percent of the total. And so 95 percent of the total were represented in the nearly 1,000 investigations. It is about the same. It is a little lower, but it is not significantly lower.

Mr. MCHUGH. Which is lower?

Mr. WILLIAMS. The contract of the investigations are a little lower pound for pound, but it is not that significant. It is about the same.

Mr. MCHUGH. Mr. Postmaster General, can you—I assume we go through this because you are trying to save money. I mean, is that your theory?

Mr. POTTER. The theory is you are always trying to test things to see if there is a better way to do it to save money and improve service.

Mr. MCHUGH. So there is an assumption here?

Mr. POTTER. It is more than an assumption.

Mr. MCHUGH. Back to my previous statement. You are saving money?

Mr. POTTER. We are.

Mr. MCHUGH. Can you tell us how much?

Mr. POTTER. It depends on the contract, but it depends on the cost of dealing with a career employee.

Mr. MCHUGH. Let us talk about these so-called new numbers instead of under contracts that have been up and running for a while. Is that a 50 percent savings?

Mr. POTTER. Congressman, it depends on the individual contract and the productivity of the local unit. But in terms of how high can it go, it can be as high as that, and I would say it is a minimum of a 25 percent savings.

Mr. MCHUGH. So you have a real incentive.

Mr. POTTER. We have a real incentive to change the way we are doing business and focus on doing things a better way.

Mr. MCHUGH. Mr. Williams, back to you. You made a comment in your testimony again that the Postal Service is not required to comply with the 76 and also some of the contracting requirements that are in the normal Federal contracting program. This conduct by contractors also represents a significant area of concern. Do you think there is any efficacy in imposing those Federal standards of contract negotiation?

Mr. WILLIAMS. I would not recommend it. If there is an advantage, I will address that in a moment. The concerns I would have is that it would be the only—it would be the only instance in which the Postal Service aligned itself to offset management and budget directives. That would be problematic. We sort of have a mixed relationship with them.

Second, the entire budget directive refers and aligns itself to the Federal acquisition regulation, and we no longer have that regulation, so we would need to somehow think how we would adapt it to ourselves.

Mr. MCHUGH. So apples and oranges kind of?

Mr. WILLIAMS. It wouldn't, now that we introduced the more modern acquisition——

Mr. MCHUGH. I am running out of time here. I just want to throw out one more to the Postmaster General. Mr. Potter, you have heard, I think understandably, a lot of concern about the sanctity of the mail and the consideration of new contractors to provide the same kind of sanctity. I would certainly have that concern. I think it is a very real one in the issues about drug testing, etc. Do you want to talk a little bit about what you do to screen these so-called contractors in a way that you feel ensures the sanctity of the mail? As I would argue clearly——

Mr. POTTER. As Congressman Sires pointed out in his testimony, with the exception of drug testing, the contractors go through the same screening that our postal employees go through and by law are held to the same accountability through the OIG, and the same Federal laws that apply to our employees apply to contractors as well. So granted, with the exception of drug screening, you know, we have in effect and will have beginning next month the same rules in effect for both contractors as well as for employees.

Mr. MCHUGH. Mr. Chairman, if I may, with the exception of drug screening, it reminds me of, "Well, other than that, Mrs. Lincoln, how did you like the play?"

Mr. POTTER. Let me just say this. If you think about our experience with contractors and our experience with our career employees, the way I look at it, we have human beings. Human beings make mistakes on both sides of the aisle. There is no evidence that

I have that suggests that a human being who is a contractor is any worse than a human being who is a career employee.

Mr. MCHUGH. My question that my rather flippant remark was intended to say, why didn't we do drug screening from the get-go?

Mr. POTTER. I have no idea.

Mr. MCHUGH. Could you maybe find out for us and get that?

Mr. POTTER. Sure.

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

Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman.

I wanted to be sure I understand something first in Mr. Kessler's testimony. I had a set-to with Mr. Potter last time on some difference in the information I had about the contracting out and what he had testified to, so I want to make sure I am understanding.

Now, you say, Mr. Kessler, Postal Service is not considering taking work away from career carriers. You go on to say it is important to note that 92 percent of all new deliveries in 2007 continue to be assigned to Postal Service employees represented by—let me—are you referring to new people on the same routes that career employees already serve, or are you referring to in this 92 percent—to entirely new routes when you say there was a——

Mr. KESSLER. Referring to entirely new routes, new deliveries.

Ms. NORTON. So you are here testifying that new routes and new deliveries are being given to career postal workers, and that is the policy of the Postal Service?

Mr. KESSLER. What I am saying is that 92 percent of those go to career postal employees, that——

Ms. NORTON. Ninety-two percent of all new deliveries—I am trying to find the definition of the words "new deliveries," whether we are talking about people or routes.

Mr. KESSLER. Routes.

Ms. NORTON. Mr. Potter.

Mr. POTTER. We have deliveries of some 140 million. Every year there are 2 million new deliveries. That is construction of a new building, of a new home or residence. We consider a physical address to be a new delivery. So it is new physical addresses that we are talking about. If we have some—I believe it is somewhere around 1½ percent of Americans move every month, so you have over 20 million people move every year. And so we are not talking about those people that move. We are talking about the physical address and who performs delivery at a physical address.

Ms. NORTON. At an entirely new location that wasn't there before, right? A new suburb? Like a new condo in the District of Columbia?

Mr. POTTER. Exactly. Last year we were saying there were 2 million, and 92 percent—or 1.8 billion or so were delivered by career employees.

Ms. NORTON. Before if you were a business and you didn't have the right—or in this case denied the right to yourself, not the new business, not someone on a block before a house that may have been in the delivery room before abandoning it and it comes back—I am talking about where the growth in America is, Mr. Potter and Mr. Kessler. The growth in America is not replacement houses on

delivery routes. The growth in America are new suburbs, new parts of the District of Columbia altogether. Are you saying for those new parts of America, the growth parts of America, new deliveries, 92 percent of those new deliveries are going to career—to career Postal Service employees?

Mr. POTTER. Unfortunately I don't have a way of differentiating.

Ms. NORTON. That is a problem. That is why the statistics are misleading, because all this does is probably replace a delivery that a postal worker may have had last year or 10 years ago and is not where the growth of new business is. So essentially what you are saying is new business is for contracted employees, and our regular employees are lucky enough to have somebody revive a building on the delivery route, well, of course, we are not going to bring somebody in to put into the middle of that block, which, of course, would be inefficient in the first place. So you are doing nobody any favors.

Mr. POTTER. Let me say this. We have never contracted out delivery in Washington, DC.

Ms. NORTON. Mr. Potter, you are going to have to aggregate this figure to be credible with this committee. We are interested in only one issue, and that is whether the new parts of America that spring up every day—there are new towns, new subdivisions—whether those parts of America are closed off to career Postal Service employees.

Mr. POTTER. And the answer is no.

Ms. NORTON. Well, in fact——

Mr. POTTER. We have an agreement with the NALC that says for the next 5 years we won't consider it in offices that are served by city delivery. So we have a commitment from——

Ms. NORTON. Not city delivery. I wish I could say the growth in America was in Chicago and the District of Columbia. But the fact is the growth is outside of the cities, and that is where we got into trouble last time, Mr. Potter. You were sworn. That is why I am telling you this time I am doing my cross examination more carefully.

Mr. Kessler, for example, says something that is more hopeful. We are prudently evaluating and debating—this is page 4 again, Mr. Kessler—whether it makes sense to assign distinct new work. By that I think you mean subdivisions. You are going to correct me if I am wrong. He says you are considering that. And then you say, Mr. Kessler, it is a valid and responsible business consideration.

Would you explain the considerations of that goal in deciding whether some new work should be assigned to career employees?

Mr. KESSLER. Congresswoman, let me, if I can, try to answer your question by first stepping back. And I certainly don't mean to lecture anybody, but we are the Board of Governors. We are there to, you know, discuss broad policy, not that this might not be a broad decision. We don't get into micromanaging. We don't get into day-to-day operations.

Ms. NORTON. You consider whether new work goes to new parts of America micromanagement?

Mr. KESSLER. No.

Ms. NORTON. Micromanaging would be whether on my block a contractor gets it or a Postal Service worker gets it. This is about whole new definitions and new towns that come up in America

every day, new towns, whole new towns that are revived. Is that under your jurisdiction, or is that left to Mr. Potter to decide on a case-by-case basis?

Mr. KESSLER. In terms of the broad issue as you presented it, yes, that would be inappropriate for obviously this issue to discuss. In terms of specifics and how it applies, no, I don't think it is a Board decision. But in all honesty, Congresswoman——

Ms. NORTON. What are the relevant considerations you decided? That seems to be the rational way to look at it. We are going to at least look at this, see if it is efficient, see if it makes sense. All I am trying to get is some sense of consideration that might make you say this new business is going to go to career employees, because what I am otherwise divining is that no new business is going to go to career employees, in contradiction to what it seems to say on page 4, which is the policy of the Postal Service, not the folks who carry it out, but the folks who make the policy.

Mr. KESSLER. I appreciate the way you have looked at what exactly constitutes a new delivery, and I think, quite frankly, it is something that I can take back to the Board and we can discuss.

I do want to be careful in saying that this is a new subject for us as a Board as well. It is not a new subject in terms of—you probably know this Board is, you know, Presidentially appointed, five members of one party, four members of another party. And over the last few years, the party that occupies the White House is the party that represents the majority on that Board.

Ms. NORTON. What does that have to do with this?

Mr. KESSLER. What I am trying to tell the Congresswoman, we have looked at this broadly, should there be contracting out or no contracting out, should it be an issue.

Ms. NORTON. You are considering whether new work should be assigned to humanize postal employees or not is what you say on page 4, correct or not? Are you at least considering it?

Mr. KESSLER. We at this point have not reached a decision on the Board, our consensus as to what constitutes, "new delivery."

Ms. NORTON. It says we are evaluating. I am only trying to understand whether the policy is under consideration, sir.

Mr. KESSLER. Congresswoman, I can't tell you any more than what I just said.

Ms. NORTON. That is why you see me engaging in cross examination. The words say, we are prudently evaluating and debating. Something is happening right now whether it makes sense to assign distinct new work to career employees or to contractors. I can read the English language. You wrote it. I am trying to clarify whether it means what it says in black and white here. That would help this committee.

Mr. KESSLER. Let me try to clarify beyond that. "We" is the Postal Service, Congresswoman. It has not reached the Board at the level of Governors as a body. I can't be clearer than that.

Ms. NORTON. Don't come before this committee again saying you are evaluating and that is not what you are doing. I have to say to you here before this committee, we do not need to be hoodwinked here. You say you are evaluating and debating in good faith. That would mean at least, well, we are deciding it. You just said you are not.

Here is what I want you to report to the chairman. He will tell you within what period of time. Should some new work, depending on the circumstances—you can set any criteria you want to—should some new work be assigned to career employees, would it be efficient, would it be prudent? On page 4 you said you are doing it. Would you get that information to the chairman?

Mr. KESSLER. Madame Congresswoman, I can assure you we will take back your comments and address this issue.

Ms. NORTON. Thank you very much.

Where the future lies here—I am very much into the issues you face. I am not sitting here saying why don't you just make due and act as if you are an old-fashioned government union. I regard your bottom-line problem as one of the most challenging, if not the most challenging, in the United States. So if we look out and say, well, where is the future of the Postal Service—to the credit of Mr. Kessler, he notes and gives credit to unions the increase in productivity that you yourselves have achieved for which you deserve congratulations of this subcommittee service. Are not productivity increases rather than outsourcing the future of the Postal Service just as important? Don't you simply have to continue through collective bargaining to find ways to increase productivity in order to compete rather than outsourcing little by little of the Postal Service and cutting yourself off at one end in order to make yourself competitive at the other?

Mr. POTTER. Is that addressed to me?

Ms. NORTON. Yeah. I guess you will be the man in charge of increasing productivity, but Mr. Kessler gave credit to the unions in——

Mr. POTTER. That is the preferred path, as I said in my testimony. We would like to work with the unions that do produce revenue because it is not just productivity; where is the source of revenue going to be going forward as well as the efficiency. I think it is incumbent upon the entire mail community to do, including the mailers who produce mail. The better quality we get for mail, the more efficient we can be. I think it is a combination of all of that.

Ms. NORTON. Mr. Potter, traditionally in collective bargaining with sufficient tradeoffs, you can get workers to do things.

Mr. POTTER. That is what I believe in the contracts we have——

Ms. NORTON. The people aren't going to make you more productive if you don't make them more productive. That is why bargaining is such a beautiful market-based system. Everybody has to get something for it to work.

Mr. POTTER. Congresswoman, as you just said, the Postal Service has a very difficult challenge going forward, and I believe that we need to work together to meet that challenge. And so, yes, you do have to work together, but there has to be a reality about what the challenges are, and there has to be a meeting of the minds.

In my opinion, all of our futures are at stake. I don't really worry about the people who are, you know, in my age category, 50 years old. I think about the people that are 20, 30 years old with the expectation that they will have and enjoy a career in the Postal Service much like my father and I did. I can guarantee you that if we don't change—and the best way to do it is to do it collectively and

to do it the right way. If we don't change, we will not be able to assure those people a future and assure their careers.

Mr. DAVIS. We need to——

Ms. NORTON. Yes, sir. Could I ask one question of Mr. Williams?

Mr. DAVIS. Yes.

Ms. NORTON. Just one question. But he does say that on page 2 of our contract, it represents a significant area of concern. And I would just like to know—I would like to elaborate. Couldn't the self-screening process that we require for Postal Service workers be required for contractors? And should there not be some—shouldn't the Postal Service be held accountable to stop the outsourcing of outsourcing so that we have some guarantee that the same rigorous process a Postal Service worker has to go through is the exact same process—in terms of screening, there may be other ways to cut corners—but the exact same process that a privately hired postal worker has to go through?

Mr. WILLIAMS. The plan is that on July 31st, those two background programs will become identical. They have not been in the past as far as drug testing, as we were talking about earlier, and that has been added into the line.

Ms. NORTON. If that is the only difference, I congratulate the Postal Service, but we can be looking to see that they line up identically and that—understand my concern. My concern is the contractor then outsources himself. That means somebody at home has to make sure that those things are lining up not only as a policy, but who—thank you, Mr. Chairman.

Mr. DAVIS. Thank you very much, Ms. Norton.

Mr. Clay.

Mr. CLAY. Mr. Chairman, can I get 5 minutes?

Mr. DAVIS. Yes; 4½.

Mr. CLAY. Thank you.

Mr. Potter, I have heard in opening statements that the Postal Service has been contracting out since its creation and in more recent times. Tell me what positive improvements have been reported by the U.S. Postal Service as a result of the contracting out.

Mr. POTTER. Well, let me point to one. We have contracted out to transportation of mail across the country. Our largest supplier is Federal Express, who flies our mail across the country and throughout our great Nation. As a result of our movement to that in 2001, the service that we have provided and do provide on a day-to-day basis has reached record levels for 2- and 3-day performance. So there is a situation where we contract out.

We contract out $14 billion worth of goods and services in terms of, you know, your institution. So there are many people performing all types of work for the U.S. Postal Service. The building of machines has helped us to become more productive, so we use contractors to supply those machines, to update software. So we use contract personnel, mostly on a limited-term basis. But we use contract personnel to provide, you know, some very basic services to America.

Mr. CLAY. As far as daily delivery, do you get any complaints about the contract worker versus the regular hourly wage?

Mr. POTTER. We hear about contract workers, but I would say on balance it is about equal.

Mr. CLAY. You say it is equal?

Mr. POTTER. In my opinion. I don't have data to support it. It is not something I have statistics on.

Mr. CLAY. Thank you for that response.

Mr. Kessler, besides contracting out mail delivery service, what other steps is the Postal Service taking to address your financial situation?

Mr. KESSLER. Congressman Clay, would you mind if I refer that to the Postmaster General and give you more detail concerning the actions we have taken?

Mr. POTTER. First of all, we have worked hard to improve productivity in different operations by standardizing the operations. We continue to invest in equipment to drive more productive processing of mail. We are constantly looking at the quality of the sort that is done by our mailers, again with the notion, you know, that we don't want to handle it multiple times, and the quality sort of our machines. We are constantly looking at our manual operations to look around the country to see what processes are the best. When we find people who have innovated and done things correctly, we document and share it with folks throughout the country.

If you look back since 1999, what has been remarkable is the way our people—and I am talking about all of the people who have responded to the challenges that we face. Today we are doing more work than ever, delivering to more addresses than ever. We have added about 12 million addresses since 2001, and we are doing that with 100,000 fewer employees than we did in 1999.

Now, the question becomes how far can you go? At some point in time, you are running out of room when it comes to that productivity. So we don't want to be in a position where we are placing, you know, irrational demands on people. So we are constantly looking to innovate on better processes and do things again in a different way that enables people to be more productive.

Mr. CLAY. Let me ask you about your health care and benefit costs and retirement costs. How has that gone since 1999?

Mr. POTTER. I don't know the exact data, but it is up dramatically. We had numerous years of double-digit increase since 2002. I am lucky to have the inspector general next to me. Our costs have risen by 27 percent for health care. The growth there is similar to the Federal Government. We are part of the FEBP, Federal Employee Benefit Program. So our costs have gone up. I would like to commend our unions, though, because part of the collective bargaining process, the contracts that we have reflect the fact that our employees understand the concern of the business for health benefit costs, and there is actually a reduction in employer contribution to health benefits in each of these contracts. Another example where we put an issue on the table, and we bargain in good faith, we can get agreements that will help the bottom line.

Mr. CLAY. Thank you all for the responses. I appreciate it.

Mr. Chairman, I yield back.

Mr. DAVIS. Thank you very much.

Mr. Marchant, do you have a question?

Mr. MARCHANT. No, thank you.

Mr. DAVIS. Thank you all very much. Let me just say it has always been my experience that if you have to spend more than you are taking in, somehow or another you have to figure out a way to do something. You have either got to cut something or find some way to reduce the cost, or you have to produce more, or you have to do some of both. And while I don't think there is any simple solution to the very complex scenario that we face, I, too, trust the collective bargaining process. And I actually hope that management and the unions will be able to come to an agreement that will keep our system intact, that will continue to provide universal service, that will continue to allow individuals to receive first class mail.

Hopefully we can continue the delivery rates, but I am afraid that something is going to have to give in some way at some point and at some time. I am not an expert on the postal operations. I am just an individual who knows a little bit about collecting and spending. And if you spend any more than you collect, you have a problem somewhat, somehow.

Thank you very much. I really appreciate it.

Mr. DAVIS. Let me thank our last group again for your patience and the fact that you have stayed the course with it.

I am going to go ahead and give the introductions of our witnesses while we are being seated.

Panel III. Mr. William Burrus is president of the American Postal Workers Union. The American Postal Workers represents the largest single bargaining union in the United States, which consists of more than 330,000 clerks, maintenance and motor vehicle employees working in 38,000 facilities of the U.S. Postal Service.

Mr. William Young is the 17th national president of the National Association of Letter Carriers.

Mr. Donnie Pitts is president of the National Rural Letter Carriers' Association. He has 37 years of experience with the Postal Service in both the State and national levels.

And Mr. John Hegarty, who was sworn into office on July 1, 2002, for the National Postal Mail Handlers Union and was reelected to that position in 2004. For the 10 years prior to becoming national president, Mr. Hegarty served as president of the second largest union affiliated with the National Postal Mail Handlers Union.

Thank you, gentlemen, so much for being here. It is our custom to swear in witnesses.

[Witnesses sworn.]

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

Thank you very much, Mr. Burrus. We begin with you.

STATEMENTS OF WILLIAM BURRUS, PRESIDENT, AMERICAN POSTAL WORKERS UNION, AFL–CIO; WILLIAM YOUNG, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS; DONNIE PITTS, PRESIDENT, NATIONAL RURAL LETTER CARRIERS' ASSOCIATION; AND JOHN HEGARTY, PRESIDENT, NATIONAL POSTAL MAIL HANDLERS UNION

STATEMENT OF WILLIAM BURRUS

Mr. BURRUS. Thank you, Mr. Chairman. Thank you for providing me this opportunity to testify on behalf of the dedicated postal employees our union represents. I commend the committee through your leadership, Mr. Chairman, for convening this hearing on the important subject of subcontracting in the U.S. Postal Service. This hearing is being called at a time that the American postal workers are here for our hearing-impaired members, and I am pleased to have the leaders of the task force representing those employees joining me here today. I'd like to put their names in the record: Marshall, Mike Clifton, Patsy, and Marie Adams.

This hearing is convened at the appropriate time, given the events of the past several months. Recently the U.S. Postal Service made significant changes to its subcontracting initiatives, including some which were vigorously opposed by the national association, who sought your intervention. This resulted in legislative proposals by Members of Congress and the subsequent announcement that a tentative agreement had been reached within the collective bargaining arena on the subject in dispute. While that dispute has been addressed, the fundamental USPS policy that seeks to subcontract postal activities at every opportunity remains, and it must be addressed.

I previously testified before this committee on April 17th and offered the following, "In this new world of postal reform, each institution must now find its rightful place. When these responsibilities overlap, and they do, the system can break, and more often than not service and workers suffer. As vital as it may seem when you are asked to intervene with legislative action in areas best left to the parties, I request that you resist the temptation to do so. To borrow a phase, we ask that you stick to your knitting."

I asked that Congress avoid substituting its judgment for the judgment of the parties who are directly involved. The Postal Service and its unions have a long history of addressing thorny issues affecting every aspect of the mail service. We write the words of our agreements; we interpret their intent, and submit our disputes and agree on arbitration.

In light of the recent agreement between NALC and the U.S. Postal Service, my words seem prophetic. When given the opportunity and the appropriate forum, the collective bargaining process works. The letter carriers union is to be commended for finding a creative approach to a major problem.

The question must be asked why did the dispute reach the point where bargaining did not work and legislative relief appeared necessary? I submit that the reason is that no real bargaining began on this important subject until you, the Congress of the United States, became involved. That is because under current procedures, the Postal Service will not bargain over subcontractors. We have

been successful in negotiating requirements that the Postal Service notify and consult with the union and civil contractor that is contemplated, but we have been unable to achieve real bargaining over whether or not specific activities will be subcontracted.

I am certain that the Congress of the United States does not wish to be called upon each time subcontracting is threatened. But to prevent the continuous participation of your involvement, a clear provision must be enacted requiring the USPS and its labor unions to bargain when subcontracting is proposed. Congress has previously enacted provisions requiring bargaining, so this would not represent a significant departure from your current policy.

As we enter this new world where management continually seeks to reduce costs through the use of nonunion, noncareer cheap labor, we will repeatedly seek your involvement unless you adopt legislation requiring the parties to negotiate.

We will return again and again asking for your help as the Postal Service embarks on this journey for privatization one piece at a time.

I thank you, Mr. Chairman, for your leadership, and the members of this committee. Thank you for your efforts. And I will be pleased to respond to any questions that you may have.

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

[The prepared statement of Mr. Burrus follows:]

APWU CONGRESSIONAL TESTIMONY

American
Postal
Workers
Union,
AFL-CIO

WILLIAM BURRUS
PRESIDENT

Before The

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

"Inquiring Minds Want to Know:
What Is the Postal Service Contracting Out?"

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

July 19, 2007

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Mr. Chairman and Members of the Subcommittee:

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> *In this new world of postal reform, each institution must now find its rightful place. You legislate, unions represent, and managers manage. When these responsibilities overlap, and they do, the system can break, and more often than not, service and workers suffer. As inviting as it may be, when you are asked to intervene with legislative action in areas best left to other parties, I request that you resist the temptation to do so. To borrow a phrase from postal critics, we ask, with deep respect, that you "stick to your knitting."*

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That is because, under current procedures, the Postal Service will not bargain over subcontracting. We have been successful in negotiating a requirement that the Postal Service notify and consult with the unions when subcontracting is contemplated, but we have been unable to achieve real bargaining over whether or not specific activities will be subcontracted.

I am certain that the Congress of the United States does not desire to be called upon each time subcontracting is threatened. To prevent the continuous solicitation of your involvement, a clear provision must be enacted requiring the USPS and its labor unions to bargain when subcontracting is proposed. Congress has previously enacted provisions requiring bargaining, so this would not represent a significant departure from its current policy.

Within the Postal Service, labor and management have a 36-year track record of addressing issues of concern without work stoppages and without Congressional intervention. As we enter this new world where management continually seeks to reduce costs through the use of non-union, non-career, cheap labor, we will repeatedly seek your involvement – unless you adopt legislation requiring the parties to negotiate.

We will return again and again asking for your intervention as the Postal Service embarks on this journey toward privatization, one piece at a time.

I thank you Mr. Chairman, for your leadership and that of the members of this oversight committee. Thank you for your efforts. I would be pleased to respond to any questions that you may have.

STATEMENT OF WILLIAM H. YOUNG

Mr. YOUNG. Good morning. I'd like to ask a question if I could. Could I get an agreement just to have my remarks submitted in the record? Because I'd like not to use the remarks at all.

Mr. DAVIS. You can do that.

Mr. YOUNG. I have never tried that before. Is it acceptable?

Mr. DAVIS. It is certainly acceptable.

Mr. YOUNG. In the last area, we were in total disagreement. This afternoon we are in total agreement.

I agree with Mr. Burrus that the only reason they were able to negotiate a contract with the Postal Service that included protections in subcontracting was because of the interest of the Congress that the United States took in the issue. And I also agree with him that a mandate to require collective bargaining is a good approach. I hadn't thought about it before coming up with it.

I want to address a few issues that came out here this morning because I want this Congress, if they are going to consider this in this committee, to reflect on a few of these matters that were brought up here by the panel that received this.

Let me just talk for a few minutes about the contract employees. I want to make sure that the Congress understands the difference between a contract employee who delivers bulk quantities of mail going between post offices—say, post office A and B—and maybe delivers one or two addresses on the way from A to B. This person is delivering mail that is locked up in sacks. He is not individually going through people's personal mail like letter carriers and rural carriers do when they make the final delivery of mail at the door. The mail that they are delivering, the mail that FedEx is delivering that the Postmaster General is talking about is all locked and secured. Nobody can go in there. If they did, we would know it.

So I think there is a little attempt here to confuse the Congress as to the fact that—yes, we have always used contractors. There are no grievances over the use of bulk drivers that deliver the bulk mail. I don't know if any of the other unions have that or not. They can speak for themselves. But to make the clear distinction, I don't know if the American public worries so much whether it is FedEx or American Airlines that flies their mail. They might have a different scenario if it is somebody that has been drug-screened or somebody who hasn't.

The second point, I think Congresswoman Holmes brought this out and I want to remind you about, it is the subcontracting that scares me. They can screen the private contractors the same as us. What are they doing about the subcontractors—and it is my understanding, and I hope I am not wrong about this—in some cases they don't even know who these people are. In other words, they give the contract to me, and maybe I have my 10-year-old kid delivering the mail. I don't know if that is known or not. But it is the secondary part of this that poses in my mind the greatest concern.

I also want the Congress to look at a couple of other things that they care to examine. Look at nepotism. Do the nepotism laws apply to private contractors? I don't think so. I think if you look at this, you will find out that a lot of these private contractors are relatives of postal officials around the country. And I think that is worth looking at.

The other thing that you should consider when you are thinking about private contractors, in my judgment, is—I know that nobody gets preference when they hire a private contractor. It is all based on the bottom line, and the Congress wanted the Postal Service to give a preference to America's veterans. This is a way that will reduce the number of positions that are available to these veterans as they return from these places that we sent them to fight these wars that we got them in.

The big debate last time was this public policy or collective bargaining. I said it was public policy; others said it was collective bargaining. It turns out everybody was right. It was collective bargaining once the Congress gave the sense to the Postal Service and got them into a position to sit down and discuss the matter rationally with me and the representatives on the union, but they acknowledged it is public policy. And I ask you to read the memo, and I will make sure the committee has it. It has words right in there acknowledging that the parties understand there is a public policy consideration to the use of private contractors.

I am encouraged. I told the Congress I wasn't being arrogant. I didn't need your help to negotiate a contract, I just needed somebody to negotiate with. You, the Members of Congress, in your infinite wisdom have the Postal Service to perform for the members of my union and now have a contract. I am very hopeful that the person that speaks right after me—he is the one person without a contract yet, and I hope that he and the Postal Service get together and he includes one for him and his members as soon as possible.

A couple of other things I wanted to mention. Potter's scenario is that he has only got three choices. He acknowledged the fourth choice. I know you didn't miss it when he talked about revenue. We have already $300 million of additional revenue in the U.S. Postal Service in the last 2 years through a program. We upped this program for another 5 years. And remember, the first 2 years was just the infancy of it. We have less than 10 percent of our members involved in this. I hope they have a substantially greater number, and that should translate into a substantially greater revenue increase for the U.S. Postal Service.

I use the checkbook because I am a simple man. When your checkbook runs out, you have only got two choices. If you don't want to go to jail, either stop writing checks or put more money in the check fund. There is a third choice, and we won't talk about that because we're honorable people here, and we don't want to spend the rest of our lives behind bars. They can increase their revenue, too.

One last point that won't hurt the Postal Service—but I won't listen to what is going on without responding to this. They have already built into the rate increases—somebody asked, I think, Mr. Kessler, is there any reason for optimism down the road? And he gave me, no, there will always be problems.

I am not saying there always won't be problems. Let me be the optimist here. The Congress put a hit on the Postal Service for 10 years to pay down the expected future retiree health benefits. That is the issue of $60 billion when we first started. I don't know what it is now because these numbers grow like wildfires. Whatever that number was, that is what caused the GAO to put the Postal Serv-

ice on the end when it was passed. One of the things that the Congress insisted upon—and it is included in the law they have—to pay this down, and it must be down in 10 years. They raised the rates once last year or maybe twice. I have lost track. But the point is they raised the rates. At the end of the 10 years, if we can get through the next 10 years, there ought to be a substantial amount, $3.8 billion a year. There ought to be that hanging around for us to deal with some of the other issues that plague the Postal Service.

On the very last issue, health benefits, both the inspector general—and the health benefits went up 27 percent since 2002. I don't know about that, but here is what I do know. It went up 1.8 percent last year, 2007, and 6.6 percent the year before in 2005. That's 6 and 5 I have given you—7 and 6, I am sorry. I don't know where you get this 27 percent. But for some reason, the program's experiencing—knock on wood—has had 3 or 4 good years because we had at least 10 years of double-digit inflation. Like I said, 6.6 one year, 1.8 last year, and there is a lot of people who think it will be good this year, too. So there is hope on the horizon.

I thank the committee for allowing me to testify, and I thank you for my presentation.

Mr. DAVIS. Thank you, Mr. Young.

[The prepared statement of Mr. Young follows:]

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Congress of the United States

House of Representatives

Subcommittee on Federal Workforce, Postal Service, and the District of Columbia

Danny Davis, Chairman

Testimony of

William H. Young

President

National Association of Letter Carriers

July 19, 2007

Good afternoon, Chairman Davis, Ranking Member Marchant and other distinguished Members of the subcommittee. I am very pleased to be here today to testify before this hearing on the issue of outsourcing in the U.S. Postal Service. My name is William H. Young and I am proud to represent 300,000 active and retired letter carriers as the President of the National Association of Letter Carriers. NALC was founded in 1889 to advance the well-being of the nation's letter carriers and to support the maintenance of affordable and universal postal services in America. It has served as the exclusive collecting bargaining representative of city letter carriers since 1962.

Thank you Chairman Davis for holding this important hearing. As you know, I have been quite concerned about the growth in delivery outsourcing in the Postal Service in recent years. Indeed, when I appeared before this subcommittee on April 17, 2007, I devoted the lion's share of my testimony to the what I consider the grave threat posed by Contract Delivery Service. As I said then, NALC believes Contract Delivery Service is penny-wise and pound-foolish as a business strategy since it would damage the brand of the Postal Service by undermining America's trust in its services. I also suggested that

outsourcing violates a number of key public policies established by the nation's postal laws. For example, the law gives preference in hiring for postal jobs to veterans and mandates, with some exceptions, collective bargaining rights for workers employed by the Postal Service. The widespread expansion of CDS would make a mockery of these policies. Finally, I argued that who works for the Postal Service, and under what legal framework, are urgent matters of public policy – which I still firmly believe today.

I will not waste your time and repeat my testimony from three months ago. Rather, I would ask that my statement for the April 17th hearing be made a part of the record of this hearing so that I can update the committee about recent developments concerning the issue of delivery outsourcing.

Before I do that, however, I want to first thank Representative Albio Sires of New Jersey for introducing H. Res 282 earlier this year. That non-binding resolution calls on the Postal Service to discontinue the practice of contracting out mail delivery. As of early July, it had attracted a bipartisan majority of the House of Representatives as co-

sponsors. I believe that H. Res 282 has sent a strong message to the United States Postal Service to reconsider its plan to expand CDS delivery. This message was reinforced by the overwhelming support we have received from the public during dozens of informational pickets we have conducted around the country over the past several months. The American people want career letter carriers to deliver their mail. It is that simple.

I am pleased to report that the Postal Service appears to be listening, at least in some parts of the country. In recent weeks, we have been informed that CDS contracts would be withdrawn in several cities, including one in Bronx and several others in New Jersey and Iowa. Thank you Congressman Sires for helping illuminate the views of the House on this important issue and for prompting the Postal Service to reconsider.

Although the Postal Service seems to be moving in the right direction, it has not committed to abandon CDS altogether. For that reason, I welcome this hearing and I applaud this committee's interest in this subject.

Earlier this afternoon, Postmaster General John Potter reported that NALC and the Postal Service reached tentative agreement last week on a new collective bargaining agreement. This tentative contract, which will be sent out to our members for a ratification vote, contains two memoranda of understanding (or MOUs) related to the issue of subcontracting. I believe these MOUs may be relevant to your consideration of any future legislation on the issue of postal outsourcing. Before I describe the NALC's views on these Memoranda, I want to address what they mean for the long-running debate between the Postal Service and most of its unions about whether contracting out is bargaining issue or a policy issue.

I have maintained for months that NALC did not want Congress to get involved in writing the terms of our labor contract with the Postal Service. NALC has the ability to represent the letter carriers covered by our collective bargaining agreement. For example, if the Postal Service tries to contract out an existing letter carrier position, we have the means to fight for our members in Article 32 of our contract. But who provides service to new deliveries is both a collective bargaining issue and a public policy issue. As a bargaining issue, the key question has

traditionally been: should the work be assigned to city or rural letter carriers. By transforming traditional Highway Contract Routes, which were long established as mail transportation contracts, into CDS contracts for urban and suburban mail delivery, the Postal Service has transformed contract delivery into a public policy issue.

We have also maintained that the kind of workers assigned to handle new deliveries in the future should not be left to postal management alone to decide. In fact, it should not left to postal unions to decide either. Congress has mandated collective bargaining for postal employees in general and only it can decide whether to make exceptions to this policy – as it specifically did with mail transportation contracts in the Postal Reorganization Act.

Our new agreement addressed the issue of subcontracting in two ways. First, we signed a MOU that restricts the Postal Service from contracting out delivery work in any of the 3,017 post offices with only city delivery services – this covers some 90,000 routes and ensures that all in-growth within these offices will be assigned to city letter carriers.

That MOU also protects all existing city delivery services from contracting out in offices that have both city and rural delivery services. In other words, the Subcontracting MOU prohibits outsourcing work now performed by city carriers over the life of the five-year contract.

Second, we signed a second MOU that establishes a Joint Committee on Article 32 comprised of labor and management representatives to review existing policies and practices concerning the contracting out of mail delivery. The Committee "shall seek to develop a meaningful evolutionary approach to the issue of subcontracting, taking into account the legitimate interests of the parties and relevant public policy considerations." The Committee will be given reasonable access to all relevant data and report back after six months. During that time, the Postal Service will impose a moratorium on outsourcing delivery in any office where city carriers work.

I believe that we have reached a sensible and constructive approach to dealing with this difficult issue. We expect to learn a lot over the next six months. We hope that we will reach a mutually acceptable agreement on subcontracting that is consistent with the public policy

considerations referenced in the Article 32 Committee memorandum. If we don't, we will certainly be in a better position to advise this subcommittee about the potential need for Congressional action. Perhaps you might consider it appropriate to hold a second hearing on this issue after the Joint Committee completes its work. In the other words, We'll be back.

I want to conclude by applauding Chairman Davis for his leadership role on this issue and for calling this very important hearing and I want to thank all the members of the subcommittee for listening to my testimony. I would be happy to answer any questions you may have.

Mr. DAVIS. Mr. Pitts.

STATEMENT OF DONNIE PITTS

Mr. PITTS. Mr. Chairman and members of the committee, my name is Donnie Pitts. I am president of the National Rural Letter Carriers' Association, and I want to thank you, Mr. Chairman, for holding these hearings on contracting out.

As of February 2007, there are more than, 75,000 rural routes and they drive more than 3.3 million miles a day. We sell stamps and money orders, priority mail, certified mail in rural and suburban areas, too.

Mr. Chairman, I am pleased to report that as of July 18th, there are 225 bipartisan cosponsors of House Resolution 282, a resolution that is introduced by the Honorable Albio Sires, expressing the sense of the House of Representatives that the U.S. Postal Service should discontinue the practices of contracting out delivery services.

What I have a hard time understanding is why all 435 Representatives are not cosponsors of this important resolution. Is it because the Postal Service has suggested that contract delivery is a matter of collective bargaining and not a policy question? I hope not, because contracting out most certainly raises significant policy questions, particularly when the safety and security of the mail is at stake.

Mr. Chairman, I am sure by now that everyone knows that the NRLCAs that I represent in the Postal Service did not reach an agreement between our recent contract negotiations, and we are headed toward interest arbitration. What is less well known is that unlike our friends in the civic aircraft, contract delivery services were never brought forward during our union talks with the Postal Service. We don't see what the Postal Service is doing now as a collective bargaining issue. We see it as a policy issue.

There are a number of different policies already in place with the Postal Service to limit what can and cannot be contracted out. Our national agreement with the Postal Service contains an article which addresses subcontracting, article 32. Article 32 sets the standards and policies under which routes can be subcontracted.

The Postal Service's P–5 handbook, which establishes a national policy and procedures for the operation and administration of highway contract routes, that handbook language states that the route that serves less than one family per mile may be converted to contract delivery service.

Additionally, we have grievances at the national level that challenge the improper contract and out-of-mail delivery.

Mr. Chairman, we as a union have done everything within our power utilizing policies and agreements with the Postal Service to stop the Postal Service from contracting out the delivery of mail. Despite this, the Postal Service continues to ignore all these policies and agreements and continues to contract out routes. I am asking that the House introduce legislation to stop the contract delivery services.

Mr. Chairman, in May, you held a side hearing in Chicago, IL, regarding the slow delivery of mail. Congressmen in New Mexico are scheduling meetings with officials from the Postal Service to

discuss schedule concerns throughout New Mexico. When the Postal Service announces the consolidation or closing of a facility within a congressional district, that Congressman gets involved.

During the passage of postal reform, even the initial work sharing was made into a policy issue. Every time the Postal Service enters into a work-sharing agreement with a mailer, the end result is a postal employee not performing the work.

What I am trying to point out, using these examples, is that when there is a problem with the mail service closing the facilities, security or other problems, Congress gets involved to correct that problem. My question is, why isn't Congress getting involved in stopping contracting out? Do they not see this as an issue just as important as service problems or consolidations of facilities?

I have no problem telling you, this is an issue that is just as important as the others.

Letter carriers are the face of the Postal Service. We are the ones the American public sees out on the streets every day delivering mail. They get to know us. They become our friends, and they trust us. This honor, for the third year in a row, has earned the Postal Service the distinction of being named the most trusted government agency by the Ponemon Institute.

I reference this survey because the public's perception of the Postal Service is delivery. If the Postal Service fails to deliver because of here-today, gone-tomorrow contractors, the mail will find another—the mailers will find another way to get their message to the public.

I care about the future of the Postal Service. I want the Postal Service to succeed. Hiring nonloyal and unreliable contractors is not the way to ensure the success of the Postal Service.

Mr. Chairman, you and Mr. McHugh, Mr. Waxman and Mr. Davis spent 15 years passing postal reform to make the Postal Service more viable for the 21st century. I don't believe the Postal Service of the future you all envisioned while working on postal reform was going to be made up of contracting employees. Instead, I think you envisioned the Postal Service of the future as a good-paying, middle-class job with a decent health and retirement benefits.

Delivering the mail for the Postal Service of the future should be properly trained professionals and dependable employees.

I thank you for allowing me to testify here today, and if you have any questions of me, I will be glad to answer those.

[The prepared statement of Mr. Pitts follows:]

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Testimony of
Donnie Pitts, President
National Rural Letter Carriers' Association

before the

Sub-Committee on Federal Workforce, Postal Service,
and the District of Columbia

July 19, 2007

Mr. Chairman, and members of the Committee, my name is Donnie Pitts and I am President of the 111,000-member National Rural Letter Carriers' Association. I want to thank you, Mr. Chairman, for holding this hearing on contracting out.

As of February 2007, rural carriers are serving on more than 75,000 rural routes. We deliver to 37.4 million delivery points, and drive more than 3.3 million miles per day. We sell stamps & money orders; accept customer parcels, Express and Priority Mail, Signature and/or Delivery Confirmation, Registered and Certified Mail, and serve rural and suburban America to the "last mile."

There is a saying that if you refuse to recognize the past you shall be forced to relive it. I was reading over a back issue of our national magazine, *The National Rural Letter Carrier*, from May 11, 1991, when the President at the time, Vernon Meier, testified before Congress, saying the "NRLCA is concerned that we are beginning to see a pattern of deliberate...conversion of many areas to Highway Contract Routes." To which a congressman replied, "We need to pass some kind of law where you cannot contract out those kinds of services." So now here we are, 16 years later, and I come before you to urge you to pass legislation to stop the growth of Contract Delivery Service (CDS).

Mr. Chairman, I am pleased to report that as of July 9, there are 222 bipartisan co-sponsors of House Resolution 282, a resolution introduced by the Honorable Albio Sires "expressing the sense of the House of Representatives that the United States Postal Service should discontinue the practice of contracting out mail delivery services." What I have a hard time understanding is why *all* 435 Representatives are not co-sponsors of this important resolution.

Is it because the Postal Service has suggested that Contract Delivery is a matter for collective bargaining and not a policy question? I hope not because contracting out most certainly raises significant policy questions – particularly when the safety and security of the mails is at stake. Mr. Chairman, I am sure by now that everyone knows that the NRLCA and the Postal Service could not reach an agreement during our recent contract negotiations, and we are headed toward interest arbitration. What is less well known is that, unlike our friends in the city carrier craft, contract delivery services were never brought forward during our union's talks with the Postal Service. We don't see what the Postal Service is doing now as a collective bargaining issue; we see it as a policy issue.

There are a number of different policies already in place with the Postal Service to limit what can and cannot be contracted out. Our National Agreement with the Postal Service contains an article which addresses subcontracting, Article 32. Article 32 sets the standards and policies under which routes can be subcontracted. The Postal Service's P-5 Handbook which "establishes the national policy and procedures for the operation and administration of highway contract routes." That handbook language states that a route

that serves less than one family per mile may be converted to CDS. Additionally, we have grievances at the national level that challenge the improper contracting out of mail delivery. Mr. Chairman, we, as a Union, have done everything within our power, utilizing policies, and agreements with the Postal Service, to stop the Postal Service from contracting out the delivery of mail. Despite this, the Postal Service continues to ignore all these policies and agreements and continues to contract out routes. I'm asking that the House introduce legislation to stop CDS.

Mr. Chairman, in May you held a site hearing in Chicago regarding the slow delivery of mail. It's been rumored another site hearing will be held in Los Angeles at a future date. Congressmen in New Mexico are scheduling meetings with officials from the Postal Service to discuss staffing concerns and persistent service problems throughout New Mexico. When the Postal Service announces the consolidation or closing of a facility within a congressional district, that Congressman gets involved. During the passage of Postal Reform, even an issue like work-sharing—(the discounts the Postal Service gives to mailers who provide presorted mail)—was made into a policy issue. Every time the Postal Service enters into a work-sharing agreement with a mailer, the end result is a postal employee not performing the work.

Even outside of the Postal Service, Congress has gotten involved in issues that Congress does not directly oversee. In March 2005, this very committee became involved with Major League Baseball (MLB) when it was made public that some players were abusing MLB's steroid policy. Congress got involved because it was the right thing to do, and it needed to be done. Questions were raised about the sufficiency of the policies then in place as well as the enforcement of those policies.

What I'm trying to point out using these examples is that when there is a problem with the mail service, closing of facilities, security, or any other problem, Congress gets involved to correct that problem. My question is why isn't Congress getting involved in stopping contracting out? Do they not see this as an issue just as important as service problems or the consolidation of facilities? I have no problem telling you this is an issue that is just as important as the others.

Letter carriers are the face of the Postal Service. We are the ones the American public sees out in the streets every day delivering their mail. They get to know us; they become our friends; and they trust us. This honor, for the third year in a row, has earned the Postal Service the distinction of being named the most trusted government agency by the Ponemon Institute, LLC.

The Postal Service scored 83 percent, according to the survey. It was one of the few federal agencies to increase its customer satisfaction and trust scores from the previous year. The average trust score among the 60 agencies surveyed was 47 percent.

I reference this survey because the public perception of the Postal Service is **DELIVERY**. If the Postal Service fails to deliver because of here-today-gone tomorrow contractors, the mailers will find another way to get their message to the public. I care

STATEMENT OF JOHN HEGARTY

Mr. HEGARTY. Thank you very much. My name is John Hegarty. I am the president of the National Postal Mail Handlers Union, which serves as the exclusive bargaining unit for approximately 57,000 mail handlers employed by the U.S. Postal Service.

During the subcommittee and oversight hearing, I testified on the question of whether the Postal Service should be outsourcing some of its core functions, including the processing of mail normally handled at government centers or the processing of military mail headed to our troops in Iraq and Afghanistan.

I will not repeat that testimony here today, but rather would ask that my written testimony from April 17, 2007, be incorporated into the record of these proceedings.

What I would like to focus on today is the following issue: What is the real cost of this privatization? As this subcommittee knows, subcontracting allows core functions of the Postal Service to be performed by low-paid, no-benefit, noncareer and often transient workers. We believe that you get what you pay for.

We believe that the processing and delivery of mail in the postal system should be a core function of the professional work force employed by the Postal Service and should not be subject to the low-bid ideology. Surely the American people do not want some contract employee reaching into their neighborhood mailbox or handling and processing their package to a loved one either here or in the military overseas.

The public has a trust level that is breached when privateers are hired. Thus, the Mail Handlers Union believes that the use of low-paid, private workers to perform core postal functions and the resulting reduction in career postal jobs is sufficient reason for the Postal Service to stop that subcontracting.

But we also live in the 21st century and therefore we know that some will argue that getting the work performed more cheaply is the same as getting the work performed efficiently, safely and securely.

The Board of Governors, some members of the Board of Governors like to point out that under the recently adopted Postal Accountability and Enhancement Act of 2006, the Postal Service has to live within the CPI for the rate of inflation, because it will be allowed to raise rates only by increases in the Consumer Price Index starting next year. Thus, their argument goes that the Postal Service has to subcontract in order to save the higher cost of performing the work in-house.

The premise of their argument, however, that the Postal Service will save money by allowing private contractors to perform the work currently performed by mail handlers and other career postal employees is totally false. Recent experience has shown that the subcontracting of mail handler jobs has not worked. In fact, it has had the opposite effect of leading to expensive inefficiencies that have cost postal customers much more than the Postal Service expected.

I won't reiterate in detail, but Congressman Lynch referenced earlier to the Emery subcontract, and I would like to point that out as an example.

The Mail Handlers Union wishes to ensure that the ongoing debate over subcontracting is promptly focused. It is both superficial and incorrect to assume that the wages and benefits paid to career postal employees, which admittedly are higher than the amounts that contractors will agree to, may, to privatized workers, automatically mean that the Postal Service is saving money when it subcontracts. It is clear from prior OIG audits that a simple financial comparison based on wage rates is misleading and does not accurately reflect the actual costs that are borne by the Postal Service when it decides to subcontract work to the private sector.

For many years, the Mail Handlers Union has been trying to convince postal management to analyze its proposed subcontracts more carefully with an eye on all of the actual costs that subcontracting imposes on the Postal Service, above and beyond the savings projected by lowering hourly employment costs. That is why I focused on these issues today.

I request that the subcommittee include in the record of this hearing the OIG audits that I have mentioned during my testimony.

When all is said and done, each and every proposal to subcontract postal work needs to be analyzed carefully.

We certainly understand that the Board of Governors is chaired by someone who has advocated for decades that privatization of the Postal Service is best for America. We do not share that view. We do not believe that the American public or many Members of Congress share the view that dismantling the Postal Service and dividing its parts into private components is a wise investment of our Nation's resources.

There has been some discussion about the earlier Postal Reorganization Act and the mandate that the Postal Service deliver to each and every address every delivery day. There is also something else in the Postal Reorganization Act that continues in the current statute, and that is that the Postal Service is mandated, "As an employer, the Postal Service shall place particular emphasis upon opportunities for career advancement of all officers and employees and the achievement of worthwhile and satisfying careers in the U.S. Postal Service."

And I believe that should be adhered to as well and should be factored into the current debate regarding subcontracting.

Again, thank you for this opportunity to testify.

If you have any questions, I would be glad to answer them.

[The prepared statement of Mr. Hegarty follows:]

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TESTIMONY OF

JOHN F. HEGARTY
NATIONAL PRESIDENT
NATIONAL POSTAL MAIL HANDLERS UNION

BEFORE THE

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

OF THE

HOUSE COMMITTEE ON
OVERSIGHT AND GOVERNMENT REFORM

"The Contracting Out of Services by the
U.S. Postal Service"

July 19, 2007

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Good morning, and thank you Chairman Davis and members of the Subcommittee for inviting me to testify. My name is John Hegarty, and I am National President of the National Postal Mail Handlers Union, which serves as the exclusive bargaining representative for approximately 57,000 mail handlers employed by the U.S. Postal Service.

During this Subcommittee's April oversight hearings, I testified on the question whether the Postal Service should be outsourcing some of its core functions, including the processing of mail normally handled at air mail centers or the processing of military mail headed to our troops in Iraq and Afghanistan. I will not repeat that testimony here today, but rather would ask that my written testimony from April 17, 2007 be incorporated into the record of these proceedings.

What I would like to focus on today is the following issue: What is the real cost of this privatization? As this Subcommittee knows, subcontracting allows core functions of the Postal Service to be performed by low-paid, no-benefit, non-career, and often transient workers. We believe that you get what you pay for. We believe that the processing and delivery of mail in the postal system should be a core function of the professional workforce employed by the Postal Service, and should not be subject to the low-bid ideology. Surely the American people do not want some contract employee reaching into their

neighborhood mail box, or handling, processing and delivering their package to a loved-one – either here or to the military overseas. The public has a trust level that is breached when privateers are hired. Thus, the Mail Handlers Union believes that the use of low-paid private workers to perform core postal functions, and the resulting reduction in career postal jobs, is a sufficient reason for the Postal Service to stop its subcontracting.

But we also live in the 21st century, and therefore we know that some will argue that getting the work performed more cheaply is the same as getting the work performed efficiently, safely and securely. The Board of Governors of the Postal Service likes to point out that, under the recently adopted Postal Accountability and Enhancement Act of 2006, the Postal Service has to live "within the CPI" or the rate of inflation, because it only will be allowed to raise rates by increases in the Consumer Price Index starting next year. Thus, their argument goes, the Postal Service has to subcontract in order to save the higher costs of performing the work in-house.

The premise of their argument, however – that the Postal Service will save money by allowing private contractors to perform the work currently performed by mail handlers and other career postal employees – is totally false. Recent experience has shown that subcontracting of

mail handler jobs has not worked. In fact, it has had the opposite effect of leading to expensive inefficiencies that have cost postal customers much more than the Postal Service expected.

For example, the largest subcontract for mail handler work ever signed by the Postal Service was implemented approximately ten years ago. At that time, the Postal Service decided to contract with Emery Worldwide Airlines to process Priority Mail at a network of ten mail facilities along the Eastern seaboard. Nearly one thousand mail handler jobs were privatized. Today, the work at those facilities has been returned to mail handlers and other career employees within the Postal Service, but not before the Postal Service suffered severe losses in the hundreds of millions of dollars. At a meeting of the USPS Board of Governors, one Governor stated publicly that the Emery subcontract was one of the worst decisions that the Board ever made.

This was not just idle speculation. In September 1999, the USPS Office of Inspector General audited the Priority Mail Processing Network. The OIG released an audit report that concluded, and here I am quoting from the report:

> [W]e disclosed that Priority Mail processed through the network [using private workers] **cost 23 percent more** than Priority Mail processed by [career employees] of the Postal Service without a network. In addition, we found that the

Priority Mail Processing Center Network **was not meeting overall delivery rate goals** referenced in the contract.

To its credit, postal management eventually recognized its mistake. They concluded that – and again I am quoting from the OIG – "an early end to the contract would limit the Postal Service's financial exposure." As noted, the work of processing Priority Mail was returned to mail handlers and other career postal employees, but not before postal customers incurred dramatic financial losses.

The NPMHU wishes to ensure that the ongoing debate over subcontracting is properly focused. It is both superficial and incorrect to assume that the wages and benefits paid to career postal employees, which admittedly are higher than the amounts that contractors will agree to pay to privatized workers, automatically mean that the Postal Service is saving money when it subcontracts. It is clear from prior OIG audits that a simple financial comparison based on wage rates is misleading and does not accurately reflect the actual costs that are borne by the Postal Service when it decides to subcontract work to the private sector.

For many years, the Mail Handlers Union has been trying to convince postal management to analyze its proposed subcontracts more carefully, with an eye on all of the actual costs that subcontracting

imposes on the Postal Service, above and beyond the savings projected by lowering hourly employment costs. That is why I have focused on these issues today.

When all is said and done, each and every proposal to subcontract postal work needs to be analyzed carefully. We certainly understand that the Board of Governors is chaired by someone who has advocated for decades that privatization of the Postal Service is best for America. But we do not share that view. We do not believe that the American public or many Members of Congress share the view that dismantling the Postal Service and dividing its parts into private components is a wise investment of our nation's resources.

Again, thank you for this opportunity to testify and for holding this important hearing. If you have any questions, I will be glad to answer them.

Mr. DAVIS. Well, let me thank the gentlemen for your testimony. Unfortunately, we have 15 votes, some of which are antilabor, and so I think I am going to have to go and cast mine.

But let me thank you for appearing. We would not dare ask you to wait until we finish with all of those.

I am sure that the subcommittee appreciates the positions expressed by all of those who have come and testified this afternoon. I think it has been a very worthwhile hearing that is going to help us move ahead as we continue to develop policy; but more importantly, as we continue to try and wrestle with the role of collective bargaining and the role that we hope it will continue to play in the making of decisions relative to the operation of our Federal work force.

So we thank you very much. And this hearing is adjourned.

[Whereupon, at 4:45 p.m., the subcommittee was adjourned.]