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MAKING SENSE OF IT ALL: AN EXAMINATION OF USPS'S STATION AND BRANCH OPTIMIZATION INITIATIVE AND DELIVERY ROUTE ADJUSTMENTS

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 ELEVENTH CONGRESS

FIRST SESSION

JULY 30, 2009

Serial No. 111–17

Printed for the use of the Committee on Oversight and Government Reform

Available via the World Wide Web: http://www.gpoaccess.gov/congress/index.html
http://www.house.gov/reform

U.S. GOVERNMENT PRINTING OFFICE

52–713 PDF WASHINGTON : 2009

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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CONTENTS

	Page
Hearing held on July 30, 2009	1
Statement of:	
Burrus, William, president, American Postal Workers Union, AFL–CIO; John Hegarty, president, National Postal Mail Handlers Union; Louis Atkins, vice president, National Association of Postal Supervisors; Fred Rolando, national president, the National Association of Letter Carriers, AFL–CIO; Don Cantriel, president, National Rural Letter Carriers' Association; and Mark Strong, executive vice president, National League of Postmasters of the United States	110
Atkins, Louis	121
Burrus, William	110
Cantriel, Don	137
Hegarty, John	115
Rolando, Fred	129
Strong, Mark	145
Sires, Hon. Albio, a Representative in Congress from the State of New Jersey	28
Small, Jordan, acting vice president, Office of Accountability and Compliance, Postal Regulatory Commission; John Waller, director, Office of Accountability and Compliance, Postal Regulatory Commission; Phillip Herr, Director, Physical Infrastructure Issues, U.S. Government Accountability Office; Art Sackler, executive director, National Postal Policy Council; Jerry Cerasale, senior vice president, Direct Marketing Association; and Michael Murphy, president, Japs-Olson Co.	38
Cerasale, Jerry	84
Herr, Phillip	54
Murphy, Michael	91
Sackler, Art	73
Small, Jordan	38
Waller, John	46
Letters, statements, etc., submitted for the record by:	
Atkins, Louis, vice president, National Association of Postal Supervisors, prepared statement of	123
Burrus, William, president, American Postal Workers Union, AFL–CIO, prepared statement of	112
Cantriel, Don, president, National Rural Letter Carriers' Association, prepared statement of	139
Cerasale, Jerry, senior vice president, Direct Marketing Association, prepared statement of	86
Chaffetz, Hon. Jason, a Representative in Congress from the State of Utah, prepared statement of	24
Cummings, Hon. Elijah E., a Representative in Congress from the State of Maryland, prepared statement of	165
Hegarty, John, president, National Postal Mail Handlers Union, prepared statement of	117
Herr, Phillip, Director, Physical Infrastructure Issues, U.S. Government Accountability Office, prepared statement of	56
Murphy, Michael, president, Japs-Olson Co., prepared statement of	92
Norton, Hon. Eleanor Holmes, a Delegate in Congress from the District of Columbia, Congressional Research Service's July 23, 2009 report	2
Rolando, Fred, national president, the National Association of Letter Carriers, AFL–CIO, prepared statement of	131
Sackler, Art, executive director, National Postal Policy Council, prepared statement of	75

Page

Letters, statements, etc., submitted for the record by—Continued
Sires, Hon. Albio, a Representative in Congress from the State of New Jersey, prepared statement of 30
Small, Jordan, acting vice president, Office of Accountability and Compliance, Postal Regulatory Commission, prepared statement of 40
Strong, Mark, executive vice president, National League of Postmasters of the United States, prepared statement of 147
Waller, John, director, Office of Accountability and Compliance, Postal Regulatory Commission, prepared statement of 48

MAKING SENSE OF IT ALL: AN EXAMINATION OF USPS'S STATION AND BRANCH OPTIMIZATION INITIATIVE AND DELIVERY ROUTE ADJUSTMENTS

THURSDAY, JULY 30, 2009

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 10:22 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen F. Lynch (chairman of the subcommittee) presiding.

Present: Representatives Lynch, Chaffetz, Norton, Davis, Cummings, Kucinich, Connolly, and Bilbray.

Staff present: William Miles, staff director; Margaret McDavid, detailee; Daniel Zeidman and Christina Severin, interns; Dan Blankenburg, minority director of outreach and senior advisor; Adam Fromm, minority chief clerk and Member liaison; Howard Denis, minority senior counsel; and Alex Cooper, minority professional staff member.

Ms. NORTON [presiding]. The Subcommittee on Federal Workforce, Postal Service, and the District of Columbia will come to order.

The chairman will return shortly. Meanwhile, I want to welcome the ranking member, Mr. Chaffetz, members of the subcommittee, hearing witnesses, and all of those attending today.

Today's hearing is intended to discuss the Postal Service's recently proposed initiative to study the activities of nearly 3,200 postal stations and branches across the country for consolidation purposes, as well as to examine the Postal Service's cost-cutting and consolidation related efforts, including mail delivery, route adjustments, and related impacts.

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.

At this time, I would like to ask unanimous consent that the Congressional Research Service's July 23, 2009 report on postal retail facility closures be entered into the record. Hearing no objection, so ordered.

[The information referred to follows:]

Post Office and Retail Postal Facility Closures: Overview and Issues for Congress

Kevin R. Kosar
Analyst in American National Government

July 23, 2009

Congressional Research Service
7-5700
www.crs.gov
R40719

CRS Report for Congress
Prepared for Members and Committees of Congress

Summary

In common parlance, "post office" is used to refer to a wide variety of facilities operated by the United States Postal Service (USPS). In administrative practice, the USPS differentiates among several categories of postal facilities. Regarding one category of its facilities, the USPS announced in May 2009 that it was considering the closure of 3,105 of its 4,851 post office branches and stations. These facilities provide the public with postal services, such as stamp sales, post office boxes, and package shipping. Since the original announcement, the USPS has indicated that the number of possible closures may be more than 3,200.

This report provides (1) information on this recent announcement; (2) historical data on the number of post offices and other retail postal facilities; (3) an explanation of the legal authorities relevant to retail postal facility closures; (4) a review of the retail postal facility closure processes, including data on public appeals of closures, and H.R. 658's proposed alterations to the processes; and (5) a concluding discussion that suggests observations and possible issues for Congress.

The USPS has cited financial duress as a reason for its proposed closure of up to 64% of its 4,851 post office branches and stations. According to the USPS, the post office branches and stations under consideration for closure are located in metropolitan areas. The USPS has not indicated whether any employees would lose their positions. Most postal employees are protected from layoffs by collective bargaining agreements.

As of FY2008, the USPS had 36,065 retail postal facilities, including post offices, post office branches and stations, community post offices, and contract postal units. This is 16.3% fewer than existed in 1970 when the USPS was established as an independent establishment of the executive branch. The closure of 3,105 branches and stations would reduce the current number of retail postal facilities by 8.4%.

By law, the USPS does not rely on appropriations to fund its operations. It must support itself through the sales of postal services. Congress has given the USPS considerable discretion to decide how many post offices to erect and where to place them. The USPS also is obliged to provide the public with adequate access to postal services.

Both federal law and the USPS's rules prescribe a post office closure process. The U.S. Postal Service must notify the affected public and hold a 60-day comment period prior to closing a post office. Should it decide to close a post office, the public has 30 days to appeal the decision to the Postal Regulatory Commission (PRC). Between FY1998 and FY2007, 25 of the approximately 676 post office closures were appealed to the PRC. The USPS uses an expedited version of this process to close post office branches, stations, and community post offices. On January 22, 2009, Representative Albio Sires introduced H.R. 658, which would require the USPS to employ the more lengthy post office closure process on all retail facility closures, and expand the current statutory public notification requirements.

Federal law requires the USPS to arrange its delivery and service network to most efficiently serve the public. However, the proposed closures may raise a number of issues, including public participation in the closure process, the effects on postal workers, and the possible effects of closures on communities. Congress may wish to consider a variety of measures to address these possible issues.

This report will be updated to reflect significant legislative action.

Contents

The Post Office Closure Announcement 1
- The USPS Announces Branch and Station Closures 1
- GAO Urges Retail Facility Reductions 1
- The USPS's Financial Challenges 2
- The USPS's Request for an Advisory Opinion 3

Historical Data on the Number of Retail Postal Facilities 4
- What Is a Post Office? 4
- The Number of USPS Retail Postal Facilities 5

Relevant Legal Authorities 7
- The USPS: A Self-Supporting, Independent Entity 7
- The USPS's Public Service Obligation 7
- Post Office Closures and the Public 8

The USPS's Retail Facilities Closure Processes 9
- The USPS's Post Office Closure Process 9
- The USPS's Expedited Closure Process for Other Retail Postal Facilities 10
- Post Office Closure Appeals 11
- Source: Postal Regulatory Commission 12
- Disposal of a Closed USPS Retail Postal Facility 12
- Recent Legislation 12

Issues and Possible Options for Congress 13

Figures

Figure 1. USPS's Operating Income 3

Figure 2. The Number of USPS Retail Postal Facilities, FY1970-FY2008 5

Figure 3. The Number of USPS Post Office Branches and Stations, FY1970-FY2009 (Proposed) 6

Figure 4. The USPS's Post Office Closure Process 10

Figure 5. PRC Disposition of Post Office Closure Appeals, FY1998-FY2007 12

Tables

Table 1. The Number of USPS Retail Postal Facilities, FY1970 vs. FY2008 6

Contacts

Author Contact Information 16

The Post Office Closure Announcement

The USPS Announces Branch and Station Closures

In a May 15, 2009, letter to the American Postal Workers Union, AFL-CIO (APWU), the U.S. Postal Service (USPS) wrote,

> As you know, the Postal Service has responded to dramatic decreases in mail volume, but more needs to be done.... Like mail volume, window transactions at our retail units have substantially declined. The Postal Service is considering consolidating operations in our larger stations and branches.... These offices have experienced serious volume, transaction, and revenue declines. The Postal Service will be using the current procedures that are in place for studying the activities of an office for possible discontinuance. Many factors including impact on employees, service standards, cost savings, customer access, environmental impact, real estate values, and long-term needs of the service would be taken into account during the reviews. We would expect these local manager reviews to result in a significant increase in the number of lease terminations and/or facility disposals.[1]

The USPS enclosed with the letter an 87-page list of 3,105 post office branches and stations.[2] (As explained further on page 5, post office branches and stations greatly resemble post offices. These USPS-operated facilities provide the public with postal services, such as stamp sales, post office boxes, and package shipping.) Subsequently, the APWU has said that the USPS is considering 3,243 post office branches and stations for possible closure.[3]

The U.S. Postal Service has not indicated whether any employees would lose their positions. Most postal employees are protected from layoffs by collective bargaining agreements. The APWU, whose members would be affected by this action, has not expressed any concerns over the possibility of layoffs as Article 6 of its contract with USPS largely forbids involuntary reductions in force.[4]

The USPS has said that no closures will occur before October 2, 2009.[5]

GAO Urges Retail Facility Reductions

Five days after the USPS contacted the APWU, Phillip Herr of the Government Accountability Office (GAO) testified before the House Committee on Oversight and Government Reform's

---

[1] John W. Dockins, U.S. Postal Service, "letter to William Burrus, President, American Postal Workers Union, AFL-CIO," May 15, 2009, at http://www.apwu.org/news/webart/2009/09-064-consolidation-retail-090609-uspsletter.pdf.

[2] To access this list, see ibid.

[3] American Postal Workers Union, "APWU Web News Article #076-09, July 1, 2009," at http://www.apwu.org/news/webart/2009/09-076-consolidatingstations-090701.htm. The APWU has posted a list of the 3,243 facilities at http://www.apwu.org/news/webart/2009/09-076-consolidatingstations-090701-d-list.xls.

[4] *Collective Bargaining Agreement Between American Postal Workers Union, AFL-CIO and U.S. Postal Service, November 21, 2006-November 20, 2010* (Washington: APWU, 2006), pp. 9-18, at http://www.apwu.org/dept/ind-rel/sc/APWU%20Contract%202006-2010.pdf.

[5] Direct Testimony of Alice M. Vangorder on Behalf of the United States Postal Service, Postal Regulatory Commission Docket N2009-1, p. 11, at http://www.prc.gov/Docs/63/63567/FINAL.VANGORDER.W.ATTACH.pdf.

Subcommittee on Federal Workforce, Postal Service, and the District of Columbia.[6] He reported that the USPS had "made progress in expanding the alternatives to traditional post offices and retail postal branches," which the Postal Accountability and Enhancement Act of 2006 encouraged (PAEA; P.L. 109-435; 120 Stat. 3221). As of February 2008, customers could access stamps and postal services at 71,555 grocery stores, retail outlets, and self-serve kiosks. The USPS earned approximately 25% of its retail revenue through these retail outlets.[7]

However, Herr said that the USPS had not reduced its number of retail postal facilities sufficiently:

> Rightsizing [the] USPS's retail and mail processing networks is needed to eliminate excess capacity, improve efficiency that is critical to maintaining affordable postal rates, and facilitate streamlining [the] USPS's workforce, which generates close to 80 percent of its costs. Excess capacity has grown with unprecedented declines of mail volume, which are projected to continue through fiscal year 2010.... [A]s its mail volumes decline, [the] USPS does not have sufficient revenues to cover the growing costs of providing service to new residences and businesses while also maintaining its large network of retail and processing facilities.[8]

The subcommittee is to further examine the USPS's proposed closure of retail postal facilities in a hearing scheduled for July 30, 2009.

The USPS's Financial Challenges

The USPS is experiencing significant financial challenges.[9] It lost $5.3 billion in FY2007 and $2.8 billion in FY2008 (**Figure 1**). This fiscal year, the USPS's operating costs have exceeded revenues by $2.3 billion thus far.[10] These operating income shortfalls are a result of significantly increased operating costs, which are attributable in part to the Postal Accountability and Enhancement Act of 2006.[11] These losses also are the product of flattening operating revenues, the result of a drop in mail volume and attendant postage purchases.[12]

---

[6] For witness statements, see U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, *Nip and Tuck: The Impact of Current Cost Cutting Efforts on Postal Service Operations and Network*, May 20, 2009, at http://federalworkforce.oversight.house.gov/story.asp?ID=2444.

[7] Statement of Phillip Herr, Director Physical Infrastructure Issues, Government Accountability Office, *U.S. Postal Service: Network Rightsizing Needed to Help Keep USPS Financially Viable*, GAO-09-674-T (Washington: GAO, May 20, 1009), at http://www.gao.gov/new.items/d09674t.pdf, pp. 6-8.

[8] Ibid., pp. 3-4.

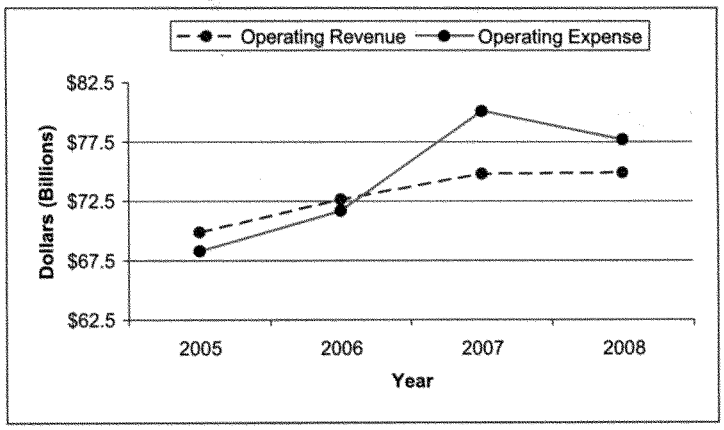
[9] For further details, see Government Accountability Office, *U.S. Postal Service: Escalating Financial Problems Require Major Cost Reductions to Limit Losses*, GAO-09-475T (Washington: GAO, March 25, 2009).

[10] U.S. Postal Service, "Postal Service Ends Second Quarter with $1.9 Billion Loss," press release, May 6, 2009.

[11] PAEA requires the USPS to prefund its future retirees' health benefits at a cost of approximately $5.6 billion per year. U.S. Postal Service, *Annual Report 2008* (Washington: USPS, 2008), p. 20.

[12] Between FY2006 and FY2008, mail volume declined from 213.1 billion mail pieces to 202.7 billion mail pieces. U.S. Postal Service, "Form 10-K," November 26, 2008, p. 13.

Figure 1. USPS's Operating Income



Source: U.S. Postal Service, *Annual Reports 2007 and 2008*, p. 3.

The USPS's statutory debt limit is $15 billion (39 U.S.C. 2005(a)(2)(C)). Between FY2005 and FY2008, the USPS's debt rose from $0 to $7.2 billion. The USPS has said it may run out of cash in September 2009.[13]

The USPS's Request for an Advisory Opinion

The USPS has asked the Postal Regulatory Commission (PRC) for an advisory opinion to determine whether its proposed closure of the post office branches and stations "would constitute "a substantially nationwide change in the nature of postal services, within the meaning of 39 U.S.C. 3661(b)."[14] This portion of federal law reads,

> When the Postal Service determines that there should be a change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis, it shall submit a proposal, within a reasonable time prior to the effective date of such proposal, to the Postal Regulatory Commission requesting an advisory opinion on the change (39 U.S.C. 3661(b)).

The USPS's request does not make clear precisely how many branch and station post offices will be considered for possible closure. It states that the retail facilities under review constitute "approximately two-thirds of the universe of over 4,800 postal stations and branches nationwide," which would be 3,168.[15]

[13] U.S. Postal Service, "Postal Service Ends Second Quarter with $1.9 Billion Loss," press release, May 6, 2009.

[14] Daniel J. Foucheaux, Chief Counsel, Ratemaking, U.S. Postal Service, "Request for an Advisory Opinion on Postal Services: Station and Branch Optimization and Consolidation Initiative, 2009," July 2, 2009, at http://www.prc.gov/Docs/63/63556/FINAL.Request.pdf, p. 1. The USPS has stated that it is not necessarily required by law to seek this advisory opinion. See Ibid., p. 2, footnote 1.

[15] Ibid., p. 6.

The PRC has initiated Docket No. N2009-1 "to provide a public hearing and issue an advisory opinion on the national service implications" of the USPS's proposed closures.[16] According to 39 U.S.C. 3661(c), the PRC's hearing permits participation by "the Postal Service, users of the mail, and an officer of the Commission [PRC] who shall be required to represent the interests of the general public." Those who wish to participate must file a request by July 28, 2009.[17]

Historical Data on the Number of Retail Postal Facilities

What Is a Post Office?

Colloquially, the term "post office" often is employed to refer to any place where stamps are sold and postal services are provided. Post offices, branches, stations, and community post offices all offer to the public a range of postal services. They are where many individuals go to buy stamps and ship packages.

The USPS, however, administratively differentiates the types of retail postal facilities that conduct these same activities:

> main post office - The basic organizational unit of the USPS. Generally, each post office has primary responsibility for collection, delivery, and retail operations in a specific geographic area. [Also called post office.]
>
> post office branch - A unit of a main post office that is outside the corporate limits of the city or town of the main post office. [Also called classified branch.]
>
> post office station - A unit of a main post office that is within the corporate limits of the city or town of the main post office. [Also called classified station].[18]

The USPS also provides postal services to customers through privately operated facilities:

> community post office - A contract postal unit that provides service in small communities where independent post offices have been discontinued. [It] bears its community's name and ZIP Code as part of a recognized address.
>
> contract postal unit - A postal unit that is a subordinate unit within the service area of a main post office. It is usually located in a store or place of business and is operated by a contractor

[16] Postal Regulatory Commission, "PRC Initiates Docket to Review USPS Retail Network Optimization Plan," press release, July 10, 2009. The docket may be found at http://www.prc.gov/prc-pages/library/dockets.aspx?activeview=DocketView&docketType=Single&docketid=N2009-1.

[17] For further details, see Postal Regulatory Commission, "Notice and Order Concerning a Postal Service Request for an Advisory Opinion on a Plan to Optimize the Retail Network," July 10, 2009, at http://www.prc.gov/Docs/63/63656/Order_No_244_Final.pdf.

[18] U.S. Postal Service, *Publication 32: Glossary of Postal Terms* (Washington: USPS, July 5, 2007), at http://www.usps.com/cpim/ftp/pubs/pub32/pub32h_p.html.

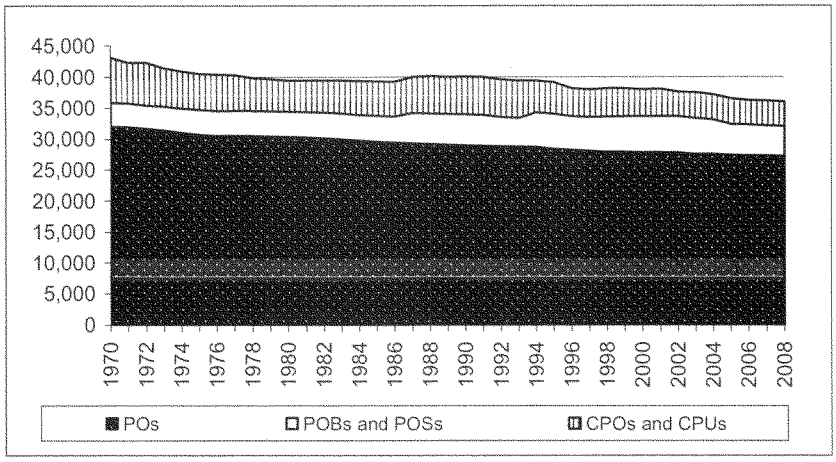
> who accepts mail from the public, sells postage and supplies, and provides selected special services (for example, postal money order or registered mail).[19]

For the purpose of this report, the term "USPS retail postal facilities" will encompass all five of the aforementioned postal facilities—post offices, post office branches, post office stations, community post offices, and contract postal units.

The Number of USPS Retail Postal Facilities

The USPS's annual reports contain tabulations of the number of USPS retail postal facilities in existence at the end of each fiscal year. Data on the number of facilities from the FY1970 through FY2008 annual reports are presented in **Figure 2**. Over time, the USPS has altered the terms used to refer to some of these facilities. Additionally, the USPS's annual reports have disaggregated post office branches from post office stations only since FY2004. Hence, **Figure 2** and **Table 1** present the retail postal facilities data as compiled into three categories: post offices (POs), post office branches and stations (POBs and POSs), and community post offices and contract postal units (CPOs and CPUs).

Figure 2. The Number of USPS Retail Postal Facilities, FY1970-FY2008



Source: U.S. Postal Service, *Annual Reports*, 1970-2008.

Figure 2 and **Table 1** indicate that the total number of USPS retail postal facilities has declined steadily. In FY1970, the USPS had 43,112 retail facilities; in FY2008 it had 36,065—16.3% fewer.[20] The number of POs has dropped 14.9%; and the number of CPUs and CPOs has declined 45.0%. Meanwhile, the number of POBs and POSs has increased 25.4%.

[19] Ibid., at http://www.usps.com/cpim/ftp/pubs/pub32/pub32a_g.html.

[20] These data should not be interpreted to mean that customer access to postal services has declined. Customer access to postal services depends on many variables. For example, these data exclude non-USPS retail outlets that provide postal services, such as grocery stores that sell postage stamps.

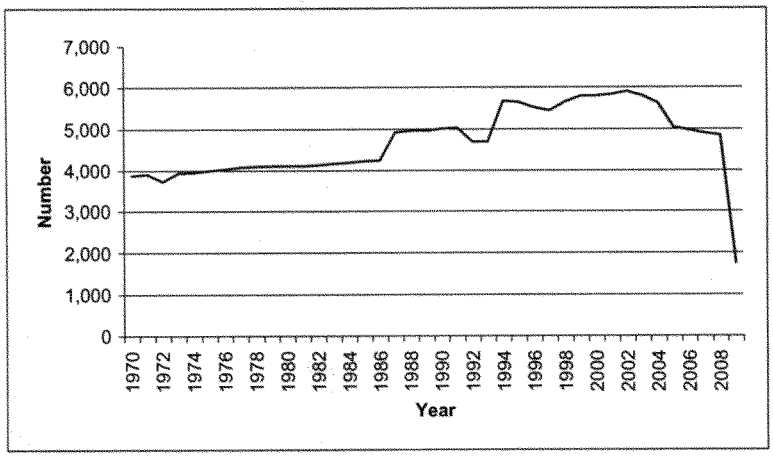
Table 1. The Number of USPS Retail Postal Facilities, FY1970 vs. FY2008

Retail Postal Facility Type	1970	2008	% Change
Post Offices	32,002	27,232	-14.9%
Post Office Branches and Post Office Stations	3,869	4,851	25.4%
Community Post Offices and Contract Postal Units	7,241	3,982	-45.0%
Total	43,112	36,605	-16.3%

Source: U.S. Postal Service, *Annual Reports*, 1970-2008.

Figure 3 depicts the magnitude of the USPS's possible closure of 3,105 branches and stations.[21] Were the USPS to close all 3,105 facilities, it would amount to a 64% reduction in POBs and POSs, from 4,851 to 1,746.

Figure 3. The Number of USPS Post Office Branches and Stations, FY1970-FY2009 (Proposed)



Source: U.S. Postal Service, *Annual Reports*, 1970-2008.

Additionally, such a reduction would lower the number of retail postal facilities 8.4%, from 36,605 to 33,500. The closure of 3,105 post office branches and stations also would be a dramatic increase from the number of closures in recent years. According to the USPS, it closed a total of 96 post office branches and stations between FY2005 and FY2008, an average of 24 per year.[22]

[21] As noted above, the USPS may consider more than 3,168 or 3,243 facilities for possible closure, so **Figure 3** may understate the magnitude. In its filing with the PRC, the USPS stated that it was "unable to estimate the number of targeted stations and branches that may eventually experience a discontinuance of operations as a result of this initiative." Foucheaux, "Request for an Advisory Opinion on Postal Services," p. 6.

[22] Direct Testimony of Alice M. Vangorder on Behalf of the United States Postal Service, Postal Regulatory Commission Docket N2009-1, p. 6, at http://www.prc.gov/Docs/63/63567/FINAL.VANGORDER.W.ATTACH.pdf.

Relevant Legal Authorities

The USPS: A Self-Supporting, Independent Entity

The USPS was established in 1971 by the Postal Reorganization Act (PRA; P.L. 91-375; 84 Stat. 725). Hitherto, postal services had been provided by the U.S. Post Office Department (USPOD), a government agency that received annual appropriations from Congress. Members were involved in many aspects of the USPOD's operations, including the selection of managers (e.g., postmasters) and the pricing of postal services. Under this configuration, the Post Office had operational difficulties and developed a reputation for incompetence and corruption.[23]

PRA abolished USPOD and replaced it with the U.S. Postal Service, an "independent establishment of the executive branch" (39 U.S.C. 201). The USPS is a marketized government agency that has far greater freedom to run its operations than the former Post Office Department.[24] It does not rely on appropriations for its operating revenue.[25]

Congress assigned the USPS the "general duty" to "maintain an efficient system of collection, sorting, and delivery of the mail nationwide" (39 U.S.C. 403(b)). In order to carry out this obligation, the law gives the USPS the "specific powers" to

- "provide for the collection, handling, transportation, delivery, forwarding, returning, and holding of mail, and for the disposition of undeliverable mail" (39 U.S.C. 404(a)(1)); and
- "determine the need for post offices, postal and training facilities and equipment, and ... provide such offices, facilities, and equipment as it determines are needed" (39 U.S.C. 404(a)(13)).[26]

The USPS's Public Service Obligation

In enacting the PRA, Congress sought to establish the USPS as a financially self-sufficient governmental entity, but one that also would serve the public satisfactorily. The USPS's public service obligations are located in the PRA's chapters on "postal policy" (39 U.S.C. 101) and the USPS's "general authority" (39 U.S.C. 403).

The nation's postal policies contain language relevant to the issue of retail postal facilities:

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[23] The view of USPOD as an agency riddled with patronage and scandal began long ago. For example, Joseph L. Bristow, who served as an assistant postmaster general from 1897 to 1905, provides accounts in his book, *Fraud and Politics at the Turn of the Century* (New York: Exposition Press, 1952).

[24] The term "marketization" refers to the redesign of a government agency in order to make it provide goods and services in the manner of a private firm. On marketization as an alternative to privatization, see CRS Report RL33777, *Privatization and the Federal Government: An Introduction*, by Kevin R. Kosar, pp. 23-29.

[25] Congress does provide an annual appropriation to the USPS to compensate it for the revenue it forgoes in providing, at congressional direction, free mailing privileges to the blind and overseas voters. For further information on the USPS and the appropriations process, see CRS Report RL34523, *Financial Services and General Government (FSGG): FY2009 Appropriations*, coordinated by Garrett Hatch, pp. 58-61.

[26] Similarly, Congress requires the USPS in "selecting modes of transportation, the Postal Service shall give highest consideration to the prompt and economical delivery of all mail" (39 U.S.C. 101(f)).

- "The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people. The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities" (39 U.S.C. 101(a)); and
- "The Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining. No small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities" (39 U.S.C. 101(b)).

Congress assigned the USPS the general duties to

- "receive, transmit, and deliver throughout the United States, its territories and possessions ... written and printed matter, parcels, and like materials and provide such other services incidental thereto as it finds appropriate to its functions and in the public interest... (39 U.S.C. 403(a))"; and
- "establish and maintain postal facilities of such character and in such locations, that postal patrons throughout the Nation will, consistent with reasonable economies of postal operations, have ready access to essential postal services" (39 U.S.C. 403(b)).

Congress has underscored the USPS's duty to serve less densely populated areas by including a provision in annual appropriation laws that reads, "none of the funds provided in this Act shall be used to consolidate or close small rural and other small post offices in [this] fiscal year."[27]

Post Office Closures and the Public

Federal postal law sets forth the basic rules by which the USPS may proceed to close a post office. The USPS must "provide adequate notice of its intention to close or consolidate such post office at least 60 days prior to the proposed date of such closing or consolidation to persons served by such post office to ensure that such persons will have an opportunity to present their views" (39 U.S.C. 404(d)(1)).

In deciding whether to close a post office, the USPS must consider

> (i) the effect of such closing or consolidation on the community served by such post office;
>
> (ii) the effect of such closing or consolidation on employees of the Postal Service employed at such office;
>
> (iii) whether such closing or consolidation is consistent with the policy of the Government ... that the Postal Service shall provide a maximum degree of effective and regular postal

[27] For example, see P.L. 110-161; 121 Stat. 2013.

> services to rural areas, communities, and small towns where post offices are not self-sustaining;
>
> (iv) the economic savings to the Postal Service resulting from such closing or consolidation; and
>
> (v) such other factors as the Postal Service determines are necessary (39 U.S.C. 404(d)(2)(A)).

If the USPS decides to move forward with the closure, it must notify the persons served by the post office of its decision and the findings used to arrive at this decision. The USPS must wait at least 60 days before proceeding with the closure, and any person served by the post office slated for closure may appeal the closure to the PRC, which has 120 days to consider the appeal.

The PRC may fault the USPS's decision to close a post office only if the PRC finds the decision to be "(A) arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with the law; (B) without observance of procedure required by law; or (C) unsupported by substantial evidence on the record" (39 U.S.C. 404(d)(5)). The PRC may require the USPS to reconsider its decision, but the ultimate authority to close a post office rests with the USPS.

The USPS's Retail Facilities Closure Processes

The USPS's Post Office Closure Process

The general public probably does not see much difference between the various types of retail postal facilities. Indeed, in her filing with the PRC, the USPS's Alice Vangorder wrote the following of the USPS's differentiation between post offices and other retail postal facilities:

> These important facility designations and administrative relationships often do not matter to members of the general public. In the common vernacular, virtually every postal facility offering retail services is referred to as a 'post office.' And the Postal Service does not always clearly communicate these differences.[28]

The USPS's administrative differentiation of these retail postal facilities has at least one major consequence to the USPS's customers—the closure process differs. The USPS uses one closure process for post offices, and another for other retail postal facilities.

The *Postal Operations Manual* (*POM*) "sets forth the policies, regulations, and procedures of the Postal Service governing retail, philatelic, collection, mail processing, transportation, delivery, and vehicle operations."[29] It contains many of the rules that the USPS has adopted to implement federal postal laws.[30]

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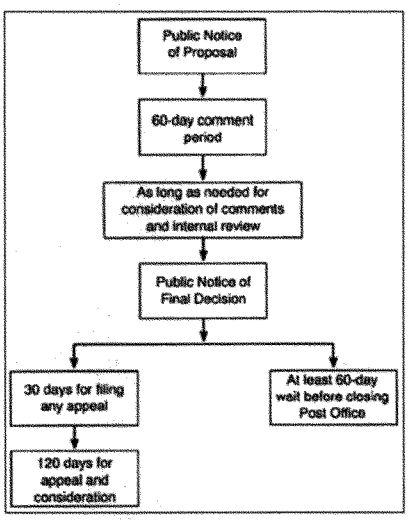
[28] "Direct Testimony of Alice M. Vangorder on Behalf of the United States Postal Service," Postal Regulatory Commission, Docket No. N2009-1, p. 4, footnote 2, at http://www.prc.gov/Docs/63/63567/FINAL.VANGORDER.W.ATTACH.pdf.

[29] U.S. Postal Service, *Postal Operations Manual* (Washington: December 18, 2008), p. i.

[30] On the rulemaking process generally, see CRS Report RL32240, *The Federal Rulemaking Process: An Overview*, by Curtis W. Copeland.

The *POM*'s Section 123.6 provides the process for closing a post office. It requires the USPS to provide public notice, and to receive public comments for 60 days. The USPS then must review the comments and issue a decision, after which anyone who is regularly served by the post office in question may appeal the proposed closure to the Postal Regulatory Commission.[31] The PRC has 120 days to determine the merits of the appeal. [32]

Figure 4. The USPS's Post Office Closure Process



Source: Reproduced from U.S. Postal Service, *Postal Operations Manual*, Section 123.12, p. 12.

The USPS's Expedited Closure Process for Other Retail Postal Facilities

Section 123.611 of the *POM* on "post office discontinuance" states that the above process only applies to "any proposal to replace a Post Office with a community Post Office, station, or branch by consolidation with another Post Office and any proposal to discontinue a Post Office without providing a replacement facility."[33]

In contrast, Section 123.8 of the *POM* treats "station, branch, and community post office discontinuance."[34] It does not require public notification or provide an appeals process. Instead, a

[31] This process is for non-emergency closures of post offices. Section 123.7 of the *POM* provides the USPS's approach to the emergency suspension of service at a post office.

[32] For an example of the types of documents used in the post office closure process, readers may download 444 pages of paperwork related to the proposed discontinuance of the Washburn, Iowa, branch at http://www.prc.gov/Docs/63/63562/Washburn_all_REDACTED.pdf.

[33] U.S. Postal Service, *Postal Operations Manual*, p. 11.

[34] It is unclear whether this policy applies to the closure of contract postal units.

USPS district manager must produce written justification to the USPS's vice president for delivery and retail, who may approve or disapprove the decision. According to the *POM*, the process concludes with the filing of PS Form 1362, *Post Office Status Change Report*, a document that the USPS forwards to its accounting service center in St. Louis, Missouri.

It is unclear whether section 123.8 of the *POM* should be interpreted to mean that the USPS does not believe that 39 U.S.C. 404(d) on post office closures applies to post office branch and station closures.

Nevertheless, the USPS appears to have developed an expedited closure process for post office branches, stations, and community post offices. In one of its submissions to the PRC, the USPS has said that it "has in place a longstanding process through which District offices routinely initiate studies and submit proposals to [USPS's] Headquarters for the discontinuance of operations in a particular retail station or branch."[35] This document carries a "process flowchart" that indicates the USPS provides the public with a 20-day comment period, and that no appeals are permitted.[36]

Similarly, the APWU has made publicly available a June 2009 USPS document stating that an affected community is given 20 days to comment on a proposed post office branch or post office station closure, but that no appeal is permitted.[37] This document suggests that the post office closure process typically takes 100 days (if no appeal if filed), and that the discontinuance of other USPS retail facilities takes only 60 days.

Post Office Closure Appeals

Appeals of post office closures are rare. According to the PRC, it received 25 appeals between FY1998 and FY2007. The number of post offices dropped from 27,952 to 27,276 during this period, so the USPS closed at least 676 post offices.[38] This means that at most 3.7% of post office closures were appealed to the PRC.

When it receives an appeal, the PRC may dispose of it in three ways; it may

1. affirm the USPS's proposed closure as in accordance with the law;
2. dismiss the case for lack of jurisdiction; or
3. remand the case to the USPS for reconsideration.

The appellant also may withdraw the case, thereby relieving the PRC of making a determination.

Figure 5 indicates that the PRC remanded the proposed closure for reconsideration by the USPS in three instances.

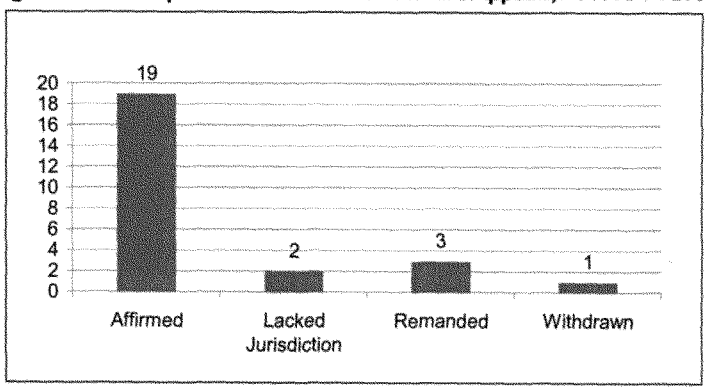
[35] Direct Testimony of Kimberly I. Matalik on behalf of the United States Postal Service, Postal regulatory Commission Docket No. N2009-1, at http://www.prc.gov/Docs/63/63568/FINAL.MATALIK.TESTIMONY.pdf, p. 3.

[36] Ibid., p. 12.

[37] U.S. Postal Service, "Station/Branch Optimization and Consolidation," (Washington: USPS: June 2009), p. 3, at http://www.apwu.org/news/webart/2009/09-076-consolidatingstations-090701-c-uspsbriefing.pdf.

[38] As noted earlier, data on the number of post offices closed and opened each year are unavailable. If the USPS opened any new post offices between FY1998 and FY2007, then the number of closures would be higher than 676.

Figure 5. PRC Disposition of Post Office Closure Appeals, FY1998-FY2007



Source: Postal Regulatory Commission.

Disposal of a Closed USPS Retail Postal Facility

By law, the USPS may

> enter into and perform contracts, execute instruments, and determine the character of, and necessity for, its expenditures.... acquire, in any lawful manner, such personal or real property, or any interest therein, as it deems necessary or convenient in the transaction of its business; to hold, maintain, sell, lease, or otherwise dispose of such property or any interest therein.... [and] to construct, operate, lease, and maintain buildings, facilities, equipment, and other improvements on any property owned or controlled by it (39 U.S.C. 401(3)-(6)).

The USPS has sited retail facilities in spaces that it leased from other parties as well as on its own properties. After the USPS closes a facility in a rented space, it clears out its property and terminates its lease. After the USPS shutters a retail postal facility on property that it owns, "Postal Service policy is to dispose of excess real property under the terms and conditions that provide the greatest value to the Postal Service. Disposition may be by sale, exchange, outlease, sublease, or by other means determined to be in the best interest of the Postal Service."[39]

Recent Legislation

On January 22, 2009, Representative Albio Sires introduced H.R. 658, which would alter the statutory post office closure process. As of July 24, 2009, 74 Members of Congress have cosponsored H.R. 658. The bill was referred to the House Committee on Oversight and Government Reform's Subcommittee on Federal Workforce, Post Office, and the District of Columbia.

[39] U.S. Postal Service, *Facilities Guide to Real Property Acquisition and Related Services*, Handbook Re-1 (Washington: USPS, October 2008), p. 15, at http://www.usps.com/cpim/ftp/hand/re1.pdf.

H.R. 658 would reduce the USPS's discretion to close retail postal facilities. In effect, the bill would require the USPS to apply the POM's section 123.6 post office discontinuance process to post office branches, stations, and other USPS-operated retail postal facilities. H.R. 658 also would expand the public notification provisions by requiring the USPS to

- notify the affected public of the possible closure of a facility via newspapers and mail, and invite public comment for 90 days;
- conduct a study prior to the closure of a facility, and in the event of a decision to proceed with a closure, publish the results of this study in the facility under consideration, and notify affected members of the public of this posting via mail; and
- post a copy of its decision in the post office under consideration, and in the event of a decision to discontinue a facility, notify the public via mail of its rights to appeal the decision to the PRC.

H.R. 658 also would strike the requirement in 39 U.S.C. 404(d)(2)(A)(4) that the USPS consider in its decision to close a post office "the economic savings to the Postal Service resulting from such closing or consolidation."

H.R. 658 is a revision of a bill from the 110th Congress—H.R. 6217, which Representative Sires introduced on June 9, 2008. One hundred Members cosponsored that measure.

Issues and Possible Options for Congress

As noted earlier, Congress established the USPS as

> a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution ... and supported by the people. The Postal Service shall.... provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities (39 U.S.C. 101(a)).

Intending the USPS to operate as a financially self-supporting commercial entity, Congress authorized it to arrange its delivery and service network to most efficiently serve the public. Yet, Congress also assigned the USPS the duty to offer "prompt, reliable, and efficient postal services to all communities."

The USPS's recent financial challenges have illuminated the inherent tension in this model for delivering public services. In an attempt to balance its flattening operating revenues and increasing operating costs, the USPS has undertaken a variety of cost-cutting measures. For example, the USPS has reduced its total employment by nearly 41,000 persons in the past five years, from 805,796 (FY2004) to 765,088 (FY2008).[40] The USPS now is considering more

[40] U.S. Postal Service, *Annual Report 2008* (Washington: USPS, 2008), p. 64. Additionally, the USPS recently reported that efforts to "match work hours to reduced volume have resulted in a work-hour decline of 58 million hours–the equivalent of a reduction of 33,000 full-time employees–in the first half of FY2009, despite an increase in the number of delivery points by 1.1 million from the same period last year." U.S. Postal Service, "Postal Service Ends Second Quarter with $1.9 Billion Loss," at http://www.usps.com/communications/newsroom/2009/pr09_047.htm.

significant reductions to its overhead, including the closure of at least 3,105 post office branches and stations.

The USPS's proposed closure of 3,105 or more post office branches and stations prompts a number of observations and suggests some possible issues that Congress may wish to examine.

- To directly address possible public discontent over retail postal facility closures, Congress has at least two direct policy options.[41] It could either amend law to forbid the closures, or it could enact permanent appropriations to cover the cost of keeping open all or some portion of the USPS's retail postal facilities. Both of these measures would be substantial departures from current postal law and policy, which designed the USPS as an independent and financially self-sustaining entity.
- Congress also may devise other policies to avert retail postal facility closures. If the root cause for the USPS's movement to shutter branches and stations is its financial troubles, Congress might take actions to ameliorate the USPS's deficits, thereby relieving the Postal Service of the need to shutter retail postal facilities. GAO has suggested a handful of cost-cutting suggestions, such as reducing the frequency of mail delivery from six to five days, raising the USPS's statutory debt cap, and lowering the USPS's annual payment to its future retiree health benefits fund.[42] Additionally, the PRC has found that the USPS carries some types of mail at postage rates that are below their costs.[43] Congress may wish to examine the reasons for these disparities and consider policies to ameliorate them.
- At the time of the publication of this report, the USPS has not publicly released the addresses of the branches and stations under consideration for closure.[44] Congress may wish to ask the USPS to release this information as Members of Congress, the public, and employees of these facilities all may have an interest in knowing which facilities may close.
- The USPS has cited financial duress as an impetus for the possible closure of 3,105 post office branches and stations. However, the USPS has said that it would not close any of these facilities before October 2, 2009—after the start of FY2010. It would appear, then, that these closures will not ameliorate the USPS's FY2009 cash shortage. The USPS also has not said how much money it may save from this undertaking. Congress may wish to ask the USPS what its projected savings are and when these savings might be realized.
- The USPS has not said whether any employees at closed retail facilities will lose their jobs. Most, however, probably will be offered positions at new facilities. It

[41] See Government Accountability Office, *U.S. Postal Service: Network Rightsizing Needed to Help Keep USPS Financially Viable*, pp. 11-12.

[42] GAO, *U.S. Postal Service: Networking Rightsizing Needed to Help Keep USPS Financially Viable*, pp. 11-12. On 6 day mail delivery, see CRS Report R40626, *The U.S. Postal Service and Six-Day Delivery: Issues for Congress*, by Wendy R. Ginsberg.

[43] Postal Regulatory Commission, *Annual Compliance Determination* (Washington: PRC, March 30, 2009), pp. 5-6, at http://www.prc.gov/Docs/62/62784/ACD Report_2008_FINAL.pdf.

[44] The USPS materials released by the APWU list the facilities by metropolitan area, and the testimony filed with the PRC list the cities with facilities under consideration (but not the number within said cities).

is unclear how many employees will want to accept these transfers. For example, an employee may be reassigned to a facility that is located a great distance from his former post office branch or station. Also, it is unclear whether these transfers might create collective bargaining issues.[45] Congress may wish to solicit the opinions of the USPS and the leaders of affected employees on these matters.

- Whenever the USPS moves to close a retail postal facility, there is the potential for public concern over a decline in the adequacy of postal services. Additionally, some members of the public may view their post offices as an integral part of their communities, and they may turn to their Members of Congress to ask for the protection of their postal facilities from closure. Both Congress and the USPS may wish to devise steps to prepare for public inquiries. Furthermore, the USPS might wish to provide affected communities with clear standards for what constitutes adequate retail service under federal law, and indicate how the USPS will meet those standards after closing retail facilities. In addition, Congress may wish to require the USPS to provide it with periodic reports to show that the USPS is providing adequate service to areas affected by postal facility closures.
- The USPS suggests that much of the public probably does not understand the difference between post offices and other retail postal facilities, and the differing processes for their closure and options for public participation. Thus, should the USPS's large scale postal facility closure proposal go forward, there may be public confusion and duress. Congress and the USPS may wish to consider whether the USPS should be permitted to continue to use two different retail postal facility closure processes.
- The small number of appeals of post office closures between FY1998 and FY2007 may indicate that the public is unaware of the right to appeal, or that some significant barrier is impeding public appeals.[46] Congress may wish to solicit the USPS's and PRC's opinions on why so few post office closures have been appealed.
- Should the post office branch and station closure initiative go forward, affected members of the public may grow concerned about the fate of the properties occupied by the USPS. As noted earlier, the current USPS real estate disposition policy is to "dispose of excess real property under the terms and conditions that provide the greatest value to the Postal Service."[47] Whether the USPS's interest here coincides or collides with the interests of communities affected by post office closures is unclear. Persons in affected communities may worry about blight, and local governments may express the desire to acquire discontinued post offices for the purpose of redeveloping them. Congress may wish to consider whether a policy should be developed to assist communities affected by closures.
- Inherent to the current postal law is the assumption that some portions of the United States provide profitable markets for postal services, while others do not,

[45] The APWU already has expressed concerns regarding collective bargaining agreements and retail facility closures. American Postal Workers Union, "Changes and Challenges," July 14, 2009, at http://www.apwu.org/news/burrus/2009/update08-2009-090714.htm.

[46] Alternatively, should the USPS's proposed closures elicit a large public response, both the USPS and the PRC may have to allot additional resources toward handling a spike in closure appeals.

[47] U.S. Postal Service, *U.S. Postal Service Facilities Guide to Real Property Acquisitions and Related Services*, p. 15.

and that the former should subsidize the latter. Thus, current law forbids the USPS from closing "small post offices solely for operating at a deficit," and it requires the USPS to "provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining (39 U.S.C. 101(b)). The law does not forbid closures of large facilities located in suburban and metropolitan places. The USPS's present facility closure proposal may steer clear of the law's prohibitions. However, the USPS's selection of facilities in metropolitan areas for closures may raise equity concerns in affected areas, especially if these urban areas already are subsidizing more rural places. The USPS and Congress may wish to devise some means to address possible complaints about equity.

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Ms. NORTON. Ladies and gentlemen, today's hearing comes on the heels of the Postal Service, as you may have read, being placed on the Government Accountability Office's 2009 high-risk list, which is largely due to the Service's abysmal financial condition, an issue this subcommittee has followed closely.

But even before the Postal Service returned to GAO's high-risk list, alarms had already sounded regarding the Postal Service's revenue generating problems. For the first time in decades, the organization reported a net loss of over $2 billion for fiscal year 2008. Losses for this year may exceed $7 billion, despite the Postal Service targeting of $6.1 billion in cuts.

While we may be unable to pinpoint whether the recent economic downturn, the steady diversion of mail to other mediums, or a combination of both is to blame for the current troubles, what we do know is that mail volume has dropped precipitously, from roughly 213 billion pieces in fiscal year 2007 to a total of 203 billion pieces in 2008, and projections for this year indicate that the volume will continue to fall by possibly 28 billion pieces, to a total low of 175 billion pieces.

The writing is on the wall and the Postal Service obviously has to make some tough decisions if it expects to weather this current storm. These decisions may involve more across-the-board cuts and work hour reductions, as well as accelerated consolidations of facilities and operations, which brings us to the subject of today's proceeding, "Making Sense of it All: An Examination of USPS's Recently Proposed Station and Branch Optimization Initiative."

Although at first glance the initiative seems to simply be the latest step in the Postal Service's multi-pronged effort to reduce its costs by removing excess network capacity, we all know that the devil is in the details, and that is what we are here to find out this morning. It is critically important that, even in the preliminary phases of studying the consolidation of nearly 3,200 station and branch locations, we all have some level of understanding about the potential impact such changes could have on costs.

Perhaps more importantly, we need to understand what effect these proposed changes may have on postal customers, committed employees, and communities in general. To that end, today's oversight hearing has been convened. The subcommittee is interested in having the Postal Service fully articulate its recently proposed station and branch consolidation initiative. Today's hearing also is intended to take an in-depth look at the Postal Service's efforts to achieve greater delivery efficiency through the adjustment of letter carrier routes.

This subcommittee looks forward to learning more about route adjustments, the impacts associated with these changes, and the savings achieved from these actions. It is my hope that the testimony and feedback we receive from today's witnesses will allow us to gain that knowledge.

Again, I thank each of you for being with us this morning and I look forward to your participation.

Ms. NORTON. I am now happy to yield to the ranking member, Mr. Chaffetz, for 5 minutes to make his opening statement.

Mr. CHAFFETZ. Thank you, Madam Chair. I appreciate it.

On June 24th, the subcommittee amended and marked up H.R. 22, allowing the Postal Service to adjust required payments to future retiree health benefits. The full committee adopted our approach by marking up the bill on July 10th. To this date, it is still very disappointing that the Democrats have chosen not to bring up this bill to the floor with such broad bipartisan support.

The U.S. Postal Service correctly advised us at the time that the legislation, while substantial, would not completely resolve all of their financial issues. That has certainly turned out to be the case. Just this week, the GAO announced that the U.S. Postal Service would be designated as "high risk." This is sobering news.

In 2006, the Postal Accountability Enhancement Act was passed in part to help get the Postal Service off the high-risk list, which it did. Thus, GAO's renewed designation should serve as another powerful reason for Congress to act, and act quickly, in passing H.R. 22, and any other legislation which will help get the Postal Service out of the financial swamp it now finds itself in.

Consolidating branches is important and complex. Consolidation can best take place on the merits for the system to work. A primary reason the Postal Service is in trouble right now is because it lacks some of the flexibility to adapt in a changing environment. The U.S. Postal Service has experienced the largest drop-off in mail volume in its 234-year history, greater than the declines during the Great Depression. A number of major mailers are in financial straits. Bulk mail volume and advertising mail is down. This is due in part to the poor state of the economy. Also, the postal monopoly does not extend to email and Internet advertising, which continues to grow.

The forecast for the return of these volumes are not optimistic. The Postal Service must right-size itself to the market it serves. When looking to make cuts and finding long-term solutions, one must evaluate the entire operation of the Postal Service. I look forward to discussing the rearranging of delivery routes and other potential structural changes. But even that is not a complete solution.

One of the changes being pondered is an exigency rate increase of 2.4 percent to be established "only when justified by exceptional or extraordinary circumstances." But raising the price of an item will only reduce sales, in my opinion, not increase them, especially when demand is clearly decreasing. Thus, the rate increases appear counter to any sound economic logic and will only serve to further complicate the U.S. Postal Service's woeful financial circumstances. I will not support, nor do I believe we need, a rate increase on postage stamps.

There are those who suggest that the Postal Service is a dinosaur living in a modern world. It is certainly a paper-based, labor-intensive service at a time when most Americans are more and more comfortable with email and Internet communication. However, the Postal Service remains essential, vital, in want of a constitutional imperative. In my own personal opinion, I think the Postal Service as a whole has done a very substantial amount of work to decrease the costs associated with it.

Not only do we need to look at cutting the costs; we also need to look at how to make the Postal Service more relevant in the modern world. It is vital to our communities; it is vital to business

interest, and I think we all support and want to see the Postal Service thrive. I know that is why the gentleman, representative is here today.

One thing that I would hope that we would explore, Madam Chair, with the discussion today is the difference between the rural components and the urban components, because there are factors that are distinctly different in the rural areas, for instance, in my district, than some of the urban issues, and I want to make sure that we explore those in the discussions today.

With that, I will yield back.

[The prepared statement of Hon. Jason Chaffetz follows:]

EDOLPHUS TOWNS, NEW YORK
CHAIRMAN

DARRELL E. ISSA, CALIFORNIA
RANKING MINORITY MEMBER

ONE HUNDRED ELEVENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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Opening Statement for Rep. Jason Chaffetz
Ranking Member, Subcommittee on Federal Workforce, Postal Service, and the District of Columbia
Hearing: *Making Sense of it All: An Examination of USPS' Station and Branch Optimization Initiative and Delivery Route Adjustments*

I thank the Chairman for holding this hearing today.

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Just this week GAO announced that USPS would be designated as "High Risk". This is sobering news. In 2006, the Postal Accountability and Enhancement Act was passed in part to help get USPS off the High Risk List, which it did.

Thus, GAO's renewed designation should serve as another powerful reason for Congress to act, and act quickly, in passing H.R. 22 and any other legislation which will help get USPS out of the fiscal swamp in now finds it self in.

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A number of major mailers are in financial trouble. Bulk mail volume and advertising mail is down. This is due in part to the poor state of the economy. Also, the "postal monopoly" does not extend to e-mail and internet advertising, which continues to grow.

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The Postal Service must right-size itself to the market it serves.

When looking to make cuts and find long-term solutions, one must evaluate the entire operation of the Postal Service.

I look forward to discussing the rearranging of delivery routes and other potential structural changes. But even that is not the complete solution.

One of the changes being pondered is an exigency rate increase of 2.4% to be established "only when justified by exceptional or extraordinary circumstances." But raising the price of an item will only reduce sales, not increase them, especially when demand is clearly decreasing. Thus, exigency rate increases appear counter to any sound economic logic and will only serve to further complicate the USPS's woeful financial circumstances.

There are those who suggest that the Postal Service is a dinosaur living in a modern world. It is certainly a paper-based, labor intensive service at a time when most Americans are more and more comfortable with e-mail and internet communication. However, the Postal Service remains essential.

I look forward to hearing from all the witnesses.

Ms. NORTON. I thank the ranking member.

Are there other members of the committee who wish to make an opening statement? Mr. Connolly.

Mr. CONNOLLY. I thank the chairlady and I thank Chairman Lynch for holding this hearing.

I am afraid the Postal Service leadership has leapt to the conclusion that the only way to keep the Postal Service solvent, in addition to passing H.R. 22, is to cut back on hours, and even days, of operation. I believe that any short-term steps must be taken in the context of consideration of the long-term business model for the Postal Service. Short-term cuts and service will have long-term impacts on utilization of the Postal Service.

We must learn how the Postal Service intends to remain solvent during future cycles of economic growth and contraction. Cuts in hours and service for post offices represent a major loss of service for northern Virginians, for example. Without operating in the evening, most residents are not able to use their post office due to the length of commutes in our region. Bristol, Prince William County, had the longest commute in the United States. Unfortunately, changes in hours have been executed in the past without coordination or even notification of elected officials. This examination is particularly important in light of GAO's recommendation that USPS consider restructuring to address its current and long-term financial viability.

Efficiencies that can be derived without loss of service or jobs should be considered first, before employees or consumers are asked to make those sacrifices. The Postal Service should identify all the savings that can be realized through area mail processing consolidations and network distribution center closures, and make every possible effort to avoid layoffs associated with those closures.

I appreciate the opportunity, Madam Chairwoman, to explore these issues and look forward to hearing about the protections the Postal Service must employ to protect their consumers and their employees. In the final analysis, however, USPS must move to a new business model, one that takes cognizance of vigorous competition and the impacts of technology on the traditional rain, snow, sleet, or hail model that has provided exemplary service to the Republic for over two centuries.

I thank you and yield back.

Ms. NORTON. Thank you, Mr. Connolly.

Mr. Kucinich.

Mr. KUCINICH. I thank the gentlelady.

I am a strong supporter of the Post Office and I am deeply concerned about the USPS's financial condition, and I appreciate the magnitude of the task that is ahead for the Postal Service to ensure that it continues to be a postal service.

On July 16th, the Postal Service announced 16 Post Office branches in the Greater Cleveland area would be reviewed for possible consolidation. After reading the testimony and the GAO report for this hearing, and after hearing from my constituents, I have many concerns. I am concerned that final decisions regarding each branch under consideration for consolidation will be made without full community participation and input.

I am concerned that people in my community and communities across the country will face a significant and unnecessary reduction in access to crucial services. I have concerns about the private sector taking over services that these facilities provide, because privatization of a public need like the Postal Service would be a disaster. And I think this committee ought to be very wary of privatization being an undercurrent in the Post Office. I can tell you, as chairman of the Domestic Policy Subcommittee, the general topic of privatization is something that we are looking into.

I just want to say that this review process has to be done at the local level and must consider the unique demands on each individual facility to ensure that the concerns of the community, customers, postal workers, and the effects on the local economy are fully considered.

Madam Chair, beyond the serious local concerns that I have about Cleveland, look what is happening in our country right now. Over the last few decades, we have seen a de-industrialization, insurance redlining, mortgage redlining, the subprime loan fiascos, the foreclosures, bankruptcies, high unemployment, business closings, even churches and schools closing. And look at the communities that are affected the most, exactly the communities that have the highest need for postal service. Start closing some of these branches, you are talking about creating ghost towns.

I have concern about the finance of the Post Office, but it is very interesting. When you talk about maintaining universal postal service, which is really a right in a democratic society, good people say, well, how are you going to pay for it? Where was that question when the TARP came out, how are you going to pay for it? Seven hundred billion dollars thrown away to Wall Street. Trillions of dollars given to big banks, banks parking money right now at the Fed; Fed paying banks not to loan money to businesses in our community. How are you going to pay for it? Three trillion dollars, at least. How are you going to pay for it? No one really asks that question.

When it is the Postal Service, something that everyone uses, how are you going to pay for it? It is the same kind of crummy debate that is going on right now over universal health care, where the insurance companies are hovering over Washington like a flock of vultures, just waiting to see what they can pick up from the taxpayers. How are you going to pay for it?

If we are committed on universality of service, then we are going to take a stand on behalf of the Post Office. If we are committed to university of service, then we are going to take a stand on behalf of postal retirees, who the U.S. Postal Service right now is looking at cutting into their retirement benefits. If we are going to take a stand on behalf of universal service, then we have to do it and challenge those who somehow believe that if the Government has to pick up an increased cost here, then somehow that is anathema.

Well, we have to ask what is the Government for, is it just for war? Is it just for being a gas station for wealthy special interest groups? Or are we a Government of the people, as Lincoln prayed? We are about to find out.

Mr. LYNCH [presiding]. The Chair now recognizes the gentleman from Maryland, Mr. Cummings.

Mr. CUMMINGS. Mr. Chairman, I want to hear the witnesses, and I would associate myself with my colleagues' statements. With that, I yield back.

Mr. LYNCH. The Chair recognizes the gentleman from California, Mr. Bilbray.

Mr. BILBRAY. Yes, Mr. Chairman.

In the spirit of transparency, I want to admit and announce that, yes, the James Bilbray on the Postal Commission is my first cousin, the former House Member, as the delegate knows. But I have to sort of reflect, again with my colleague from Cleveland, that there are a whole lot of things this town does and a whole lot of money that the Federal Government spends that has no nexus to the constitutional responsibilities.

Postal Service is one that is specifically enumerated in the Constitution; it is specifically a responsibility solely of the Federal Government. It is not an incursion onto States' or local rights; it is not an expansion beyond the founding fathers' intention for us to maintain and enhance the Postal Service. So I think this is one place that Republicans and Democrats should finally find a middle ground we can cooperate and agree on.

I yield back.

Mr. LYNCH. I thank the gentleman.

In full disclosure as well, I have mentioned this on numerous occasions, but I think at last count I have 17 members in my family, extended family—cousins, in-laws, uncles, aunts, sisters, mom—who are either actively working for the Post Office or are retirees.

So, that much being said, it gives me great pleasure to welcome Representative Albio Sires from New Jersey, who was the sponsor of a piece of legislation that is coming before the committee and I want to recognize him for 5 minutes.

Actually, it is the custom of this committee to swear witnesses who are to provide testimony before it, so could I please ask you to stand and raise your right hand?

[Witness sworn.]

Mr. LYNCH. Let the record reflect that the gentleman has answered in the affirmative. And the gentleman is recognized.

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

Mr. SIRES. Thank you, Mr. Chairman, ranking member, members of the subcommittee. Thank you for allowing me to testify before you today regarding my experience with a post office closing in my district and the need to properly inform and involve the public in the closing process.

I am very concerned about the Postal Service's recent announcement to consider closing more than 3,000 retail post offices. I understand that the Postal Service's financial problems are daunting. I know they are having problems operating. But no amount of financial stress should relieve them from providing a transparent closing process with significant community involvement.

Post offices are an important part of communities. I witnessed this firsthand. My experience with the closing of a Postal Service in the Lafayette Station in Jersey City, with almost no notification

to the public or public officials, the reason given was that it was security reasons, that it was not safe.

Well, the community became upset, very upset. They had a demonstration in front of the main post office in Jersey City. They responded by putting a mobile station where the post office was. A few weeks later, again, the mobile station was removed; no reason given other than security. And there was very little notification to the community. The closing of the post office was hard on seniors around this particular post office.

I was able to involve the other two Members of Congress, plus the two Senators, in this post office closing. Very little information came forward from the Postal Service regarding the reason why this post office was closed. And when you think of two Senators and three Congressmen not getting information, to me, that is just not the way it is supposed to be. I don't think even the President could have saved this post office.

To me, it showed a lack of compassion and a lack of sensitivity to communities, and we finally, after many, many months, find out why, the reason of the closing of this particular post office, and it was financial. This is the reason why I introduced my bill.

Basically, the bill limits the effect of financial reason on closing of the post office. It doesn't eliminate it, but it is not the main reason for closing a post office. It eliminates the dual system and makes one unified closing process. Right now, if you have a main post office, there is a process established by Congress for the main post office, but the satellite post office they can close at any time, without any reason.

I am not an expert on post office, but I know at least in the urban area—I don't know outside the urban areas and suburban areas, but usually there are one main post office with many satellite post offices. That this bill does, it increases the notification to the public and it extends the public comment from 60 to 90 days.

It is my hope that to make the closing transparent and inform the people that are going to be affected by the closing of a post office. I have more than 80 Members that have signed on to this post office bill and I do hope that in the hearings that you have in the future, that you recognize that finances are important, but I think community, what it does to an area, access to people who do not have the ability to drive, seniors, that you take all those into consideration, because, like it was stated here before, in the Constitution, it does state that this is one of the services that we have to provide.

So I thank you for allowing me to testify here today and I do hope that, in the end, we can make this Postal Service a little more responsive. Thank you very much.

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

Testimony of Congressman Albio Sires
House Subcommittee on Federal Workforce, Postal Service, and the District of Columbia
Making Sense of It All: An Examination of USPS' Station and Branch Optimization Initiative and Delivery Route Adjustments
July 30, 2009

Mr. Chairman, Ranking Member, and Members of the Subcommittee,

Thank you for allowing me to testify before you today regarding my experiences with a post office closing in my district and the need to properly inform and involve the public in the closing process. To address post office closings, I introduced H.R. 658, the Access to Postal Services Act, which provides a unified and transparent closing process for post offices. This legislation currently has 79 cosponsors.

I am very concerned about USPS' recent announcement to consider the closing of more than 3,000 retail post offices. The Postal Service's financial challenges are significant. The cost of retirees' health benefits combined with declining mail volumes and post office purchases has been devastating to their ability to operate. I understand that these are daunting financial challenges. However, USPS by law is a "basic and fundamental service provided to the people by the Government of the United States." And no amount of financial stress should relieve them of providing a transparent closing process with considerable community involvement.

Post offices – whether it's the main office, branch, station or otherwise – are an important part of our communities. In my district, it took the abrupt closure of a post office station, for me to remember how important these facilities are to many residents and how little USPS considered community involvement.

On December 21, 2007, USPS closed the Lafayette Postal Station in Jersey City with little or no warning to the community and no permanent solution to replace services. Initially, the office was temporarily closed for a security repair, and services were shifted to a post office a mile away. After public outcry a temporary mobile unit was put into operation, it was eventually closed to do security concerns as well.
At this point, USPS initiated the formal closing of the General Lafayette Station, citing safety and security in a high crime area. The public and public officials had little notification throughout this period, and because of a lack of information were obviously displeased at the permanent closing of the facility.

The discontinuation or relocation of postal services creates a hardship for residents and creates outrage when they have no say in the process. The Postal Service stated that nearby facilities about a mile away coupled with online services would be an adequate replacement. However, these suggestions were insufficient to meet the needs of local residents. I represent an urban area and as USPS considers these further closings – mainly targeted at urban areas with other nearby post offices – I am even more concerned about access for constituents.

The term "nearby" really depends on your perspective. Though distances of a mile or more may not seem like much, for senior citizens in the Lafeyette Station area – one mile is a daunting distance, especially when they are already financially strapped and are now forced to take public transportation to access what was once readily available to them. And I'm not sure how I can relay USPS' message to use online services, when I'm talking to constituents who are struggling to pay their electric bills – let alone be able to afford access to the internet.

I reached out to USPS during this process – as did Senator Menendez and Senator Lautenberg, members of the New Jersey delegation, and local officials.
USPS gave us incomplete and conflicting information about the closing. And after a belabored and frustrating process, USPS' actual reason for the closing was made clear – it was not "security" as they had initially told us, but rather it was simply financial. Closing this urban facility was "cost effective," regardless of its impact on the community.

Now, let me be clear – I'm not blind to USPS' financial concerns. There are certainly times when a post office closing may be reasonable. However, it is beyond frustrating for concerns from the community, public officials, and congressional members to be completely disregarded. More than a year later, myself, two other New Jersey delegation members, and the New Jersey Senators are still waiting for our requested briefing from the Postmaster General to discuss USPS' handling of this closure. If I can't even have my concerns heard, what chance do communities have?

At this point, even if they could get someone to listen – there are no remedies available for them. Currently we have a dual-closure process for post offices. For the main post offices, we have a statutorily mandated closing process that requires public comment and allows for an appeal of the decision. For all other post offices – such as the one in my district and the post offices being considered for closures – there is only an ambiguous USPS regulation that has no right to appeal and requires no public involvement.

This dual system is confusing and frustrating and leaves communities without a proper voice. The vast majority of problems with post offices closings could be avoided with a uniform, transparent system and increased community involvement, which is why I introduced the H.R. 658, the Access to Postal Services Act.

H.R. 658 eliminates the dual-closing system. Instead this legislation applies the statutory closing and appeals process that already exists for main post offices, and expands it to include closings of post office branches, stations, and other USPS-operated retail postal facilities. Essentially for USPS to close a post office, they must follow what Congress has already determined is a reasonable closing process.

Additionally, the bill expands the public notification process by requiring USPS to notify both public officials and customers at each step of the closing process through postings, mailers, and newspapers. It also increases the public comment period to 90 days.

Finally, in the event a post office is closed, it requires USPS to notify the public of its right to appeal the decision.

H.R. 658 also addresses the factors used to close a post office. Current code requires USPS to consider a number of factors during post office closings – such as the impact on employees, cost savings, customer access, etc. In my experience, the cost savings dictate USPS' decisions. Given their current financial situation, I'm sure this is the case. For this reason, H.R. 658 removes economic savings to USPS as a consideration for closing a post office. Obviously, I do know that economic concerns play a part in determining the effectiveness of a station, but I believe it should be a limited factor rather than the primary factor.

While you move forward with the rest of the hearing and discuss USPS' plan to close more post offices, I ask that you focus on communities and how they are affected in this process. Cost savings are important, but so is providing this fundamental service to our constituents and ensuring that their voices are heard in the process. In my opinion, USPS has failed and continues to fail in this regard. Post offices are personal to our communities and the communities themselves understand better than anyone where services are most critical.

Thank you for allowing me to testify today.

Mr. LYNCH. I thank the gentleman.

Do any Members have any questions for Mr. Sires?

Mr. CHAFFETZ. Thank you, I appreciate it.

We were talking about this before. How can we distinguish the difference between the urban components and the rural components? I mean, this is a real concern. They both have issues, but they are both different issues. How do you see us addressing that?

Mr. SIRES. Congressman, I have to admit I am an urban person. [Laughter.]

I live in a community that is 1 square mile. I have 50,000 people in my community. I love to sit down with someone that is not an urban person and talk about these issues.

Mr. CHAFFETZ. So just addressing the urban component, what are the issues? You talk about, in general, in the bill, about there are community issues, you have a large elderly component. Kind of list out off the top of your mind what those issues are that you have to deal with in the urban component.

Mr. SIRES. Well, access. Seniors do not have the ability to walk a mile away in Jersey City to deal with the post office. Seniors do not use computers. Seniors do not have computers. Seniors that I deal with can barely pay their electric bill. So basically it is access to the postal services, which I am sure that is also in your areas. This is the main concern of many of the people in the area, plus the fact that it was just closed from 1 day to the next. There was no plan other than say, well, there is a post office a mile away; deal with that post office.

Mr. CHAFFETZ. How are we ultimately going to make these decisions? My guess is, if you were to ask all 435 Members of Congress, nobody wants to have a post office closed in their district. Yet, clearly, we have to do some sort of consolidation. Certainly, there are some criteria by which we need to consolidate some of the facilities. The number may or may not be right. What are those criteria? How are we ultimately going to come to that decision? Should it be a BRAC-like process? How do you see this happening?

Mr. SIRES. I don't think that is such a bad idea, something like that, or in terms of what else can we do for the Post Office, whether we have to—I know you don't believe in giving them more money, but if this is a service that must be provided, I am not opposed to that.

Mr. CHAFFETZ. Well, I actually think there is probably more justification for using Federal funds to help fund the Postal Service, given its constitutional designation, than probably most every other thing that we do in this Government. So I am not necessarily, out of hand, just opposed to supplementing what is happening there.

Mr. SIRES. I agree with you on that issue.

Mr. CHAFFETZ. Specifically about that review process, that open comment process, how do you see that happening? Because the difference between 30 days or 60 days or 60 days to 90 days, if the process itself doesn't allow for the dialog to happen and true consideration of maybe some of the other factors that go into how important that post office is in that community. Help me understand how that process should work, in your viewpoint.

Mr. SIRES. Well, in my viewpoint, there should be notification through the newspapers that this is taking place. The local elected

officials should be informed that this is happening. I think that there should be some sort of announcement by the Post Office long before that. The reason I extended it to 90 days is to get more participation in this process.

To me, it is just plain wrong to go in there and close the post office without giving any reason why. I mean, there has to be a better reason than just finances to close a post office, and that is what I tried to do with this bill.

Mr. CHAFFETZ. Thank you, Mr. Chairman. I yield back. Thanks.

Mr. LYNCH. Thank you. Just claiming a few minutes of time.

I do, as well, represent an urban district, mostly urban, although I have suburban. I have 19 towns that are more suburban in nature, but I represent a significant part of the city of Boston and the city of Brockton, which are clearly urban. I just want to say I agree with the gentleman's observation that these post offices and stations and branches are intensely local institutions. They are not only commercial centers; they are also social centers.

And I think we remember that when we ask the general public to grade public employees, they consistently grade their postal workers, their mail handlers, their letter carriers, postal supervisors and postmasters the highest of any public employee. So those relationships between the communities and the Post Office at that local level is intensely personal.

And when we see the disruption that is created by a closing, it has very real and dramatic impact on the people that we represent, so it creates a real dilemma for us, and we need to figure out a way to be able to guide the community when something like this has to happen.

Someone once said there is nothing more disruptive to the human condition than the power of a new idea. People just hate change and, unfortunately, we have seen 9 billion pieces of mail taken out of the system last year; 23 billion projected out of the system this year because of the economy and people moving to electronic media like email and electronic payment systems. We clearly have to reconcile our revenues with the size of our system, so that is going to be a very delicate process.

I do agree with the gentleman that whole process needs to be more inclusive with the community and with the representatives who are responsible for those areas, and that is our task, that is part of the responsibility of this hearing, and we really appreciate your bill.

I do have to say that I don't know where the Post Office turns if they can't right-size their system based on cost. It leaves them with very little opportunity. They have very limited power right now, very limited flexibility. And this is a challenge not for the Post Office alone, it is for all of us; it is for the employees, for the unions.

Our task is to preserve high quality, affordable, universal service through the Postal Service, and we need to bring the Post Office into the next century, the next iteration to compete with all of these new technologies. So we have a task here of preserving that. Otherwise, either we are going to have a big bailout, and I don't know if the Nation and the taxpayer are going to entertain another bailout, this time for the Post Office.

I am just very leery about the changes that collapse, we are on the verge of somewhat of a collapse here in terms of the funding mechanism, and what that might bring. It might bring a lot of changes that none of us, the customer, the unions, the users, the mailers, none of us want. I just don't want to see us, by default, allow the economic forces to define what the Postal Service will look like in the future.

The Chair recognizes the gentleman from northern Virginia, Mr. Connolly.

Mr. CONNOLLY. I thank the Chair.

Mr. Sires, your bill, as I understand it, does not preclude the closing of branch post offices, it addresses the need for notification to the community and elected officials, is that correct?

Mr. SIRES. Yes, and financial reason is not the only reason for closing a post office.

Mr. CONNOLLY. So it requires some proffer of the rationale for why the consolidation?

Mr. SIRES. Yes.

Mr. CONNOLLY. But in and of itself, your bill does not preclude the contemplation of such consolidation?

Mr. SIRES. No.

Mr. CONNOLLY. Does your bill also address the issue of changing the hours of operation?

Mr. SIRES. No.

Mr. CONNOLLY. Let me just suggest to you that certainly in my urban area, that is as much an issue as how many branches there may or may not be. Particularly with long commutes, evening hours are very important for people to access postal services and to do their business, and I would just suggest to you that we may want to think about adding that to the notification procedures to local officials and the community. It may or may not be necessary, but to do it without any notification is terribly disruptive and has impacts that start to rival those of closure itself.

Mr. SIRES. Thank you, Congressman Connolly.

Mr. Chairman, I certainly agree with all the comments that you said, and I would just end by saying that this is not my first encounter with the Post Office. I couldn't even get response from the Postal Service when they removed a mailbox in Elizabeth, NJ.

Mr. LYNCH. You need to call me, then. When you have problems like that, you need to call me. That is unacceptable.

Mr. SIRES. I am looking for responsiveness; I am looking for sensitivity. I am looking for some sort of compassion from the Postal Service.

Mr. LYNCH. Let me just say that I think what the gentleman is looking for here is notice so that he is able to represent the people who elected him, which is a very basic right and obligation, a right in terms of the people to be represented and an obligation on the gentleman to do his job. But, to do that, he needs notice and he needs to know what the rationale, the reasoning is for any proposed closing. He needs a fair opportunity to address that.

He needs to know what the factors are that have been placed behind this decision and he needs to have and the people that he represents need to have a part in this process so that essential services are not eliminated and that the employees here, the letter car-

riers, the mail handlers, the clerks, the postal supervisors and postmasters are treated fairly during this process and they are not just blind-sided by this.

I actually think if that type of conduct were to be the norm that you experienced, it would stop; it would basically stop any changes, because we can't have it done that way, and that simply cannot be tolerated.

But I want to thank the gentleman for offering his thoughtful legislation.

The Chair recognizes the gentleman from California, Mr. Bilbray.

Mr. BILBRAY. Thank you, Mr. Chairman. I know you want to move on, but I just have some questions for the author.

When you talk about notification in the paper, you are not talking about legal advertisement, are you?

Mr. SIRES. Yes.

Mr. BILBRAY. Congressman, how many of your constituents—I know there are some that do that, but wouldn't a news release, a media communication that ends up somewhere on the front page or on one of the pages that people read be a so much better way of informing the public than putting it back and basically—and, let's face it, it is a financial situation for papers to put it in the legal notifications, but I will tell you something, being a mayor, being a county worker, I just found that legal notifications were the worst way to notify the public of anything.

Mr. SIRES. Well, I was a mayor for 12 years; I know exactly what you are talking about. But I still say that is just not the only reason, through the news, to inform the public. There are some type of ads that are not as expensive, but I think it gets the message, at least from what I experience.

Mr. BILBRAY. Well, wouldn't you find out that in most communities where the media was directly notified that, look, we are considering closing the local post office, that would not carry enough of a story to be able to allow the public to know that the media would respond to that kind of notice?

Mr. SIRES. Sure, the media would respond, but that is a 1-day story, maybe a 2-day story. But how do you follow it up?

Mr. BILBRAY. OK. I still say that I just think that it is fine if you want to do a legal notice, but the fact is the public doesn't read legal notices. That is a way we finance papers. And I know papers are the next crisis that we are all talking about.

Mr. SIRES. I don't necessarily mean the legal notice that you are talking about, the small section in the back, but there are other ways of noticing it.

Mr. BILBRAY. OK. And your issue of it shall not be solely for finance, what other conditions would be required to close a station? I think of Mr. Connolly's—in fact, I know he already has his memorial post office picked out there at Mt. Vernon, which is a trailer. I assume Mt. Vernon makes money for the Postal Service because it is right there at Mt. Vernon. But what are the other conditions that would be required under your bill before they can close it?

Mr. SIRES. Well, in my particular district—not other districts—I have four senior citizens' buildings around this post office, large senior citizen buildings. They need access to the post office. Basically, they come down, they walk a block or two, and they are at

the post office. That could be a consideration, access to the most needy. Also, you have people doing business, small businesses, mom and pop shops that need some of this post office nearby. Time is money.

Mr. BILBRAY. But you haven't enumerated examples of what, in your bill, would also be required besides the financial; you just basically say financial cannot be the sole.

Mr. SIRES. There is a bill already in Congress that takes into consideration a number of issues before closing a post office. I just don't want, in my bill, the financial aspect to be the only aspect. The other ones that are in the bill are fine also.

Mr. BILBRAY. OK. Thank you.

I yield back, Mr. Chairman.

Mr. LYNCH. I thank the gentleman.

We thank you for your thoughtful testimony and coming forward and helping the committee with its work, and we appreciate it. There may be questions for you from other Members who aren't here right now, and we will just ask you to respond to those in writing.

Mr. SIRES. I want to thank you, Chairman. I want to thank all the Members. Thank you very much for your interest.

Mr. LYNCH. Thank you.

The Chair will now welcome the second panel. Good morning. It is the customary practice of this committee to swear all witnesses who are to provide testimony. Can I please ask you to rise and raise your right hands?

[Witnesses sworn.]

Mr. LYNCH. Let the record reflect that all of the witnesses have answered in the affirmative.

As you may notice, there are two small boxes in front of you. The practice here is to allow each witness 5 minutes. It will show a green light while your testimony is being given. When that light turns yellow, it means you have 1 minute to wrap up, and when it shows red, it requires you to stop speaking.

What I would like to do is just offer a brief introduction of our second panel of witnesses.

Mr. Jordan Small is acting vice president, Network Operations for the U.S. Postal Service; Mr. John Waller is director of the Office of Accountability and Compliance at the Postal Regulatory Commission; Mr. Phillip Herr is Director of Physical Infrastructure Issues at the Government Accountability Office; Mr. Jerry Cerasale is senior vice president of the Government Affairs for the Direct Marketing Association; Mr. Arthur Sackler is the executive director of the National Postal Policy Council; and Mr. Michael Murphy is president of the Japs-Olson Co., a printing and logistics company in St. Louis Park, MN.

Thank you all for your willingness to come forward and help the committee with its work. I now recognize Mr. Small for 5 minute for an opening statement.

STATEMENTS OF JORDAN SMALL, ACTING VICE PRESIDENT, OFFICE OF ACCOUNTABILITY AND COMPLIANCE, POSTAL REGULATORY COMMISSION; JOHN WALLER, DIRECTOR, OFFICE OF ACCOUNTABILITY AND COMPLIANCE, POSTAL REGULATORY COMMISSION; PHILLIP HERR, DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; ART SACKLER, EXECUTIVE DIRECTOR, NATIONAL POSTAL POLICY COUNCIL; JERRY CERASALE, SENIOR VICE PRESIDENT, DIRECT MARKETING ASSOCIATION; AND MICHAEL MURPHY, PRESIDENT, JAPSOLSON CO.

STATEMENT OF JORDAN SMALL

Mr. SMALL. Good morning, Mr. Chairman and members of the subcommittee. I am here to talk to you about the steps the U.S. Postal Service has taken to make mail delivery as efficient as possible, our future operational plans to continue to improve delivery efficiency, and the station and branch optimization initiative.

As you are well aware, the financial situation of the Postal Service is grave. It would be far worse were it not for the aggressive actions we have implemented. For example, since 2002, we have reduced cost by more than $1 billion annually. These efforts are particularly impressive when you consider that our delivery network continues to grow at a rate of about 1.2 new delivery points each year. In effect, we are delivering less mail to more addresses, which means we receive less revenue per address served.

Cutting costs in deliveries is particularly challenging because a substantial portion of delivery costs are fixed. Our carriers must deliver to each address whether there is one piece of mail or several. Within these constraints, we have embarked upon several initiatives that have improved delivery efficiency. The first initiative is the historic interim alternate route adjustment process that we have agreed to with the National Association of Letter Carriers, NALC, in 2008.

This agreement enabled us to jointly conduct evaluations on some 93,000 routes and rapidly eliminate approximately 2,500 routes. Realizing that additional process improvements could be made, both parties jointly agreed to a new modified agreement in April 2009. The cost savings are estimated to eliminate approximately 25 million city delivery work hours, or some $1 billion over fiscal years 2009 and 2010.

One consolidation activity that is underway is the review of station and branch locations in larger cities where we have a number of offices in close proximity. We began the review with some 3,200 locations that handled the most retail transactions and the most deliveries. We anticipate that out of these 3,200 locations, less than 1,000 will be considered as viable candidates to study further.

Changes in mail processing technology have reduced the amount of space needed for carrier operations at many stations and branches. As a consequence, opportunities exist to consolidate carrier operations into fewer locations without affecting service. Many stations and branches were established at a time when first class mail volume growth was robust. There were few means of alternate access to postal services and virtually all retail revenue came from

window transactions. Today, about 29 percent of retail revenue is generated through alternate access channels, such as our Web site, USPS.com, and automated postal centers.

As local management undertakes the station and branch review, they will consider factors such as customer access, service standards, cost savings, impact on employees, environmental impact, real estate values, and long-term postal needs. We are taking all of these actions to use our resources wisely and position the Postal Service to survive this financial crisis, while continuing top-quality service to the American public.

Along this line, I ask Congress to support the Postal Service's efforts to operate in a business-like manner as we make necessary decisions. As you know, the Postal Service has alerted stakeholders that mail volume levels can no longer sustain 6-day-a-week delivery. In prior testimony, the Postmaster General asked Congress to consider allowing a change in delivery frequency. At the same time, the Postmaster General tasked postal management with undertaking an internal review of 5-day delivery so we have sufficient information and data to share with stakeholders.

We are in the process of finalizing our study and have targeted the next months to share the results with our stakeholders and to begin a series of community outreach meetings. We plan to share this study with employees, customers, mailers, and Members of Congress. Moreover, we will be asking the Postal Regulatory Commission for an advisory opinion.

In closing, I would like to thank this subcommittee and the Oversight and Government Reform Committee for their action on H.R. 22. I hope in the near future the House will be able to quickly move retiree health benefit legislation. Finally, I would like to reiterate our commitment to continuing to make mail operations as efficient as possible while maintaining our excellent levels of service to the Nation.

Thank you and I would be pleased to respond to your questions.

[The prepared statement of Mr. Small follows:]

UNITED STATES
POSTAL SERVICE

STATEMENT OF
JORDAN M. SMALL
BEFORE THE
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE
AND THE DISTRICT OF COLUMBIA
OF THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES

JULY 30, 2009

Good morning, Mr. Chairman and members of the Subcommittee. Thank you for holding this hearing. I am here to talk to you today about the steps the United States Postal Service has taken to make mail delivery as efficient as possible, our future operational plans to continue to improve delivery efficiency and the station and branch optimization initiative. In addition, I would like to take this opportunity to update you on the progress of our internal review concerning five-day delivery. I would also like to thank this Subcommittee and the Oversight and Government Reform Committee for their recent actions on retiree health benefit legislation in the form of H.R. 22. We look forward to working with you as retiree health benefit legislation moves through the process.

The Postal Service has focused on increasing efficiency, reducing costs and generating new revenue. Cost reductions have affected all aspects of postal life from freezing executive salaries to reducing workhours and overtime, renegotiating contracts with major suppliers, and halting new construction projects unless safety and workplace issues required otherwise. From a revenue standpoint, we have embarked on new initiatives such as the Summer Sale and the Collaborative Logistics test, which is a way for the Postal Service to earn revenue from excess capacity on ground transportation. The idea for the Summer Sale is to give mailers an incentive to send more mail. The Postal Service is providing eligible companies a 30 percent reduction in postage for qualifying advertising mail volume. We estimate that the Summer Sale could generate an additional $50 to $100 million in incremental revenue for the Postal Service.

As this Subcommittee is well aware, the financial situation of the Postal Service is grave. It would be far worse were it not for the aggressive cost reductions we have implemented. Delivery operations represent a major portion of postal costs and any efficiency that we can obtain from our delivery operations significantly contributes to the bottom line. I am proud to say that, since 2002, we have achieved cost reductions averaging more than $1 billion annually. In fiscal year 2008, we doubled our efforts and saved more than $2 billion by reducing 50 million workhours, the equivalent of 28,000 employees. Despite the large cuts in workhours, our service levels reached an all time high — including a remarkable 97 percent on-time delivery rate in 2008 for local First-Class Mail. This year, the Postmaster General challenged the organization to achieve cost reductions of $5.9 billion, which includes a reduction of at least 100 million workhours from last year's usage, and we are on track to attain this target.

Since the beginning of fiscal year 2000, we have reduced the number of career employees by more than 150,000. At the end of postal quarter two, the number of career employees was slightly more than 641,000. We continue to offer voluntary early retirement to eligible employees. These offers will help us match employee complement to workload by taking advantage of attrition, helping us to realize more cost savings.

This is particularly impressive when you consider that the Postal Service delivery network continues to grow at a rate of about 1.2 million new delivery addresses annually. So, while our mail volume continues to plummet, we have to go to more households, more businesses and more P.O. boxes each year.

Against this background, I would first like to address one of the reasons that I have been asked to testify today, which is delivery efficiency. As the Postmaster General has previously testified, in fiscal year 2000 our letter carriers delivered an average of 5.9 pieces of mail per day to every address they served. Today, that figure has fallen to an average of 4.7 pieces. In essence, we are delivering less mail to more addresses, which means we receive less revenue per address served. Cutting costs in delivery is particularly challenging because a substantial portion of delivery costs are fixed costs. On every delivery day postal letter carriers must deliver all available mail to each designated address, whether the delivery is one piece of mail or several pieces of mail. Within these constraints, we have embarked upon several initiatives that have improved upon delivery efficiency.

The first such initiative I would like to discuss is the Interim Alternative Route Adjustment process that we agreed to with the National Association of Letter Carriers (NALC) in October 2008. This is an example of postal and union leaders coming together to a common understanding regarding the gravity of our financial situation due to the rapid and steep decline in mail volumes, and working together to develop a way to protect both the interests of the Postal Service, and of letter carriers. I would like to take this moment to recognize the NALC for stepping up to the plate to work diligently with us and I thank them for all of the hard work that went into the countless hours of negotiations regarding route evaluation and adjustment issues.

We are proud of our historic agreement with the NALC which enabled us to improve efficiency and adjust service operations by agreeing to a new, more streamlined process to evaluate and adjust routes rather than using the regular route inspection process that under normal circumstances can be more time-consuming and labor intensive. Under this new process, we jointly conducted evaluations on some 93,000 routes and rapidly eliminated approximately 2,500 routes.

As we continued our work, both parties realized that there were additional ways in which we could further improve even the new, more streamlined route adjustment process. And so, in April 2009, we agreed to a new modified agreement, which laid out a plan to evaluate, adjust, and revisit all city delivery routes for the remainder of the calendar year. At every level of the process — National, Area and District — we have identified joint NALC and USPS teams with multiple levels of responsibility. The regular letter carrier on the route is consulted on the existing route's composition, and together union and management teams review the data to jointly determine any modification to the route's composition.

The cost savings from these efforts are estimated to eliminate approximately 25 million city delivery workhours or some $1 billion over fiscal years 2009 and 2010. With ongoing support from the NALC, we will be able to improve efficiency and adjust service operations based on changing workload and economic conditions to achieve more operational savings. We anticipate that the modified route adjustment agreement will allow us to adjust 2/3 more routes than would have been possible under the formal mail count and inspection process.

Regarding the rural carriers, changes in the evaluated hours of rural routes are generally determined through mail counts. In the two most recent national mail counts, rural route evaluations generally declined due to mail volume losses. The average route decreased approximately two hours per week in evaluation, resulting in further costs savings for the Postal Service.

I also would like to take a moment to thank the approximately 68,000 career and another 56,000 non-career rural letter carriers who serve as "Post Offices on Wheels." Last year, the rural carriers took another important step in helping the Postal Service by formally adopting the "Rural Reach" program. Through the program, these carriers have generated an additional $47 million in revenue for the Postal Service, simply by recognizing and acting upon new business opportunities.

Another initiative that I would like to highlight is a key tool that we have been using to adjust city routes — our Carrier Optimal Routing (COR) computerized program. We first introduced COR in 2004 and since that time more and more of our postal Districts are recognizing the tremendous cost savings realized by applying COR to local graphic zone databases. By using digital mapping, a Geographic Information System (GIS), and algorithms, COR is able to ascertain the most efficient and safe way to structure city carrier delivery zones. Today, COR has been used to adjust approximately 16,000 postal routes and its usage is expected to increase with the forthcoming route adjustments agreed to with the NALC.

The Postal Service has made additional investment commitments in order to more-fully utilize COR. We currently have about 3,250 COR databases graphically prepared for city carrier delivery zones so that they can be utilized in the route adjustment process, achieving more efficient routing and delivery. This represents approximately 80,000 routes which is more than one half of all city delivery routes in our nationwide system. By using this integrated information technology to more efficiently group routes together, the Postal Service has been able to reduce total miles driven, which yields the dual benefits of fuel savings and a positive impact on the environment. Still another benefit of COR is improved carrier safety due to decreased mileage, and the elimination of unsafe left-hand turns and U-turns.

After much study and planning, we have begun to deploy our Flat Sequencing System (FSS) equipment, a nearly $1.5 billion investment to improve efficiencies and control costs by automating the sorting of flat mail. Flat mail is mail in the shape of a magazine or Express Mail envelope. About 15 years ago, the Postal Service introduced the concept of delivery point sequencing for letter mail, which improved the productivity of our letter carriers because now they receive the vast majority of their letter mail in the order they deliver their routes. We expect that upon completion the FSS equipment will have the capacity to sort flat mail in carrier walk sequence at speeds of 16,500 pieces per hour, so we anticipate yet another significant change to delivery operations. This technology will mean that carriers will no longer have to case flat mail; large envelopes, magazines and catalogs will arrive in walk sequence order in the same way that letter mail arrives to carriers today.

Beginning in May of last year, we installed preproduction FSS equipment at the Northern Virginia Mail Processing and Distribution Center where we began a series of system tests to certify throughput and sorting accuracy. The Postal Service and its supplier are continuing to work to improve performance so that the machines will meet all of the contract requirements. However, even now three FSS machines are operating at our Dulles facility and are sequencing flats for 18 delivery units, which includes more than 530 carrier routes in Northern Virginia. Route adjustments in FSS offices will eliminate full-time routes; casing equipment will be downsized to capture delivery space; and delivery vehicles will be freed up for redeployment. The bottom line is that, once fully operational, FSS will eliminate costs by reducing carrier in-office time. FSS technology will also improve service consistency.

In June 2009, another FSS site went live in Columbus, Ohio, and we are in the midst of introducing FSS equipment to Kansas City, Missouri, and Phoenix, Arizona. As we prepared for this major operational change for the Postal Service, we named FSS Program Managers and coordinators for each Phase I FSS District and Area, and have deployed field operational training classes and Webinars.

Due to the decline in flat mail volume in this recessionary period, we have revised our FSS deployment plan. Yet — as elsewhere in our system — automation has been the single-most important factor in our service and productivity improvements. As with the introduction of other automated systems in the past, we will be working closely with customers over the next several months to seamlessly make the transition from manually casing flats to automated sequencing for most postal customers. We have begun to work with our mailers on the new address requirements necessary for FSS, as well as on a range of other issues affecting everything from mail preparation requirements to critical entry times.

And, we continue to work with our unions regarding changes in the workplace as a result of FSS equipment. With less mail to sort manually, route adjustments will be made as carriers will need less time in the office and will have more time to deliver mail.

In addition to the referenced delivery initiatives, the Postal Service is continuing its efforts to streamline its processing and retail network across the nation. Most of our mail processing operations are performed in approximately 400 large mail processing plants. However, through our review processes, we know that we can eliminate redundancies and make better use of facility space, staffing, equipment, and transportation. This year, we have approximately 30 active Area Mail Processing studies in various stages and phases of the process. Another consolidation activity that is underway is a review of station and branch locations in larger cities throughout the nation. We are focusing on areas where we have a number of offices in close proximity to determine where consolidations are possible. Each facility will be reviewed individually, on a case-by-case basis.

Just to be clear, let me explain the role of stations and branches in our retail network. A Post Office is managed by a Postmaster and is the principal source for providing access to postal services in a local geographic service area. There are approximately 27,200 Post Offices in operation today. Some Post Offices have subordinate stations and branches and these facilities are managed by a Station Manager, who reports to the Postmaster of that service area. Like Post Offices, these facilities have retail window units where customers can purchase stamps, mail packages, and otherwise access postal products and services. They may contain P.O. boxes. And many have carrier operations.

Changes in letter and flat mail processing technology over time have reduced the amount of space needed for carrier operations in the "back-of-the-house" at many stations and branches. As a consequence, there are opportunities for the Postal Service to consolidate carrier operations in stations and branches into fewer locations without affecting delivery service. In some locations, space vacated by carrier operations at a particular station or branch creates opportunities to improve the space made available for "front-of-the-house" retail operations.

With respect to the "front-of-the-house," in large measure, many stations and branches were established over a period of time when First-Class Mail volume growth was very robust, there were few means of alternative access to postal services, and virtually all retail postal revenue was generated through window transactions. More recently, the Postal Service has responded to demand for increased customer convenience by developing economical and convenient alternate channels through which customers can conduct many basic postal transactions and obtain ready access to various postal products. These alternate access channels include our website at *usps.com,* Automated Postal Centers, privately-owned Contract Postal Units, and the ability of customers to order postal products by phone or mail and have packages picked up at their doorstep.

Today, about 29 percent of retail revenue is generated through alternate postal product and service access channels. In fact, each year more and more postal transactions are now accomplished online with customers rarely having to leave their home or business to access our products and services. Use of our website, *usps.com* has grown to about 30 million customer visits each month.

We consider this a success. Consistent with the Congressional mandate in the Postal Accountability and Enhancement Act of 2006, we will continue to expand alternate retail access to postal services.

Changes in customer mailing habits and the increased presence of technology have made it incumbent upon us to review the number and location of stations and branches and to determine if there is, indeed, excess capacity in the network. Re-evaluating the need of these stations and determining if they are truly adding value is the type of business-like action required for the Postal Service to be able to compete in today's marketplace and to manage our resources in a responsible way.

Local management will be using existing processes and procedures that are already in place to study activities of approximately 3,200 stations and branches. As local management undertakes this review process, we have asked them to consider factors such as customer access, service standards, cost savings, impact on employees, environmental impact, real estate values and long-term Postal Service needs. In terms of timing, we do not anticipate this review process to generate any changes this fiscal year, which ends on September 30, 2009.

In our review of stations and branches, we began the review with some 3,200 locations that handle the most retail transactions and the most deliveries. We anticipate that out of these 3,200 stations and branches, under 1,000 offices could be considered as viable candidates to study further.

No decisions will be made regarding which, if any, facilities will be consolidated until these reviews are finalized, and we have incorporated a community notification process into the review. Because of our continued commitment to providing customers with alternate retail access points — such as our Automated Postal Centers, Stamps on Consignment, Contract Postal Units, and online at *usps.com* — we feel this is a responsible action in light of our serious financial challenges.

While we know that opportunities exist to merge offices in close proximity of each other due to customers' preferences for alternate access and changes in the public's mailing habits, it is premature for the Postal Service to predict how many stations and branches will be subjected to consolidation, and we have not pre-selected a target for the number of consolidations we are seeking. Even though we don't know the final outcome of the station and branch consolidation, we have asked the Postal Regulatory Commission for an advisory opinion regarding this initiative. In addition, we deliberately did not set cost savings goals through this initiative. Past practices indicate that local management can provide the best insights to determine if and where efficiency gains can be made while maintaining our commitment to excellent customer service. We want our field postmasters and district managers to advise us where consolidations can be made without hurting customer service rather than headquarters mandating specific targets.

We are taking all of these actions to use our resources wisely and position the Postal Service to survive this financial crisis while continuing top-quality service to the American people. Be assured that the Postal Service is not assuming that mail volumes will automatically return to previous levels once the economy improves. Over the past months, we have learned that the economy is in a very dynamic, unpredictable state. Therefore, we will continue to make adjustments to our budgets, and to our networks, and we will continue to aggressively adopt process improvements and realign our resources to help off-set the financial crisis we are facing.

Along this line, I also ask that Congress support the Postal Service's efforts to operate in a business-like manner as we make prudent and necessary decisions, such as reducing window service hours and consolidating our operations. These types of efficiency actions are needed to help lessen our financial burden.

As you know, the Postal Service has alerted stakeholders to the fact that mail volume levels can no longer sustain six-day a week delivery. In fact, in prior testimony, the Postmaster General has asked Congress to consider allowing the Postal Service to change its delivery frequency. At the same time, the Postmaster General has tasked postal management with undertaking an internal review of five-day delivery, so that the Postal Service has sufficient information and data to share with stakeholders on this important matter. Currently, the Postal Service is engaged in a dialogue with the unions to secure their feedback.

We are in the process of finalizing our study and have targeted the next months as the time-frame appropriate to begin sharing information and results with our stakeholders and to begin a series of community outreach meetings. In fact we have already begun some of those discussions and are reacting to customer feedback. When complete, the Postal Service plans to share this study with its customers, mailers, the American public, and Members of Congress.

Allow me to share some preliminary study highlights with you. We are proposing that Saturday be the day of non-delivery but that Post Offices would still be open on Saturday to serve the public, and Post Office boxes would receive mail delivery on Saturday. And, of course, our customers will continue to have 24-hour, 7-day access to our products and services at *usps.com,* and other access through our Automated Postal Centers, Stamps on Consignment, and Contract Postal Units. Further, it is our intent to still deliver Express Mail on Saturday, so that extremely urgent items are delivered in a timely manner.

While there are many more details to work out, I hope the above provides an outline of our concept, which we look forward to sharing with you and other Members of Congress.

In closing, I would like to thank this Subcommittee and the Oversight and Government Reform Committee for their recent action on H.R. 22, and for communicating the importance of this bill to your fellow legislators. I hope that, in the near future, the House will be able to quickly pass retiree health benefits legislation. And, I would like to reiterate our commitment to continuing to make delivery mail operations as efficient as possible, while maintaining our excellent levels of service to the Nation.

Thank you. I would be pleased to respond to any questions you may have.

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Mr. LYNCH. Thank you, sir.

Mr. Waller, you are now recognized for 5 minutes.

STATEMENT OF JOHN WALLER

Mr. WALLER. Thank you, Chairman Lynch, Ranking Member Chaffetz, and members of the subcommittee. Thank you for the opportunity to testify on plans to adjust the retail and delivery networks.

On July 2nd, the Postal Service requested a Commission advisory opinion on Postal Service station and branch optimization and consolidation initiative, the subject of this hearing. Docket N2009–1 was quickly established and the public was notified through the Federal Register, the Internet, and press releases.

This morning the Commission held a conference with persons interested in this consolidation to identify expectations for the docket and all procedural concerns. With this input, the Commission will shortly establish the agenda for examining the initiative and addressing all the issues. To ensure a wide range of public input, the Commission is considering holding hearings outside of the Washington, DC, area.

What the Commission is being asked to do is determine if this consolidation initiative will generate changes in the nature of Postal Service on a nationwide basis and, if so, issue this advisory opinion that the consolidation process would result in closure decisions which will preserve levels of service consistent with the policies of postal legislation; in short, that the process will in fact achieve answers to a lot of the questions that members of the committee have raised that should be addressed. We are looking at that process to make sure that all these issues, community input, etc., are in fact applied.

Now, the process has been around for several years and nearly 100 closures have occurred. Some of these have been addressed here. One will occur tomorrow in Washburn, IA. The new initiative will significantly accelerate that process. It began in May of this year with the prescreening for discontinuance of all stations and branches that reported to postmasters of 24 pay grade level or higher. This covers approximately 3,200 stations that are primarily located in urban and suburban areas.

With this request, there was some certainty in the sense of the guidelines were given that were supposed to be followed by the Postal Service, but they did not specify the number of offices to be discontinued, did not quantify the potential changes in the nature of any affected postal service, and has not estimated the expected financial savings. Questions are being asked in the Commission's docket that hopefully will clarify these facts and other aspects and criteria that will be used in the decision process.

The Commission recognizes that, under the PAA, the Postal Service has the flexibility and authority to make rational adjustments to its operations and networks to meet its business needs and create cost savings and efficiencies. This is especially important in these stressful financial times. But the Postal Service must be, by law, accountable and transparent to all postal customers, be sensitive to the needs of the community at the local level that it serves, and make changes in a strategic manner.

In its most recent report on universal postal service and postal monopoly, the Commission found that access to postal service is a fundamental aspect of the universal service. A 2008 Commission-sponsored study found that households tend to utilize their local post office extensively. Over half the respondents reported that a member of their household visited a post office in the last 7 days; an additional 25 percent reported visiting within the last 30 days.

The Postal Service is obligated, under past and current statutes, to provide for thorough public notice and input into post office closure decision. The statute further gives the Commission authority to hear customer appeals on such decisions. The Commission has long held that a post office is any retail location staffed by Postal Service employees, which obviously includes stations and branches.

Yet, notification of the public's right to appeal to the Commission is not part of the Postal Service closure process being examined. Questions are being submitted, have been submitted on this issue in the docket, and it is likely to receive a thorough review in the Commission docket.

Now, the appeal process is simple, it is a letter submitted to the Commission by postal patrons in that area saying, we weren't notified, we weren't whatever it has to do with the procedures weren't followed. It is not a complex, go to court, procedure.

I see I am out of time, so I will conclude my oral statement and welcome the opportunity to answer any questions.

[The prepared statement of Mr. Waller follows:]

Testimony of John Waller, Director of Office of Accountability and Compliance
On behalf of the Postal Regulatory Commission
Before the U.S. House of Representatives Committee on Oversight
And Government Reform Subcommittee on Federal Workforce,
Postal Service and the District of Columbia
July 30, 2009

Chairman Lynch, Ranking Member Chaffetz, and members of the Subcommittee, thank you for the opportunity to testify. I am pleased to represent the Commission to discuss Postal Service plans to adjust its retail and delivery networks.

On July 2, the Postal Service requested an advisory opinion from the Commission on a plan to optimize the postal retail network, which it calls the "Postal Service Station and Branch Optimization and Consolidation Initiative." Under section 3661 of title 39 of the U.S. Code, the Postal Service is required to seek the Commission's advice before implementing nationwide service changes. The governing regulations were established under the Postal Reorganization Act of 1970 and continued under the Postal Accountability and Enhancement Act (PAEA).

In this case, the Postal Service has asked the Commission to determine if the Initiative will likely generate changes in the nature of postal services on a substantially nationwide basis and if so, to issue an advisory opinion which concurs that such process for service changes would result in decisions which will preserve service levels that are consistent with the policies of title 39 of the United States Code. The Commission is being asked to review and shed light on the closure process and not to review the merits of individual closures except to the extent they shed light on the operation of the closure process.

Section 3661 requires the Commission to afford an opportunity for formal, on-the-record hearings, with an officer of the Commission designated to represent the public interest. This process gives the public an opportunity to learn the details of the Postal Service's Initiative and to comment on any issues of concern. At the conclusion of this process, the Commission will review the entire record of evidence assembled and provide an advisory opinion to the Governors of the Postal Service, with

recommendations on whether or not to proceed with the Initiative in its current form and why.

The Commission has established Docket N2009-1 to conduct this proceeding and provided public notice through the Federal Register process, a notice on the Commission's web site, www.prc.gov, and a press release. Interested parties were advised of their right to participate and given until July 28 to request a hearing. A prehearing conference with the Postal Service and interested parties is scheduled for July 30 at Commission Headquarters. This prehearing conference and all future hearings will be broadcast on the web with access available through www.prc.gov. Due to the nature of this Initiative, the Commission may consider holding public hearings outside of Washington DC. All documents filed in the docket, including the initial Postal Service request and information offered by participants, are immediately available on the Commission's web site under the link to Docket N2009-1.

This proceeding is now in the initial discovery phase. During discovery, participants and the Commission can question the Postal Service to clarify the operation of the process the Postal Service will use to evaluate the impact on service and to decide whether to close specific stations and branches.

The Subcommittee's hearing is timely in highlighting issues that will arise in the Commission's proceeding. Participants and the Commission can draw upon the facts and issues raised before this Subcommittee to expand the record of review of the Station and Branch Initiative.

Two years ago, on July 26, 2007, I had the privilege to testify before this Subcommittee about an earlier advisory opinion issued by the Commission regarding the Postal Service's Evolutionary Network Development (END) Plan aimed at reorganizing the Postal Service's mail processing and long distance transportation network. At the beginning of that proceeding little was publically known about the END process. The Commission's proceeding brought transparency to the Postal Service's plans and provided a meaningful opportunity for public input. Ultimately, the Commission's public proceeding on the END program led to improvements in the process for consolidating mail processing facilities and modifying the surface transportation network. The Postal Service's recently initiated Network Rationalization Plan that was discussed in the Subcommittee's May hearing is aimed at realizing some of the goals and objectives of

the original END process. Initial reports verbally communicated to the Commissioners are that handling times are improving for parcels with the new network configuration. The Commission will monitor the impact of this and other reorganization efforts through the quarterly reports on service performance.

In the current proceeding regarding stations and branches, the Postal Service indicates that the purpose of the initiative is to realign its retail network with current and future customer service needs while reducing inefficiency and redundancy and capturing cost savings. The Postal Service cites growth in alternative retail channels, like USPS.com and Automated Postal Centers, and reductions in customer foot-traffic and purchases at its retail units in support of the realignment.

The Postal Service advises that the Initiative actually began back in May of this year with a pre-screening for discontinuance of all stations and branches that report to Postmasters at or above the USPS Executive & Administrative Schedule level 24 pay grade. According to the Postal Service, this covers approximately two-thirds of the Postal Service's more than 4,800 stations and branches nationwide, primarily offices located in urban and suburban population centers. In a footnote in the documents filed by the Service in support of its Request for a Commission Advisory Opinion, the Service states that it will soon provide the list of the stations and branches that have passed the pre-screening and are candidates for closure. The Postal Service states that no closures started under the Initiative will be implemented before October 2, 2009 and that the bulk of the actual closure reviews and resulting operation and service changes will be implemented in postal fiscal year 2010.

The Postal Service has outlined only the broad parameters of the Initiative and stated that it presently cannot estimate the number of targeted offices that might be discontinued nor quantify the potential changes in the nature of any affected postal services. It also is unable to estimate any expected financial savings. This is similar to the position that the Postal Service was in when it initiated Docket N2006-1 regarding the Network Realignment process. Questions have already been submitted to the Service in the initial discovery phase of the proceeding to provide more detailed information on scope, process and expected benefits from the initiative. In 2006, such questions significantly increased the transparency on the Service's plan for redesign of the postal mail processing network.

The Commission recognizes that under the PAEA the Postal Service has the flexibility and authority to make rational adjustments to its operations and networks to meet its business needs and create cost savings and efficiencies. Further, the Postal Service must be accountable and transparent to all postal customers, be sensitive to the need of the communities it serves and make changes in a strategic manner.

In its recent *Report on Universal Postal Service and the Postal Monopoly*, the Commission found that access to postal services was viewed by the American people as a fundamental aspect of universal service. As part of a common theme, comments and testimony pointed to the need for the Postal Service to maintain flexibility in how it provides access and encouraged the Postal Service to develop alternative access beyond the post office. Overall, most comment and testimony indicated a continued need for the current level of access to postal facilities and services. A survey of households conducted in 2008 for the Commission as part of the study of Universal Postal Service showed that households tend to utilize their local post office extensively. More than half of the respondents reported that a member of the household visited a post office in the last 7 days, and an additional 25 percent reported visiting within the last 30 days.

The N2009-1 proceeding will allow for consideration of the universal service implications of the Postal Service's Station and Branch Initiative balanced against ongoing changes in Postal Service finances and customer behavior. The proceeding also will ensure needed transparency as critical decisions are made and specific changes in service are contemplated.

If the Postal Service should determine to discontinue or consolidate a station or branch under this Initiative, it would be obligated under section 404 (d) of title 39 to provide for thorough public notice and input into the decision. The Commission has long accepted the common usage of any retail location staffed by Postal Service personnel as the operative definition of a post office as used in the acts. The Commission's definition of a post office includes stations and branches. The statute further confers upon the Commission the authority to hear customer appeals of decisions to close post offices. The Postal Service's proposed closure process does not include notifying the public of the right to appeal to the Commission. Participants have already submitted questions on this issue and it is likely to receive a thorough review over the next several months.

Through its oversight of Postal Service's financial and mail service performance, the Commission also takes a regulatory interest in all of the ongoing nationwide changes to carrier delivery operations. The Commission is aware that delivery is a problematic cost center for the Postal Service as well as its primary service contact with the American people. Yet the significant drop in volume provides an opportunity to generate savings through the reduction in the number of delivery routes. These potential savings are limited, however, by the fact that historically only 50 percent of carrier costs vary with volume and that the number of delivery points continues to increase despite the volume decline. Based on statistics provided to the Commission, the number of carrier routes decreased by only seven-tenths of one percent in 2008. This trend is likely to accelerate now that the Postal Service has initiated a thorough review of all city carrier routes with a new interim process involving joint management and union review teams.

The Postal Service, in consultation with the Commission as required by the PAEA, has developed measurement systems dependent on full implementation of the new Intelligent Mail Barcode, which will provide quarterly speed of delivery performance data for each major mail product on a nationwide basis and at the area or district office level. This will provide a means for the Commission and mailing community to maintain a close watch on delivery performance and institute remedial action should drops in performance be detected. The Commission will continue to exercise its authority to ensure that service levels are maintained and that service issues are appropriately and quickly addressed when encountered.

The Postal Service has stated that, in order to eliminate some of the 50 percent of carrier costs that do not vary with volume, it may be necessary to reduce the days of delivery. This would require action by Congress to modify the current requirement to maintain delivery at 1983 levels. In addition to Congressional action, a Commission review would be required. Reducing delivery days would be a nationwide change in the nature of service and thereby require a full review of the proposal through a Commission proceeding – like the current examination of the Station and Branch Initiative. The Commission is ready and well equipped to conduct such a proceeding and provide full transparency on the delivery day reduction issue should the Postal Service decide to submit such a proposal.

In closing, I would again like to thank this Subcommittee for the invitation to testify at this critical time for the Nation's Postal Service. Declining revenue and mail volume have changed the postal landscape in ways that were unimagined just a few short years ago when the Postal Service was enjoying record-high mail volumes. The increased risks inherent in the current environment reinforce the need for an effective regulator to provide the transparency and accountability mandated by the PAEA.

Since the Postal Service's retail initiative is currently under review by the Commission, it is not appropriate for me to comment on the merits of the Postal Service's proposal. I can, however, identify issues being raised in the proceeding by the mailing community and answer any questions on the procedures being used to examine the Postal Service's Initiative. I welcome the opportunity to answer such questions or others you might have on other consolidation issues.

Mr. LYNCH. Thank you, sir.

Mr. Herr, you are now recognized for 5 minutes.

STATEMENT OF PHILLIP HERR

Mr. HERR. Thank you. Chairman Lynch, Ranking Member Chaffetz, and members of the subcommittee, thank you for the opportunity to participate in this hearing. Today, I will first provide updated information on the Postal Service's financial condition and outlook; second, discuss GAO's decision to place the Postal Service's financial condition on our high-risk list this week; and, third, discuss the need to restructure postal mail processing, retail, and delivery networks.

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

The outlook for fiscal year 2010 is even more challenging, as the Service is projecting its outstanding debt to increase to $13.2 billion, just under its $15 billion statutory limit. The Postal Service urgency needs to restructure to address its current and long-term financial liability.

This week, GAO added the Postal Service's financial condition to our list of high-risk areas needing attention by Congress and the executive branch. We have called for a broad restructuring plan that addresses key timeframes, and the plan should address both short and long-term challenges. These include realigning postal services to reflect changes in the use of mail; better aligning costs with revenues; optimizing its operations, networks, and work force; increasing mail volumes and revenues; and retaining earnings to finance needed investments and repay debt.

The restructuring plan should also include a strategy for optimizing its networks to eliminate growing excess capacity, maintenance backlogs, and reduce costs. Stakeholders need to recognize that major changes are urgently needed. Such action would also set the stage to reduce its work force through attrition. In the next 4 years, a total of 300,000 employees are eligible or will be eligible for regular retirement, close to half of the career work force. The Postal Service has taken some actions toward realigning its network, and I would like to point out several of these.

In the retail areas, as discussed today, the Service recently began a national initiative to consolidate some of its roughly 37,000 post offices branches and stations. Specifically, operations at over 3,200 retail stations and branches located in urban or suburban areas are looking at for opportunities for consolidation, and decisions are expected starting this October. In terms of mail processing, the Postal Service has taken actions to close smaller facilities and consolidate other mail processing and transportation operations. However, only one of approximately 400 major processing facilities has been closed.

With regard to delivery operations and the report being released today to this subcommittee, the Postal Service has over 350,000

carriers, and delivery costs represent the Postal Service's largest cost segment. There are two efforts underway to enhance delivery efficiency. One, realigning city routes is expected to generate about $1 billion in savings annually through the elimination of work hours and routes, reduced space needs, and more consistent delivery.

Through realignment, about 4,300 routes have been eliminated to date, so there is some good progress. A second delivery-related initiative focuses on the $1.5 billion flat sequencing system that will automatically sort large mail pieces such as catalogs and magazines into delivery order. On routes covered by the new machines, city carriers, on average, will manually sort nearly 500 fewer flat-sized pieces of mail each day, allowing them to spend more time delivering mail.

In closing, while we recognize that the Postal Service will face resistance in realigning its networks on several fronts, we believe broad restructuring is imperative to help the Postal Service achieve sustainable financial viability. For realignment to succeed, the Postal Service must use a transparent process that is consistently applied; engage with unions, management associations, the mailing industry, and political leaders; and it must also demonstrate results.

Mr. Chairman, this concludes my prepared statement, and I am pleased to answer any questions you have. Thank you.

[The prepared statement of Mr. Herr follows:]

United States Government Accountability Office

GAO

Testimony

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

For Release on Delivery
Expected at 10:00 a.m. EDT
Thursday, July 30, 2009

U.S. POSTAL SERVICE

Broad Restructuring Needed to Address Deteriorating Finances

Statement of Phillip Herr, Director
Physical Infrastructure Issues

GAO-09-790T

July 30, 2009

GAO
Accountability·Integrity·Reliability
Highlights

Highlights of GAO-09-790T, a testimony before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, House of Representatives

U.S. POSTAL SERVICE

Broad Restructuring Needed to Address Deteriorating Finances

Why GAO Did This Study

The U.S. Postal Service's (USPS) financial condition has worsened this year, with the recession and changing mail use causing declines in mail volume and revenues despite postal rate increases. GAO testified in May to this subcommittee that USPS expects these declines to lead to a record net loss and an unprecedented cash shortfall even if ambitious cost cutting is achieved. GAO reported that maintaining USPS's financial viability as the provider of affordable, high-quality universal postal service will require actions in a number of areas, such as (1) rightsizing its retail and mail processing networks by consolidating operations and closing unnecessary facilities and (2) reducing the cost and size of its workforce, which generates about 80 percent of its costs. Today GAO is releasing its report on USPS efforts to improve the efficiency of delivery. Delivery accounts for nearly half of USPS salary and benefit costs.

This testimony (1) updates USPS's financial condition and outlook and explains GAO's decision to place USPS's financial condition on the High-Risk List and (2) discusses the need for USPS to restructure its mail processing, retail, and delivery networks and its efforts to improve their efficiency. It is based on GAO's past and ongoing work and updated USPS information.

View GAO-09-790T or key components. For more information, contact Phillip Herr at (202) 512-2834 or herrp@gao.gov.

What GAO Found

USPS's financial condition and outlook continue to deteriorate with a worsening outlook for mail volume and revenue. USPS now projects mail volume to decline by about 28 billion pieces to about 175 billion pieces in fiscal year 2009, a decline of 13.7 percent. As a result, USPS projects

- a net loss of about $7 billion even with record savings of about $6 billion;
- an increase in outstanding debt by the annual $3 billion limit; and,
- despite this borrowing, an unprecedented $1 billion cash shortfall.

Thus, USPS recently reported to Congress that, due to the need to maintain sufficient cash to cover costs, it will not fully make its mandated payment of $5.4 billion for future retiree health benefits due by September 30, 2009, even if it receives $2 billion in relief under pending House legislation.

GAO added USPS's financial condition to the High-Risk List this week. GAO reported USPS urgently needs to restructure to address its current and long-term financial viability. Accordingly, GAO calls for USPS to develop and implement a broad restructuring plan—with input from the Postal Regulatory Commission and other stakeholders, and approval by Congress and the administration—that includes key milestones and time frames for actions, addresses key issues, and identifies what steps Congress and other stakeholders may need to take.

USPS needs to optimize its retail, mail processing, and delivery networks to eliminate growing excess capacity and maintenance backlogs, reduce costs, and improve efficiency. USPS has a window of opportunity to reduce the cost and size of its workforce through attrition and the large number of upcoming retirements to minimize the need for layoffs. Although USPS has begun efforts to realign and consolidate some mail processing, retail, and delivery operations, much more is urgently needed. GAO recognizes that USPS would face formidable resistance to restructuring with many facility closures and consolidations because of concerns that these actions would affect service, employees, and communities. USPS management will need to provide leadership and work with stakeholders to overcome resistance for its actions to be successfully implemented. USPS must use an open, transparent, fair, and consistent process; engage with its unions, management associations, the mailing industry, and political leaders; and demonstrate results. In turn, these stakeholders and Congress need to recognize that major restructuring is urgently needed for USPS to be financially viable.

To its credit, USPS recently began a national initiative to consolidate some of its 3,200 postal retail stations and branches in urban and suburban areas. USPS has begun efforts to consolidate some mail processing operations but has closed only 1 of 400 major mail processing facilities. USPS is realigning city carrier routes to remove excess capacity and improve efficiency, which is expected to save nearly $1 billion annually; has begun to install automated equipment to reduce costly manual sorting of flat-sized mail; and is studying how it could shift to 5-day delivery and the potential savings.

Chairman Lynch, Ranking Member Chaffetz, and Members of the Subcommittee:

I am pleased to participate in this hearing on U.S. Postal Service (USPS) operations. My statement will (1) update USPS's financial condition and outlook and explain our recent decision to place USPS's financial condition on our High-Risk List, and (2) discuss the need for USPS to restructure its mail processing, retail, and delivery networks and its efforts to improve their efficiency.

My statement is based upon on our past and ongoing work, including the report being released today on USPS efforts to improve delivery efficiency,[1] and our report adding USPS to the High-Risk List,[2] as well as our continued monitoring of USPS's financial condition and outlook. We conducted our work from May 2009 to July 2009 in accordance with all sections of GAO's quality assurance framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

USPS's Financial Condition Continues to Deteriorate, and Its Financial Condition Has Been Added to Our High-Risk List

USPS's financial condition and outlook continue to deteriorate with a worsening outlook for mail volume and revenue. USPS currently projects a mail volume decline of 13.7 percent for fiscal year 2009, triple the 4.5 percent decline in fiscal year 2008 and the largest percentage decline since the Great Depression. As a result, USPS is projecting the following for fiscal year 2009:

- a net loss of about $7 billion,[3] even if it achieves record cost savings of about $6 billion;
- an increase in outstanding debt by the annual statutory limit of $3 billion;[4] and,

[1]GAO, *U.S. Postal Service: Mail Delivery Efficiency Has Improved, but Additional Actions Needed to Achieve Further Gains*, GAO-09-696 (Washington, D.C.: July 15, 2009).

[2]GAO, *High-Risk Series: Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, GAO-09-937SP (Washington, D.C.: July 28, 2009).

[3]USPS lost $2.8 billion in fiscal year 2008—its second-largest annual loss since 1971.

[4]39 U.S.C. §2005(a).

- despite this borrowing, an unprecedented $1 billion cash shortfall.

USPS has reported that it does not expect to generate sufficient cash from operations to fully make its mandated payment of $5.4 billion for future retiree health benefits that is due by September 30, 2009. Further, USPS recently reported to Congress that—due to the need to maintain sufficient cash to cover costs—it will not fully make this payment, even if it receives $2 billion in relief from fiscal year 2009 retiree health benefits payments that would be provided by H.R. 22, which has been reported out of the House Committee on Oversight and Government Reform.

USPS also expects continued financial problems in fiscal year 2010, with a similar deficit even if it achieves larger cost savings, and an even larger cash shortfall. Under this scenario, USPS would increase its outstanding debt by an additional $3 billion, which would bring its total debt to $13.2 billion at the end of fiscal year 2010—only $1.8 billion less than its $15 billion statutory limit.[5]

USPS's projected cost cutting of about $6 billion for this fiscal year is much larger than its previous annual cost-cutting targets that have ranged from nearly $900 million to $2 billion since 2001. However, USPS projects cash shortfalls because cost cutting and rate increases will not fully offset the impact of mail volume declines and other factors that increase costs—notably semiannual cost-of-living allowances (COLA) for employees covered by union contracts. Compensation and benefits constitute close to 80 percent of its costs—a percentage that has remained similar over the years despite major advances in technology and automating postal operations. Also, USPS continues to pay a higher share of employee health benefit premiums than other federal agencies. Further, it has high overhead (institutional) costs that are hard to change in the short term, such as providing universal service that includes 6-day delivery and maintaining a network of 37,000 post offices and retail facilities, as well as a delivery network of more than 149 million addresses.

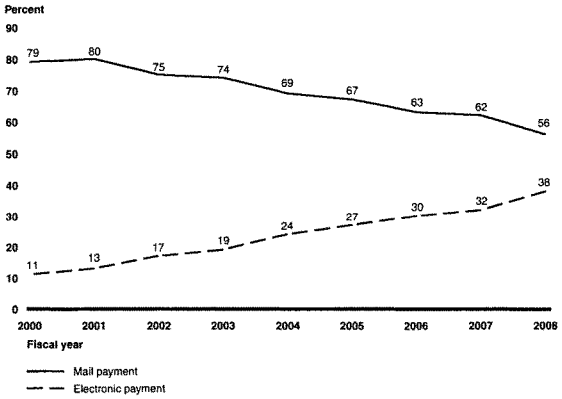
Two days ago, we added USPS's financial condition to the list of high-risk areas needing attention by Congress and the executive branch to achieve broad-based transformation. We reported that USPS urgently needs to restructure to address its current and long-term financial viability. USPS's cost structure has not been cut fast enough to offset accelerated decline in mail volume and revenue. In this regard, USPS has high personnel costs,

[5]39 U.S.C. §2005(a).

including those to provide 6-day delivery and retail services. To achieve financial viability, USPS must align its costs with revenues, generate sufficient earnings to finance capital investment, and manage its debt.

We noted that mail use has been changing over the past decade as businesses and consumers have moved to electronic communication and payment alternatives. Further innovations in, and use of, e-commerce and broadband are expected. The percentage of households paying bills by mail is declining while the percentage of electronic payments is increasing (see fig. 1). Mail volume peaked in 2006, and its decline has accelerated with the economic recession, particularly among major mail users in the advertising, financial, and housing sectors. Mail volume has typically returned after recessions, but USPS's 5-year forecast suggests that much of the lost volume will not return.

Figure 1: Percentage of Household Bill Payments Made by Mail and Electronically, Fiscal Years 2000 through 2008



Source: USPS

For these reasons, we concluded that action is needed in multiple areas, including possible action and support by Congress, as no single change will be sufficient to address USPS's challenges.

- The short-term challenge for USPS is to cut costs quickly enough to offset the unprecedented volume and revenue declines, so that it can cover its operating expenses.

- The long-term challenge is to restructure USPS operations, networks, and workforce to reflect changes in mail volume, use of the mail, and revenue.

Accordingly, we have called for USPS to develop and implement a broad restructuring plan—with input from the Postal Regulatory Commission (PRC) and other stakeholders, and approval by Congress and the administration—that includes key milestones and time frames for actions, addresses key issues, and identifies what steps Congress and other stakeholders may need to take. We stated that USPS's restructuring plan should address how it plans to

- realign postal services, such as delivery frequency, delivery standards, and access to retail services, with changes in the use of mail by consumers and businesses;
- better align costs and revenues, including compensation and benefit costs;
- optimize its operations, networks, and workforce;
- increase mail volumes and revenues; and
- retain earnings, so that it can finance needed capital investments and repay its growing debt.

Network Restructuring Needed to Help USPS Achieve Financial Viability

USPS needs to optimize its retail, mail processing, and delivery networks to eliminate growing excess capacity and maintenance backlogs, reduce costs, and improve efficiency. We recently reported that USPS needs to rightsize its retail and mail processing networks and reduce the size of its workforce.[6] USPS has a window of opportunity to further reduce the cost and size of its workforce through attrition and the large number of upcoming retirements to minimize the need for layoffs. As the Postmaster General testified this March, about 160,000 USPS employees are eligible for regular retirement this fiscal year, and this number will grow within the next 4 years to nearly 300,000. USPS has begun efforts to realign and consolidate some of its mail processing, retail, and delivery operations, but much more restructuring is urgently needed. We recognize that USPS would face formidable resistance to restructuring with many facility closures and consolidations because of concerns that these actions would

[6]GAO, *U.S. Postal Service: Network Rightsizing Needed to Help Keep USPS Financially Viable*, GAO-09-674T (Washington, D.C.: May 20, 2009).

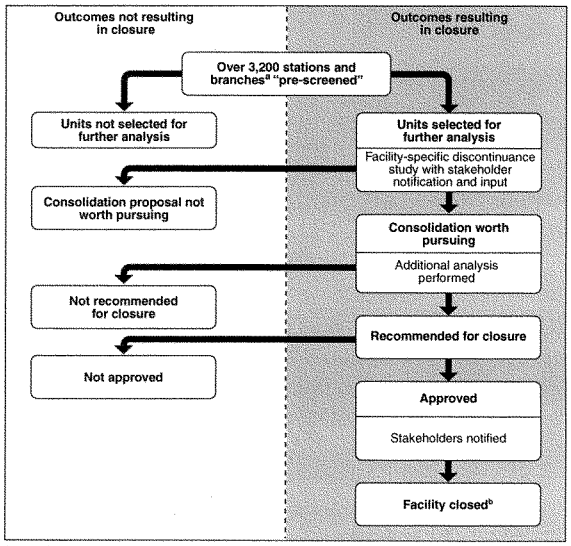
impact service, employees, and local communities. USPS senior management will need to provide leadership and work with stakeholders to overcome resistance for its actions to be successfully implemented. USPS must use an open and transparent process that is fairly and consistently applied; engage with its unions, management associations, the mailing industry, and political leaders; and demonstrate results of actions. In turn, these stakeholders and Congress need to recognize that major changes are urgently needed for USPS to be financially viable.

USPS Has Recently Begun Efforts to Consolidate Retail Facilities

To its credit, USPS recently began a national initiative to consolidate some of its 3,200 postal retail stations and branches in urban and suburban areas.[7] It has nearly completed an initial review to identify which facilities will be studied for consolidation, and expects the studies to take about 4 months, with final decisions made starting this October. USPS has processes for notifying its unions and management associations, soliciting community input, and notifying affected employees as it winnows the list of stations and branches it is considering for consolidation (see fig. 2).

[7]Stations are subordinate units of a post office located within the same corporate limits (city or town limits) as the post office; branches are subordinate units outside these limits. Employees in these facilities report to the postmaster at the main post office, which generally is the community's primary retail facility.

Figure 2: Highlights of USPS's Process for Consolidating Retail Stations and Branches Under Its Ongoing Initiative



Source: USPS.
[a]Stations and branches report to the main post office of the community.
[b]Closures are to be implemented at least 60 days after the final decision.

On July 2, 2009, USPS requested that PRC provide an advisory opinion on USPS's retail consolidation initiative, which has led to a public process that will provide stakeholders with opportunities for input.[8] In its request, USPS stated it would identify opportunities to consolidate retail operations and improve efficiency, but only after concluding that such changes will continue to provide ready access to essential postal services.

[8]Documents in this PRC proceeding, N2009-1, are posted on the PRC Web site, www.prc.gov. 39 U.S.C. §3661(b) specifies requirements for this proceeding.

USPS noted that the branches and stations considered for consolidation are often in close proximity to each other. USPS stated that it could not estimate the savings because it had not made decisions on how many or which facilities would be closed. Going forward, issues may include whether stations and branches will be considered subject to statutory requirements for maintaining and closing post offices,[9] and the similar question of whether any branches and stations are covered by the long-standing appropriations provision that restricts post office closures.[10]

USPS is required, among other things, to provide adequate, prompt, reliable, and efficient services to all communities, including a maximum degree of effective and regular services in rural areas, communities, and small towns where post offices are not self-sustaining.[11] USPS is specifically prohibited from closing small post offices solely for operating at a deficit.[12] Consistent with reasonable economies, USPS is authorized to establish and maintain facilities as are necessary to provide ready access to essential services to customers throughout the nation. Before closing a post office, USPS must, among other things, provide customers with at least 60 days of notice before the proposed closure date, and any person served by the post office may appeal its closure to the PRC.[13] However, USPS plans state that customers will have 20 days to comment on a proposed closure of a station or branch and that no appeals will be permitted. USPS explained that stations and branches are different from post offices. A recent Congressional Research Service report discussed this matter and other issues related to the closure of these retail facilities.[14]

To put USPS's retail consolidation initiative into context, we recently testified before this subcommittee that USPS can streamline its network of 37,000 post offices, branches, and stations—a network that has remained largely static despite expanding use of retail alternatives and shifts in

[9]39 U.S.C. §§101, 403, and 404.

[10]For example, see Financial Services and General Government Appropriations Act, 2009, Pub. L. No. 111-8, div. D, title V (Mar. 11, 2009), which provides: "That none of the funds provided in this Act shall be used to consolidate or close small rural and other small post offices in fiscal year 2009."

[11]39 U.S.C. §101(a) and (b).

[12]39 U.S.C. §101(b).

[13]39 U.S.C. §404(d).

[14]Congressional Research Service, *Post Office and Retail Postal Facility Closures: Overview and Issues for Congress*, R40719 (Washington, D.C: July 23, 2009).

population.[15] We have previously reported that the number of postal retail facilities has varied widely among comparable counties in urban areas, and a number of facilities we visited appeared to merit consideration for closure based on leading federal practices for rightsizing facility networks.[16] Our report also noted that USPS has a maintenance backlog for its retail facilities, and USPS officials stated that USPS has historically underfunded its maintenance needs. USPS has limited its capital expenditures to help conserve cash, which may affect its maintenance backlog. Fewer retail facilities would reduce maintenance needs.

USPS Has Made Limited Progress in Consolidating Its Mail Processing Network

USPS has begun efforts to consolidate some mail processing operations, but much more needs to be done to restructure this network, particularly since USPS has closed only 1 of its approximately 400 major mail processing facilities. In the Postal Accountability and Enhancement Act of 2006,[17] Congress encouraged USPS to expeditiously move forward in its streamlining efforts, recognizing that the 400 processing facilities are more than USPS needs and streamlining this network can help eliminate excess costs. USPS has substantial excess capacity in its processing network that is growing with declining mail volume. According to USPS, it has 50 percent excess capacity for processing First-Class Mail.

USPS is using the Area Mail Processing process to propose consolidating some mail processing operations (see app. I and http://www.usps.com/all/amp.htm). USPS is also consolidating processing and transportation operations from Bulk Mail Centers and Surface Transfer Centers into what it refers to as Network Distribution Centers, which USPS officials expect to be completed this November (see http://www.usps.com/all/ndc.htm). In the past decade, USPS has closed some smaller facilities, such as 68 Airport Mail Centers and 50 Remote Encoding Centers.[18] In 2005, we recommended that USPS enhance transparency and strengthen accountability of its realignment efforts to assure stakeholders that such efforts would be implemented fairly and

[15]GAO-09-674T.

[16]GAO, *U.S. Postal Service Facilities: Improvements in Data Would Strengthen Maintenance and Alignment of Access to Retail Service*, GAO-08-41 (Washington, D.C.: Dec. 10, 2007).

[17]Pub.L. No. 109-435 (Dec. 20, 2006).

[18]Remote Encoding Centers were established as a temporary solution to automate the processing of mail with handwritten addresses that could not be read by sorting equipment.

achieve the desired results.[19] We since testified that USPS took steps to address these recommendations and should be positioned for action.

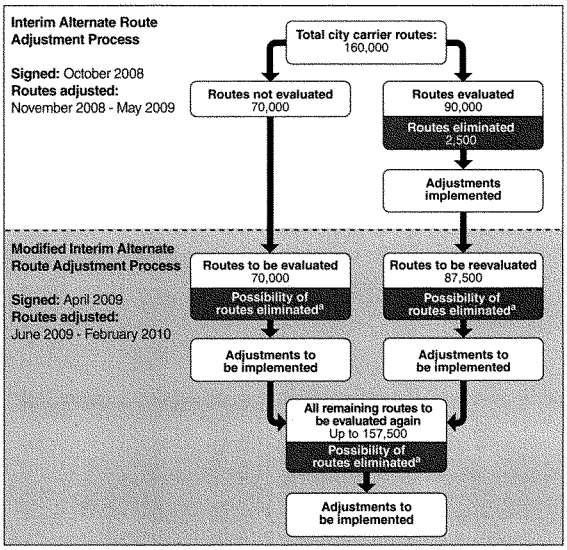
USPS Has Ongoing Efforts to Improve Delivery Efficiency

USPS has ongoing efforts to increase the efficiency of mail delivery, which is USPS's largest cost segment and includes more than 350,000 carriers that account for approximately 45 percent of salary and benefit expenses. Two key efforts are (1) realignment of city delivery routes and (2) installing new Flats Sequencing Systems to automate the sorting of flat-sized mail—such as catalogs and magazines—into delivery order, so that time-consuming and costly manual sorting by carriers is no longer needed.

First, USPS is realigning city carrier routes to remove excess capacity and improve efficiency, which is expected to generate nearly $1 billion in annual savings. USPS also expects this effort to result in reduced facility space needs, increased employee satisfaction, and more consistent delivery service. Route realignment has been made possible by collaboration between USPS and the National Association of Letter Carriers. The parties agreed on the original realignment process, which resulted in eliminating 2,500 routes. A modified process, which will cover all city delivery routes, has resulted in the elimination of an additional 1,800 routes through June 2009 (see fig. 3), and additional routes may be eliminated. Thus, route realignment should result in further savings next fiscal year.

[19]GAO, *U.S. Postal Service: The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability*, GAO-05-261 (Washington, D.C.: Apr. 8, 2005).

Figure 3: Summary of the Process to Realign USPS City Delivery Routes



Source: GAO analysis of USPS operations.

[a]Depending on the results of the route evaluations, a segment of these routes could be eliminated.

Note: As a result of the modified process, an additional 1,800 routes were eliminated through June 2009.

USPS has established policies and procedures to notify customers if they will be affected by route realignment and taken actions to keep affected stakeholders informed. For example, USPS has made updated route information available on the Internet, which the mailing industry needs to prepare and organize the mail so USPS can efficiently handle it.

Second, USPS has begun to install 100 automated sorting machines for its $1.5 billion Flats Sequencing System to sort flat-sized mail into delivery order, which is scheduled to be completed in October 2010. USPS expects this to improve delivery accuracy, consistency, and timeliness. USPS has

worked with the mailing industry to facilitate implementation, since the industry plays a major role in preparing, transporting, and addressing flat-sized mail for efficient USPS handling. Mailer representatives have praised USPS communications and coordination with them—a process that is continuing to address implementation issues. USPS and the two carrier unions (the National Association of Letter Carriers and the National Rural Letter Carriers' Association) reached agreement on revised work rules and procedures to realign routes and capture work hour savings. Because of mail volume declines, to maximize program savings, USPS is reconsidering where to deploy the machines and the number of delivery routes covered by the program. On routes covered by the machines, city carriers, on average, will be manually sorting nearly 500 fewer flat-sized mail pieces each day.

Finally, USPS has proposed moving to 5-day delivery to help address its financial problems. USPS is studying how 5-day delivery could be implemented, potential savings, and impacts on its employees. The study, which USPS expects to complete this fall, will incorporate input from postal unions and management associations, the mailing industry, and consumer and market research. Cutting delivery frequency would affect universal postal service and could further accelerate the decline in mail volume and revenues. Considering the potential impact on cost, volume, revenues, employees, and customers, it will be important for USPS to make its study publicly available so that Congress and stakeholders can better understand USPS's proposal and consider the trade-offs involved.

As USPS has recognized, implementing 5-day delivery would require congressional action because a long-standing appropriations provision mandates 6-day delivery.[20] PRC officials have stated that USPS would be required to seek an advisory opinion from PRC on such a change, which would lead to a public hearing with stakeholder input. According to USPS officials, USPS would need about 6 months to prepare for and implement 5-day delivery, including moving employees to other locations, reprogramming payroll systems, and realigning operations.

[20]For example, see Financial Services and General Government Appropriations Act, 2009, Pub. L. No. 111-8, div. D, title V (Mar. 11, 2009). The provision states that, "6-day delivery and rural delivery of mail shall continue at not less than the 1983 level."

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

GAO Contact and Staff Acknowledgments

For further information regarding this statement, please contact Phillip Herr at (202) 512-2834 or herrp@gao.gov. Individuals who made key contributions to this statement include Shirley Abel, Teresa Anderson, Gerald P. Barnes, Josh Bartzen, Paul Hobart, Kenneth E. John, David Hooper, Hannah Laufe, Emily Larson, Josh Ormond, Susan Ragland, Amy Rosewarne, Travis Thomson, and Crystal Wesco.

Appendix I: Status of 2008-2009 Proposed Area Mail Processing Consolidations as of July 23, 2009

	Area Mail Processing (AMP) study initiated	Study started	Public meeting notice	Public meeting held	AMP not approved	AMP approved
	Total AMP proposals: 37	9	1	16	4	7
1.	Aberdeen, SD, to Dakota Central, SD				X	
2.	Athens, GA, to North Metro, GA			X		
3.	Binghamton, NY, to Syracuse, NY			X		
4.	Bloomington, IN, to Indianapolis, IN	X				
5.	Bronx, NY, to Morgan, NY				X	
6.	Canton, OH, to Akron, OH					X
7.	Cape Cod, MA,, to Brockton, MA			X		
8.	Dallas, TX, to North Texas, TX			X		
9.	Detroit, MI to Pontiac, MI			X		
10.	Flint, MI to Pontiac, MI			X		
11.	Hattiesburg, MS, to Gulfport, MS			X		
12.	Industry, CA, to Santa Ana, CA, and/or Santa Clarita, CA	X[a]				
13.	Kansas City, KS, to Kansas City, MO					X
14.	Kilmer, NJ, to Dominick V. Daniels, NJ, and Trenton, NJ	X				
15.	Lakeland, FL, to Tampa, FL					X
16.	Long Beach, CA, to Santa Ana, CA, and/or Los Angeles, CA			X		
17.	Manasota, FL, to Tampa, FL					X
18.	Mansfield, OH, to Akron, OH				X	
19.	Newark, NJ, to Dominick V. Daniels, NJ	X				
20.	New Castle, PA, to Pittsburgh, PA			X		
21.	Oxnard, CA, to Santa Clarita, CA		X			
22.	Palatine, I,L to Carol Stream, IL	X				
23.	Plattsburgh, NY, to Burlington, VT	X[a]				
24.	Portsmouth, NH, to Manchester, NH					X
25.	Queens, NY, to Brooklyn, NY			X		
26.	Quincy, IL, to Springfield, IL	X				
27.	Sioux City, IA, to Sioux Falls, SD				X	
28.	South Florida, FL, to Ft. Lauderdale, FL, and Miami, FL					X
29.	Springfield, MA, to Hartford, CT	X				
30.	Staten Island, NY, to Brooklyn, NY					X
31.	Utica, NY, to Syracuse, NY			X		
32.	Watertown, NY, to Syracuse, NY			X		
33.	West Jersey, NJ, to Northern NJ Metro and Kilmer, NJ	X				

	Area Mail Processing (AMP) study initiated	Study started	Public meeting notice	Public meeting held	AMP not approved	AMP approved
34.	Western Nassau, NY, to Mid-Island, NY			X		
35.	Wilkes Barre, PA, to Scranton, PA, and Lehigh Valley, PA			X		
36.	Winchester, VA, to Dulles, VA			X		
37.	Zanesville, OH, to Columbus, OH			X		

Source: USPS.

Note: For current information, see http://www.usps.com/all/amp.htm.

[a]USPS announced on June 6, 2009, that it had halted the Industry, California, study because it determined there were no significant opportunities to improve efficiency or service at that time.

[b]USPS announced on May 5, 2009, that it had halted the Plattsburgh, New York, study because of unresolved service issues.

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Mr. LYNCH. Thank you, sir.

Mr. Sackler, you are now recognized for 5 minutes.

STATEMENT OF ARTHUR SACKLER

Mr. SACKLER. Thank you, Mr. Chairman. Good morning to you, Ranking Member Chaffetz, and members of the subcommittee. The National Postal Policy Council greatly appreciates the opportunity to present its views on the station and branch initiative.

In a nutshell, our members support this initiative to help address the current financial contraction facing USPS and, in the larger context, of providing the Postmaster General and his team true flexibility to manage.

NPPC is the trade association for large business users of letter mail, primarily in first class. Before the downturn, our approximately 30 members collectively mailed about 39 billion pieces and contributed some $9.5 billion in postage every year.

At the outset, let me say that the acceptance of the need for meaningful change in the postal system has been growing in recent days. Through no fault of its talented management team or its truly dedicated working men and women, the Postal Service is experiencing a catastrophic decline in volume, volume that won't come back robustly and for years. Grappling with the thorny issues of managing USPS to its actual volume has become essential for preserving a bedrock institution still essential to commerce and communications in the United States in the 21st century.

So, as one aspect of change, we are pleased to be able to discuss this initiative, for it is necessary not only in the short-term, but in the longer term. NPPC has not undertaken a scientific survey of its members, but the consensus view is that, when the economy comes back, mail will not follow. There should be some recovery in standard, but first class, which is the most lucrative for the Postal Service, as you know, will continue its decline, albeit at a slower rate. We support the initiative because the current system of post offices and other facilities grew up haphazardly with population growth and shifts.

An orderly rethinking of the system is long overdue and efficiencies in services are very likely to be obtained.

Second, the initiative will help streamline a system built for far more mail volume than it has or is likely to have for the foreseeable future.

Third, a carefully planned and thought-through effort to close or consolidate facilities should yield some cost savings.

Fourth, the closings and consolidations will occur largely, if not exclusively, in metropolitan jurisdictions. This should lead, we hope, to a less emotional public reaction than in some smaller communities. And given that there are other post offices or facilities nearby, there should be continued easy access for the public.

Fifth, and most importantly, NPPC believes that the Postmaster General and his team need to have as much flexibility to manage the system as possible, to run it like a business. Over this decade, Postmaster General Potter, Deputy PMG Donahoe and their management team have demonstrated tremendous ability to drive costs out of the system. They have done so while improving service and

reducing the work force, without alienating the unions and management associations.

In fact, it has been an intense cooperative effort. Because of that outstanding track record, the senior postal management team should be granted broad latitude to manage the system, including optimizing stations and branches.

The urgency animating this plan and much else from USPS is the daunting financial challenge it confronts. You know very well that it is projecting 175 billion pieces of mail this year, off some 37 billion from its peak just 2 short years ago, with a $13 billion drop in revenue. So, Mr. Chairman, NPPC is grateful to you, Ranking Member Chaffetz, Chairman Towns, Ranking Member Issa, and the members of the full committee for rapidly reporting out H.R. 22. We are particularly appreciative of the prime sponsors, Messrs. McHugh and Davis. We urge H.R. 22's passage by the entire House at the earliest opportunity.

But, regrettably, USPS is going to need further financial attention to right itself. When H.R. 22 was introduced last winter, it seemed to give USPS enough relief. Unfortunately, the accelerating loss of volume since has simply overwhelmed the relief offered through H.R. 22.

We don't pretend to have the solution. Many possibilities have been raised in this subcommittee and elsewhere. In general, we believe that any long-term solution should be balanced and call on all postal stakeholders to make equivalent sacrifices to maintain the system. However, we feel constrained to note that one possibility, an exigent rate increase, would be profoundly counterproductive. We know neither the Postal Service nor Members of Congress have called for such an increase, but others in the postal community have raised it.

So let us be direct. Mailers simply cannot afford an increase. They are doing everything they can to restrain costs as their own businesses severely decline in recession. The number of layoffs in the postal-based industries is, at minimum, in the hundreds of thousands. There are also mergers and bankruptcies. Budgets for all items in these industries very much, including postal, are under tremendous pressure. Even a small increase may have a significant adverse reaction. But an increase large enough to address USPS losses would virtually guarantee a large volume drain. Postal budgets simply would not stretch to meet higher prices.

Thank you once again for this opportunity to present our views. I would be pleased to answer any questions you may have.

[The prepared statement of Mr. Sackler follows:]

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Statement of

Arthur B. Sackler

Executive Director
National Postal Policy Council

Before the

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

Committee on Oyersight and Government Reform

U.S. House of Representatives

July 30, 2009

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Committee on Oversight and Government Reform

U.S. House of Representatives

July 30, 2009

Good morning, Mr. Chairman, and Members of the Subcommittee. The National Postal Policy Council (NPPC) greatly appreciates the opportunity to present its views on the Station and Branch Optimization and Consolidation Initiative (Initiative) and Route Alterations, as proposed by the Postal Service. In a nutshell, our members are not troubled by this initiative, and support it both as one specific response to help address the current financial contraction facing USPS, and in the larger context of providing the Postmaster General and his team true flexibility to manage.

My name is Art Sackler, and I am the Executive Director of NPPC. NPPC is the trade association for large business users of letter mail, primarily in First Class. Before the downturn, our members collectively mailed about 39 billion pieces, and contributed some $9.5 billion in postage, every year.

Composed of members from the telecommunications, banking and financial services, insurance, utilities and mail services industries, NPPC has long been a strong supporter of a robust postal system; seeing it as a key not only to its members' business success, but to the health of the economy generally. In this time of severe shared financial stress, NPPC remains convinced of the intrinsic value of the postal system, how vital it remains to commerce and communications in the United States, and that it must be preserved as efficiently, effectively and affordably as possible.

We are pleased to be able to discuss this Initiative with you today, for it is necessary not only in the short term, but in the longer term. NPPC has not undertaken a formal survey of its members, but the consensus, admittedly unscientific, view of the senior postal executives for 30 of the largest mailers in the system which belong to our group is that, when the economy comes back, mail will not follow. There should be some significant recovery in Standard, especially if promotions such as the Summer Sale continue, but First Class, which is the most lucrative for USPS, as you know, will continue its decline, albeit at a slower rate.

Station and Branch Optimization Initiative

As we understand the Initiative, simply stated it would provide for closing and/or consolidation of various postal units located in and around cities, largely in geographic proximity and often producing services that would be redundant when compared to a rationalized, consolidated system. We support it for several reasons.

First, the current system of post offices and other facilities grew up largely haphazardly with population growth and shifts. Many facilities have been in place for decades, if not longer. There has not been an orderly rethinking of the system incorporating national and regional perspectives with the most efficient way to provide local service. We believe that doing so is long overdue, and that efficiencies in services are very likely to be obtained.

Second, USPS is motivated to undertake this step now because of the huge drop in volume it has experienced during this recession. From a system built, we understand, for up to 300 billion pieces annually, there now needs to be an adjustment to volume in the range of 150 – 180 billion pieces annually for the foreseeable future. This Initiative will help streamline the system and better gear it toward the reduced workload.

Third, a carefully planned and thought through effort to close or consolidate facilities should yield considerable cost savings. Given the steep decline in revenues caused by the volume drop, USPS needs savings such as these to weather this financial

storm, and emerge more prepared to deal with different volume and revenue realities once it passes.

Fourth, the closings and consolidations will occur largely, if not exclusively, in metropolitan jurisdictions. The emotional content that suffuses the closing of a small town post office should be absent from these closings. A significant part of the identity of a city or suburb is not bound up in its post office(s) the way that smaller communities often are, and it is thus far less likely that there will be community opposition. Any potential opposition should be further diffused given that there are other post offices or facilities nearby, so there will be little, if any, inconvenience to the public.

Fifth, and most importantly, NPPC believes that the Postmaster General and his team need to have as much flexibility to manage the system as possible. Over this decade, Postmaster General Jack Potter, Deputy Postmaster General Pat Donahoe and their management team have demonstrated an unprecedented ability to drive costs out of the system. Amazingly, they have done so while improving service and reducing the workforce without alienating the unions and management associations. So, not just because of sound managerial theory, although that would recommend it, as well, but because of that outstanding track record, the senior postal management team should be granted as much latitude as possible to manage the system – including optimizing stations and branches.

Therefore, NPPC supports this plan, and urges Members of the Subcommittee to ensure that the Postal Service has broad managerial flexibility to implement this plan and whatever other changes of this nature are essential in USPS' judgment, while continuing to hold its managers accountable as you traditionally have.

The Financial Challenge

The urgency animating this plan and much else being undertaken by and for USPS is the daunting financial challenge it confronts. Projecting 175 billion pieces of mail this year, USPS would be off some 37 billion pieces from its peak, just two short years ago. At the rate of approximately $3.6 billion per 10 billion pieces of mail, according to USPS, that is a dizzying drop of some $13.2 billion in revenues for an institution with a former overall budget in the neighborhood of $70 billion. It is a massive hole to fill.

That is why, Mr. Chairman, NPPC is grateful to you, Ranking Member Chaffetz, the rest of this subcommittee, and Chairman Towns, Ranking Member Issa and the members of the full committee, for rapidly reporting out HR 22. We are particularly appreciative of the foresight and leadership of the prime sponsors, Messrs. McHugh and Davis. And we urge the passage of this important legislation by the entire House at the earliest opportunity.

But regrettably, USPS is going to need further financial attention to right itself. When HR 22 was introduced and pursued last winter, it seemed an appropriate remedy that would give USPS enough relief to address its shortfalls. Unfortunately, the accelerating loss of volume since has simply overwhelmed the relief offered through HR 22. So, NPPC's view is that HR 22 is necessary and much appreciated, but is not sufficient.

We do not pretend to have the solution. Many possibilities have been raised in this Subcommittee and elsewhere. In general, we believe that any long-term solution should be balanced and call on all postal stakeholders to make equivalent sacrifices to maintain the system.

However, we feel compelled to address one element that must not be part of any longer-term solution: an exigent rate increase, and especially one that would be used to substantially or fully close the multi-billion-dollar deficit USPS currently confronts. Since no proposal is on the table, NPPC is not prepared to address whether such an increase in the current financial set of circumstances would satisfy the legal requirements for an exigency case, as set out in 39 USC 3622(b)(1)(E). Nonetheless, regardless of its ultimate legal status, the laws of economics would make an exigency increase a non-starter, and quite likely counterproductive, in a situation such as this.

We know neither the Postal Service, nor Members of Congress, have called for such an increase. For the recognition of what the business implications of such an

increase would be, and that position of restraint, we are grateful. However, others in the postal community have raised the issue of an exigent increase.

So, let us be direct. Mailers simply cannot afford an increase, period. They are doing everything they can to restrain costs as their own businesses severely decline in this recession. The numbers of layoffs in the affected postal-based and –related industries is, at minimum, in the hundreds of thousands. Major businesses that depend on the postal system, or use USPS as a supplier, such as in the financial services industry, have merged, shuttered business units or even gone out of business.

Budgets for all items in these industries are under tremendous pressure. That includes postal budgets, including those of many companies whose business is not postal-based, adding further to the pressure. Problematically for the postal system, that pressure is accompanied by unprecedented availability of alternatives to the mail: primarily, but not exclusively, online. So, it is no longer true that if rates are raised, there will be a small dip in volume, and then life will go on as before. In the current environment, even a small increase may have a significant adverse reaction. But an increase large enough to begin to address USPS' losses would force companies to move even larger quantities of mail online than they have to date, consolidate mailings and otherwise find a way to make do with less. Postal budgets would not stretch to meet the higher prices. Those who have been teetering on the edge of moving into the electronic world sizeably would have that decision made for them.

Based on this reaction, in all likelihood an exigent increase in this economic environment would be a net revenue *loser* to USPS because so much additional volume would depart the system.

Thank you once again for this opportunity to present NPPC's views. I'd be pleased to answer any questions you may have.

Mr. LYNCH. Thank you, sir.

Mr. Cerasale, you are now recognized for 5 minutes.

STATEMENT OF JERRY CERASALE

Mr. CERASALE. Thank you, Mr. Chairman, thank you, subcommittee, for giving us the opportunity to be here. DMA wants to thank you, Mr. Chairman, the subcommittee, and the entire committee for H.R. 22. We all need a postal service, a financially viable one, and the short-term—sadly, it is now short-term—help that H.R. 22 gives us imperative.

The financial condition of the Postal Service is precarious and, sadly, it is not improving at this point in time. The Postal Service has to grow volume; it has to become more efficient. But, at the same time, mailers are facing the same financial conditions. The 22 percent drop in standard mail advertising reflects that fact.

As the economy comes back, some of this mail will come back. But, sadly, we don't think all of it will come back. Mailers cannot shoulder another rate increase. As a matter of fact, that rate increase may in fact prove fatal, both for it and the Postal Service. We therefore support the summer sale the Postal Service has put together in trying to increase mail volume. We hope that this will be duplicated in the future with more advanced notice and will be taken greater advantage of to try and get mail back into the system.

Looking on the cost side, everything has to be on the table. As our group, mailers, we are willing to talk about everything to try and reduce cost. The things you are looking at here today, looking at the delivery route adjustments, they have been going on for my entire lifetime. My time up here as an employee in the House, one of the complaints that I always had at the Committee on Post Office and Civil Service was my mail is not coming at the same times it used to; complaints from businesses as well as individuals, and that, in fact, has happened all the time as the demographics, the geographic distribution of the American population has changed.

Right now we have to look at it from the point of view of decreased volume, decreased revenue to afford the route system that we currently have, and the good thing is that the Postal Service is working with the NALC on looking at these route adjustments. But these have been happening before. Sadly, the economic times are forcing this to happen more rapidly at this point in time.

But I think, from our view, the Postal Service is doing the right thing and working with their employee groups to try to get this right. Now, it hurts some of our members, because they are not going to get the mail at the same time they received it before, but that is one of the things that we are all working together to try to keep the Postal Service strong and viable.

Looking at the stations and branches, it is our understanding that the Postal Service is looking at not at rural offices. They are looking at the proximity of other stations and branches to the one that they are thinking about closing; looking at the retail trends at that branch; looking at the impact on the employees, the impact on the community, which is very important; they are looking at the savings, the net savings. If you close this facility and you have to move employees and carriers come out there, there is more time.

The net savings has to be there. And then the ability of other stations and branches to handle the traffic that is being closed. So those are the things.

I think the setup that the Postal Service has put together, they are looking at the right things; they are asking the correct questions. And there is always the point of a PRC, Postal Regulatory Commission, appeal. As the Postal Rate Commission in 2006, the PRC, in an opinion, did say that if this closed, the only postal retail service in a community, even if it wasn't specifically a post office with a postmaster, but a station and branch that they had jurisdiction. Not everyone agrees, but that ability stays and this effort by the Postal Service doesn't change that factor.

We all need the Postal Service, and we all have to chip in. All of us have to chip in for its survival. We appreciate the fact that you are aware of that, you are looking at that, and we are here to try and help and do our part as well. Thank you.

[The prepared statement of Mr. Cerasale follows:]

TESTIMONY OF
JERRY CERASALE, SENIOR VICE PRESIDENT
DIRECT MARKETING ASSOCIATION
Before
THE SUBCOMMITTEE ON THE FEDERAL WORKFORCE, POSTAL SERVICE AND THE DISTRICT OF COLUMBIA
July 30, 2009

Chairman Lynch, members of the Subcommittee, I am Jerry Cerasale, Senior Vice President for Government Affairs of the Direct Marketing Association (DMA). I am pleased to be here today representing DMA and its member companies that market directly to consumers through multiple channels. DMA members collectively account for some 80% of the mail collected, processed, and delivered by our U.S. Postal Service. Founded in 1917, DMA represents more than 3, 500 companies from dozens of vertical industries in the U.S. and 50 other nations, including a majority of the Fortune 100 companies, as well as nonprofit organizations. Membership includes catalogers, financial service companies, charities, book and magazine publishers, retail stores, industrial manufacturers, Internet-based businesses and the service industries that support them.

Before I speak to the subject of today's hearing—an examination of the Postal Service's "Station and Branch Optimization Initiative" and its "Delivery Route Adjustments"—I want to take this opportunity to thank you and your colleagues on the Oversight and Government Reform Committee for favorably reporting HR 22, a bill that will provide the Postal Service a portion of the much needed financial relief by adjusting for three years the scheduled payments to the Retiree Health Insurance Fund.

As you can imagine, the current economic conditions have dramatically affected direct marketers. Orders for goods and services have declined, as have profits. This has led to layoffs and a significant reduction in advertising. Suppliers have been hard hit as

well with declining orders. One of DMA members' major suppliers, the Postal Service, is facing drops in advertising mail volume of 22%. This drop in advertising, however, does not signal the obsolescence of the Postal Service. Hard copy delivery of advertising and products will be a part of the multi-channel marketing for DMA members for the foreseeable future. We need a financially viable Postal Service—one that survives this economic recession in the short run and maintains its viability as a marketing channel in the long run. When the economy rebounds, mail volume will return, but not all of it. Newer channels of communication will continue to grow and new channels will emerge in the media mix that will still include the Mail.

The Postal Service has long faced the challenges to its financial well being presented by the changing communications landscape. It has withstood the challenges of the telegraph, the telephone, the advent of facsimile transmissions and, so far, the Internet. It has done so by offering a cost effective delivery service to every home and business in America. These economic times and the burden of scheduled payments to the Retiree Health Insurance Fund are forcing—actually requiring—the Postal Service to review its entire operation to make it more and more efficient without the benefit of any tax revenues. The Postal Service is aware that its customers cannot shoulder another postage increase without further damaging—perhaps fatally—their ability to use the Mail as a marketing channel. Mailers are very, very concerned—in fact, fearful—that they may face an exigent rate increase in 2010—one that is far above the CPI.

The Service is focusing on increasing mail volume and cost containment. DMA is a strong supporter of the Summer Sale, and we hope that the Postal Service will look to

offer another sale in the near future that will apply to all mailers who increase their use of the Mail.

On the cost containment side, although its cost containment efforts have been fairly successful over the past several years, an almost twenty five percent decline in mail volume over the past two years brought on largely by the economic downturn has forced the Postal Service to re-examine how it can best provide consistent, affordable and reliable access to services throughout the Nation.

It has already moved "network realignment"—the need to which Congress specifically spoke in the Postal Accountability and Enhancement Act [Section 302(c)]—from the drawing board to implementation. In the short-term these network changes will require commercial and nonprofit mailers to make adjustments to their business models and incur costs but will provide long-term savings for the Service and its customers, in turn.

The two matters before the Subcommittee today, delivery route realignments and the consolidation of stations and branches, are part and parcel of a broader and timely examination of other changes that may be required in order to ensure affordable and consistent universal service on a nation-wide basis for individuals, businesses, and nonprofit organizations.

Delivery Route Adjustments

The concerns of mailers, postal employees, and communities which may ultimately be affected by either of these initiatives is certainly understandable. However, I think it is important to keep in mind that while the scale may be greater than any time in the past, delivery route realignments are and always have been a part of operational

adjustments to accommodate changing workloads. I can attest to the fact from my time as Deputy General Counsel of the former House Post Office & Civil Service Committee that major complaints associated with these delivery route adjustments came from individuals and businesses that received their mail at a different time of the day than had previously been the case. As we all know, everyone cannot be the first delivery point on the route! Declining mail volume combined with new delivery stops requires a major readjustment. DMA is pleased that the Postal Service is undertaking this efficiency improvement. We are also encouraged that the Service is working closely with the National Association of Letter Carriers to effect these adjustments. All of us, citizens, mailers, employees, and management, have a vital role to work together to improve the financial footing of the Postal Service.

Station and Branch Optimization

Americans now have the ability to obtain postal "retail" services online or at kiosks. We can purchase stamps online, in the mail, and at the grocery store. The Postal Service station and branch optimization initiative is a review of stations and branches—not Post Offices—in urban—not rural—areas. As I understand the program, the Service will evaluate the station and branch network using the following criteria:

- Proximity of the station or branch to other stations and branches;
- Retail transaction trends at the station or branch;
- Impact on employees of consolidation of the station or branch with another;
- Concerns of the community and the customers;
- Savings that can be captured from a consolidation;
- Alternative access to postal services available to customers; and,
- Ability of a nearby station or branch to accommodate the retail traffic.

Following these criteria will provide the Postal Service with input from all who might be affected by a closing or consolidation of a station or branch retail outlet. This is an approach with which the DMA agrees. Citizens and businesses will have their opportunity to express their concerns and their fears. In turn, the Postal Service will have the opportunity to allay them. Employees will also have the same opportunity. In the best of worlds, this effort may not be necessary. Sadly, it is required today.

Once a decision to close a station or branch is made, however, the community still has an opportunity to appeal to the Postal Regulatory Commission (PRC) that the closing would eliminate a retail postal presence for the community. The PRC will determine whether it has jurisdiction and, if it so finds, any final determination on the fate of a station or branch will be made on the facts in each particular case. (See PRC Order No. 1480 in Docket No. A2006-1.)

Mr. Chairman, one issue that all agreed on during the consideration of the postal reform effort ultimately embodied in the Postal Accountability and Enhancement Act of 2006 (PAEA) was the need for increased transparency on the part of the Postal Service in its dealings with the mailing public, the public's elected representatives, and its regulator, the Postal Regulatory Commission. With respect to the matters before us today, I believe that the Postal Service is making a good faith effort to be more open. I commend you for calling this hearing and making the light a bit brighter.

In closing, I want to thank you again for the opportunity to participate in today's hearing and would be happy to answer any questions you may have.

Mr. LYNCH. Thank you, sir.

STATEMENT OF MICHAEL MURPHY

Mr. MURPHY. Mr. Chairman and members of the committee, thank you for allowing me an opportunity to appear before you today to discuss some of the challenges facing the mailing industry and the Postal Service.

My name is Michael Murphy. I am the president of Japs-Olson Co., located in St. Louis Park, MN. We are a family business that has been in operation for more than 100 years. Our business is printing and mailing. We will produce more than 600 million pieces of mail this year for all types of customers across the country.

I am here today also as chairman of the Board of the Mailing and Fulfillment Service Association. MFSA is the only association solely representing the mailing industry. We have approximately 600 members, which are comprised of printers, mailing service providers, product fulfillment companies, as well as suppliers to the trade.

Needless to say, the Postal Service is a vital partner in our businesses. Therefore, we believe it is important that the Postal Service have the complete support of Congress to manage its networks efficiently and to scale its infrastructure in proportion to its business needs. Our company and MFSA members urge the Congress to allow the leaders of the Postal Service to do their jobs and to manage their public institution with the same goal of efficiency as that of private industry.

The Postal Service's Board of Governors, the Postmaster General, and the agency's senior executives must be given the latitude to make the decisions necessary to return the postal system to profitability. Those decisions include the necessary measures that are essential to control cost and, in turn, postal rate control.

We hear some suggest that many of the messages carried by the Postal Service can be diverted to electronic distribution. To the extent that this is true, it could result in hundreds of thousands of jobs lost in the industries that depend on this distribution system. In just the current recession, thousands of jobs have already been lost in the supply chain that relies on the mail.

Our association's experience over the past 18 months suggests that, from just those companies that have gone out of business, we have lost 1,500 jobs. Extrapolating that to the industry as a whole, we believe that the industry has lost no less than 15,000 permanent jobs during that same period.

Even with the challenges we have been facing, there are still more than 8 million people whose employment is affected by the postal system. We owe it to these people to ensure that the postal system is on firm financial footing and will be a viable public service in the future.

Thank you.

[The prepared statement of Mr. Murphy follows:]

STATEMENT OF

MICHAEL MURPHY
PRESIDENT, JAPS-OLSON COMPANY
&
CHAIRMAN, MAILING & FULFILLMENT SERVICE ASSOCIATION
before the
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES

July 30, 2009

Mr. Chairman and members of the Committee, I want to thank you for allowing me an opportunity to appear before you today to discuss some of the challenges facing the mailing industry and the Postal Service. My name is Michael Murphy. I am the President of the Japs-Olson Company of St. Louis Park, Minnesota. We are a family business that has been in operation for more than 100 years. Our primary business is printing and mailing for customers of all types. Our company will print and mail more than 600 million pieces of mail this year. Needless to say, the Postal Service is a vital partner in our business.

I am also here today as Chairman of the Board of the Mailing & Fulfillment Service Association. Our association is the only trade association representing the mailing industry, with approximately 600 members who are printers, mailing service providers, document and product fulfillment companies, and suppliers to the trade.

I know that members of this committee are quite familiar with postal operations, but some of the issues we are discussing today are not frequent topics of hearings, so I would like to outline to you some of the issues we face in working with the Postal Service and how actions of the Postal Service affect our business.

First and foremost, we are economic partners with the Postal Service. Our customers and clients need a cost effective and efficient postal system to get their products and messages to their customers. With that in mind, we believe it is important that the Postal Service have the complete support of Congress to manage its retail, processing, and delivery networks efficiently, and to scale its infrastructure, including processing facilities, delivery routes, and retail stations and branches in proportion to its business needs. We believe this is also consistent with the intent of the postal reform legislation passed by Congress in 2006.

I suspect every witness appearing before you today shares the view that growing the mail is a very important objective. However, I must emphasize that the Postal Service's customers – the retail and commercial ratepayers who choose to use the mail – are directly influenced in their choice by the costs of using that service. Accordingly, the more cost effective and efficient the Postal Service is, the more its rates are affordable, and the more likely companies and individuals will continue to use the mail.

Our industry is facing a crisis. The current economic downturn has taken billions of pieces of mail out of the system as companies have changed the amount and frequency of advertising and altered how they bill and communicate with customers. Advertising mail volume is down 22 percent. This is consistent with the percentage of advertising reduction we have seen in print media during this difficult period of time. A similar drop has occurred in the volume of correspondence and transaction mail, a major contributor to postal revenue. In many cases, companies that were significant customers of the Postal Service have disappeared.

We have no real experience with a market decline of this nature, but it is reasonable to assume that much of this lost volume is not going to return to the postal system. In the past, this was not true. Previously, a growing economy meant growing mail volume; however, in 2009, the options for communication and advertising are extensive. Individuals and companies can communicate electronically. We know that bills can be paid on line and we know that many companies that send these bills are encouraging their customers not to use the mail for remittance. We know that advertising on the internet is growing. Email advertising is getting more sophisticated. We also know that mail continues to be a preferred means of communication for a segment of the market and a very effective advertising tool. But what has happened in recent years, and especially during this recession when cost controls are essential, is that originators have found less expensive alternatives to hard copy mail, and their use of those alternatives likely will continue after the recession eases. As I stated earlier, mail volume lost this way is not coming back, and less will return if Congress does not fully empower the Postal Service keep in check those costs which it must recoup through postage.

So what does all of this have to do with routes and facilities?

The Postal Service provides at least two important functions in the United States. First, it is the primary distribution and delivery service for a wide range of products and messages, most of which are printed. The other is that it is a tangible presence and source of identity in every community and touches virtually every household six days a week. The problem that must be addressed is that if the Postal Service is not enabled to perform the first function efficiently, it cannot afford to continue doing the second.

In our opinion, all of us in this room need to be advocates for growing the mail. It is equally important that all of us involved with the Postal Service – paper companies, printers, mailing service providers, publishers, advertisers, employees of the Postal Service and elected officials – recognize that we have a role to play in assuring that the system is cost effective, efficient and well managed so that it can perform the functions

we have given it. Accordingly, we need to accept the premise that, if we are to hold postal management accountable for the viability of the agency, we must afford them the necessary latitude to run it. Indeed, given that we've charged them with operating in a business-like manner, we must empower them to use business principles and make business-like decisions, including those difficult decisions that need to be made when its business becomes smaller. We would expect the management of a private company to adjust its size to fit its operating needs so, if we are true to the principle of operating the Postal Service in a business-like manner, we cannot expect it to support excess capacity while maintaining the mandated level of efficiency.

As tempting as it is to manage the Postal Service through the political process, our company and MFSA members urge the Congress to allow the leaders of the Postal Service to do their jobs, and to manage their public institution with the same goal of efficiency as that of private industry. The Postal Service's Board of Governors, the Postmaster General, and the agency's senior executives must be given the latitude to make the decisions necessary to return the postal system to profitability. Those decisions include the necessary measures, such as restructuring retail, processing, and delivery networks, that are essential to cost control and, in turn, postage rate control and volume growth. The public discussion of the Postal Service's current condition cannot be parsed to disconnect cost control from the agency's ability to provide affordable service to the nation.

The full economic significance of a nationwide delivery system is not often understood. The Postal Service is a huge public institution, but it is also a vital piece of the U. S. economy. Paper is produced in mills throughout the country for products entering the mail system, 47 percent of print is intended for postal distribution and over 90 percent of magazines are delivered by the U.S. Postal Service. Printing and mailing are performed by businesses large and small all over America. Failure of the postal system will create economic disruption in each of these industries as well as many others.

We hear some suggest that many of the messages carried by the Postal Service can be diverted to electronic distribution. To the extent that is true, the nation needs to prepare itself for hundreds of thousands of jobs that may be lost in the industries that depend on this distribution system; in just the current recession, thousands of jobs have already been lost in the supply chain that relies on the mail. Our association's experience over the past 18 months suggests that, from just those companies that have gone out of business or suffered significant economic reverses, at least 1,500 jobs have been lost. Extrapolating that to the industry as a whole, we believe that the industry has lost about 15,000 jobs over that period. And, I would think this is a conservative estimate. Even with the challenges we have been facing, there are still more than eight million people whose employment is affected by the postal system. We owe it to these people to assure that system the firm financial footing to be a viable public service in the future.

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Mr. LYNCH. Thank you, sir.

I yield myself 5 minutes.

May I start with Mr. Small? What I would like to avoid is the situation that we had with the AMPs, what is it, the mail—area mail processing facilities. All these acronyms.

We had a situation with the mail handlers out in Atlanta, I think it was, where they identified one of their stations for closure, one of these AMPs, and they gave the employees the opportunity to relocate to Oklahoma City as part of that closure. Obviously, that sent the employees through the roof, and I don't think it was a thoughtful process.

While I admit that the finances here are very grave, as a number of you have pointed out, there is the need, nevertheless, to conduct ourselves with, I think, a thoughtful approach to this consolidation and do it in a way that causes the least bit of disruption and with all respect to these communities and to the employees that are affected; and I think it is possible. We have 37,000 post offices out there, and I am sure that there are some that are close to each other and that we can work this out.

But I have to ask you what are the criteria? You are making these decisions. You have, what, 3,200 that you have identified?

Mr. SMALL. Correct.

Mr. LYNCH. And there are, you think, probably 1,000 out there or a little less than 1,000 that might actually be eligible for closure?

Mr. SMALL. Less than 1,000 that require further review.

Mr. LYNCH. OK. Well, I know that the rural post offices are off the list because, if you close one of those, you have somebody driving 200 miles to a post office; and I understand that. So we have a hold harmless provision for those post offices that says even though they are not making enough money to sustain themselves, we are going to leave them in there because we have to provide essential services. Yet, you have another post office in an urban area, maybe a poor minority area in an inner city that is not generating enough revenue to sustain itself either, and we are going to close that; and I think Mr. Sires's testimony was on that point.

What are you using as the standard here? What are the criteria? Can we figure that out? Do you have that laid out somewhere? With 37,000 facilities here, we would like the opportunity to be able to explain to our constituents what the process was. It needs to be transparent, it needs to be fair, it needs to be consistent; and hopefully it will make sense, it will make sense economically, consistent with your goals, while at the same time providing adequate access.

So what are the factors you look at in determining whether somebody is eligible on the 3,200 list? How are they determined?

Mr. SMALL. Thank you, Mr. Chairman. As I stated and you stated, we are looking at, now, less than 1,000 offices, because, out of the 3,200, the 2,200 were immediately eliminated for consideration for various reasons, which I will go into as part of the criteria.

Part of the criteria is what is the proximity of nearest services; what are the mailing habits and consuming habits of the American public with the Postal Service within those areas. We have found that we have seen close to 5 percent less activity at our retail

units, while the percent of the American public going to our Web site at USPS.com has increased.

Customers also go to various other means of alternate access. So we look at the proximity of the nearest services; we look at is there adequate parking at the nearest services; we look at the mailing habits of the public in that area where a station and branch is being served.

Mr. LYNCH. OK. Well, I think my time has just about expired, so I will do a followup later on, maybe in the second round.

The Chair recognizes the gentleman from Utah.

Mr. CHAFFETZ. Thank you.

I appreciate you all for being here and sharing your comments and expertise. I would like to start with the GAO, if I could.

How many agencies or government entities are currently on the high-risk list? I am just trying to get a perspective.

Mr. HERR. Twenty-nine, sir.

Mr. CHAFFETZ. Twenty-nine?

Mr. HERR. Twenty-nine, yes.

Mr. CHAFFETZ. At one point, the Postal Service was taken off the high-risk list.

Mr. HERR. That is correct, yes.

Mr. CHAFFETZ. Just to highlight again—I know you talked about this in your testimony, but the top reasons on why the urgency. I think I understand the financial needs, but is there something else above and beyond the financial peril that they are in?

Mr. HERR. There are two different ways we look at the high-risk list. In the one we used with regard to the Postal Service is areas or agencies that we think are in need of broad transformation. So, in this case, the Postal Service met that criteria. I think the other thing is we tracked the financial condition over the past year and we looked at those numbers deteriorating. That made the case more compelling. If you add in the mail volume drop, it suggests that a broad look at this was needed and we, therefore, made that decision.

Mr. CHAFFETZ. I would like to hear about the 5-day delivery. Is that something, Mr. Small or Mr. Waller, that has definitively been decided? You are thinking about it. Is that something that you think would happen week in, week out?

Mr. SMALL. We haven't concluded the study. We should be finished with the study in the next couple of months, but——

Mr. LYNCH. Mr. Small, is your mic on?

Mr. SMALL. Yes, sir.

Mr. CHAFFETZ. Maybe a little closer, just a little closer.

Mr. SMALL. We have yet to complete the study. The study should be completed shortly, and we view it as the only viable option right now——

Mr. CHAFFETZ. Can you give me a specific date?

Mr. SMALL. I don't have a specific date, but I will provide one for the record.

Mr. CHAFFETZ. That would be great.

And who is participating in that study? We have a lot of organizations, unions, whatnot, that are here. Who is participating or, more importantly, not participating in the input that will go into that study?

Mr. SMALL. We are working with the various stakeholders to get their feedback; our customers, the PRC, and also the unions. We have talked to the unions about these tough issues associated with 5 day delivery. Members of Congress. So we are making sure that we talk with all of our stakeholders to understand what potential issues they would have by going to 5 day delivery.

Mr. CHAFFETZ. And those of you that represent the use of the Postal Service from more of a customer standpoint, can you give me—maybe starting with Mr. Murphy—your perspective on what would happen with 5 day delivery, as opposed to 6?

Mr. MURPHY. Well, we would support 5 day delivery in the sense that it is a big area to control cost, and we feel that is very, very important, overall, for this system to be pegged to what is happening in the marketplace. So I would rather not have it, but it is one of those items that is on the table and will be valuable.

Mr. CERASALE. Our membership is somewhat divided. Some of them——

Mr. CHAFFETZ. Five and a half day delivery?

Mr. CERASALE. Right. Some of them 5 day delivery would not be a major impact. The Postal Service is talking about Saturday. Saturday delivery is very important for them.

But I think all of them are looking at what are the tradeoffs. The savings from 5 day delivery, what other things are going to happen to try and improve the Postal Service? One of the things we have to worry about is dramatic reduction in service and raising rates. That really doesn't come out to a very good solution. So those are the things that we are looking at. We are waiting to take a look at an entire plan and we are hoping to see what the study the Postal Service comes up with is.

Mr. CHAFFETZ. Mr. Sackler.

Mr. SACKLER. Mr. Chaffetz, we are in a similar position to Jerry's members. We are not so much divided. I think the sentiment generally is we wouldn't want to do this. We need to have 6 days of delivery, but, again, what are the tradeoffs? How do you get to a position where you resolve the Postal Service's difficulties? So as part of a larger solution, I think it could be something that could be seriously entertained, and if it were done, it would be a sacrifice.

Let me just give you one example. We have quite a few banks and financial institutions in our group, and for them remittances flowing 7 days a week are vital. But it is not just that. If there is a day of delivery that is taken out, then it takes longer for bills to get there in the first place; there are changes to float and, therefore, to business practices, to financial viability, to responsibilities to shareholders, and so forth. It is not an uncomplicated situation. So our view is, if it is done, it has to be part of a larger long-term solution.

Mr. CHAFFETZ. Thank you. I see my time has expired.

Thank you, Mr. Chairman.

Mr. LYNCH. I thank the gentleman.

Who seeks recognition? The Chair recognizes the gentlelady from the District of Columbia, Ms. Holmes Norton, for 5 minutes.

Ms. NORTON. Thank you very much, Mr. Chairman.

First, let me go to get something clarified. Mr. Herr, the GAO report, with this title, could have been written, at least this title, any

time in the last, I don't know, 10 years. Broader restructuring needed to address deteriorating finances. Why was the Postal Service taken off the high-risk list in 2007, please?

Mr. HERR. There are a couple of things factored into that. At that point, the Postal Service didn't have outstanding debt. The other thing is Congress had taken action to pass the PAEA Act and we thought that would lay some of the groundwork going forward.

Ms. NORTON. But it would still have needed across-the-board restructuring, would it not?

Mr. HERR. Well, the other thing is mail volumes have dropped precipitously since that point. We have seen, just this year——

Ms. NORTON. But, of course, that was predictable in 2007 as well. I ask this question because the only thing I can think of that is worse than collapse of the constitutionally mandated Postal Service is for it to do what it is doing now, falling apart piecemeal before our very eyes; and when that happens, it is the element of surprise and clear absence of planning.

My question really goes, I suppose, to Mr. Small initially. Here we are still talking about a 5-day week. Even though almost 70 percent of the American people say that they would favor a 5-day week, we are still talking about it. We have been talking about it now for a very long time. I noted in your testimony you talked about flat sequencing, indicating the Postal Service did understand that sometimes you have to invest in order to, if I may use the word, right-size. Only now are we talking about consolidation in any kind of meaningful way.

Is there a plan for right-sizing the Postal Service so that we do not come to these hearings to hear of various economies and efficiencies that one would expect from a business that has to do what many have to do now, which is simply take some efficiencies pending something? I don't know what is pending here except collapse, and I don't hear that there is a right-sizing plan of any kind that the Postal Service is engaged in, seeing all the handwriting on the wall that I think even the average American can see right now. What right-sizing plan do you have or do you intend?

Mr. SMALL. Well, I think if you look at the cost-cutting and efficiency gains that we have employed this year, we are on track to save over $6.1 billion. The major components of future right-sizing of the network, the big issue to provide significant systemic response to the problem, and that would be 5 day delivery. The second issue, we have undertaken the transformation of our BMC network——

Ms. NORTON. Are you moving toward erasing deficit, Mr. Small——

Mr. SMALL. By cost-cutting——

Ms. NORTON [continuing]. So that you can operate the Postal Service without a deficit, inasmuch as the Treasury is not open to you?

Mr. SMALL. The network change and the changes in improvements in efficiencies are working toward reducing the deficit.

Ms. NORTON. Could I ask if any of you know what your competitors, the private post offices, what kind of shape they are in, the FedExs, UPS? UPS might be a good example because it is a union company. You are competing with these various privatized version

of much of what you do. They don't deliver the mail, but you have gotten into their business. Have you looked into those businesses to see how your competitors are faring and whether or not there is anything that they are doing that you could benefit from? Yes, sir.

Mr. SMALL. Yes. We are in constant communication with our competitors. Matter of fact, we have ventures with our competitors, such as FedEx, using their air network to fly our product. Also, both FedEx and UPS use us as their last mile for many of their products.

Ms. NORTON. I think we need to hear more about that, in terms of right-sizing the post office.

Now, look, I am going to ask you a question. This is not a NIMBY question; I will not object. And Members have to understand that if you are more transparent about it and if it is part of right-sizing, we have to be prepared to defend what you have to do with respect to postal services. Having said that, are there any post offices in the District of Columbia, or postal stations, under review for closing? See, that is something that any Member ought to be able to ask and get an answer to.

Mr. SMALL. I believe that a list was submitted to this committee yesterday. Offhand, I couldn't personally tell you if there are or not stations in the District of Columbia, but I would be happy to provide you with a copy for the record.

Ms. NORTON. I would appreciate it. This is what I think needs to happen. The Postal Service is just too slow. You are going to have to reach out to communities. You are going to have to get feedback. You are going to have to hear all the protests. Transparency begets protests. You are moving so slow that I think that you are not ahead of the decline and, forgive me, fall of the Postal Service unless you can hasten this process with the kind of right-sizing that puts it all before us so we know what has to be done.

Thank you very much, Mr. Chairman.

Mr. LYNCH. Thank you. Just to clarify, we did get the list yesterday. I notice there are six Washington, DC, post offices that have been identified for full study, and I notice in my district there are three suburban post offices that have been identified for full study as well.

The Chair recognizes the gentleman from northern Virginia, Mr. Connolly.

Mr. CONNOLLY. I thank the Chair.

Mr. Herr, is there some concern, should there be some concern that, with the best of intentions, some of the cost-cutting measures being contemplated or undertaken could prove to be counterproductive? When I listen to some of the measures we are looking at, I am struck by the parallel with the newspaper industry.

Declining advertising accelerated in the recession, some of which won't come back; advertising gravitating toward online newspapers that are free, but not enough to make it a viable business model, at least not yet; giving away newspapers free at Metro stations, further accelerating the loss of paid subscribers, because why would I pay for a newspaper I can now get for free; consolidating offices; closing bureaus, downsizing constantly, and, yet, it doesn't seem to have righted the ship of state, if you will.

In the case of some of the actions being contemplated, we are looking at consolidation so there are fewer points of entry on the system, which may be a very prudent thing to do, but I am struck that the competition has points of entry all over the place. Not full offices, necessarily, but very convenient drop-off points if I want to participate in their system.

I think that the competition is available for 6 if I want to pay for it. Raising fees, as has been stated by Mr. Sackler, there is probably some upper limit to how much we can get away with that without making ourselves less viable and driving away even more customers.

So I am just wondering. There is no implicit criticism, necessarily, of the steps, but have we looked at the risk of unintended consequences by way of counter-productivity like cost-cutting measures?

Mr. HERR. Congressman Connolly, thanks for that question. It is an interesting point. In looking at this, one of the things we are suggesting is that the Postal Service needs to articulate the plan. It talks about how it can take action, but you mentioned, say, differing entry points for mail. That is why it would be important to coordinate with the folks in the mailing industry about how that would roll out, so it could be done in a way that people understand what that change would entail. The Postal Regulatory Commission may have a role in terms of reviewing some of those cases as well.

There are a lot of different pieces that go into maintaining universal service throughout the country. I understand that some distribution centers from Maine to Arizona, from Florida to Alaska, to do that you would require a network of processing facilities. In terms of the retail side, one of the things that we noticed, there are 37,000 facilities, but 30 percent of the retail revenue is not coming through post offices, it is coming from alternatives; grocery store sales, things of that nature.

In talking with folks at the Postal Service about this retail initiative, one of the things I was struck by is there is somewhat of a qualitative assessment at the community level, trying to ensure that if there is a senior citizen community or groups that are being served, that would be factored into that decisionmaking.

So there are tradeoffs, but the other side of it is that there is also a great decline in the amount of mail going through the system. And one of the bedrock principles that the Postal Service has been operating under is being self-sustaining. So factoring those things into consideration and these changes, we think a restructuring plan, Congress, the administration looking at that would be an important step.

Mr. WALLER. A couple of things I would like to say first in regards to the list of post office stations and branches under consideration, at the meeting I mentioned this morning that occurred at the Commission, the Postal Service promised to give a list of the 677 facilities that are going to be studied. When they file that, that will go up on the PRC.gov Web site immediately, and that will be available to all people in the country through that to look at whose and where, etc.

This issue of looking at it as a whole thing is also of concern as we look at a process like this. Last time we did an advisory opin-

ion, it was on the processing facilities and the Postal Service's plan for looking at that, and found quite a few problems that existed in the planning process at not looking at how many real savings were going to be achieved through that process and what backlashes might occur in productivity.

Second, in the work the Commission has done so far looking at the route reduction from 6 day to 5 day, one of the things the Commission included in its analysis was an estimate of the drop-in volume that might occur, and that is about a $600 million impact. So looking at all these issues and not looking at it too narrowly is extremely important.

Mr. CONNOLLY. Thank you.

Mr. Chairman, I see my time is up. I would just say if Mr. Clay were still here, I know he would want to ask that going beyond short-term measures to return ourselves to solvency, what is the long-term business model we are confident is viable. But, of course, Mr. Clay is not here to ask that.

Mr. LYNCH. Maybe Mr. Davis wants to ask that question. The Chair recognizes the distinguished gentleman from Illinois, Mr. Davis, for 5 minutes.

Mr. DAVIS. Thank you very much, Mr. Chairman. Let me thank you for calling the hearing. I also want to thank all of the witnesses for appearing.

I think that some of us have known pretty much that we were going to be at this juncture probably for quite some time. I think we were hoping against hope that we would not really get to this point. So let me just say, first of all, Mr. Small, I don't envy Mr. Potter and yourself and other members of the staff and the Board of Governors as you try and wrestle with this problem and figure out what is the fairest, most effective, most efficient way of making sure that our Postal Service remains solvent, recognizing the economics and the status of our economy.

I know that there is the study underway relative to 5 day delivery. What other cost-cutting proposals did you consider before reaching the point of sort of settling on the reorganization of facilities plan?

Mr. SMALL. I think if you look at our cost-cutting efforts and what has been able to enable us to achieve $6.1 billion this year in cost savings, we have reduced overtime; we have minimized the use of the supplemental temporary work force; we have adjusted routes, both city and rural; we have currently implemented a network structure change transforming the bulk mail centers into network distribution centers, consolidating package and standard operations to realize economy's scale and efficiency in processing, and reduced redundancies in transportation.

We have also embarked upon, as was referred to before, the AMP effort, where we have consolidated outgoing operations to better utilize equipment in certain plants, as well as compressed tours to, again, take advantage of the unprecedented drop-off in volume and being able to provide a more efficient means of utilizing our equipment within our plants.

Mr. DAVIS. So one could really say that you are down to the point where you don't have many options left; you don't have many other

places to go. Or I guess we would say you are between a rock and a hard place.

Mr. SMALL. The last big option is, unfortunately, the need to go from 6 to 5 day delivery. That is the one big piece out there that would add to helping us maintain liquidity and be viable.

Mr. DAVIS. Thank you very much.

Mr. Herr, let me ask you. I know that GAO has taken the position, before now, time and time again, that there were some other cost savings, cost-cutting approaches that the Postal Service perhaps could have taken sometime before now. How do you feel in relationship to what they have done and the plan that they have put together?

Mr. HERR. I think at this point we have been looking over the past year, at some of the low-hanging fruit in terms of overtime and things like that have been taken into consideration; the route adjustment process that Mr. Small referenced. We have a report that came out today that talks about that initiative. And I think if volumes continue to decline, there will be additional opportunities there.

We still believe that there are opportunities in terms of the broader facilities. We talk about that in terms of the processing network. We know there are some consolidation studies that are still underway, but we think that this broader plan that is referenced in our high-risk report would be a next starting point to help achieve some consensus about where this might go going forward, sir.

Mr. DAVIS. My time is about to expire, but let me ask you, Mr. Small, did the Postal Service apply for any of the economic stimulus money?

Mr. SMALL. No.

Mr. DAVIS. Is there a reason that you didn't?

Mr. SMALL. I think that question would be better answered or is outside of my scope of being able to answer that question.

Mr. DAVIS. All right, I understand that. Thank you, very much. And thank you, Mr. Chairman.

Mr. LYNCH. Thank you, sir.

The Chair now recognizes the gentleman from Utah for 5 minutes.

Mr. CHAFFETZ. The gentleman brings up a great point about we are spending all these trillion dollars and here we have a constitutionally mandated service that truly does benefit and service every single American. It does seem that it would be appropriate that while I would have voted and have voted against the stimulus money, that some of those moneys should have been allocated to this service, which not only benefits individuals, but businesses alike. I think we should explore that a little bit more if there are opportunities moving forward.

A question for you about the 3,200 or so post offices that are closed. What is the estimated savings by doing that?

Mr. SMALL. This is a bottom-up approach, and since we have reduced and we are continuing to the next days beyond the preliminary study with the less than 1,000 offices that we are going to——

Mr. CHAFFETZ. Do you have some sort of range of dollars?

Mr. SMALL. No, we won't know until the beginning of October when we continue——

Mr. CHAFFETZ. But the other 2,000 or so, you don't have any understanding what——

Mr. SMALL. The whole cost center, if you look at the entire cost center of those 3,200 offices, that includes carrier operations, which, of course, would not be eliminated; rent; ownership of facilities; operations. That whole cost center is worth $16 billion.

Mr. CHAFFETZ. So if you break out the labor component, certainly there has to be some estimation of what the number is, is there not?

Mr. SMALL. Well, I think the reason why we cannot give you an estimate until October is because we have not taken a cookie cutter approach or set targets for how many would need to be eliminated. And only those that are in close proximity, provide ready access to the community would be under consideration, and we just don't know that number until the study is fully completed.

Mr. CHAFFETZ. Have you all taken a position on the bill H.R. 658 that we heard testimony in panel one on?

Mr. SMALL. Yes, and we don't agree with it.

Mr. CHAFFETZ. Why not?

Mr. SMALL. Due to our dire financial deteriorating situation, we have had this process in place for stations and branches for 40 years that seems to work. We have to be able to react quickly and rapidly to this financial situation.

Mr. CHAFFETZ. So if you gave them an extra 30 days, you think that would be unacceptable?

Mr. SMALL. I believe that the rules as they are currently applied are adequate.

Mr. CHAFFETZ. Mr. Herr, is there anything that you could add to what I was asking about previously, about the elimination of some of these facilities? Are the any cost estimates? There are several proposals that are floating around the Postal Service; 5 day delivery, consolidation of routes, those types of things. Has the GAO looked at what is realistic in terms of actual cost savings?

Mr. HERR. We have seen the two estimates that have been provided. The other thing that we have called for in prior testimony before this committee is that a study should be done and it should be made public so people can see and understand what those assumptions are. I know the PRC has one estimate for what 5 day delivery would result in, about $2 billion, John, is that correct, or $1.9, and the estimate from the Postal Service was significantly higher, about $3.5 billion. So once that comes out, we are very interested in taking a hard look at that and we would be happy to work with the committee on that if that would be of help.

Mr. CHAFFETZ. OK.

Mr. HERR. Your other question, we also asked about and one thing that has been a bit of a source of frustration is getting estimates about what savings might be achieved. We have noted in prior reports on the retail network that there are a lot of places that are in disrepair, so there is real maintenance backlog. So we think there could be cost savings there as well. It is not just moving folks, but some of these places have really fallen in derelict.

Mr. CHAFFETZ. Mr. Waller, it looked like you wanted to comment on that.

Mr. WALLER. Yes. This issue is one that already we are starting to push on in the docket, is what are the exact savings and can you bound it in some way. If you look at the way costs are accounted for in the Postal Service, retail clerks, which is what we are talking about here, and then if you add on all the extra costs, the space they take up and stuff like that, you are talking about $4.1 billion for all post offices, all stations and branches.

This is not a big cost item. So if you narrow it down just to station and branches, which I think is very important to come out in this hearing that the Commission has underway, to narrow it down, what is really the even potential savings.

Mr. CHAFFETZ. Thank you, Mr. Chairman. My time is up. I would just say that while we continue to talk about cuts and elimination, we also obviously need to look at relevancy and marketing and how we make the Post Office more relevant in the services; and I think one of the things that we need to spend more time on is the cross functionality that can happen. I was very pleased that you co-signed with me the potential of the Postal Service helping to conduct and do the enumeration portion of the census.

I think there are other creative ideas that we can do that can inject some cash sooner, rather than later, and make the Postal Service, again, increasingly relevant in people's lives. We have such great real estate facilities, people, all these assets are in place, and yet I don't believe our other elements within our own Federal Government are paying attention to those. It is so frustrating when you have the Federal Government utilizing services outside when we have these services internally. So I think we need to continue to explore that, and particularly the timing with the census, which I think would be a great asset.

I will yield back the remainder of my excess time. Thank you.

Mr. LYNCH. I recognize myself for 5 minutes.

Let me ask Mr. Small a hypothetical situation. We talked earlier about this desire to look at going from 6 to 5 day delivery. As you know, the Appropriations Committee, the subcommittee has again mandated that we retain 6 day delivery, but let's just entertain it hypothetically. Suppose I had a brother-in-law that delivered mail on Saturdays right now, a letter carrier. What happens to the letter carrier, he and others, when we shift to a 5-day delivery cycle?

Mr. SMALL. We certainly understand that change is difficult and are aware of changes that would occur with our employees. That assignment would basically be eliminated. The way carriers are structured, we deliver for 6 days a week. You have a regular carrier on a route for 5 of the 6-days and then you have a carrier who performs the regular carrier's duties on their day off.

We have a negotiated agreement with the National Association of Letter Carriers for a supplemental work force of 15,000 transitional employees, plus an annual attrition rate of approximately 11,000 carriers a year. We are very proud of the fact that we have never had to lay employees off and that we will continue to try to place any employee that is affected. But there is cushion available through the temporary work force and attrition to try to ensure that there is not a dramatic effect on our employees.

Mr. LYNCH. So you are saying that there are no layoffs or what are you saying here?

Mr. SMALL. I can't say or guarantee that there wouldn't be layoffs. If we look at it or the timeframe by which we would have to get this done, there is a possibility that we will be able to assume some of the affected employees through the attrition of 11,000 carriers and also the 15,000 that are temporary employees.

Mr. LYNCH. Is there a hiring freeze right now?

Mr. SMALL. Yes.

Mr. LYNCH. OK, let me ask you, going back to the consolidation of facilities. I know that the Postal Service owns some buildings and then, in other cases, we actually rent or we have long-term leases and options and what-not.

When you are looking at a potential closure—and I know, representing a city with fairly high rental space downtown, those expenses, to maintain facilities like that of any considerable size, it is a pretty expensive option. Do you have a way of balancing whether or not you close a facility based upon whether it is Post Office owned or leased?

Mr. SMALL. I think it would be determined by which facility can absorb the gaining facility. We have to weigh the balance of customer input and affect assets and services provided. I could think about—and I know you mentioned it on Fox News yesterday—offices that are close, a block away from each other.

In my former district, I can think of three examples right now where we had stations, three groupings of stations within a block of each other. Those are the types of facilities we would look at, and we would have to determine, if two facilities were consolidated into one, which facility had the adequate space, which facility had the adequate parking, and then make the determination based on whether it is a leased or an owned facility.

Mr. LYNCH. OK. Looking ahead, I think there is a system in Finland or Sweden. It is actually being replicated here in the United States. I think they call them Zumboxes or something like that, where a person can go online and see their mail, and they see what potentially could be delivered, and if they want to toss it, they can—if they want it delivered, they can click on it, and if they don't want it, if it is junk mail, they can get rid of it by clicking on it and putting it in the trash can. That will greatly reduce the volume of mail because people won't have to get their junk mail.

I know it doesn't make the mailers happy, but have you looked at anything like that for the Postal Service going forward? Is that the new model? Should we be preparing for that?

Mr. SMALL. I particularly do not have much knowledge of Zumbox, but I know there are folks who are studying it within the Postal Service. We are always looking for new products to bring out to the market. I think on the panel we heard earlier about the summer sale. We have also introduced the flat rate box and an advertising campaign around the flat rate box, which has been a huge success so far this summer. So we are always looking at new products to be able to go to market with to enhance our situation.

Mr. LYNCH. Thank you. My time has expired.

I am going to recognize the gentleman from Illinois, Mr. Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman. I only have two brief questions.

Let me ask you, Mr. Small, does this plan, that is, the facilities postal station reorganization, will it necessitate or cause any layoffs?

Mr. SMALL. This effort by itself, no.

Mr. DAVIS. So attrition would basically take care of those individuals who would have to go, and then there would be an opportunity to shift other employees to other facilities?

Mr. SMALL. The employees would be moved in compliance with our collective bargaining agreements.

Mr. DAVIS. The other question that I have is actually for Mr. Cerasale. Mr. Cerasale, I know that we are always trying to make sure that we take into consideration the needs of as many stakeholders as we possibly can, and it seems as though, if we get backed up against the wall, you don't have any choice, you have to decide something. If your members and associates were to decide what hurt them the most, would it be 5 day delivery or would it be reorganization of stations?

Mr. CERASALE. Five day delivery. Of those two, 5 day delivery would hurt more of my members than the reorganization of the stations.

Mr. DAVIS. All right. Thank you very much.

Thank you, Mr. Chairman.

Mr. LYNCH. Thank you, Mr. Davis.

The Chair recognizes the gentleman from Ohio, Mr. Kucinich, for 5 minutes.

Mr. KUCINICH. To Mr. Small, welcome. We have had the opportunity to work together in Cleveland years ago, and I appreciated that and I appreciate your commitment to the Postal Service. So don't take personally any questions I am about to ask you. [Laughter.]

How does the Postal Service ensure community participation in the decisionmaking process?

Mr. SMALL. For the station and branch consolidation effort, we have basically three different means with which we communicate with the public, depending on the size of the community. We either send a questionnaire seeking their input to their residence or we post at the local office, local station for a period of time seeking their input. All P.O. box holders get a hard copy form within their P.O. box soliciting their feedback. And we also will post community notices within newspapers for 5 days to seek the community input. Part of the process that we encourage is community meetings.

Mr. KUCINICH. Well, let's talk about the community meetings. Do you have any knowledge of how many community meetings you may have held in, let's say, 44111?

Mr. SMALL. No, I don't have that information. I can surely provide it to you.

Mr. KUCINICH. I haven't heard of any, and I know there is talk of consolidation there. So I think it is important to have community meetings. Would you be able to let this committee know what kind of community meetings you are talking about? I mean, do you actually send a letter to everybody in a certain zip code saying we are going to have a meeting at the Gallagher Post Office to talk about

postal consolidation, and here is what it could mean to the community and we want your input; here is the time and the place? I am not aware of meetings like that. And I think that considering the gravity of this, you owe it to your customers to do something that would be no less than that.

Mr. SMALL. Again, I would be happy to provide the committee with a copy of the template that we send to the local districts for dissemination to the community. Of course, each community is different and the makeup is different, so we ask the local offices to just use that as a template and tailor the feedback, the surveys, and the way they conduct the community meetings to their own community's needs.

Mr. KUCINICH. Thank you, Mr. Small, but that is theoretical. You haven't really given me a practical explication or explanation of how this works in reality. I would like to have that with respect to Cleveland Cuyahoga County so we can get into the nitty gritty about what you have sought in terms of public input.

I look at this. Mr. Chairman and members of the committee, here is my concern. My concern is that you are actually dismantling a service infrastructure, thousands and thousands of mailboxes out. No one asked me about that. I am a member of this committee. I don't know how many other Members were asked about that. Just take mailboxes out of communities; gone.

Now, if you are in marketing, it seems like you want to show the flag somewhere. How does taking mailboxes out help a service delivery? And then you are talking about closing branches. So how does that help with service delivery if we are talking about universal service? And even in main post offices there are services that are being switched off.

So what I see happening here—make your economic justification, fine. But what I see happening is the dismantling, a slow and steady dismantling of the infrastructure of the U.S. Postal Service, starting with mailboxes in neighborhoods, postal branches, changes at branch offices, changes at airport post offices, post offices across this country.

And you are actually doing that piecemeal and right under the nose of Congress because you wave the dollar bill, we don't have enough money. Oh, is that right? That passed for anything over here; that is a shortcut to debate here.

I don't think you are going to be able to answer this question, but I will just conclude, Mr. Chairman, by saying that there is a stench of privatization about this whole thing, and I am not going to diminish the service of you, Mr. Small, or anybody else in the U.S. Postal Service, but there is another game going on here that really is about taking this public wealth of universal Postal Service and carving it up and handing it out to special interest, and I see the slow and steady dismantling of the postal infrastructure as being an inexorable move in that direction.

That's all I have to say. Thank you.

Mr. LYNCH. I thank the gentleman.

The Chair now recognizes the gentlelady from the District of Columbia for 5 minutes.

Ms. NORTON. Mr. Chairman, I have just one more question, and I thank you for getting this list to me. And I am not objecting to

the list, as I said before. Indeed, I think I have some understanding, but I am not sure I do. Remember, my concern is the slow walk to collapse.

I certainly appreciate the need for study. I do think one has to be careful to look at all the factors. I am having a hard time understanding why we are just studying some of these matters, such as the station branches identified "for full study."

Going back to what I said to Mr. Herr, they got taken off the high-risk list, I don't think that was of service to them, frankly. I think they need to see the handwriting on the wall before their eyes as much as possible, and as tough as the GAO normally is, I can't imagine the fact that there have been some tiny baby steps taken here that should have removed them.

But, Mr. Small, I need to know now—I know from your testimony at page 5 what you will be looking at considering such factors as customer access, service standards, cost savings, impact on employees, environmental impact, real estate values. All of this makes sense. What I don't know from your testimony is how you chose the particular stations or branches to look at for those factors in the first place.

Mr. SMALL. OK, I would be happy to explain. As mentioned in Mr. Waller's testimony, he talked about EAS–24 and above offices, so let me explain what an EAS–24 and above office is.

An EAS–24 is the lowest level potential office we are looking at. Typically, EAS–24 has a post office where a postmaster is resident and the chief administrator for postal services, as well as subordinate stations, generally at 24 there may be three or four stations. As you get larger, through 26 and then to PCs, what we call PC post offices, such as Miami, where you have 50 stations.

So we are looking at large groups of stations where you have offices that are in close proximity to each other that mailers' habits and consumers' habits have told us that they no longer go to the retail unit, that there has been a decline in retail activity, and that there has been an increase——

Ms. NORTON. So will these tend to be smaller stations or branches?

Mr. SMALL. I am sorry?

Ms. NORTON. Will these tend to be smaller stations or branches?

Mr. SMALL. They could be larger, depending on whether they have adequate space to absorb a neighboring station which is in close proximity. They could be two smaller stations, where one has adequate workroom floor space to consolidate. We won't know until a complete and thorough review is performed on all those offices on the list we provided.

Ms. NORTON. Now, you say, again on page 5, we do not anticipate this review process to generate any changes this fiscal year, which ends September 30th. When did this begin, this study begin?

Mr. SMALL. It began in approximately May.

Ms. NORTON. Well, Mr. Chairman, this is what I mean. I really don't think this is rocket science. And the notion that we are beginning in May to look at what offices are too close to one another or may have to consolidate is what I mean by slow walking the Postal Service to collapse and what I mean about facing the right-sizing model earlier rather than later.

And, Mr. Herr, that is what I mean when I say you can take them off the list all you want to, but I can't imagine why they haven't been on the high-risk list for 10 years. To say that something in the extreme position of the Postal Service that we have seen now for years has not been at high risk makes me wonder what in the world is at a high risk. I can think of no major entity in the United States at higher risk than the U.S. Postal Service.

Thank you, Mr. Chairman.

Mr. LYNCH. Thank you.

Well, I think this panel has suffered enough. [Laughter.]

I want to thank you. Seriously, I want to thank you for your willingness to come before the committee to help us with our work. There are, as always, several hearings going on at the same time, so I would just caution you that there may be Members who would like to submit questions in writing, and, if that is the case, I would ask you to respond within 7 days, if you could. Thank you very much. Have a good day.

At this time, I would like to welcome our third panel. I know we are expecting votes around 12:30, so we might be able to get everyone seated and begin with introductions, at least. Thank you.

Good afternoon. It is the custom of this committee to swear all witnesses who are to offer testimony. Would you please rise and raise your right hands?

[Witnesses sworn.]

Mr. LYNCH. Let the record show that all the witnesses have answered in the affirmative.

I think all of you are aware of the lighting system here. Green means you are free to give your 5 minute address; yellow light indicates you have to wrap up, you have about a minute left; and then a red light indicates you should cease offering testimony.

Let me offer some brief introductions, although many of the members on this panel have been frequent witnesses. Let me begin.

Mr. William Burrus is the president of the American Postal Workers Union; Mr. John Hegarty is president of the National Postal Mail Handlers Union; Mr. Louis Atkins is executive vice president of the National Association of Postal Supervisors; Mr. Fred Rolando is the new president of the National Association of Letter Carriers. Welcome. Mr. Don Cantriel is the president of the National Rural Letter Carriers' Association; and Mr. Mark Strong is executive vice president of the National League of Postmasters of the United States. Welcome all.

Mr. Burrus, I welcome you to make an opening statement. You have 5 minutes.

STATEMENTS OF WILLIAM BURRUS, PRESIDENT, AMERICAN POSTAL WORKERS UNION, AFL–CIO; JOHN HEGARTY, PRESIDENT, NATIONAL POSTAL MAIL HANDLERS UNION; LOUIS ATKINS, VICE PRESIDENT, NATIONAL ASSOCIATION OF POSTAL SUPERVISORS; FRED ROLANDO, NATIONAL PRESIDENT, THE NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL–CIO; DON CANTRIEL, PRESIDENT, NATIONAL RURAL LETTER CARRIERS' ASSOCIATION; AND MARK STRONG, EXECUTIVE VICE PRESIDENT, NATIONAL LEAGUE OF POSTMASTERS OF THE UNITED STATES

STATEMENT OF WILLIAM BURRUS

Mr. BURRUS. Thank you, Mr. Chairman. Mr. Chairman and members of the subcommittee, thank you for convening this hearing and providing me the opportunity to testify on behalf of the dedicated employees that the American Postal Workers Union is privileged to represent.

In response to the dramatic reduction in mail volume, the Postal Service has initiated many programs intended to reduce costs. The station and branch initiative is the most recently announced service reduction. Others include the elimination of Saturday delivery, consolidation of mail processing facilities, delivery route adjustments, and realignment of the bulk mail network. These programs are based on a twofold management analysis: that savings must be achieved and that mail volume will never return to previous heights.

Until very recently, postal executives have asserted that the decline in volume was caused by the conversion of hard copy mail to electronic communications. I have long been skeptical of that claim that individual consumers' increased use of email and the Internet has placed the Postal Service in jeopardy.

It is imperative that postal decisionmakers correctly identify the cause of the reduction in volume and the trends that will drive future communications. Precious time has been lost as attention was focused on an illusory cause. Even now decisions are being made with scant appreciation of what will cause volume to increase or decrease.

I have concluded that the decline in hard copy and communications has been less affected by electronic conversion than by the Nation's economic downturn.

The facts are it is important to note that our Nation's mail volume was highest in 2006, when the use of electronic communication was already widespread. We must also keep in mind that the mail stream is and will continue to be dominated by business-related communications, which is especially sensitive to the economic environment.

Analysts generally separate mail into household mail and nonhousehold mail, and review the interactions between these groups. In 2006, of the 213 billion mail pieces, 190 billion involved nonhousehold communications. Only 2.9 percent, or 19.4 billion pieces, constituted household-to-household mail.

The business community has explored other means of communications and will continue to do so. But these marketing decisions go far beyond the evolution of personal communications.

To date, there is no general agreement among analysts about the future of commercial messages. Television, radio, newspaper, email, and online advertising are all receiving mixed analyses of the prospect for growth; and there is no conclusive evidence that the Postal Service will fail to be as competitive in the future as it was in 2006. One respected analyst, Magna, predicts that between now and 2014 mail will grow 2 percent annually. Yet, postal management is betting that mail will cease to be relevant. I disagree.

Mail has unique advantages over other commercial messaging, including targeting, attention and retention. I predict that hard copy mail will be competitive far into the future. I admit I have no crystal ball, but neither does the Postmaster General or the Board of Governors. If they are wrong and I am right, the initiative presently underway will leave the Postal Service ill equipped when mail volume does return.

Station and branch closings and 5 day delivery schemes will unquestionably have a negative effect on the postal monopoly and will impede the Postal Service's ability to compete. These are acts of surrender, when the outcome of the battle is still in doubt.

Nonetheless, the Postal Service must respond to the recent declines in mail volume, and I commit the cooperation of my union in sensible and effective efforts.

Regrettably, the alleged state of reform in 2006 has been a major contributor to the Postal Service's current financial predicament. Major mailer associations, management associations, the Postmaster General, the Board of Governors, some labor organizations, and some Members of Congress have, through their support of the PAEA, forced the Postal Service to make payments of $14 billion over the last 2 years for future retiree health care liabilities. Those who supported the legislation share in the responsibility for the Postal Service's current financial debacle and the drastic actions undertaken in response.

I have been consulted by postal management on the subject affecting service and the impact on my members. On the closing of stations and branches, I reminded postal management that the APW-USPS collective bargaining agreement, which remains in force through November 20th of next year, includes the following: "The parties agree that all existing retail operations will remain within the installation of which they are a part and all future retail operations established within the jurisdiction of an installation shall become a part of that installation." I personally negotiated that language and know what its intent was at the time of negotiations.

I expect that postal management will fully comply with this contractual agreement, and I thank you, Mr. Chairman. I would be pleased to answer any questions you may have.

[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

Making Sense of It All: An Examination of USPS's Station and Branch Optimization Initiative and Delivery Route Adjustments

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

July 30, 2009

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Mr. Chairman and members of the subcommittee: Thank you for convening this hearing, and for providing me the opportunity to testify on behalf of the dedicated employees that the American Postal Workers Union is privileged to represent.

In response to the dramatic reduction in mail volume, the United States Postal Service has initiated many programs intended to reduce costs. The Station and Branch Initiative is the most recently announced service reduction; others include the elimination of Saturday delivery, consolidation of mail-processing facilities, delivery route adjustments, and realignment of the bulk mail network. These programs are based on a two-fold management analysis: that savings must be achieved, and that mail volume will never reach previous heights.

Until very recently, postal executives have asserted that the decline in volume has been caused by the conversion of hard-copy mail to electronic communication. I have long been skeptical of the claim that individual consumers' increased use of e-mail and the Internet has placed the USPS in jeopardy.

It is imperative that postal decision-makers correctly identify the cause of the reduction in volume and the trends that will drive future communication. Precious time has been lost as attention was focused on an illusory cause. Even now, decisions are being made with scant appreciation of what will cause volume to increase or decrease.

After conducting a detailed review of mail volume over recent years, I have concluded that the decline in hard-copy communication has been less affected by electronic conversion than by the nation's economic downturn.

The Facts

It is important to note that our nation's mail volume was highest in 2006 (reaching 213 billion pieces), when the use of electronic communication was already widespread. We also must keep in mind that the mail stream is – and will continue to be – dominated by business-related communication, which is especially sensitive to the economic environment.

Analysts generally separate mail into Household mail and Non-Household mail, and review the interactions between these groups. In 2006, of the 213 billion mail items, 190 billion pieces involved Non-Household communication; only 2.9 percent, or 19.4 billion pieces, constituted Household-to-Household mail.

Of course, the business community has explored other means of communication, and will continue to do so. But these marketing decisions go far beyond the evolution of personal communication.

To date, there is no general agreement among analysts about the future of commercial messaging. Television, radio, newspapers, e-mail, and online advertising are all receiving mixed analyses of the prospects for growth, and there is no conclusive evidence that the USPS will fail to be as competitive in the future as it was in 2006. One respected analyst, *Magna,* predicts that between now and 2014, mail will grow 2 percent annually; yet postal management is betting that mail will cease to be relevant.

Acts of Surrender
Mail has unique advantages over other commercial messaging, including targeting, attention and retention. I predict that hard-copy mail will be competitive far into the future. I admit I have no crystal ball, but neither do the postmaster general or the USPS Board of Governors. If they are wrong and I am right, the initiatives presently under way will leave the Postal Service ill-equipped when mail volume returns commensurate with an economic recovery.

Station and branch closings and five-day delivery schemes will unquestionably have a negative effect on the postal monopoly, and will impede the Postal Service's ability to compete. These are acts of surrender – when the outcome of the battle is still in doubt.

Nonetheless, the Postal Service must respond to the recent declines in mail volume, and I commit the cooperation of my union in sensible and effective efforts.

I conclude my testimony with the admonition that the ill-conceived rush to legislative "reform" in 2006 has been a major contributor to the Postal Service's current financial predicament. Major-mailer associations, management associations, the postmaster general, the Board of Governors, some labor organizations, and some Members of Congress have, through their support of the Postal Accountability and Enhancement Act, forced the USPS to make payments of $14 billion over the last two years for future retiree healthcare liabilities.

Absent this misguided "reform," the $14 billion allocated to date would have provided the Postal Service the financial underpinning to weather the current economic storm. Those who supported the legislation share in the responsibility for the Postal Service's current financial debacle and the drastic actions undertaken in response.

I have been consulted by postal management on the subjects affecting service and the impact on my members. Regarding the elimination of Saturday delivery, I advise, *"Don't do it."* The immediate benefits will not equal the long-term damage.

On the closing of stations and branches, I have reminded postal management that the APWU-USPS Collective Bargaining Agreement, which remains in force through November 20, 2010, includes the following:

> ***"The parties agree that all existing retail operations will remain within the installation of which they are a part and all future retail operations established within the jurisdiction of an installation shall become a part of that installation."***

I expect that postal management will fully comply with this contractual agreement.

Thank you. I will be pleased to answer any questions you may have.

Mr. LYNCH. Thank you very much, Mr. Burrus.

Mr. Hegarty, you are now recognized for 5 minutes.

STATEMENT OF JOHN HEGARTY

Mr. HEGARTY. Good morning, and thank you, Chairman Lynch, Ranking Member Chaffetz, and the other members of the subcommittee, for inviting me to testify here today.

Let me take this opportunity to thank you and all members of the subcommittee for your diligent efforts on H.R. 22. We look forward to working with you as that legislation and the recently introduced Senate bill S. 1507 work their way through the legislative process.

As requested, my testimony today will focus on the current realignment efforts of the Postal Service dealing with the closing and consolidation of facilities and the realigning of stations and branches. I will also discuss the impact of such decisions on the flow of current and future mail, and the resulting impact on mail handlers, postal customers, and communities.

As you know, mail handlers work primarily at the large processing facilities. At the same time, however, we represent approximately 1,000 mail handlers who are situated at the larger stations and branches. While they may be employed at smaller facilities, some of these mail handlers actually are assigned to a larger facility as part of their postal installation.

As we have previously discussed, the Postal Service is proceeding to realign its network of mail processing plants by conducting Area Mail Processing studies. I will not repeat prior testimony here, but I think I should note that, as I have said in prior testimony, our concern is, a, that the process is accomplished uniformly and within the established guidelines; and, b, that the future postal network is not cut too severely such that the Postal Service will not be prepared to provide universal service and low cost service when mail volumes recover.

Our solution to a rational closing and consolidation approach is to review such changes on a case-by-case basis, following a careful analysis of the facts presented in each situation. Where the proposal makes economic and logistical sense, where service standards will not be negatively affected, where major mailers in the area will not be inconvenienced. Where all negotiated requirements with the unions have been complied with, then the Mail Handlers Union will not simply oppose a closing or consolidation simply for the sake of opposition. Conversely, the Postal Service should not be closing and consolidating facilities just so the agency can say that it is closing and consolidating.

The impact on mail handlers is varied, depending on the circumstances, but some of the affected employees have had their hours of work or work location drastically altered, thereby severely disrupting their family life. Employees have had to scramble to make alternate child care arrangements, to get their kids to school, or their spouses have had to adjust their work schedules to juggle the various responsibilities.

Many employees have been faced with the almost impossible task of either moving their families hundreds of miles away to remain employed by the Postal Service or to give up their postal careers

altogether, and I think you highlighted that in your opening statement, Mr. Chairman, outlining the situation that we talked about at the last hearing, where employees were offered jobs, some of them, 400 miles away from their current duty station.

The impact on the customers will also vary, depending on the circumstances. Our concern is that we may end up losing business because a major customer decides it is just as easy to use a competitor, and they abandon the Postal Service altogether. We also need to factor in the individual customers who need and deserve access to postal services.

The impact on communities should also be factored into any final decisions on consolidation. What will be the impact if a large plant is closed and the employees then are moved to another plant to work in some other community? How about local businesses like restaurants and other retail establishments, who used to cater to this large factory that employed so many people?

Many of the other topics on which the subcommittee is seeking input really need to be answered by the Postal Service before we can weigh in on them, but, as always, I would be happy to answer any questions that you might have, and, again, thank you for inviting me to testify.

[The prepared statement of Mr. Hegarty follows:]

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

"Making Sense of it All: An Examination of USPS's Station and Branch Optimization Initiative and Delivery Route Adjustments"

July 30, 2009

Good morning, and thank you Chairman Lynch and members of the Subcommittee for inviting me to testify. My name is John Hegarty, and I am National President of the National Postal Mail Handlers Union, which serves as the exclusive bargaining representative for nearly 55,000 mail handlers employed by the U.S. Postal Service.

Let me take this opportunity to thank you and all members of the Subcommittee for your diligent efforts on H.R. 22. We look forward to working with you as that legislation, and the recently introduced Senate bill (S. 1507), work their way through the legislative process.

As requested, my testimony today will focus on the current realignment efforts of the Postal Service, dealing with the closing and consolidating of facilities, and the realigning of Stations and Branches. I will also discuss the impact of such decisions on the flow of current and future mail, and the resulting impact on mail handlers, postal customers, and communities.

As you know, mail handlers work primarily at the large processing facilities. At the same time, however, we represent approximately 1,000 mail handlers who are situated at the larger stations and branches. While they may be employed at smaller facilities, some of these mail handlers actually are assigned to a larger facility as a part of their postal installation.

As we have previously discussed, the Postal Service is proceeding to realign its network of mail-processing plants by conducting Area Mail Processing studies. I will not repeat prior testimony here, but I should note that, as I have said in prior testimony, our concern is (a) that the process is

accomplished uniformly and within the established guidelines, and (b) that the future postal network is not cut too severely such that the Postal Service will not be prepared to provide universal and low-cost service when mail volumes recover. Our solution to a rational closing and consolidation approach is to review such changes on a case-by-case basis, following a careful analysis of the facts presented in each situation. Where the proposal makes economic and logistical sense, where service standards will not be negatively affected, where major mailers in the area will not be inconvenienced, and where all negotiated requirements with unions have been complied with, then the Mail Handlers Union will not simply oppose a closing or consolidation for the sake of opposition. Conversely, the Postal Service should not be closing and consolidating facilities just so that the agency can say that it is closing and consolidating.

The impact on mail handlers is varied, depending on the circumstances, but some of the affected employees have had their hours of work or work location drastically altered, thereby severely disrupting their family life. Employees have had to scramble to make alternate child care arrangements, to get their kids to school, or their spouses have had to adjust their work schedules to juggle the various responsibilities. Many employees have been faced with the almost impossible task of either moving their families hundreds of miles away to remain employed by the Postal Service, or to give up their Postal Service careers altogether.

The impact on the customers will also vary, depending on the circumstances. Our concern is that we may end up losing business, because

a major customer decides that it is just as easy to use a competitor, and they abandon the Postal Service altogether. We also need to factor in the individual customers who need, and deserve, access to the many services offered by the Postal Service.

The impact on communities should also be factored into any final decisions on consolidation. What will be the impact if a large plant is closed, and the employees then are moved to another plant, to work in some other community? How about local businesses, like restaurants and other retail establishments, who used to cater to this large "factory" that employed so many people?

Many of the other topics on which the Subcommittee is seeking input really need to be answered by the Postal Service before we can weigh in on them, but as always I would be happy to answer any questions that you may have. Thank you for this opportunity.

Mr. LYNCH. Thank you, President Hegarty.

Mr. Atkins, you are now recognized for 5 minutes.

STATEMENT OF LOUIS ATKINS

Mr. ATKINS. Good morning, Chairman Lynch, Ranking Member Chaffetz, and other distinguished members of the subcommittee. My name is Louis M. Atkins. I serve as executive vice president of the National Association of Postal Supervisors. We are recognized by the U.S. Postal Service as representing over 35,000 current and retired management employees of the Postal Service.

I am honored by your invitation to appear before you and to provide our organization's feedback on the Postal Service's plan to examine the potential closure or consolidation of many postal stations and branches that comprise the national retail network.

Over the years, the Postal Service has continually made minor adjustments in the location of its retail operations to improve the efficiency of the mail service and its service to the American public. The scale of these changes have been relatively small in comparison to what lies before us. But now the efforts of consolidating up to 3,100 facilities across the country, some in your own congressional districts, will significantly impact our customers and your constituents.

We have concerns and reservations about the underlying review process and its likely resulting consequences. I wish to share those concerns with you right now.

The Postal Service's review of approximately 3,100 customer service operations is focused on areas located primarily in urban centers, large cities, or in highly developed suburban communities. No matter where you go across the country, Postal Service retail operations are a business anchored to the communities they serve. Businesses that share the general location with the Postal Service benefit from the Postal Service retail presence in the community.

My organization's fundamental aim is to support the efficient operation of the Postal Service. But the scope of the Postal Service's review and potential consolidation could impact nearly 10 percent of the facilities that serve urban and highly developed communities. The repercussions of a move that large could be modest in terms of dollar savings and considerably negative from a customer service standpoint. Let me explain why.

Since the targeted facilities and operations are in urban areas and developed suburban communities, many residents rely on their local post office as being within walking distance, especially those who are elderly or without a car. Today, many of our customers in urban areas enjoy the convenience of walking to their local post office to conduct their postal-related business. If the Postal Service's plans are implemented, these customers will face a distance to the nearest post office that will be greater than the current one, a distance the would not likely be able to walk.

The elderly, who are less likely to connect to the Internet, rely more heavily on their local post office retail unit and will feel a greater loss of convenience and connection to their post office. When packages cannot be delivered by the letter carriers and the customers need to go to their local post office, customers will have a further distance to travel to retrieve their mail.

These are some of the impacts that will be felt by customers who lose their local post office.

In addition, the financial savings from consolidation may not be as large as first appears. In a facility that serves both delivery and retail, the relocation of a carrier unit to another facility will mean that the portion of the building devoted to carrier floor space will become vacant and only the curbside potion of the building devoted to retail operations will continue to be used.

Should the post office determine that it is best to separate the retail and carrier operations in their present location, keeping only the retail operation in place will not necessarily present savings if the post office is leasing the facility and obliged to continue to pay a long-term lease for the entire space.

Due to the requirements of Postal Service operations, the empty space may not lend itself to subleasing to another business entity. In facilities owned by the Postal Service, the same problem will occur in attempting to lease out the empty space resulting from movement of the carrier operations to another location. This dilemma will ultimately result in a move by the Postal Service to eliminate the retail operation in the location, and this would negatively impact customers, as I explained earlier.

The Postal Service leases nearly 85 percent of the facilities that house processing, delivery, and retail operations, so the cost of leasing facilities presents a tremendous burden on the Postal Service. Considering the high percentage of the leased facilities operated by the Postal Service, and the underlying and substantial long-term financial obligations they represent, it would be difficult for the Postal Service to achieve significant savings through the consolidation or closing of its leased properties.

Where the Postal Service owns the real estate that houses its carriers and retail operations, the consolidation or closure of delivery or retail operations at those properties may also be problematic when the sale of that property is attempted, given today's depressed commercial real estate values. The closing of a local post office will also result in an additional vacant storefront in an already depressed local economy.

Our organization supports the efforts of the Postal Service to maintain its viability in these trying times. The Postmaster General deserves credit for his efforts to reduce costs and improve efficiency. Our greatest concern is that, in a rush to consolidate and close as many as 3,100 retail or delivery units, significant savings may turn out to be a mirage and that customers may suffer. We cannot continue to disenfranchise customers of the Postal Service who live in urban areas and not burden those who are least able to bear the cost.

This concludes my testimony, and I am prepared to respond to any questions you may have.

[The prepared statement of Mr. Atkins follows:]

STATEMENT OF

LOUIS M. ATKINS, EXECUTIVE VICE-PRESIDENT

NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

ON

MAKING SENSE OF IT ALL: AN EXAMINATION OF USPS'S STATION AND BRANCH OPTIMIZATION INITIATIVE AND DELIVERY ROUTE ADJUSTMENTS

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

1. COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

UNITED STATES HOUSE OF REPRESENTATIVES

JULY 30, 2009

Good Morning Chairman Lynch, Ranking Member Chaffetz and other distinguished members of the subcommittee, my name is Louis M. Atkins and I serve as the Executive Vice President of the National Association of Postal Supervisors. We are recognized by the United States Postal Service as the representative of over 35,000 current and retired management employees of the Postal Service.

I am honored by your invitation to appear before you and to provide our organization's feedback on the Postal Service's plan to examine the potential closure or consolidation of many postal stations and branches that comprise its national retail network.

Our organization is a management association, and as such seeks to partner with the Postal Service in maintaining and improving the efficiency and effectiveness of our nation's mail system. That partnership with the Postal Service is recognized through federal law, as well as our own organization's constitution, which affirms that:

> *The object of the association shall be to promote, through appropriate and effective action, the welfare of its members, and to cooperate with the USPS and other agencies of the federal government in a continuing effort to improve the service, to raise the standard of efficiency, and to widen the field of opportunity of its members who make the Postal Service or the federal government their life work.*

The viability and strength of the collaborative relationship we share with the Postal Service continues to be tested by its receptiveness to our views about cost-cutting and the preservation of customer service and service quality. The challenge of finding that necessary balance between the bottom line and service quality is embodied in the discussion over the downsizing of the Postal Service's retail network.

Over the years the Postal Service has continually made minor adjustments in the locations of its retail operations to improve the efficiency of the mail system and its service to the American public. The scale of these changes has been relatively small in comparison to what lies before us. As a result of the severe economic pressures bearing down on the Postal Service, the Service is engaged in a comprehensive review of its

operations with the express purpose of consolidating up to 3,100 facilities across the country, some in your very own Congressional districts.

My organization has taken a careful look at the Postal Service's review process and its potential outcomes. We have concerns and reservations about the underlying review process and its likely results and consequences. I wish to share those concerns with you now.

The Postal Service's review of approximately 3,100 customer service operations is focused on areas where there are postal stations and branches that report to higher level managers in the Postal Service.

The facilities under review for consolidation and/or closure are located primarily in urban centers, large cities or in highly-developed suburban communities. Many of these facilities house both delivery operations that support the local letter carriers that deliver in these areas, as well as retail operations where customers go to buy stamps, mail packages and conduct other postal related business.

No matter where you go across the country, postal service retail operations are a business anchor to the communities they serve. Businesses that share the block or the general location with the Postal Service benefit from the Postal Services retail presence in the community. The employees of the Postal Service also do much to support neighboring businesses, whether it is a retail store or a food establishment where our employees purchase goods and services.

Our organization's fundamental aim is to support the efficient operation of the Postal Service. But the scope of the Postal Service's review and potential consolidation could impact nearly 10% of the facilities that serve urban and highly developed communities. The repercussions of a move that large could be modest in terms of dollar-savings and considerably negative from a customer service standpoint. Let me explain why.

Since the targeted facilities and operations are in urban areas and developed suburban communities, many residents rely on their local post office as being within walking distance, especially those who are elderly or without a car. Today many of our customers in urban areas enjoy the convenience of walking to their local post office to conduct their postal-related business. If the Postal Service's plans are implemented, these customers will face a distance to the nearest post office that will be greater than the current one, a distance that likely is not walk able.

In urban areas, many of the residents, both young and old, do not own cars and rely on local services within walking distance to meet their basic needs. The elderly, who are less likely to be connected to the internet, rely more heavily on their local postal retail unit and will feel a greater loss of convenience and connection to their local post office. When packages cannot be delivered by the letter carrier and the customer needs to go to the local post office, customers will have further distances to travel to retrieve their mail. These are some of the impacts that will be felt by customers who lose their local Post Office.

There are two separate postal operations that are involved in these consolidations and closings; delivery operations facilitated by letter carriers, and retail operations that serve the public. There are a variety of postal facilities that provide both house delivery operations and retail operations. There are also facilities exclusively devoted to either retail operations or carrier operations.

In identifying the offices to be consolidated and/or closed, the Postal Service is determining where there may be some offices that have a sufficient amount of unused space in their current operation to relocate letter carriers from one office location to another office location. In a facility that serves both delivery and retail, the relocation of carrier operations to another facility will mean that the portion of the building devoted to carrier floor space will become vacant and only the curb-side portion of the building devoted to retail operations will continue to be used.

Should the Postal Service determine that it is best to separate the retail and carrier operations in their present location, keeping only the retail operation in place will not necessarily present savings if the Postal Service is leasing the facility and obligated to continue to pay a long-term lease for the entire space. Due to the requirements of Postal Service operations, the empty space may not lend itself to sub-leasing to another business entity. In facilities owned by the Postal Service, the same problem will occur in attempting to lease-out the empty space resulting from the movement of carrier operations to another location. This dilemma would ultimately result in a move by the Postal Service to also eliminate the retail operation in the location and this would negatively impact customers as I explained earlier.

Most of the public is not aware that the Postal Service leases nearly 85% of the facilities that house processing, delivery and retail operations, so the costs of leasing facilities presents a tremendous burden on the Postal Service. Considering the high percentage of leased facilities operated by the Postal Service, and the underlying and substantial long-term financial obligations they represent, it will be difficult for the Service to achieve significant savings through the consolidation or closing of its leased properties.

In situations where the Postal Service owns the real estate that houses its carrier and retail operations, the consolidation or closure of delivery or retail operations at those properties may also be problematic when the sale of that property is attempted, given today's depressed commercial real estate values. The closing of a local Post Office also will result in an additional vacant storefront in an already depressed local economy.

Our organization supports the efforts of the Postal Service to maintain its viability in these trying times. The Postmaster General deserves credit for his efforts to reduces costs and improve efficiency. Our greatest concern is that, in a rush to consolidate and close as many as 3,100 retail and/or delivery units, significant savings may turn out to be a mirage and that customer service may appreciably suffer. We cannot afford to disenfranchise customers of the Postal Service who live in urban areas nor burden those who are least able to bear the cost.

This concludes my testimony, and I am prepared to respond to any questions you may have.

Mr. LYNCH. Thank you, Mr. Atkins.

Mr. Rolando, you are now recognized for 5 minutes.

STATEMENT OF FRED ROLANDO

Mr. ROLANDO. Thank you. Good morning, Chairman Lynch, Ranking Member Chaffetz, and other distinguished members of the subcommittee, Ms. Norton. My name is Fred Rolando. I am the president of the National Association of Letter Carriers, which represents more than 300,000 active and retired letter carriers nationwide. Thank you for inviting me to testify.

I have seen the Postal Service thrive and I have seen it struggle through some very difficult times, but I have never seen a crisis like the one we are facing now. Volume is expected to drop by 30 billion pieces this year, the worst decline since the 1930's. When you couple the economic crisis with the grossly unfair policy advanced by the previous administration to require the Postal Service to pre-fund a massive 75-year liability for future retiree health benefits over just a 10-year period, it should come as no surprise that the Postal Service faces a crisis of its own.

The Postal Service is responding with service cuts and downsizing. Its branch and station optimization program and the 5-day delivery study are part of that response. As Congress reviews these developments, it should ensure that the Postal Service does not make structural decisions that will do more harm than good over the long run. Downsizing to meet depression-level demand without considering the long-term impacts on the ability of the Postal Service to meet new demands when the economy recovers would be shortsighted. Short-term savings that undermine the Postal Service's capacity to offer new services and to take advantage of future growth opportunities would be self-defeating.

NALC has a long history of working with the Postal Service to improve efficiency and to adjust to change, and we have continued that tradition in this crisis. We developed a special expedited route adjustment process to help the Postal Service adjust to the fluctuating mail volume. These adjustments, along with the initiatives for flat sequencing systems, have reduced the number of city carriers by more than 11,000 during the past year and will save the Postal Service billions of dollars over time.

Looking ahead, it will be just as important to boost postal revenues as it will be to reduce costs. We believe the uses of our unmatched delivery network could be expanded to provide a whole range of valuable services, like the one proposed by the leaders on this subcommittee to use letter carriers to conduct the next census. That is why we must be careful with branch and station consolidations and reject drastic proposals like the elimination of Saturday delivery. The cost of lost opportunities from service cuts and other operational changes must be recognized.

The Postal Service and its employees are doing all that they can to respond to this crisis, but Congress can also help to both minimize the short-term pain of the recession for the Postal Service, its employees, and customers, and to maximize the long-term potential of the Postal Service. It can do so by reforming the retiree health pre-funding provisions in the law. The current schedule of prefunding payments is unaffordable and unreasonable. Moreover, the

actuarial methods adopted by OPM to implement the pre-funding policy discriminate against the Postal Service and significantly increase its costs.

While both H.R. 22 and the legislation developed by the Office of Management and Budget offer similar short-term relief for the Postal Service, and while we have given our support to both proposals, they simply do not provide a long-term solution. Comprehensive reform is needed to address the Postal Service's financial situation and future viability. Overhauling the pre-funding policy and reforming OPM's policies with respect to the Postal Service must be a part of this reform if the Postal Service is to continue to provide affordable, universal postal service.

The Postal Service is the Nation's oldest and most trusted government agency. It would be a tragedy to sacrifice its future viability because of unfair and questionable policy decisions made by OPM that are fossilized into current law because CBO scoring rules prevent their reconsideration. My members hope that this subcommittee and the full House of Representatives will not let this happen.

I want to thank you for this opportunity to testify—it is my first time; I hope it is not my last time—and I would be happy to answer any questions.

[The prepared statement of Mr. Rolando follows:]

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Affiliated with the AFL-CIO &
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Testimony of Fredric V. Rolando
President, National Association of Letter Carriers
AFL-CIO
Subcommittee on Federal Workforce,
Postal Service and the District of Columbia
July 29, 2009

Good morning Chairman Lynch, Ranking Member Chaffetz and other distinguished members of the Sub-Committee. My name is Fred Rolando. I am the President of the National Association of Letter Carriers, which represents more than 300,000 active and retired letter carriers nationwide. Thank you for inviting me to testify.

This is my first time testifying before Congress. Although I am now in my fourth week serving as the NALC's President, I am in my 31st year as a postal employee and have served more than 20 years as a union officer. I have seen the Postal Service thrive and I have seen it struggle through some very difficult times, but I have never seen a crisis like the one we are facing today.

Because the worst recession in decades began in some of the most mail-intensive industries in our economy – housing, real estate and banking – mail volume has plummeted over the past 18 months. In fact, volume is expected to drop by 30 billion pieces this year -- the worst decline since the 1930s. When you couple the economic crisis with the grossly unfair policy advanced by the previous administration to require the Postal Service to pre-fund a massive 75

> year liability for future retiree health benefits over just a 10 year period, it should come as no surprise that the Postal Service faces a crisis of its own. No other company in America is required to prefund future retirement benefits at all, much less at such an accelerated pace. The exorbitant cost of prefunding -- $5.4 billion this year – accounts for most of the $6-7 billion that the USPS has indicated they will lose this year.

In the face of a possible 15% drop in mail volume this year and in view of a potential year-end cash flow crisis due to the excessive cost of prefunding retiree health benefits, the Postal Service's is responding with service cuts and downsizing. Its *branch and station optimization program* and the 5-day delivery study are part of that response. As Congress reviews these developments, it should ensure that the Postal Service does not make structural decisions that will do more harm than good over the long run. Down-sizing to meet depression-level demand without considering the long-term impacts on the ability of the Postal Service to meet new demands when the economy recovers would be short-sighted. Short-term savings that undermine the Postal Service's capacity to offer new services and to take advantage of future growth opportunities (such as Vote by Mail, e-commerce deliveries, and the other potential uses of our incomparable delivery network) would be self-defeating.

NALC has a long history of working with the Postal Service to improve efficiency and adjust to change – for example, with the Dispute Resolution Process, a variety of health and safety initiatives, DPS letter mail automation and, most recently, with the Flat Sequencing System. We have continued that tradition in this crisis. But we have never stopped thinking about the long run. So the special expedited route adjustment process we developed to help the Postal Service adjust to the rapid decline in mail volume caused by the recession is

specifically designed to be used in the future when the economy recovers and mail volume begins to grow again. We are currently completing the second of three scheduled rounds of nationwide adjustments under this process. These adjustments, along with the FSS initiatives, have reduced the number of city carriers by more than 11,000 during the past year and will save the Postal Service billions of dollars over time.

In the near term, these changes have made the jobs of all letter carriers much more difficult. With lower volumes come more deliveries per route -- and longer hours on the street, in the elements. Although these changes may pose new problems to solve with respect higher injury rates and other health and safety concerns, my members recognize that our duties will change as we expand the uses of our delivery network.

Looking ahead, it will be just as important to boost postal revenues as it will be to reduce costs. For that reason, NALC has embraced the Customer Connect program to use letter carriers to sell USPS services to small businesses and has aggressively promoted Vote by Mail initiatives. We believe the uses of our unmatched delivery network could be expanded to provide a whole range of valuable services – like the one proposed by the leaders on this sub-committee to use Letter Carriers to conduct the next census. That is why we must be careful with branch and station consolidations and reject drastic proposals like the elimination of Saturday delivery. The cost of lost opportunities from service cuts and other operational changes must be recognized.

The Postal Service and its employees are doing all they can to help respond to this crisis. But Congress can also help to both minimize the short-term pain of the recession for the Postal Service, its employees and customers, and maximize the long-term potential of the

Postal Service. It can do so by reforming the retiree health prefunding provisions in the law. The current schedule of prefunding payments -- designed to fund 80% of a 75-year liability by 2016 -- is unaffordable and unreasonable. Moreover, the actuarial methods adopted by OPM to implement the prefunding policy discriminate against the Postal Service and significantly increase its costs.

As the USPS Inspector General confirmed in a study released July 22, the OPM has inflated the cost of future postal retiree health benefits by tens of billions of dollars by using an unreasonable assumption about the long-term growth rate of health care costs under FEHBP. While most Fortune 1000 companies and the Centers for Medicare and Medicaid Services use a higher rate of cost inflation in the short run (7%-9%) and a lower rate in the long run (5%), OPM uses a 7% assumption in both the short and long term. This substantially raises USPS prefunding costs -- by some $3.5 billion annually according to the USPS OIG **(see http://uspsoig.gov/foia_files/ESS-MA-09-001R.pdf)**. OPM says it uses this rate for all its accounting of FEHBP costs and does not support a "carve-out" for the Postal Service. Yet the law has already carved out the Postal Service by making it the only agency in the government required to prefund retiree health insurance. While NALC supports prefunding our retiree health benefits, we do not support being overcharged for it.

The OPM also severely short-changed the Postal Service when it set up the Postal Retiree Health Benefit Fund by grossly underestimating the "postal surplus" in the CSRS pension plan, a surplus that was transferred to the Retiree Fund in 2007. Indeed, a significant portion of the cost of pension benefits earned by employees of the taxpayer-funded Post Office Department was shifted to the rate-payer funded U.S. Postal Service in this transaction. And for employees with both POD and USPS service, the OPM unfairly assigned the high-cost years of

service under the CSRS benefit formula to the USPS instead of bearing the cost equitably. Together these decisions cost the Postal Service tens of billions of dollars that could have and should been used to fund the Postal Service Retiree Health Benefits Fund **(see *Actuarial Report in Support of U. S. Postal Service Request to the Board of Actuaries of the Civil Service Retirement System,* The Hay Group, January 22, 2004.)**

As things now stand, the Postal Service finds itself in the bizarre position of using scarce borrowing authority that might better be used to weather the worst economic crisis in 80 years to instead borrow money from the Treasury, only to hand it over to the OPM where it will be placed into a retiree health fund that already has $32 billion in it. In this economic environment, no company would make such an absurd allocation of resources. Indeed, two thirds of Fortune 1000 companies do not prefund at all and those that do are likely to suspend prefunding payments until the recession ends **(see pages 13-16, *Accounting for Pensions and Other Post Retirement Benefits 2008: Reporting Under FAS 87 and FAS 106 Among the Fortune 1000,* A Watson Wyatt Survey Report).**

While both H.R. 22 and the legislation developed by the Office of Management & Budget offer similar short-term relief for the Postal Service and while we have given our support to both proposals, they simply do not provide a long-term solution. Comprehensive reform is needed to address the Postal Service's financial situation and future viability. Overhauling the prefunding policy and reforming the OPM's policies with respect to the Postal Service must be a part of this reform if the Postal Service is to continue to provide affordable, universal postal service.

I realize that all legislative proposals are subject to scoring rules established by the Congressional Budget Office. But future reform proposals should not be dismissed simply because they will "quote-unquote" score. We don't want to relieve the Postal Service of prefunding health benefits. We don't want any special treatment. We don't want a taxpayer bailout. What we do want is to be treated fairly.

The Postal Service is the nation's oldest and most trusted government agency. It would be a tragedy to sacrifice its future viability because of unfair and questionable policy decisions made by OPM that are fossilized into current law because CBO scoring rules prevent their reconsideration. My members hope that this sub-Committee and the full House of Representatives will not let this happen.

Thank you for this opportunity to testify. I would be happy to answer any questions.

Mr. LYNCH. I don't think you have to worry about this being your last time testifying. [Laughter.]

You will be a frequent flyer here. Thank you, Mr. Rolando.

Mr. Cantriel, would you please take 5 minutes for an opening statement?

STATEMENT OF DON CANTRIEL

Mr. CANTRIEL. Thank you. I would like to ask that my full testimony be submitted for the record.

Mr. LYNCH. Without objection.

Mr. CANTRIEL. Chairman Lynch, Ranking Member Chaffetz, members of the subcommittee, my name is Dan Cantriel, and I am president of the National Rural Letter Carriers Association, which represents 123,000 bargaining unit letter carriers. Our members work in rural, suburban, and urban areas throughout the United States and function as a post office on wheels because rural letter carriers offer postal customers all of the services performed over the counter at a post office.

Mr. Chairman, first and foremost, I would like to thank you and Representatives John McHugh and Danny Davis for your leadership on H.R. 22. I would also like to thank the chairman of the full committee, Representative Ed Towns, for his dedication in getting this important legislation passed at the full committee level. While H.R. 22 will not solve all the Postal Service's problems during this financial crisis, it is a step in the right direction.

We are living in a challenging time. Our country is in a deep recession and the Postal Service is a bellwether of the Nation's economic well-being. Mail volume is down 11.9 percent in the first half of this year and the Postal Service is expecting to lose approximately $7 billion.

The decline in mail volume has hit the rural carrier craft extremely hard. Rural carrier pay is based on the evaluated compensation system, which is unique not just to the Postal Service, but to American industry in general. In our evaluated compensation system, each rural carrier is paid an annual salary based upon the estimated amount of time it will take to deliver the mail on his or her individual route. This evaluation of the individual route is based upon an annual mail count whereby over 30 separate elements are counted, timed, or measured.

The most recent mail count earlier this year was devastating to our members. For the second straight year, our members have been hit hard in the pocketbook. The average rural route lost just over 2 hours of valuation per route, which equates to more than $3,400 a year in annual salary.

As a result of this year's mail count, rural routes were reevaluated and adjusted. Prior to the 2009 mail count, over 42,000 rural carriers delivered on routes 10 out of the 12 days each pay period. After the mail count, the number of rural carriers who delivered this kind of route dropped to just over 27,000.

Meanwhile, the number of carriers who delivered 11 out of the 12 days each pay period and still others who delivered 12 out of the 12 days each pay period increased significantly. In order to avoid significant salary reductions, thousands of rural carriers

opted to work an extra day just to keep the same salary they were making prior to the mail count.

The annual mail count directly affects rural carrier salaries and schedules, but there are other concerns we have about our very livelihood. If the Postal Service were to consolidate the operation of retail stations and branches into nearby postal facilities, that would only compound what has, for rural carriers over the last several years, become a serious problem.

If post offices begin to disappear, our carriers will have to travel greater distances to work and our customers will increasingly feel isolated from the Postal Service. During these economic times, paying close attention to customer service is a key, and we would expect a public outcry if post office stations and branches across the country are closed.

Customers, especially in rural areas, will be particularly inconvenienced and some will unfortunately decide it is simply not worth doing business with the Postal Service. We will be sending the wrong message if offices across the country begin to close their doors. Our customers and communities need to know that the Postal Service is here to stay.

I would like to say a few words about the Postal Service's interest in reducing Postal Service delivery days. Instituting 5 day delivery would likely mean further salary decreases for thousands of carriers, not to mention massive job losses. It could mean salary cuts and layoffs for workers employed by businesses in the mailing community. If 5 day delivery were implemented, our evaluated compensation system, which is often praised by the Postal Service for its efficiencies, would need to be re-engineered and the rural craft could lose 50,000 rural carrier associate jobs.

Mr. Chairman, that is 50,000 jobs added to the national unemployment rate of almost 10 percent, and that is just from one of the four postal unions.

Mr. Chairman, I know that times and finances are tough right now, but, in my opinion, moving from 6 to 5 day delivery would not save the Postal Service, it would only hurt the business model and make other delivery operations more attractive to our customers it so desperately needs to attract and retain. This would be a terrible course to chart and, as many observers have noted, could very well do much more harm than good.

Thank you for allowing me the opportunity to testify before the subcommittee today. I would be happy to answer any questions you or your fellow Members may have.

[The prepared statement of Mr. Cantriel follows:]

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Joey Johnson, *Director of Labor Relations*
Ronnie Stutts, *Director of Steward Operations*

Testimony of
Don Cantriel, President
National Rural Letter Carriers' Association

Before the

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

July 30, 2009

Chairman Lynch, and members of the Federal Workforce, Postal Service, and the District of Columbia Subcommittee, my name is Don Cantriel, and I am President of the National Rural Letter Carriers' Association (NRLCA), which represents 123,000 bargaining unit rural letter carriers. Our members work in rural, suburban, and urban areas throughout the United States and function as a "post office on wheels" because rural letter carriers offer Postal customers all of the services performed over the counter at a post office. We sell stamps and money orders, accept express and priority mail, offer signature and delivery confirmation, registered and certified mail, and, of course, collect our customer's parcels.

Mr. Chairman, first and foremost I would like to thank you and Representatives John McHugh and Danny Davis for your leadership on H.R. 22. I would also like to thank the Chairman of the full committee, Rep. Ed Towns, for his dedication on getting this important legislation passed at the full committee level. While H.R. 22 will not solve all of the Postal Service's problems during this financial crisis, it is a step in the right direction.

We are living in a truly challenging time. Our Country is in a deep recession and the Postal Service is a bellwether of the nation's economic well-being. Mail volume is down 11.9% in the first half of the year, and the Postal Service is expecting to lose approximately $7 billion this year..

This decline in mail volume has hit the rural carrier craft extremely hard. Rural carrier pay is based on an evaluated compensation system, which is unique not just to the Postal Service but to American industry generally. In the evaluated compensation system, each rural carrier is paid an annual salary, based upon the estimated amount of time it will take to deliver the mail on his or her individual

This evaluation of the individual route is based upon an annual mail count lasting from two to four weeks, whereby over 30 separate elements – compromising mail volume and various work activities – are counted, timed, or measured. The result is an estimated average weekly time required to service each individual route. That estimated time is equated to one of several evaluated time levels, each with a separate annual salary. Among the most important elements in the evaluated compensation system is the volume of mail delivered by the rural carrier. It is fair to say then that when volume is up, rural carriers make more money but when volume is down they make less and the Postal Service pays less to get the mail delivered on rural routes.

The most recent mail count was devastating to my members' pocketbooks. Prior to the February-March 2009 mail count, the number hours worked by rural carriers was just shy of 3.6 million hours. After the final mail count numbers were released, that number dropped significantly Consequently, the average rural route lost just over two hours per route which equates to more than $3,400 dollars a year in annual salary. This decline in pay is the second straight year our members have been hit hard in the pocketbook.

In addition to my members losing an average of $3,400, the mail count also results in our routes being re-evaluated and adjusted. For example, prior to the 2009 mail count, over 42,000 rural carriers delivered on routes designated as K routes; meaning they deliver 10 out of the 12 days per pay period. After the mail count, the number of rural carriers who delivered on K routes dropped to just over 27,000. The number of J route carriers (who deliver 11 out the 12 days per period) and H route carriers (who deliver 12 out of the 12 days per pay period) all increased significantly. What does this mean? It means after the mail count, thousands of rural carriers had to work an extra delivery day just to receive the same salary they made prior to the mail count.

As I have explained, there is already enough dislocation among the carriers I represent each year after the mail count. If the Postal Service were to consolidate the operations of retail stations and branches into nearby postal facilities that will only compound what has over the last several years become a real and troublesome problem. Our carriers will have to travel greater distances to work and our customers will increasingly feel isolated from the Postal Service when post offices begin to disappear. During these times, paying close attention to customer service is key, and we would expect a public outcry if stations and branches are closed. Especially in rural areas, customers will be particularly inconvenienced and some customers will unfortunately decide it simply is not worth it to continue to do business with the Postal Service any longer. Our customers and communities need to know that the Postal Service is here to stay. We will be sending the wrong message if offices across the country close up shop.

Mr. Chairman, our collective bargaining agreement with the Postal Service is based on a six-day work week. There is a lot of talk going around, especially among my members, about the Postal Service adopting five-day delivery. With mail volume at its lowest point since the 1930s, everyone is debating whether the volume is ever going to come back. I believe once the financial, advertising, mortgage, and banking industries get back on their feet, our mail volume will return. Mr. Chairman, if the Postal Service drops a day of delivery, we will drive businesses away. In today's modern age where competition is king, another business will jump in and take these customers away.

I spoke about the economic effects that my members experienced during the last two mail counts - while delivering six days per week. Instituting five day delivery could mean further salary decreases , not only the rural craft, but also to the employees of the businesses who use the Postal Service.

If five-day delivery were implemented, our evaluated compensation system, which is often praised by the Postal Service for its efficiencies, would need to be reengineered and the rural craft could lose 50,000 Rural Carrier Associate (RCA) jobs. Mr. Chairman, that is 50,000 jobs added to the national unemployment rate of almost 10%. And that is from just one of the four postal crafts.

Before I close, I would like the Committee to fully appreciate just how much, our customers and businesses rely on the Postal Service for six-day delivery. Take CVS/Caremark, as an example. CVS/Caremark is the largest retail pharmacy chain in the country and has a substantial mail order operation. CVS/Caremark spends roughly $13 million annually to use the Postal Service to deliver 90% of their medications.

These medications range from the normal prescription drug, to specialized temperature-sensitive medications mailed in specially-designed containers. The computer system CVS/Caremark uses to mail these temperature sensitive medications is remarkable. In order to mail these types of medications, the computer takes numerous variables into account, from the time and day the package is put into the mailing system, to a four-day weather forecast of the area of the country the package is being shipped to. The computer system can calculate down to the hour when the package must arrive before it loses the temperature the medication must be stored at.

If we lose a delivery day, normal CVS/Caremark operations will be greatly affected. We know that postal customers prefer to have their prescription drugs or medications delivered on Saturdays, for the simple reason that a majority will be home to receive them. On my route alone, some of my customers are 18-20 miles from the nearest Post Office and many of them, especially the elderly,

may not be able to travel this distance to the Post Office in order to pick up their medications.

CVS/Caremark is a good example but by no means the only example. It is just one of thousands of business that will be adversely affected if five-day delivery is implemented. Even small, local businesses who rely on the Postal Service to advertise coupons for special sales will also be affected.

Mr. Chairman, I know that times and finances are tough right now, especially for the Postal Service. But in my opinion, moving from six to five day delivery will only make the situation worse. This idea will not save the Postal Service. It will only hurt the business model and make other delivery options more attractive to the customers it so desperately needs to attract and retain

Thank you for allowing me the opportunity to testify before the subcommittee today. I would be happy to answer any questions you or your fellow members may have.

Mr. LYNCH. Thank you, Mr. Cantriel.

Mr. Strong, you are now recognized for 5 minutes.

STATEMENT OF MARK STRONG

Mr. STRONG. Thank you. Chairman Lynch, Ranking Member Chaffetz, members of the subcommittee, thank you for inviting the National League of Postmasters to testify before you today.

Founded in 1887, the League is a management association representing the interests of tens of thousands of postmasters throughout the United States. My name is Mark Strong and I am the executive vice president of the League. More importantly, I am a level 24 postmaster in Sun City, AZ, an unincorporated area in the Phoenix metropolitan area. I have served in that capacity since 1992.

The League would like to thank the subcommittee and the full committee for reporting H.R. 22 without amendment. The action has operated as a catalyst and started the legislative ball rolling.

With your permission, Mr. Chairman, I would like to request that my written testimony be entered into the record and proceed to briefly summarize my testimony.

Mr. LYNCH. Without objection.

Mr. STRONG. A post office, and its station and branches, has a primary responsibility in a given geographic area for collection, delivery, and some processing. In addition, post offices and their stations, branches, and finance units serve a vital function as a network to access points, retail sales points, and final delivery points for post office box holders, a key element of our customer base.

The League strongly supports consolidation of collection, delivery, and processing functions where appropriate. We are quite concerned, however, that panicked consolidations could lead to consolidating functions in a way that would cost, rather than save, the Postal Service money, or negatively affect service. There is often a good reason why carriers are disbursed throughout a community at stations and branches, and this reason has to do with urban congestion and traffic, rather than mail volume.

Looking at my communities, if the carriers from one of my branches were consolidated to another branch or my main post office, the heavy traffic in the Phoenix metropolitan area would add almost an hour additional time per day to each carrier route. I would have to compensate for that time or service would suffer; and to compensate for that is expensive. This has to be taken into account.

There are also questions of sufficient space in a given facility to take new carriers into that facility. In my case, I don't have any to spare. In terms of space, I have been adding in my post office almost 800 deliveries per month for years, which means I have been adding carriers. That number has decreased significantly over the past few years and it is now at about 80 new delivery points per month. However, last month there were more building permits issued in my area than were issued in the prior 12 months put together. Thus, I anticipate that my 80 new delivery points per month will start to grow quite rapidly in the not too distant future. I have to start thinking about that now, which puts me in an expansion mode, not a contraction mode.

While the League supports the notion of consolidating carrier function, it has more fundamental concerns about consolidating retail functions. Service has to be our prime consideration when looking to the future. Without good service, we have nothing to offer. Having many retail outlets in the communities allows us to provide better service, and closing any significant number of them will hurt service, and we can't do that.

The strongest argument for caution in consolidating retail facilities lies in the area of post office boxes. Today, the reality of carrier delivery is that businesses tend to get their mail very late in the day, far too late to process and deposit checks the day they are received. As businesses have complained about this for years, we have told them that the answer to their problem is to rent post office boxes, where mail is available no later than 11 a.m. By renting a post office box, small businesses can pick up their mail, process their checks, and deposit them the very same day at the local bank with a minimum of hassle.

This is a widespread practice and the quick access to checks that post office boxes provide plays a central role in the financial health to hundreds of thousands of small businesses across the country. Removing quick access could have a devastating effect on our business customers and their float. Time means money for our customers and it is up to us to serve them, not to have them serve us.

There are also a fundamental question of how we can consolidate one set of boxes from one post office into another. Generally, there simply isn't sufficient room in the second post office to accept the boxes from the first, unless more boxes are built in the second office. Building more boxes would tend to create traffic problems in the second post office, since most of these post offices were constructed with a formula for parking that took into account the number of existing boxes. We are the Postal Service, and service does not mean forcing a customer to drive 5 miles in urban traffic to pick up one piece of mail, to encounter a 5-minute wait to park, and then a 20 minute wait inside.

In conclusion, I do not want to suggest that no consolidation of carrier and retail functions could occur. Intelligent consolidation is also a good idea. However, efficiency, service, and the needs of the local small business and our customers must come first, and that determination should be a local one.

Thank you for considering our views, and I would be pleased to answer any questions that you may have.

[The prepared statement of Mr. Strong follows:]

Testimony of Mark Strong

Executive Vice President,
National League of Postmasters

Before the

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

Of the
Committee on Oversight and Government Reform

United States House of Representatives

July 30, 2009

Testimony of Mark Strong,
Executive Vice President, National League of Postmasters

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

July 30, 2009

Chairman Lynch, Ranking Member Chaffetz, members of the Subcommittee, good morning. My name is Mark Strong and I am the Executive Vice President of the National League of Postmasters (LEAGUE). I would like to thank the Subcommittee for inviting the National League of Postmasters to testify. We are pleased to appear before you today.

As a preliminary matter, the LEAGUE would like to thank the Subcommittee and the full Committee for reporting H.R. 22 without amendment. That action has operated as a catalyst and started the legislative ball rolling at OMB and in the Senate.

I. Background

The National League of Postmasters, which was founded in 1887, is a management association representing the interests of tens of thousands of Postmasters throughout the United States. We represent Postmasters from post offices of all sizes—from the very smallest to the very largest post offices. The LEAGUE speaks for thousands of retired Postmasters as well.

I am a level 24 Postmaster of Sun City, Arizona, an unincorporated area in the northwest portion of the Phoenix, Arizona, metropolitan area. I have served in that capacity since 1992. My post office serves just shy of 110,000 homes and in addition to Sun City includes Sun City West, Dysart, and Surprise, Arizona.

Under my Post Office, I have no stations, two branches and one finance unit. A postal "station" is a postal facility that is not the main post office but is within the incorporated area of the town or city. A branch is the same thing, except that a branch is outside the incorporated area of the town or city. Since Sun City itself is not incorporated, I only have branches under my main post office.

The difference between a station, a branch, and a "finance unit" is that carriers are housed and operate out of both branches and stations, while finance units are simply retail facilities. Thus my finance unit has customer service retail windows and post office boxes, but no carriers are housed in this unit.

My testimony today focuses on the effort by the Postal Service to consolidate the operations of some retail stations and branches (and I assume finance units) into nearby facilities.

II. The Role of a Post Office.

A post office (and its stations and branches) has the primary responsibility, in a given geographic area, for:

- Collection activities.
- Carrier delivery activities.
- Certain final incoming and initial outgoing mail processing activities.

Much of this latter function has disappeared as delivery point sequencing has significantly reduced most manual sortation and mail processing activities done in Customer Service offices.

In addition, post offices (and their stations, branches and finance units) serve a vital function as:

- Primary network access entry points.

- Retail sales points.
- Final delivery points for post office box holders—a key element of our customer base.

Finally, in rural areas the local post office plays an additional and critical role. Rural post offices are key focal points for the community, and they create the glue that binds the rural community together and maintains its identity. This social and cultural role has little to do with the actual working of the Postal Service, but nevertheless is an absolutely vital function for maintaining social and cultural cohesion in rural America. When a rural post office is closed, the rural community often shrivels up and dies. This is not a key role for suburban and urban post offices. Since the Postal Service's current retail initiative is aimed only at level 24 post offices and above, it obviously does not encompass rural post offices, and I address them no further in this testimony.

III. Consolidation of Post Office Functions

Given the multifaceted nature of what a local post office does, I do not find it particularly helpful to discuss the matter in abstract terms of consolidating branches, stations, or finance units. Rather, I find it much more helpful to discuss consolidating local post office functions, and I will approach the issue this way.

A. Key Assumptions.

Before considering the consolidation of local post office functions, it is important to set forth two assumptions that are critical to the LEAGUE's view and position in this area.

1. Service levels must be maintained. First, putting aside for a moment the current economic conditions, Postmasters throughout the country understand that the Postal Service faces significant challenges as it turns itself into an institution that can thrive in the 21st century. Electronic diversion, internet buying and the way people use mail have changed a lot over the

last twenty years and will continue to do so. We understand this and we understand the need to continue to evolve and change with the times.

Key to our success in the future will be maintaining current levels of service. No matter what else happens, service must continue at today's level or better. Any degradation of service would be disastrous for the Postal Service and could easily lead to a death spiral from which our postal system would never recover. There are alternatives out there, for *all* of our products, and while we know that our products are strong enough to thrive in the future, that is true *only* if service is maintained.

2. The mail will come back. Second, there is the crucial question of what will happen to postal volumes after the economy recovers and businesses once again are thriving. The LEAGUE strongly believes, as we understand top postal officials do, that when the current recession is over, most of the mail will come back. Not all, but most. This, of course, assumes that service levels will be maintained.

There is another school of thought that believes today's levels of volume losses are permanent. We believe that this view suffers from a lack of vision and does not encompass a full understanding of the multifaceted mailing and shipping business. We also believe that view is, in part, the result of an overly panicked reaction to the very serious economic conditions of the day, and how they are affecting particular elements of the mailing industry.

An analysis of the main product lines of the Postal Service supports our view. Let us look at each product line—personal and business correspondence, bill payments, bill presentation, expedited mail and parcels, advertising mail (First Class, standard class, and nonprofit), and periodicals.

First, little personal and business correspondence has left the mail in the last year. This is because most of it left the mail a long time ago—years, if not decades ago. Second, bill payment mail is indeed leaving the system as online bill paying increasingly gains hold among the public. This is, however, but one segment of the mailstream. In very sharp contrast, bill presentment mail (sending bills through the mail) is not disappearing rapidly from the system as many had prophesied. Indeed, research has found that among those who are willing to receive bills electronically, almost 90% want to continue to receive their bills via the mail for filing and backup purposes, and as a check on the quality of electronic delivery.

Fourth, the expedited mail and parcel markets (which are more profitable per piece than the First Class market) are doing very well in the age of the internet, and both are prime channels to deliver items ordered online. While most people probably would not use the Postal Service to deliver a new computer that they bought online, most would use the Postal Service to deliver a new mouse or a new USB flash drive. The same thing holds true for a new DVD, a new book, and a new shirt or sweater. This business is not going to diminish, and our expedited services and parcel services have a very bright future.

Fifth, First Class, standard mail, nonprofit advertising and marketing mail has decreased noticeably in recent times. So, however, have all other advertising channels, some more than the mail. Despite this, advertising mail remains an extremely powerful channel, and there is absolutely no reason to think that it will not come back once the economy recovers, assuming the Postal Service doesn't do something foolish like price it out of the market. Admittedly, there have been issues with the cost/benefit ratio of First Class advertising mail, but that could (and should) easily be taken care of through price adjustments, market discounts, and future Negotiated Service Agreements.

Last but not least, there is the issue of whether periodical mail will come back as strong after the recession as before. I do not profess to have a great in-depth understanding of this aspect of the mail. My understanding is, however, that the Postal Service loses money on most pieces of periodical mail that are entered into the system, so to the degree that its recovery is weaker than the norm, the Postal Service stands to benefit financially.

With those assumptions in mind, let us turn to the matter of consolidating local post office functions.

B. Consolidation Of Collection, Carrier Delivery, And Local Mail Processing Activities.

The LEAGUE strongly supports consolidation of these functions where appropriate. The key to our view in this area is the term "where appropriate" and we are quite concerned that knee-jerk, panicked consolidations could lead to consolidating functions in ways that would cost rather than save the Postal Service money, or negatively affect service.

In examining the issue of consolidation, we must remember that there is often a good reason why carriers are dispersed throughout a community at stations and branches, and that this reason has little to do with mail volume. It has rather to do with traffic and maintaining service levels. It can take a long time to drive five or ten miles, much less twenty or thirty miles on urban and suburban streets in heavy urban traffic.

Looking at my communities—and they are on the list—if the carriers from one of my branches were consolidated to the other branch or my main post office, the heavy traffic in the Phoenix metro area would add almost an hour additional drive time per day to each carrier route. I would have to compensate for that, or have service suffer.

There are two ways to do so. Both cost more money. First, I could add an hour of overtime to each carrier. At almost a dollar per minute that is almost $1200 more per month, per

route to sit idly in traffic, as the traffic gets on their nerves and burns up more gas. Alternatively, I could knock some deliveries points off of each route and then hire another carrier to make up the difference. That too is expensive.

Then there is the question of sufficient space in a given facility to take new carriers into that facility. In my case, I don't have any to spare, and I imagine that that is the case in a lot of other post offices. Indeed, in my post office, the main problem has been growth. I have been growing for years at an astounding rate, and my thoughts tend to wander back to the expansion that I will have to do in the future to handle the increasing number of delivery points, rather than worrying about how to consolidate for a year or so.

In terms of facts, I have been adding almost 800 delivery points to my post office per month for years. That number, however, has decreased significantly over the last year, and is now at about 80 new delivery points per month. Very recent indications are, however, that this is not going to last and that my area is going to return to rapid growth.

I keep in close contact with our local developers, just to stay on top of this issue, and my contacts have told me that new delivery points in my area are once again starting to grow rapidly. One way to measure this is by the number of building permits issued for new homes. Last month in my area there were more building permits issued than were issued in the prior twelve months put together. That is great news for my local economy, and I do anticipate that my 80 new delivery points per month will start to grow—perhaps quite rapidly—in the not-too-distant future. I have to start thinking about that now, which puts me back into an expansion mode, not a contraction mode.

A very important question concerning consolidation deals with timing. Many post offices are leased, not owned, by the Postal Service. Those leaseholds are for a set time and

include penalties for breaking the lease. If carrier functions and retail operations were appropriately consolidated in other facilities, the Postal Service would not be able to vacate the leased properties until the lease term ran out. This point alone suggests that while some gains might be made over the medium and long term, there might not be that much to be gained in the short term.

Thus, while consolidation of carrier functions is a great idea, in theory, which the LEAGUE wholeheartedly supports, it is not clear that there is much to actually be gained from widespread, clear-headed, intelligent consolidation of the carrier function in post offices. That does not mean that it shouldn't be considered, but is does mean that one should not set one's expectations too high, and expect significant cost savings to come out of the process.

C. Consolidation Of Access Points, Retail Sales Points, And PO Box Delivery Points.

While the LEAGUE strongly supports the notion of consolidating carrier functions, so long as service is not hurt, it has more fundamental concerns about consolidating retail functions. Service has to be our prime consideration in looking to the future. Without good service, we have nothing to offer. A good number of retail outlets in the community allows us to provide better service. Conversely, closing any significant number of retail facilities inevitably results in a reduction of service to our community, which is counterproductive to the long term future of the Postal Service.

Times have definitely changed; just a few years ago we were matching locations and hours of operation with our main competitors. If they were open until seven o'clock in the evening, we were open. If the customer was to have a choice, we wanted it to be us. That clearly

is no longer the case. When the economy turns the corner, how much business will we have given away by cutting hours and reducing locations?

Let me add here that when I say a *"reduction of service,"* I am not talking about selling stamps or not selling stamps. The Postal Service is quite correct when it suggests that the variety of new ways for the public to buy stamps has led to a decrease in the importance of post offices in regard to this function. Much more important is the function of the post office as an access and entry point to the network as well as the function of the post office as a final delivery point for PO boxes.

In terms of access and entry to the network, for some years now the Postal Service has tried to increase access and entry to the network through non-post office means. Services such as Click and Ship™, Carrier Pickup™, and Pick Up On Demand® are all targeted to achieve that goal. While great strides have been made in this area, I truly believe that the public still depends disproportionately on post offices for access to the network and that these new alternatives have by no means reached a point of acceptance where they can adequately substitute for post offices as access and entry points. Consequently, consolidation of retail windows at this point in time would, I believe, greatly affect access to the network in a negative way and should be avoided; unless a given retail facility is truly not required.

Finally, the strongest argument for caution in consolidating retail facilities lies in the area of post office boxes. Today, the reality of carrier delivery is that businesses tend to get their mail very late in the day, far too late to process and deposit checks the day they are received. That poses problems for many businesses—particularly small businesses—in terms of cash flow.

As businesses have complained about this for years, we have for years told businesses that the answer to this problem is to use a post office box, where mail is always available no later

than 11 a.m. By renting a post office box, small businesses can pop over at 11, pick up their mail, walk back to the office and process their checks to deposit them the same day at their local bank with a minimum of hassle. This is a very widespread practice, and the quick access to checks that post office boxes provide plays a central role in the financial health of hundreds of thousands of small businesses across the country. Post Office boxes are in almost every retail facility in the country; they provide quick access to checks; and they are very convenient.

Consolidating post office boxes—even if it means that a small business has to drive only twenty minutes further—is a burden we should not place on our customers. Time means money for our customers, and it is up to us to serve them, not have them serve us.

Moreover, there is a fundamental question of how we can consolidate one set of boxes from one post office into another. Generally, there simply isn't sufficient room in the second post office to accept the boxes from the first, unless more boxes are built in the second office. This in turn creates a problem as most of these post offices were constructed with a formula for parking that took into account the number of boxes and deliveries serviced. Consolidation could easily skew that formula. Transferring a significant number of boxes to a post office could easily overcrowd the parking at the second post office, and add much—too much—to the lines and pedestrian traffic inside the post office.

Moreover, in many urban and suburban communities, local businesses walk to their local station or branch to pick up their checks. Any significant consolidation would turn many of these walking trips into driving trips, with all the attendant added expense and inconvenience to the businesses that this would entail. Moreover, given that for years we have been pitching PO boxes very hard to businesses, it would be hypocritical for the Postal Service to suddenly pull out from under them the convenience that has made PO boxes such a success.

Finally, for a variety of reasons, carriers leave notices for pickup every day up at many residences where no one is home. These pickup notices require a resident to come to the local post office (or branch, station, or finance unit) to get their mail. If customers are required to pick up articles at a consolidated facility, mileage, traffic, congestion and parking has to be very closely examined. We are the Postal *Service* and *service* does not mean forcing a customer to drive seven to ten miles in urban traffic to pick up one piece of mail, only to encounter a five-minute wait to park, and a then a twenty-minute wait inside.

In conclusion, I do not want to suggest that no consolidation could occur. Intelligent consolidation is always a good idea. However, the needs of the local small business and our customers must come first. They are a critical part of our customer base, and it is they we need to serve, not have them serve us.

We should go very slowly in consolidating retail and box functions at branches, stations, and finance units. One way to assure this is to clearly provide local public notice and a local public hearing if the Postal Service determines that the retail functions of any branch, station, or finance unit should be consolidated. Setting a survey card out in the lobby is not enough.

In these proceedings, the Postal Service should remember the maxim of a good business, and that is that the customer is always right. If resistance develops to the consolidation of any of these facilities, then the Postal service should accede to the wishes of the community, for it is that community that the government-owned Postal Service is meant to serve.

In making these determinations, the Postal Service should emphasize local decision-making for local conditions and realize that this process will require local oversight and local examination rather than regional or national review. As this committee well knows, centralized

decision making tends to be the norm in the Postal Service, and that norm could be very counterproductive in this instance.

CONCLUSION

The LEAGUE does not oppose considered, intelligent consolidation of post office functions. The exercise is fraught with peril, however, as regional managers who are not sensitive to local service concerns could end up destroying much of the base of the Postal Service, and alienating many of our communities. We easily could lose the "service" in Postal Service and destroy our brand. That would be disastrous. Careful analysis and very cautious implementation needs to be the operating mode here.

Thank you for considering our views, and I would be pleased to answer any questions that you might have.

Mr. LYNCH. Thank you very much.

By way of a procedural announcement, they have just informed us that there will be votes beginning now, basically, on the House floor. There are 15 votes, and it could involve about an hour and half, at least of delay. The problem is that what will happen is that our 2 o'clock hearings begin shortly after that series of votes.

So what I am going to suggest is while the ranking member and I have more than a few questions to ask you, what I would suggest is that I could, rather than have you stay here for several hours waiting for us to come back and get in another hearing room, I could submit these questions to you in writing, but I would have to have them back in 10 days in order to get the questions and answers on the record. If there is not an objection from you, then I would like to handle it that way.

The other opportunity would be to bifurcate the hearing and call you in on another date and ask you questions orally on the record. So I can do either way. The problem is that we are running into the August recess, so any oral hearing would have to wait until September. If it is all right with you, I could submit the questions to you in writing. There are some questions we would like to ask right now. Since no one seems to be objecting, I am going to take that as a yes.

You want to get something on the record?

Mr. CHAFFETZ. Yes.

Thank you for your patience, and our apologies for this schedule; I wish it wasn't the case, but we appreciate your testimony and being here.

I just wanted to make sure, Mr. Chairman, that the Congressional Research Service [CRS] Report, Post Office and Retail Postal Facility Closures Overview and Issues for Congress, dated July 23, 2009, was in the record. If it has not already been included, I would ask unanimous consent to have it included in the record.

Mr. LYNCH. Without objection.

Let me ask, and I will try to leave enough time for the ranking member to ask as well.

Mr. Rolando and Mr. Cantriel, you are presidents of letter carrier unions, and what we are looking at right here is not only the consolidation of postal facilities, stations and branches, we are also trying to get a sense of what is involved and what the impact of route consolidation is. I have less of a grasp of that. I think everybody understands when a post office is closed, what impact that has.

But I would like to ask you each just to take a minute and describe, I guess in the urban sense and then in the rural sense, what it means and how the route consolidation process has gone, whether or not you have been actively approached by the Postal Service to participate and to have your input. How has that all gone? Mr. Rolando.

Mr. ROLANDO. Thank you. With respect to the consolidation, we haven't been approached regarding the adjustment of routes, but we have been involved in the joint process of adjusting the routes, anyway, due to the fluctuating volume. We have been working with the Postal Service for a couple of years to find a more efficient way

to jointly adjust our routes, which, of course, has been necessitated by the drop in volume.

Traditionally, we have had volume growth. As we started our studies from our collective bargaining agreement, we had to pretty much stop in our tracks and find a way to adjust to the falling volume. The idea, of course, is the efficiency and having 8 hours work for 8 hours pay. So we have been working together. We are in our second of third rounds to do that. To adjust to the volume we are doing two this year.

I can tell you, with any consolidations that do occur, it would just be an extension of what we are doing to adjust the routes. Obviously, it would affect travel time to get to and from the route if you are going from a different station, but the idea would be to jointly get on top of it as it happens and keep everything adjusted to the volume and the location and any adjustments that have to be made.

Mr. LYNCH. Let me ask you. I know there are, I think, about 350,000 letter carriers? That is probably both unions, is that right? No?

Mr. ROLANDO. Between us.

Mr. CANTRIEL. Well, 400 and something. You have 300? We have 123.

Mr. ROLANDO. We have just over 200,000 active letter carriers.

Mr. LYNCH. OK. And there is a hiring freeze on right now, right?

Mr. CANTRIEL. Not for us.

Mr. LYNCH. Not for the rural?

Mr. ROLANDO. How come they let you hire?

Mr. CANTRIEL. Because we have a contractual provision that calls for one leave replacement for each route. Although we made some concessions in the last contract that allowed for TRCs, there is still the provision there, and we have some others, carriers that sub for more than one route and had career status, and that reduced the number. But, contractually, we are entitled to a leave replacement for each route, which makes it a little more difficult for them to put a freeze on hiring.

Mr. LYNCH. Well, let me ask you basically the same question. I know, Mr. Cantriel, the rural post offices are exempt, I think, from this closure process.

Mr. CANTRIEL. That is not entirely true, because we are experiencing, especially in the Wisconsin-Minnesota areas and up through Michigan, that we have seen carriers move from one office to another, because we had several calls complaining. I don't know if the office was necessarily closed, but the delivery function was consolidated and they are driving considerably longer just to get to work, and then to go back, drive that same distance to go out and deliver their route. So we are not completely immune to it, although we haven't seen, or even been asked about, some of the more urban offices that we have and what kind of effect we would have.

As far as adjustment, I want to address that just a little bit.

Mr. LYNCH. Sure.

Mr. CANTRIEL. We have been in that process since our existence because we are evaluated, and when we are evaluated each year, depending on the volume of mail, whether it is going up or down,

our routes are adjusted accordingly. We actually have a cap on how large the routes can grow, which, when they exceed that, they would be adjusted.

We don't have much of a bottom end, and that is why, in my testimony, we have a lot of carriers now working all 12 days during a pay period because their routes have dropped below 40 hours. We don't have a guarantee, it is by the actual volume and what the count shows that the route would be, so we will have some 36, 37 hour routes. And we have gone through those adjustments for years and years, so it is really not anything new for us.

What is new is, because of the drop in volume, we are seeing more consolidation of routes even in the more rural areas, where the routes have gone so small that it just makes, when someone retires, to consolidate.

Mr. LYNCH. OK. I think my time has expired.

Madam Chair, you are more than welcome.

Ms. NORTON. I have to go too, because there are Committee of the Whole votes, but if I could just ask a few questions before I go.

Mr. LYNCH. That will be fine.

Ms. NORTON. I do get to vote on the floor on some things, so you can imagine that I take those opportunities.

I want to take this opportunity to commend the employee representatives of the unions before us, because it is clear that you have done what you could and what you can to pitch in, and I think it is a perfect example of why unionization is a benefit to the public as well as to management; you have orderly process going on here.

Could I ask if any of you have experienced layoffs, straight out layoffs so far? So far this downsizing, or whatever you want to call it, has occurred without notices of layoff in the traditional sense.

Mr. BURRUS. All of our contracts contain provisions governing layoff of employees. In 1978, a national arbitrator, when all the parties were negotiating jointly at the time, imposed conditions that we all share equally regarding layoffs. In our bargaining units, an employee that achieves 6 years of continuous service is protected for a lifetime against layoff. The only employees that are exposed to the possibility of layoffs are employees that have less than 6 years of continuous service.

Ms. NORTON. Have any of those been——

Mr. BURRUS. No. There are also other legal impediments to layoff, because you must merge the RIF procedures with the layoff procedures, because the employees with less than 6 years of service who are veterans have a special process that must be used in order to effectuate layoffs. So it would be a very complicated process.

Ms. NORTON. Well, that is very important to have on the record. I am going to have to go in a moment.

Mr. HEGARTY. I would like to jump in on that one, too, if I could. We haven't had any mail handlers laid off, but we have had de facto layoffs. What I mentioned earlier was a mail handler in Memphis, TN who is offered a job in, say, Oklahoma City, 400 miles away.

Ms. NORTON. Oh, yes, we have heard about those. And that is a de facto.

Mr. HEGARTY. They have a choice, either quit their job with the Postal Service or move, so in effect they may be laid off. The second instance is with our part-time flexible employees who have no fixed schedules and no guarantee of work hours. In many areas of the country now, they are only working 4 hours a pay period, which is 2 hours a week, so they are, in effect, laid off.

Ms. NORTON. See, the reason I am glad to have this on the record is because I am most concerned about some kind of orderly process. I expressed earlier the kind of surprise notion, precipitous layoffs or, for that matter, precipitous transfers. Same difference, as far as I am concerned. I have looked closely at this 5 day week largely because it is one of the few things I think the public is not going to throw their hands up at.

You can bet if some of those post offices or branches in the District of Columbia have to be closed, I am going to be besieged with people saying, "oh, please, whatever you do, don't close that postal service." So I was interested that people have already acclimated themselves to the possibility of 5 day week, which, after all, they are on as well, and they have looked at what has happened to the post office.

But, Mr. Burrus, Mr. Rolando, Mr. Cantriel, you are pretty clear you did not want to see that happen. I agree with Mr. Burrus that watch out for calling the decline and fall altogether of the Post Office. Constitutional Post Office, nobody up here. The Post Office has an allegiance up here that nothing else I know has. Nevertheless, just as you warn about structural changes, there are structural changes occurring to you and, yet, very little of what we have heard, at least until today, involved structural responses right back.

Mr. Hegarty went through a list that interested me, because he said case-by-case basis, facts in each situation, economic and logistical sense, negatively affects employees, negotiated requirements complied with. Now, remember, that is going to take time, and should take time, and I just think the unions' involvement in whatever happens early is going to be necessary.

And I have to ask you once again, the 5-day week, given the fact that it is going to be hard just to lay people off. Some of these people are leaving because they are aging out, because they can retire, and the rest, and given Mr. Hegarty's list, or a similar list, would you really think the 5-day week should be off the table, when it is not off the table for the general public?

Mr. ROLANDO. I would like to say that obviously it has an effect on my members, but this isn't about my members or anybody else's members; it is about the institution. It is about the Public Service.

Ms. NORTON. The public is going to be hurt one way or the other, and the question is can there be some kind of a sense of how to get hurt the least, Mr. Rolando. I am going to be looking for advice from people on the ground. Those are the people I respect most. When service went down in the District, I then traveled with my postman, as he was. I saw amazing things like people who saw no one everyday except the postman. I saw the great allegiance they had. I saw how hard the work was.

And when you have some hard choices here, I would rather have employee buy-in than to have what we are seeing the post office

do now; they come each time with, "oops, we have to do this," as if they couldn't have seen that 3 years ago or 4 or 5 years ago. So that is what I am putting to you. If that one is not something we can agree upon, it is going to be hard for me to understand what it is that we can get some kind of consensus on to happen in time to save what is the core and route of the service.

Mr. ROLANDO. I believe, again, that is a shortsighted response, the 5-day delivery. I think they are going down a totally dark road to respond to the crisis. What we need to do is expand the business. You can look at going from 6 to 5 days, and if you need some money next year, you can go to 4 days to 3 days to 2 days. It is just dismantling the company is what it is doing.

Ms. NORTON. And I think that might happen, Mr. Rolando. I think that could happen.

Just let me say this, as somebody who saw a whole city go down, the longer you wait, the greater the damage and the more management is empowered to make the decisions. I would like to see the kind of collaboration that you have already begun to try to save the Postal Service. I don't think it can be saved except with employee collaboration. You have in place such a strong collective bargaining system, they are going to have to come to you. You can delay the thing, and the question is how to preserve what you think is in the best interest of all of you and of the Postal Service.

I have to go vote. Thank you very much for hearing me out.

The Service is now—I mean the hearing. Not the Service, for God's sake. [Laughter.]

The hearing is now adjourned. Thank you all for attending.

[Whereupon, at 1:20 p.m., the subcommittee was adjourned.]

[The prepared statement of Hon. Elijah E. Cummings and additional information submitted for the hearing record follow:]

Statement of Congressman Elijah E. Cummings

Thank you, Mr. Chairman, for convening this hearing to review the Postal Services' proposed initiative to combine station and branch postal facilities and other consolidation-related efforts.

I appreciate that this is a transformative period for the Postal Service – that it has suffered and is continuing to suffer tremendous financial challenges – some of which threaten its very existence. Having been reentered on the Government Accounting Office's ("GAO") High Risk List this week, it appears that now, more than ever, urgent action is demanded.

I believe that it is this Committee's intention, after getting a better understanding of the proposed initiatives today, to assist in discerning just what that action needs to be. We must, of course, include in our consideration, the potential impact of the course which is charted and how these decisions affect cost savings and efficiency.

I have many constituents who have become concerned after hearing that the Post Office is considering cutting one of its delivery days. They fret about what that means to the services

which they have come to expect and upon which they rely. They are anxious about losing their post offices and about not being able to get to another post office once their (often beloved) post office is gone.

To my constituents who are city residents, this is a major concern because they may not own cars, may be fearful of traveling to areas which they perceive as unsafe, or are elderly or otherwise physically challenged. They anticipate other decreases in services, as well, based on an ever-increasing list of initiatives being considered as the most feasible means of addressing what ails the Postal Service.

As you might imagine, my constituents' concerns also concern me, and I am anticipating learning a lot from the witnesses today. I anticipate learning enough to be able to return to my District and either explain that the lack of viable alternatives to these closings and reductions precludes any other action, or to give my constituents optimistic news that workable alternatives are being explored and considered.

I am looking forward to hearing about our current options. Further, I hope to receive insight into how this all can be or needs to be strengthened by the implementation of governmental initiatives to support what we all want – the survival and

strengthening of the United States Postal Service. I believe that this review is urgent and essential.

To the panel members, again, thank you for coming. I look forward to hearing from you.

Thank you, Mr. Chairman. I yield back.

September 4, 2009

The attached questions were submitted to the Postal Service following the July 30, 2009 House Postal Subcommittee hearing "Making Sense of It All: An Examination of USPS's Station and Branch Optimization Initiative and Delivery Route Adjustments." The following are the USPS's responses.

Station and Branch Closures

1. Under what authority is USPS undertaking station and branch closures? Is USPS required to follow the same processes for closures of "stations" and "branches" as it is required to follow for "post offices" under § 404 (d) of Title 39? Are stations and branches considered to be post offices? Why or why not? Please cite legal authority and governing policy.

The legal authority for the Postal Service to establish and manage facilities arises from many sections of title 39, United States Code, specifically including §§ 101(g), 401(6), 403(b)(3) and 404(3). Enabling regulations for these code sections include many parts of the *Administrative Support Manual* (ASM) and the *Postal Operations Manual* (POM). A wide net of other regulations pertinent to facilities include Handbooks, Publications, Policy Memoranda, etc. in accordance with the criticality of facilities to postal operations. The Facilities organization is also a critical part of the Postal Service infrastructure, headed by the Vice-President, Facilities, who reports directly to the Senior Vice-President, Operations.

Though the public may refer to a postal facility with any retail activity **as a "Post Office", postal stations and branches are not Post Offices, but are** instead **subordinate administrative units of a Post Office. A Post Office is the basic organizational unit of the Postal Service, having primary responsibility for collection, mail processing, delivery and retail operations in a specific geographic service area.[1] A postal station is a subordinate unit of a Post Office located within the same corporate limits as the Post Office.[2] A postal branch is the same as a station except that it is located outside the corporate limits of the city or town hosting the Post Office.[3] Stations and branches are established within a main Post Office's service area to provide one or more services at sites more convenient to customers.[4]**

A postmaster oversees operations throughout a Post Office's service area, opening, relocating and closing requisite facilities as necessary to conduct postal business. A given postmaster may have administrative responsibility for a main office, stations, branches, carrier annexes, detached Post Office box units, contract units, non-personnel units, and other types of facilities. Still other facilities may be located in a Post Office's service area, including vehicle

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[1] U.S. Postal Service, *Publication 32: Glossary of Postal Terms* (July 5, 2007), at http://www.usps.com/cpim/ftp/pubs/pub32/pub32h_p.html.
[2] *Id.*
[3] *Id.*
[4] U.S. Postal Service, *Postal Operations Manual, POM Issue*, Section 123.121

maintenance facilities, processing and distribution facilities, airport mail centers, mail transportation equipment centers, bulk mail centers, remote encoding centers, and District or Area offices, although most of this latter group would not be subject to a postmaster's administrative oversight.[5]

Operations at the approximately 4,800 stations and branches are directed by the Postmaster at each office's supervising Post Office, with the result that the mix of services offered at respective stations and branches can vary among facilities and over time. Whereas new Post Offices must be recommended by the Vice President, Area Operations, for final approval by the Deputy Postmaster General and Chief Operating Officer, stations and branches can be established by Vice Presidents, Area Operations, or their designees, where needed within the service areas of Post Offices.

The administrative distinctions between Post Offices and stations and branches are critical to the Postal Service's ability to fulfill the mandates specified in title 39 of the United States Code, in accordance with Congressional intent that the Postal Service operate as an independent establishment of the executive branch. 39 U.S.C. § 201. Congress, moreover, has recognized the technical distinction between Post Offices and their subordinate stations and branches for over a century.

The Postal Service is established to operate as a basic and fundamental service to the American public that binds the Nation together through the personal, educational, literary and business correspondence of the people. 39 U.S.C. § 101. Management of the national postal system involves the balancing of important service and operational objectives, including the provision of adequate, prompt, reliable, and efficient services to all communities. *See* 39 U.S.C. §§ 101(a), 403(a), 403(b)(1) and 3661(a). To achieve these goals, the Postal Service is empowered to determine the methods and to deploy the personnel necessary to conduct its operations. 39 U.S.C. §1001(e). The Postal Service also is responsible for operating and maintaining such facilities and equipment as are necessary to pursue these objectives. 39 U.S.C. § 401(6). And, consistent with reasonable economies, the Postal Service is authorized to establish and maintain postal facilities of such character and in such locations as are necessary to provide residents of both urban and rural communities access to effective and regular services. 39 U.S.C. §§ 101(b) and 403(b)(3).

Postal stations and branches give the Postal Service the flexibility necessary to fulfill its mandates. As subordinate units of a Post Office, stations and branches are created to assist the main Post Office in carrying out the full scope of its operations. In simpler terms, stations and branches can be thought of as auxiliary units of a main Post Office whose opening, relocation and closing facilitate accommodation of customer needs that vary throughout a Post Office's service area and which inevitably change over time. Their relative ease of establishment

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[5] *See, e.g.,* "area" in Publication 32.

and removal enable the Postal Service to respond to customer needs quickly and efficiently.

Because a station or branch is not a Post Office, but an auxiliary unit overseen by a Post Office (or, alternatively, postmaster), the Post Office discontinuance procedures do not apply to stations and branches. Station and branch discontinuance procedures do mirror the Post Office discontinuance procedures, but are more streamlined in accordance with their diminished criticality to overall access to postal services for all customers in a Post Office service area. The main differences between the Post Office discontinuance process and the stations and branches discontinuance process are that the latter process does not require public posting of a formal proposal nor extension of appeal rights. Instead, a postal District Manager must produce written justification for the Postal Service Vice-President, Delivery and Post Office Operations, who may approve or disapprove the decision.

This process is being used in the Station and Branch Optimization and Consolidation Initiative. Customers are informed of the Postal Service plans with commentary via questionnaire responses, a community meeting or press reports requested (customer feedback through letters is also common). Customer comments are reviewed before any discontinuance proposal is referred to Headquarters for final decision, and again before a final decision is made. The steps omitted from the station or branch closing process are the posting of a formal Proposal for 60 days, or upon the posting of a Final Determination, a right of administrative appeal outside the Postal Service if effectuated within 30 days.

The conclusion that the Post Office discontinuance procedures do not apply to stations and branches is consistent with the legislative history of the 1976 Amendments to the Postal Reorganization Act, which established the Post Office discontinuance procedures, general rules of statutory construction, as well as federal court precedents that have addressed the scope of the 1976 amendments in related contexts. This conclusion is based on the following:

- Congress knowingly used the term "Post Office" in the 1976 amendments in its precise sense because it has consistently used the term in that sense for more than a century;
- Congress has repeatedly considered and rejected a broader scope for what became the governing statute;
- The Conference Report on the reconciliation of the House and Senate versions of the legislative history confirms Congress' specific intent to limit the application of current section 404(d) to independent Post Offices; and
- Federal court opinions that have considered the scope of the 1976 amendments are in accord with the Postal Service's interpretation that the statutory closing and consolidation requirements apply only to independent Post Offices headed by a postmaster.

The Postal Service understanding of the intended scope of section 404(d) has been applied consistently since enactment of that section, as confirmed today by Handbook PO-101, *Post Office Discontinuance Guide,* a focus in the current advisory opinion proceeding, PRC Docket No. N2009-1. With section 404(d) specifically applicable only to Post Offices, the Postal Service view is that it does not grant the Postal Regulatory Commission today, nor the Postal Rate Commission before it, authority to review postal decisions to discontinue the operations of other facilities, such as stations and branches or any of the many other facility types identified above that are necessary to postal operations.

Changes in customer mailing habits and the expansion of state-of-the art technology throughout all operations have made it incumbent upon the Postal Service to review the number and location of stations and branches and to determine where any excess capacity exists, and whether opportunities for improved efficiency can be harvested. Reevaluating the need for these facilities and determining if they are truly maximizing value, while providing customers with access to necessary levels of service, is the type of business-like action required for the Postal Service to manage its resources responsibly, and to compete successfully in today's marketplace.

The current climate of dire financial circumstances calls for an increase in flexibility that enables maximization of efficiency; this is not a good time to inhibit the Postal Service's ability to respond in these challenging times. Postal Service application of its station and branch discontinuance process, one that has long been in place separate and apart from the section 404(d) Post Office discontinuance process, constitutes prudent action by Postal Service management. Moreover, the Commission's views in the form of an advisory opinion pursuant to section 3661, and the process by which the PRC develops its Opinion, bring welcome additional transparency in this historic time for action.

2. What savings is USPS targeting for station and branch closures; when will these savings be realized; and perhaps most importantly how do you plan to carry out these proposed closures?

No specific financial targets or goals have been set nor should they be set. Each decision must be based on its own local combination of circumstances. As specific local consolidations are implemented, operating expense savings will be documented. Discontinuances will be carried out according to the long-standing station and branch closure process, as detailed in witness Matalik's testimony, USPS-T-2, PRC Docket No. N2009-1, Station and Branch Optimization and Consolidation Initiative, filed with the PRC. We have attached a copy of this testimony.

3. What criteria is USPS using to guide its decisions? What role does the financial performance of a post office have in determining whether consolidations or closures should occur? How will you ensure that a standardized, fair process is employed?

These matters are also discussed in the response to Question 1. For each discontinuance determination, District management conducts a study and submits a recommendation to Headquarters based on the following information:

- **Retail transactions trends;**
- **Proximity to other retail service facilities;**
- **Space requirements and capabilities;**
- **Wait time in line retail window service capacity;**
- **Impacts on employees at the facility under study;**
- **Customer concerns as expressed in response to questionnaires or in a community meeting;**
- **Postal financial savings that could result from closure or consolidation;**
- **Alternate retail service and delivery options;**
- **The ability of nearby postal facilities to accommodate retail, delivery, and related workload that may shift to their locations;**
- **What kinds of non-postal service requirements exist at the station being analyzed for discontinuance; and**
- **Other factors deemed appropriate.**

As the list above indicates, the financial performance of an office is just one of several factors. The process allows for local factors to be considered because judgments about local retail and carrier operations require expert knowledge about local conditions. Local variation can make seemingly similar situations different. At the same time, to ensure the process is thorough and fair, the Area Office reviews the District study, and the final decision regarding a station and branch discontinuance is made at Headquarters by the Vice President, Delivery and Post Office Operations, after a Headquarter review is also completed.

4. Current law forbids the USPS from closing "small post offices solely for operating at a deficit" and requires the USPS to provide "effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining." Does this current system protect rural areas at the expense of metropolitan areas? Might this law lead to equity complaints on the part of metropolitan citizens and businesses?

The station and branch initiative is an attempt to consolidate some retail stations and branches in larger communities throughout the nation. The focus on areas where numerous facilities are located in close proximity to one another at a time when facility utilization has recently decreased drives an expectation that consolidations are possible. Each facility is being reviewed on a case-by-case basis. The station and branch initiative does not require application of the Post Office Discontinuance procedures, nor does it allow for Postal Regulatory

Commission review. Should the data in the Station and Branch Initiative reveal that a facility meets a service need that nearby postal facilities cannot accommodate, then that station or branch in question will not be discontinued. We believe that this process is entirely fair to customers. While the process for station and branch consolidations differs from the Post Office discontinuance process, in both cases, the Postal Service reviews the level of access to postal services to ensure its sufficiency.

5. Can you clarify which decisions relating to station and branch consolidations/closures will be made public? Will you post the list of stations and branches being studied on your Web site? How often will you update the list?

The Postal Service has nothing to gain, and a lot to lose, by failing to publicize where customers can or cannot gain access to postal services. Current law does extend special protection to customers of smaller, rural offices for the simple reason that the Postal Service is obliged to provide universal service, even where service is more costly to provide than the revenue such offices generate. The current Initiative, however, aims at controlling costs that all users of postal services must ultimately pay for if the burden is not to be put on taxpayers. As such, the Initiative does not favor any subset of customers over others.

On July 30, 2009, as part of the PRC Docket N2009-1, a request for an advisory opinion regarding the Station and Branch Optimization and Consolidation Initiative, 2009, the Postal Service filed a list of 677 stations and branches that, as the result of a pre-screening process, have been identified as potential candidates for discontinuance studies that will inform decisions whether to consolidate their operations. This list represents a static snapshot taken two days earlier. It is subject to change as the pre-screening process continues and will be updated monthly.

As the process continues, customers served by each facility will be notified of an ongoing study and be provided an opportunity to comment on each proposed discontinuance, consistent with long-standing process. Customers will also be notified of each study's outcome, including the final decision by the Vice-President, Delivery and Post Office Operations.

a. Do you have, or can you create, maps of each State locating stations and branches under study? Can you make those maps publically available on your Website?

At this time, the Postal Service has no plan to issue maps illustrating the 677 stations and branches being considered for study primarily because the Initiative is a fluid process subject to change. The list of stations and branches will evolve as District Managers decide to add or remove offices. The Congressional Research Service has, however, created maps using color to illustrate the

number and location of offices targeted for study.[6]

b. How do you plan to communicate with your stakeholders and include their input in decisions?

Communication both to and from stakeholders, especially the specific customers whose access to postal services lies at the heart of any station or branch discontinuance study, constitutes the heart of the discontinuance process. Moreover, this process is being examined closely by other stakeholders in PRC Docket No. N20099-1. If a study shows a consolidation is feasible, the District will issue public notice and seek public input for at least 10 days through either a community meeting or a questionnaire. If the District Manager believes that additional public comment is warranted, he/she may also place a newspaper advertisement. Community feedback is one of many criteria that are taken into consideration.

6. Why is USPS proposing an expedited process for closing branches and stations that gives the public only 20 days for comment, instead of the 60 days of public notice required by law when the Postal Service closes a post office? (Given the importance of these urban and suburban facilities to the community, should the same process apply?)

The 60 day and 20 day periods are not directly comparable. The 60 day period is provided by statute as the duration over which a formal proposal to discontinue a Post Office must be posted for review together with an invitation for customers to submit written comments.

The 20 day period applies in both Post Office and station/branch discontinuances. Customers are given at least 10 days notice of a forthcoming town meeting. Customers are asked to remit completed questionnaires within 10 days. The Postal Service then gives itself 10 more days (for a total of 20) to complete its analysis of customer comments. However, these time limits do not automatically preclude consideration of late-provided comments. Any late comments received are included in the administrative record so long as that can occur before a District Manager decides to more forward with either 1) posting of a formal Proposal for 60 days (Post Office discontinuance) or 2) decides to send a decision package to Headquarters for final action on a station or branch. Based on a long history of successful use for discontinuance studies in both Post Offices and in stations/branches, the Postal Service believes this 20 day time period generally suffices.

Consequently, use of the same time periods for collecting customer input regarding stations and branches as are made applicable to Post Offices is eminently reasonable. This conclusion finds further support from the fact formal comments elicited by the 60 day statutory posting period for Post Offices are

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[6] *See* Post Office and Retail Postal Facility Closures: Overview and Issues for Congress (August 7, 2009) Figures 1 and 2, at 4.

generally quite sparse compared to the input gathered via community meetings and questionnaires. The Postal Service remains confident that its longstanding station and branch discontinuance study process does garner comprehensive customer feedback, even though it does not solicit customer feedback using the exact set of opportunities required by law for Post Offices.

7. Why is USPS proposing not to allow any appeals of station and branch closures, when post office closures can be appealed to the PRC?

As stated in response to question 1, Post Offices are distinct from stations and branches. Stations and branches are subordinate units of a Post Office, created to assist that Post Office in carrying out its duties. Stations and branches are opened and closed as needed by the main Post Office to carry out the main Post Office's duties. The difference between Post Offices, and stations and branches, reflects the Congressional mandate to the Postal Service, to be an independent establishment of the executive branch, to manage the national postal system, to balance important service and operational objectives, including the provision of adequate, prompt, reliable, and efficient services to all communities. To achieve these goals, Congress empowered the Postal Service to determine the methods and to deploy the personnel necessary to conduct its operations, to operate and maintain such facilities and equipment as are necessary to pursue these objectives, and, consistent with reasonable economies, to establish and maintain postal facilities of such character and in such locations as are necessary to provide residents of both urban and rural communities access to effective and regular services. The Postal Service is simply carrying out the duties mandated to it by Congress.

8. Do you anticipate that any employees will lose their positions or have their work hours reduced? If the answer is "no," how will the workload be redistributed among the remaining facilities?

Jobs and work hour reductions, if any, will be handled in full accordance with existing collective bargaining and other agreements with employee organizations. Some employees may need to relocate their jobs to a nearby facility.

9. Is USPS anticipating any appreciable drop in retail revenue relating to the station and branch closures?

No. The number of retail station and branches ultimately discontinued as a result of this initiative will represent only a very small portion of the over all postal "brick and mortar" retail network. In addition, there are numerous alternate access channels that the Postal Service makes available to the public. Some of the more popular alternate access channels include *usps.com*, consignment stamp sales at over 50,000 grocery stores and other private retail locations, stamps by mail/phone/fax and contract postal units. In fact, in June 2009, 29 percent of total retail revenue was generated through these alternate means.

10. What is the status of your plans to sell unused and under-utilized postal facilities? What savings to you expect to achieve with these sales as well as lease terminations?

As previously indicated, no specific savings are projected or expected. However, it stands to reason that the right to terminate a lease, or an opportunity to sell a building no longer utilized by the Postal Service, could be part of a local review and recommendation, and review prior to a final decision.

11. Since 2006, USPS has closed only 1 of its 400 major mail processing facilities, despite there being a tremendous amount of excess capacity in this network. What is USPS's plan for rightsizing this mail processing network? What lessons have you learned in processing consolidation that may be applied to retail consolidation?

The Postal Service has an integrated network consisting of processing and distribution plants, customer service facilities, bulk mail and network distribution centers, logistics and distribution centers, surface transfer centers and remote encoding centers all fulfilling a different function.

There is always an operational challenge in predicting the future because of variables in the climate that we face – today's challenge, for example, is rapid mail volume declines.

The objectives of the network re-engineering are to create a flexible logistics and distribution network that reduces cost and improves the consistency of service for all products. While we do have excess capacity, this excess capacity is determined not on a network basis but on a facility-specific basis, and perhaps, only at specific times of the day. The Postal Service must maintain the capability to meet service standards.

Consequently, the Postal Service has chosen to refine other aspects of the network to meet current and future operational needs while reducing inefficiency and redundancy, and providing quality service. Today, more than 30 area mail processing feasibility studies are under way. The AMP process includes the consolidation of all originating, destinating or both originating and destinating operations. The consolidation of both originating and destinating operations may result in facility closures. We have approved 16 AMPs this fiscal year; four of which were originating and destinating (Kansas City, KS; Winchester, VA; Watertown, NY and Wilkes-Barre, PA).

Frequently, marketplace factors influence network design. Our air transportation network, for example, has been re-shaped by implementing service requirements for carriers, using significantly fewer commercial air carriers, and using cargo carriers. Ten years ago, we had about 80 air mail centers; today that number is 12. Similarly, our network adapts to technological advances. Ten years ago, we had approximately 55 Remote Encoding Centers; today we have five.

Still another network change that we have started is the redesign of our Bulk Mail

Centers into Network Distribution Centers. While we do anticipate millions in savings, the primary benefit of the new Network Distribution Center ground network will be improved service performance for Periodicals, Standard Mail and Package Services. The core NDC concept is to create a flexible network that is able to accommodate both increases and decreases, either of which may lead to a future consolidation opportunity.

Delivery Route Adjustments

1. What are the planned and/or actual savings for planned and recent delivery route adjustments?

Through a variety of means, the Postal Service will eliminate 11,600* city routes in FY 2009 for an estimated annualized cost savings of about $1.1 billion. The ability of the USPS to quickly reduce city routes in response to a historic decline in workload, was due in large part to agreements with the NALC. The Interim Alternate Route Adjustment Process (IARAP) and the Modified Interim Alternate Route Adjustment Process (MIARAP) enabled an expedited review and adjustment process.

***Based on data available as of 8/14/2009**

2. What is the status of USPS's efforts to implement the Flats Sequencing System machines to automatically sort mail into delivery order? What is the early experience in achieving savings through this program? Are you on schedule to deploy 100 of these by 2010?

The Flats Sequencing System program is in the national deployment and operational stage. As of August 2009:

- **Three of the four production FSS in Dulles, VA are currently operating and sequencing flats for 41 delivery units; and 1,238 routes are receiving sequenced flats.**
- **Two FSS are operational in Columbus, Ohio and sequencing flats for 15 delivery units; and 479 routes**
- **Two FSS are installed in Kansas City, MO and planned to go live at the end of August**
- **Three FSS are in the installation stages in the Phoenix, West Valley facility with plans to go live in early September.**

Results in Northern VA and Columbus OH demonstrate that FSS works. For example, in Northern Virginia, some 64 full-time routes have been eliminated, while in Columbus, OH, some 18 full-time routes have been eliminated. In addition, cost savings are achieved through equipment downsizing – two pieces of casing equipment per city delivery route have been eliminated in Northern Virginia, while some 31 delivery vehicles have been freed up for redeployment.

The phase 1 FSS program called for 100 FSS machines, deployed in 32 locations. This analysis was based on flats volumes for 2006 and prior where we processed approximately 54 billion flat mail pieces annually. As a result of the current economic conditions overall flat volume declined by 7.2 billion pieces from FY 2007 to the end FY 2008, and is on target to decline another 6.5 billion pieces by the end of FY 2009.

Due to the significant flat mail volume decline an analysis was completed to determine the need for any changes to the original FSS deployment site plan. The outcome of that analysis is a modified plan which will redirect approximately 19 FSS machines to new locations that better ensure expected levels of savings.

We are on schedule to deploy 100 FSS machines by the end of 2010.

3. We understand that you are reconsidering where to deploy the Flats Sequencing System machines because of the unprecedented declines in mail volume. What adjustments are being considered? Will this program generate a positive return on investment ($1.5 billion)?

The phase 1 FSS program called for 100 FSS machines, deployed in 32 locations. This analysis was based on flats volumes for 2006 and prior where we processed approximately 54 billion flat mail pieces annually. As a result of the current economic conditions overall flat volume declined by 7.2 billion pieces from FY 2007 to the end FY 2008, and is on target to decline another 6.5 billion pieces by the end of FY 2009.

Due to the significant flat mail volume decline an analysis was completed to determine the need for any changes to the original FSS deployment site plan. The outcome of that analysis is a modified plan which will redirect approximately 19 FSS machines to new locations that better ensure expected levels of savings.

On an FSS program cost of $1.5 billion, we still anticipate an annual cost savings of $600 million due to FSS implementation.

Financial Condition / Business Model / Innovation

1. What do you think about GAO's recommendation to develop and implement a broad restructuring plan?

The Postal Service welcomes this initiative and looks forward to working with the GAO as it studies options and strategies for long-term structural and operational Postal Service reforms.

2. USPS pays a higher percentage of employee health benefit premiums than other federal agencies (80 % versus 72 %, respectively). In addition, USPS pays 100 % of employee life insurance premiums, while other federal agencies pay about 33 percent. How is USPS planning to address these benefits going into the next round of collective

bargaining?

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

3. What is the status of the USPS's efforts to study how it could implement 5-day delivery and related estimate of the potential savings? When will the study be completed and made public?

The Postal Service's study to determine how it could implement 5-day delivery is nearly complete. As envisioned, the current Postal Service proposal would discontinue Saturday home and business mail delivery and collections. However, Post Offices that are open on Saturday would remain open. In addition, Post Office boxes would receive mail delivery on Saturday and Express Mail would be delivered as usual. Remittance mail would be made available to customers at mail processing plants and post office boxes.

Before the study is finalized, the Postal Service is reviewing these and other operation highlights with stakeholders such as mailers and unions and management associations. A series of customer briefings are continuing to take place where mailers are briefed on the scope of the Postal Service's study, and are invited to submit their concerns and comments for consideration. In addition, the Postal Service plans to survey the American public about their opinions should this change be enacted and how the public's mailing habits would change. The goal is to finalize the study this fall.

In its communications plan concerning the study's completion, the Postal Service plans to conduct a series of stakeholder briefings, and plans on using communication tools such as press releases and *usps.com* as ways in which to reach the American public.

Currently, the Postal Service anticipates saving about $3.3 billion annually if 5-day delivery is implemented.

4. Does USPS plan to obtain an advisory opinion from the PRC before any move to 5-day delivery of mail? If so, when?

Yes, the Postal Service plans to seek an advisory opinion from the PRC and hopes to have the study and related research material completed this fall to submit to the PRC.

5. What innovation can you highlight that USPS is undertaking to grow business? Have you explored the idea of leveraging technology to create online or paperless mailboxes? (Such as "Earth Class Mail" or "Zumbox?") Has this technology been studied; if not, why? Please describe efforts to study or implement this technology.

The Postal Service has a number of new revenue generating initiatives underway. We are taking advantage of pricing flexibility granted under the Postal Act of 2006, and have offered, for the first time, pricing discounts for incremental saturation mail volume, as well as a Summer Sale for eligible mailers. Still another idea being tested is leasing out excess space on our transportation system. Currently, we are market testing a new Collaborative Logistics product. We plan to test selling excess capacity on Postal Service ground transportation for both mail and non-mail products to outside companies. The idea is to leverage our existing transportation network and generate additional revenue for the Postal Service.

Both internally and with external stakeholders, postal officials continue to explore ways to grow the business by marrying the Postal Service's brand and capabilities with other technologies in order to enhance the value of communication in a number of formats, including paper mail, electronic mail, and the internet. There are postal staff dedicated to these explorations, and committed to finding and creating opportunities that make sense for the Postal Service and its customers For example, postal officials have had discussions with representatives of various "e-businesses" -- including, among others, EarthClass Mail and Zumbox -- to examine the notion of paperless or online mailboxes and other electronic services.

Before The
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268B0001

STATION AND BRANCH OPTIMIZATION AND CONSOLIDATION INITIATIVE, 2009	Docket No. N2009-1

DIRECT TESTIMONY OF
KIMBERLY I. MATALIK
ON BEHALF OF
UNITED STATES POSTAL SERVICE

USPS-T-2

TABLE OF CONTENTS

Autobiographical Sketch.....1

I. Purpose and Scope of Testimony.....2

II. Overview.....3

III. Station And Branch Discontinuance Review Process.....4

IV. Station And Branch Optimization And Consolidation Initiative Process.....7

A. Pre-Screening.....7

B. Discontinuance Study.....9

V. Conclusion.....13

Autobiographical Sketch

My name is Kimberly I. Matalik. I am an Operations Specialist in Retail Operations, Delivery and Post Office Operations Group, at United States Postal Service Headquarters in Washington, DC. I am currently the Program Manager for the Post Office Discontinuance Program. In that capacity, I have been assigned responsibility for managing the Station and Branch Optimization and Consolidation Initiative.

I joined the Postal Service in 1981. Early in my career, I held various administrative support positions at Headquarters in such departments as Finance and Information Technology, as well as the Office of the Deputy Postmaster General, and the Office of the Vice President, Retail Consumers and Small Business.

In 1992, I was assigned to the Retail Support Group with program management responsibilities for the Post Office Discontinuance Program. I have held various retail related positions at Headquarters over the last 17 years which include program management responsibility of the Post Office Discontinuance Program, Mystery Shopper Program, eLearning development tools and standard operating procedures.

1 I. Purpose and Scope of Testimony

2 The purpose of my testimony is to describe the facility-specific study and
3 review process that the Postal Service will employ for purposes of the Station
4 and Branch Optimization and Consolidation Initiative (hereinafter, "Initiative").
5 The goal of the Initiative is to determine whether optimization of how retail
6 services are provided to customers requires continued operation of all current
7 stations or branches that report to Post Offices managed by Executive &
8 Administrative Schedule (EAS) pay grade level 24 and above Postmasters. I
9 also describe the process that prioritizes which among such stations and
10 branches will first be examined by the Initiative.

1 II. Overview

2 The United States Postal Service is responsible for ensuring, in an
3 economical way, that it maintains facilities of such character and in such
4 locations that customers have ready access to essential postal services.
5 Currently, the Postal Service operates a network with more than 27,200 Post
6 Offices and 4,800 subordinate station and branch facilities through which it
7 provides retail services that meet the needs of the mailing public.

8 The testimony of witness Alice M. VanGorder (USPS-T-1) explains why
9 the Postal Service must review its retail service network. This review relies upon
10 examination of respective facilities on a case-by-case basis to assess whether to
11 continue providing retail services at each location. As indicated by witness
12 VanGorder, the Initiative will focus initially on several thousand stations and
13 branches that report to Post Offices managed by Postmasters in EAS-24 and
14 above, but may also include smaller stations and branches.

15 The Postal Service's 74 District offices are responsible for managing the
16 provision of retail services to customers within their respective service areas.[1]
17 Assessing the provision of retail postal services is an ongoing District
18 management function.

19 The Postal Service has in place a longstanding process through which
20 District offices routinely initiate studies and submit proposals to Headquarters for
21 the discontinuance of operations in a particular retail station or branch. As

[1] Each of these District offices reports to one of 9 Area offices, each of which reports to Headquarters in Washington, D.C.

described in detail below, this process develops core information that informs decisions necessary to the Initiative.

III. The Station And Branch Discontinuance Review Process

The station and branch discontinuance review process starts with local initiation of a study at the direction of the District Manager in whose service area the station or branch in question is located. A study begins with review of the facility's business activity. This includes examination of:

(a) mail volume trends,

(b) retail transaction trends,

(c) proximity to other retail service facilities,

(d) space requirements and capabilities,

(e) customer wait-time in line and retail window service capacity,

(f) impacts on employees at the facility under study,

(g) cost savings that could result from closure or consolidation,

(h) alternate retail window and delivery service options,

(i) the ability of nearby postal facilities to handle retail service and mail processing workload that may shift to their locations, and

(j) the ability of the community served by the facility to access nearby postal facilities or alternate access channels.

Factors unique to a particular facility also must be considered. For instance, the fact that a retail station or branch serves as a major distribution center or delivery point for Internal Revenue Service forms should inform any decision affecting its operational status. A decision regarding a facility that serves customers with

1 specific needs, such as a high concentration of elderly or economically
2 disadvantaged customers with limited mobility, or non-English-speakers who
3 require assistance in completing postal forms or conducting routine postal
4 transactions, must consider such concerns.

5 District management analyzes this information to determine if a
6 discontinuance proposal ensures that customers continue to have ready access to
7 essential postal services. If the proposal is deemed worthy of further
8 consideration, the District proceeds with customer notification and solicits customer
9 comments. Questionnaires are placed in each customer Post Office box and
10 mailed to carrier delivery customers of the station or branch being considered for
11 discontinuance. Lobby notices regarding the proposal are posted in that same
12 facility and questionnaires are made available to window service customers as
13 well. In cases where the station or branch serves as the base for a substantial
14 number of carrier deliveries in the Post Office service area, the District also may
15 publish notices in a local newspaper directed at those delivery customers informing
16 them of the proposal and the opportunity to provide comment.

17 Standard data collection forms and instructions, as well as customer
18 notification letter and questionnaire templates are provided to each District office
19 for use. As needed, these forms and templates can be adapted to fit local
20 circumstances.[2] Public comments and questionnaire responses are reviewed by

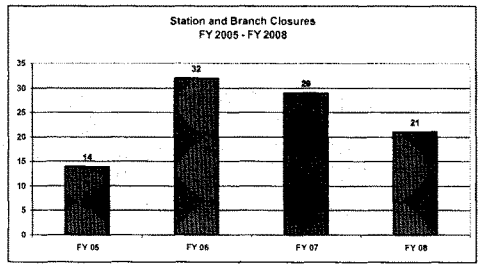
[2] *See, e.g.,* USPS Library References N2009-1/1 and N2009-1/2, which consist of examples of information gathered to support the discontinuance of a station or branch. Forms and letters can be seen in each. (Personally identifying information of customers has been redacted from the publicly available copies of the library references.)

the District before it submits its proposal to Headquarters and again at Headquarters before a discontinuance proposal is approved.

From the time that a study is initiated, on average, it takes about four months before a proposal is submitted to Headquarters for review. A final decision is made by the Vice President, Delivery and Post Office Operations at Headquarters. From the date on which that decision is made, depending on the complexity of a particular change and any required notice to affected postal employees, collective bargaining units and employee associations, implementation of a station or branch discontinuance may take more than 60 days.[3]

As indicated above, retail station and branch discontinuance review is a routine postal management function. The Table below shows the number of decisions to discontinue stations and branches since FY 2005.[4]

Table 1: Station and Branch Closures FY2005 – FY2008



To further the Postal Regulatory Commission's understanding of how this "bottom-up" process ordinarily works, the Postal Service has filed copies of

[3] There must be close coordination by District level managers throughout the implementation to ensure that any reassignment and/or excessing of bargaining and non-bargaining unit employees is accomplished in accordance with applicable postal policies and postal collective bargaining agreements.

[4] The Table depicts the number of all station/branch discontinuance decisions for each year, not just those affecting facilities that report to EAS-24 (and above) Postmasters.

1 documents prepared and analyzed in two recently approved retail station
2 discontinuance studies. *See* USPS Library References N2009-1/1 and N2009-
3 1/2.[5]

4 IV. Station and Branch Optimization and Consolidation Initiative
5
6 For purposes of the Station and Branch Optimization and Consolidation
7 Initiative, the Postal Service intends to employ two stages. The first prioritizes
8 station and branch consolidation candidates for analysis. The second entails the
9 conduct of facility-specific studies of each candidate station or branch to
10 generate a foundation for deciding whether a District recommends to
11 Headquarters discontinuance or consolidation of retail services at a location.

12 A. Pre-Screening

13 In response to a Headquarters initiative directing all Districts to conduct
14 studies of respective facilities to determine whether operations should continue at
15 a specific category of stations and branches, it should be expected that the number
16 of discontinuance proposals submitted to Headquarters may increase significantly,
17 compared to the baseline shown in Table 1.[6] In an effort to manage what is
18 expected to be a substantial increase in station/branch discontinuance decisions,
19 Headquarters has established a pre-screening process by which specific
20 stations/branches are nominated for immediate field examination by District offices.

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[5] These two administrative records reflect application of the longstanding process for station/branch discontinuance. Neither relates to the Initiative addressed in this docket, in which Headquarters identifies for field managers specific stations/branches to review. However, the existing process is the same one that will be used when respective offices are evaluated as a part of this Initiative. Additional discontinuance proposals and decisions outside the scope of this Initiative may also be seen while this docket is pending.

[6] However, it is impossible to predict how many such proposals will be submitted or approved as a part of this focused effort, as witness VanGorder explains in her testimony.

Pre-screening is underway. In May 2009, Headquarters directed each District office to begin reviewing business activities of stations and branches that report to Post Offices managed by Postmasters at or above the EAS-24 pay level and above. This pre-screening activity consists of identifying such stations and branches in the District's service area to prioritize consolidation opportunities for study. The pre-screening process relies upon such factors as:

(a) existence of other postal-operated retail facilities within five miles of the candidate; or within five-to-ten miles;

(b) alternative retail access channels within a one-mile proximity of the station/branch (Post Offices, stations, branches, contract postal units, and consignment stamp purchase locations);

(c) availability of space in nearby postal facilities of any type necessary for carrier operations now located in the candidate station/branch;[7]

(d) the ability of the candidate facility and any potential gaining facility to accommodate current and future customer, postal and employee vehicle parking needs;

(e) the space necessary to accommodate transfer of the candidate facility's operations is located in one or more suitable nearby facilities;

(f) the building housing the station/branch being considered for discontinuance is structurally designed to meet future postal needs; and

(g) imminence of a forthcoming lease termination opportunity for the candidate facility;

Then, the following retail service issues are considered:

(a) the availability of retail windows and staffing to avoid unreasonable wait-time in line at potential gaining location(s);

(b) retail revenue trends at the station/branch being considered for discontinuance compared to same period last year;

[7] Any nearby facility that already occupies greater than 80 percent of capacity for existing carrier operations is eliminated from consideration as a gaining facility.

(c) retail visits trends at the station/branch being considered for discontinuance compared to same period last year.

If pre-screening results in a station or branch not being considered for a discontinuance study in the near term, that facility is not necessarily eliminated from future consideration as part of the Initiative. The principal purpose of the pre-screening process is to prioritize and therefore expedite the commencement of facility studies.

B. Discontinuance Study

Candidate stations and branches identified for further analysis are then subjected to the facility-specific discontinuance study process. Each such discontinuance study analyzes:

- mail volume and retail transaction trends;
- proximity to other retail service facilities;
- space requirements and capabilities;
- wait-time in line and retail window service capacity;
- impacts on employees at the facility under study;
- customer concerns as expressed in response to questionnaires or in a community meeting;
- postal financial savings that could result from closure or consolidation;
- alternate retail service and delivery options;
- the ability of nearby postal facilities to accommodate retail, delivery and mail processing workload that may shift to their locations;

- what kinds of non-postal service requirements exist at the station or branch being analyzed for discontinuance; and

- other factors as may be deemed appropriate.[8]

After compiling and analyzing relevant information, the District Manager assesses whether a proposal is worth pursuing. If so, a written recommendation in the form of a decision package is submitted to Headquarters for review and approval.

These pre-decisional recommendations are reviewed by Headquarters Retail Operations. This pre-decisional review assesses whether the District provided customers with information related to any potential address changes, neighboring retail units, hours of operations and lobby hours of the gaining office(s), and any alternate retail location(s) and access. Additionally, the pre-decisional review will validate the information submitted by the District. As necessary, Retail Operations confers with the District office, and other Headquarters management functions regarding information provided in support of a recommendation.

The last pre-decisional step is the submission of a recommendation to the Vice President, Delivery and Post Office Operations, for a final agency decision. Each such discontinuance decision is based upon review of a recommendation package prepared at the District level and vetting by Retail Operations at Headquarters.[9]

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[8] This stage is where such needs as those of non-English speaking, or elderly, or economically disadvantaged, or limited mobility customers are introduced into decisions.
[9] Decision packages generated for purposes of this Initiative are expected to be similar to those in USPS Library References N2009-1/1 and N2009-1/2.

If a proposal to discontinue the provision of service at a station or branch is approved by Headquarters, the decision is transmitted to the corresponding Area and District offices responsible for the issuance of notices to affected postal employees and customers, as well as employee organizations. The discontinuance of a station or branch is implemented no earlier than 60 days after the date of the final decision of the Vice President, Delivery and Post Office Operations. The process is mapped in the flowchart below.

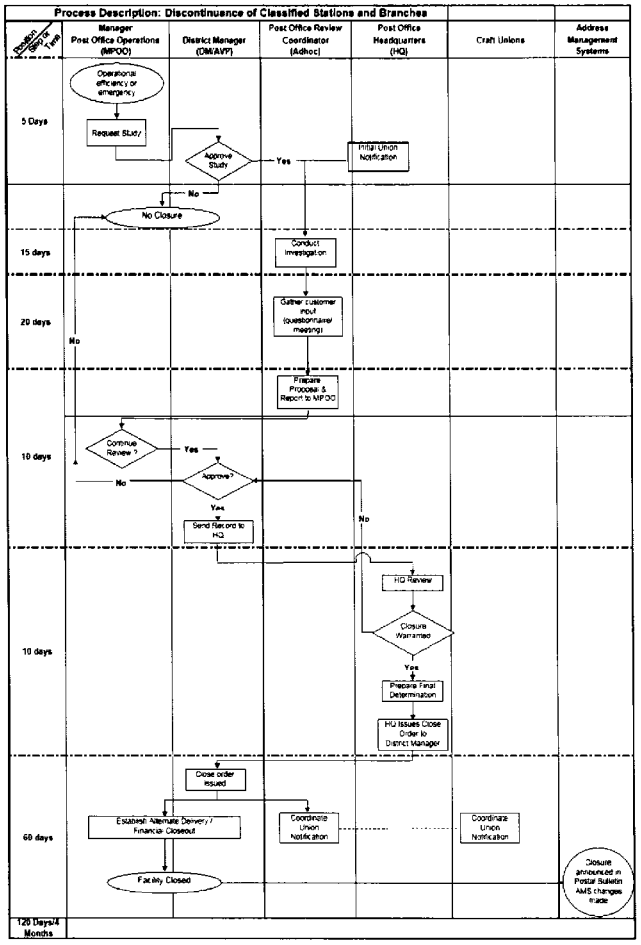

Table 2: Process Flowchart: Discontinuance of Classified Stations and Branches

1 V. Conclusion

2 Reliance on the longstanding process for analysis of station and branch
3 discontinuance proposals as a model for purposes of this Initiative will ensure
4 that important considerations, including the concerns of affected customers, will
5 be examined.
6

POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

John D. Waller
Director
Office of Accountability and Compliance

August 28, 2009

The Honorable Stephen F. Lynch
Chairman
Subcommittee on Federal Workforce,
Postal Service and the District of Columbia
House of Representatives
Committee on Oversight and Government Reform
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Representative Lynch:

As a follow up to my testimony on July 30, 2009, before the House Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, I am pleased to provide answers to the questions for the record and information requests for the Subcommittee contained in your August 4, 2009, letter. Your questions are reproduced in bold and answers are in regular text.

1. **The PRC has a history of considering appeals of proposed post office closures. Has the PRC considered branches and stations to be subject to the statutory process for post office closures? What was the reasoning for PRC's position in this area?**

   Yes, it has been the long held position of the Commission that any facility offering a broad range of postal services is subject to the statutory process for post office closures per 39 U.S.C. § 404(d). The Commission and the Postal Service disagree on this issue, with the Service claiming that the statute does not apply to branches and stations but only to postal facilities administered by a postmaster.

   The Commission position is consistent with the understanding that Congress intended § 404(d) to provide notice and an avenue for appeal for citizens faced with

the prospect of losing essential postal services. For further discussion of this position, please see the attached copy of a recent letter from PRC Chairman Ruth Goldway to Senator Joseph Lieberman, Chairman, Senate Homeland Security and Governmental Affairs Committee, in response to a similar question.

2. **What do you think about GAO's recommendations for USPS to develop and implement a broad restructuring plan? In your view, does USPS need to restructure to achieve financial viability?**

In the exercise of their different but complementary responsibilities, the Commission and the GAO have recently examined Postal Service restructuring opportunities. Both agencies have identified the potential value from an ongoing modification of postal structures to meet the demand for service and maintain financial viability. One example of Commission work of this type, about which I testified last year, is the review of Postal Service programs to consolidate mail processing centers. A somewhat related effort is the current review under Docket No. N2009-1of the Service's initiative regarding the closing of stations and branches.

The Commission and GAO are both interested in improving the efficiency and profitability of the Service. The Commission also has to take into consideration the maintenance of service standards and the Universal Service Obligation. For these reasons, the Commission often takes a broader, more cautious view of closings or consolidations that goes beyond the theoretical financial impacts. In its December 2008 Report on Universal Postal Service and the Monopoly, the Commission identified similar cost saving opportunities to those proposed by GAO but in general called for more study of the impact on revenue and service before adoption.

The GAO is required by the PAEA to consult with the Commission and Postal Service in the development of a report evaluating various options and strategies for long-term structural and operational reforms of the Postal Service. The Commission has already begun cooperating with the GAO in this effort and expects to become more active over the next several months. In the meantime, the Commission will continue to monitor the options for Postal Service structural changes as part of the development of its Annual Compliance Determination and its Annual Report.

The Commission believes that there is an ongoing need for the Postal Service to continually restructure operations to maintain service performance and financial viability whether volume is increasing or decreasing. In times of volume and revenue growth, adjustments are necessary to maintain service, increase productivity and take advantage of revenue opportunities. In times of volume and revenue decreases, adjustments are essential to maintaining financial stability as fixed costs need to be spread over fewer mail pieces. Because under PAEA the inflation-based cap limits revenue growth, further adjustments are needed to control costs and maintain a positive cash flow.

3. **Postage increases are capped by the CPI. But, given its dire financial condition, if USPS proposes an above-inflation rate increase, would the PRC use an expedited process to consider the request? What criteria would the PRC use to make its decision? What input would affected stakeholders be able to offer?**

   Per Chapter 39 §3622 (d)(1)(E), the Commission has established "procedures whereby rates may be adjusted on an expedited basis, due to either extraordinary or exceptional circumstances." The procedures provide full opportunity for public comment and require the Commission to issue a determination within 90 days.

   By law the Commission also is required to determine that such exigent price adjustments are "reasonable and equitable and necessary to enable the Postal Service, under best practices of honest, efficient, and economical management, to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States."

   Stakeholders will be invited to provide public comment to the Commission on the Service's request. Affected stakeholders may provide whatever they believe to be relevant and helpful to the Commission's decision process. The Commission also will appoint a public representative to represent the interests of the general public.

4. **Is USPS required to obtain an advisory opinion from the PRC before a potential change to 5-day delivery of mail? When do you think USPS should seek this opinion?**

   Section 3661(b) requires that the Service request an advisory opinion "when the Postal Service determines there should be a change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis." Changing from 6 to 5-day delivery service on a nationwide basis would satisfy the conditions of Section 3661(b) and warrant a request for an advisory opinion.

   Section 3661(b) requires that the Postal Service request an opinion when it has determined that such a change is needed. The timing is the responsibility of the Postal Service.

5. **What do you think of USPS's efforts to increase the volume of advertising mail through its "summer sale"? Will PRC help track the success of this initiative and identify lessons learned?**

   The Commission reviewed the Summer Sale proposal carefully in a public docket and approved the initiative in time to permit the Service to implement the program on its initially announced date. Commission Order 219 approving the price adjustments for the sale, states that "[T]he Commission finds the proposal to be a judicious

exercise of the Postal Service's pricing flexibility under the PAEA. The Postal Service is to be commended for its response to current market conditions."

The Commission will monitor the outcome of the program. Commission Order 219 noted that "[M]uch can be learned from what, in essence, is a short-term pricing experiment. However, the program is not without risks. Thus, development and use of appropriate metrics in evaluating the program are critical in determining whether the program is successful, and also for assessing the long-term implications of such an approach." To assist the learning process, the Commission included in Order 219 a detailed data collection and reporting plan to be followed by the Service. The data collection plan was developed with the intent of providing a means for the Service and participants to learn from the process.

Thank you for your time and consideration. Please do not hesitate to request any additional information that I may provide.

Sincerely,

John D. Waller
Director

Enclosure
(Letter from Chairman Ruth Goldway to Hon. Senator Joseph Lieberman)

cc: Ruth Goldman, Chairman

Answers of Mark Strong, National League of Postmasters
To
Written Questions for the Record
Posed by Chairman Lynch
September 1, 2009

1. Given the financial problems facing the Postal Service and the declining volume of mail, what viable preferred alternatives to consolidations and closures exist?

Response:

We do not oppose consolidations and closures of branches and stations. Rather, our position is that we must be very careful in closing and consolidating to ensure that we do indeed save money after one nets out all the additional costs that must be created—e.g., additional carrier overtime, penalty clauses in leases, new build-outs in the facilities receiving carriers, etc. We also feel that we must ensure that closures and consolidations do *not harm* service. No matter what happens, we cannot cut the quality of our service, or the postal system will crumble. We need to very carefully analyze and evaluate the market, get customer feedback, and consolidate and close only where it makes sense to all parties.

We think that in order to make a numbers goal, overzealous District Managers could easily end up closing and consolidating facilities without accurately taking into account the additional costs that the closures would force us to incur. Likewise, we think that a numbers goal could lead District Managers to close and consolidate even when service to a community would be seriously hurt. The bottom line is that we believe the net total sum to be gained from closing branches and stations is far less than many would think.

As I mentioned in my testimony, several years ago we went toe to toe with our competitors, matching location and hours with them. Based on my 36 years of service, I thought this was a bit excessive at the time. Now, I think we perhaps are swinging too much in the opposite direction. Local citizens and local businesses very much want and need their post offices, and they often view the provision of postal services and post offices as the best thing that the federal government does for them. We need to respect the wishes of communities.

The Postal Service's image has taken a tremendous beating during these last four months, and much damage has been done to the postal brand. This brand and its reputation hinges on what citizens view as their needs today. Forty years from now it may be different, but today the key to those needs is good service. We cannot do any more damage to the postal brand through this effort.

In terms of alternatives, much more could be done on the District and Area levels to cut down on forms, process, and bureaucracy. All this would save money and increase efficiency. Moreover, there is the very basic question of whether we truly need 74 districts and 8 areas. None of the management organizations think we do.

Finally, the Postal Service is working on making its processing and transportation network more efficient and by closing and consolidating plants and mail processing facilities where it makes sense. We strongly support those efforts, with the caveat that the changes have to truly make sense and not negatively affect service.

2. USPS is limited in its ability to lay off postal workers. In light of this restriction, how should USPS go about reducing its operating costs when mail volumes and revenues fall?

Response:

When mail volume decreases, we can cut variable costs, and postmasters have done this to the tune of several billion dollars in the last several years. The Postal Service has reduced hours, offered buyouts, and just recently more buyouts. It is looking at optimizing our processing network and our retail. Where it makes sense to do so, we need to do so.

The problem is that we have that obligation to pre-fund our retiree health benefits, and that is what has driven us under the last two years. Were it not for the pre-funding payment last year and this year, we would have been $2 billion in the black last year and would be on track to lose only $1.6 billion this year, which would not be bad considering the fact that we have been in the Second Great Depression.

On the positive side, we have totally pre-funded our retiree obligation and much of our retiree health benefits. That is far better than either UPS or Fed Ex has done. Neither of them has done pre-funding to any degree close to that of USPS, nor has any other government or private institution. Moreover, our revenue is only down by 8.4% this year over last year, compared to UPS, whose revenue is down by 15.5% and Fed Ex whose revenue is down by 20%. It is not the end of the world as we know it.

I note that last week economic observers predicted that third quarter 2009 figures, when they are released, should show positive growth, thus signaling that the recession is over. While we can't tell whether this is true yet, and mail volumes will lag during the initial recovery, we hopefully do not have much more to slog through.

Finally, I must return to the issue of our management hierarchy. We still have much too much overhead in the District and Area offices for today's work environment. There have been some reductions in these support operations this past year, but it is not enough. There are still people who are checking people who are checking people to

make sure reports and telecons are made on time. There are still TWO layers of management between us and Headquarters. One would be enough.

More streamlining and less bureaucracy is called for. With today's technology, the ability to monitor and evaluate any individual office through the daily mandated reports makes the current Area and District staffing structure superfluous and a classic case of overkill. Indeed, it takes micromanagement to a level no textbook can describe.

3. USPS pays a higher percentage of employee health benefit premiums than other federal agencies (80 percent versus 72 percent, respectively). In addition, USPS pays 100 percent of employee life insurance premiums, while other federal agencies pay about 33 percent. In light of the financial condition of the Postal Service, do you expect to retain these benefits in the future? Please explain.

Response:

This has been the result of employer/employee negotiations, and the fact that those benefits exist means that other benefits or pay was given up.

As a former Union President, you know Mr. Chairman that Congress should not try to step into the middle of the collective bargaining process, and that suggestions made by some proposing that Congress should overturn the results of collective bargaining are out of order. Such actions would destroy the integrity of the collective bargaining process.

Moreover, when many look at what we do receive, they ignore what we do not receive. For instance, Postmasters do not receive the locality pay that many federal employees receive. Depending upon where you live, that can be significant. Furthermore, Postmasters do not have the cost of living increases (COLA) that postal craft unions have, and postmasters often get less pay than those we supervise. That makes for a very difficult management situation when postmaster vacancies open up. For the most part, good craft people won't consider becoming a postmaster because it would mean a pay cut.

As for the future, we shall see. Many Fortune 100 private sector companies have benefits just as good. Section 1003 of Title 30 requires pay compatibility with the private sector, and our benefits are not out of line with private sector companies our size.

4. What does your organization think about GAO's recommendations for the Postal Service to develop and implement a broad restructuring plan? In your view, does the Postal Service need to restructure to achieve financial viability?

Response:

It depends on what you mean by restructuring. If you mean reducing the size and capacity of the network based on the assumption that the decrease in mail volumes is permanent and will go even lower, then the answer is "No, we do not need to restructure." That is because we believe that most of the mail will come back.

On the other hand, if you mean reconsidering the size of the annual payment obligation to pre-fund our retiree health benefits, then the answer is "Yes, we do need restructuring." The timing of that obligation needs restructuring, and Congress needs to look at whether we are paying the right amount. The Postal Service IG thinks we are paying too much, and he calculates that $1.5 billion per year is sufficient.

GAO, I believe, assumes that the mail will not return. Much stems from that assumption, with which we (and postal management) do not agree. If that assumption were true, a downsizing of the network to reflect much less volume would make sense. However, were one to significantly reduce the size of the current network based on that assumption and the mail did come back, then we would be in the worst of positions. We would end up with so much gridlock in the postal system that the system could crumble, with negative effects on many businesses and on the economy.

Let me stress that this does not mean that we should not address our structure during this downturn. It would be foolish to think that today's Postal Service and customer needs are in line with yesterday's structure. We believe that reexamining our structure is a good thing, but that it should not be done as a knee-jerk reaction to uninformed media blitzes about the mail not coming back, or cries that the sky is falling. It's not. Were it not for the $5.4 billion dollar prepaid health insurance premium the Postal Service is required to pay, we would be weathering this economic storm extremely well, arguably better than UPS or Fed Ex since we have lost less revenue on a percentage basis.

Before any serious restructuring, we need to see if the mail lost to the recession does come back in the next two years. Then we need to take into account the *actual* impact of the internet both negative *and* positive. We need to find out what the American public wants from its Postal Service. We need to remember that the Postal Service is still the most trusted government entity in the country. We need to protect the Postal brand of excellent universal service and we need to decide at what price it is a benefit to America.

We then need to intelligently consider how restructuring fits those needs and make changes if necessary. It could be a few little changes are in order, or a few big changes. We cannot make that analysis intelligently, however, until we see what happens with the mail.

5. Are you satisfied with the notification, public comment, and appeals process for station and branch consolidations? What are your concerns and how might your members be affected?

Response

No.

Vice President Jordan Small testified that a template is sent to the Postal Area offices to follow in soliciting public comment regarding closures. However, that template becomes a *suggestion* when received at the Area and that is how it is sent to the Districts. After the Districts, the directive is even more watered down by the time it gets to the local Post Offices. In one case, the whole process turned into a reply card, which was set out on one of the counters in the post office for the public. The card, of course, was largely ignored and there was no other process.

Strict, concrete guidelines must be set by Postal Headquarters, allowing no deviations if we want all our customers to get the same opportunity for comments and appeals; especially if we want to truly understand what the impact of closing a facility will be. Studies must be done and become part of the customer notification process to allow for educated, timely, pertinent feedback from our customers.

In terms of your final question, we are less concerned about our members than about our communities. We are afraid that closures will take place regardless of service impact, and that customers will be negatively impacted and service eroded.

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Answers to Questions Submitted to NALC by Chairman Stephen Lynch
Submitted 9/2/2009

Questions and answers for the record relating to the July 30, 2009 oversight hearing:

Question 1: Given the financial problems facing the Postal Service and the declining volume of mail, what viable preferred alternatives to consolidations and closures exist?

Answer 1: The single most important, logical, viable, preferred alternative to consolidations and closures is fundamental reform of measurement and financing of the Postal Service's post retirement obligations, starting with the passage of HR 22 as the first step.

The "financial problems facing the Postal Service" you cite are the direct result of congressional action imposing burdens on the Postal Service not borne by any other business or institution (private or public) in the United States.

Seventy Five percent (75%) of the projected USPS "deficit" is the result of congressional imposition of a $5.3 Billion charge on USPS to pre-fund retiree health benefits for employees not yet even hired. This does not count the cost of policies concerning Medicare Part D subsidies or the cost of FERS military pension benefits. By itself, reform of the retiree health prefunding burden would permit the USPS to manage the remaining cyclical deficit internally, with no impact on service to the American public.

Question 2: USPS is limited in its ability to lay off postal workers. In light of this restriction, how should the USPS go about reducing its operating costs when mail volumes and revenues fall?

Answer 2: USPS has sufficient authority and power to adjust manpower (including the right to lay-off workers with less than 6 years service) and non-personnel expenses to deal with the limited term projected deficit remaining after passage of HR 22 removes an artificial $5.3 Billion expense.

Question 3: USPS pays a higher percentage of employee health benefit premiums than other federal agencies (80 percent versus 72 percent, respectively). In addition, USPS pays 100 percent of employee life insurance premiums, while other federal agencies pay about 33 percent. In light of the financial condition of the Postal Service, do you expect to retain these benefits going into the next round of collective bargaining? Please explain.

Answer 3: Collective bargaining issues belong at the collective bargaining table. NALC does not believe it to be appropriate to announce its approach to collective bargaining issues in connection with a congressional hearing sixteen months before its contract expires. The carefully calibrated and balanced collective bargaining mechanism established in the PRA has resulted in postal rate and postal wage stability, increasing over 40 years at the rate of general inflation. The price of postage in the US is the most affordable in the world.

For Congress to use the excuse of a postal deficit caused by Congress to justify a weakening of the collective bargaining system would be inexcusable and contrary to good governance.

Question 4: What does your organization think about GAO's recommendation for the Postal Service to develop and implement a broad restructuring plan? In your view, does the Postal Service need to restructure to achieve financial viability?

Answer 4: The Postal Service should be very careful not to make damaging restructuring decisions in the middle of the worst recession in 80 years. We should not downsize

to meet a depression level of demand; doing so would diminish the value and viability of the Postal Service when the economy recovers. The USPS should also explore new ways to boost postal revenues to help support universal service by optimizing the value of its unmatchable network. These steps, and reform of the prefunding provisions of the PAEA, should be taken before any major restructuring is contemplated.

Question 5: Are you satisfied with the notification, public comment and appeals process for station and branch consolidations? What are you concerns and how might your members be affected?

Answer 5: The branch and station consolidations have had very little impact on city carriers, but our concerns are similar to those raised in our answer to question 4: The USPS should be careful not to cut service so much that its value to mailers and citizens is reduced. The long-term health of the Postal Service will rely on maintaining the high level of customer satisfaction it has maintained for years.

Question 6: How have the route adjustments affected your members? Are you satisfied with the way the Postal Service has worked with you to minimize any impacts?

Answer 6: Through the collective bargaining process, USPS and the NALC have jointly adopted an expedited methodology to adjust routes to reflect changes in volume and delivery characteristics. The minimization of the impacts of route adjustments is also part of the collective bargaining process. See answer to Question 3.

Thank you for your continued consideration of these important issues.

United States Government Accountability Office
Washington, DC 20548

September 4, 2009

The Honorable Stephen F. Lynch,
Chairman, Subcommittee on Federal Workforce,
Postal Service, and the District of Columbia
Committee on Oversight and Government Reform
House of Representatives

Subject: *Responses to Questions for the Record: Hearing on USPS's Station and Branch Optimization Initiative and Delivery Route Adjustments*

Dear Chairman Lynch:

This letter responds to your August 4, 2009, request that we address questions submitted for the record related to the July 30, 2009, hearing entitled, *Making Sense of It All: An Examination of USPS's Station and Branch Optimization Initiative and Delivery Route Adjustments.* Our answers to these questions are attached and are based on our previous work, updates to that work, and our knowledge of the areas addressed. Our previous work was conducted either in accordance with GAO's quality assurance framework or generally accepted government auditing standards.

If you have any questions or would like to discuss the responses, please contact me at (202) 512-2834 or herrp@gao.gov.

Sincerely yours,

[signed]

Phillip Herr
Director, Physical Infrastructure Issues

Enclosure

Enclosure

Responses to Post-Hearing Questions for the Record
"Making Sense of It All: An Examination of USPS's Station and Branch Optimization Initiative and Delivery Route Adjustments"
July 30, 2009 Hearing
Subcommittee on Federal Workforce, Postal Service, and the District of Columbia
Committee on Oversight and Government Reform
U.S. House of Representatives

Questions for Phillip Herr, Director
Physical Infrastructure Issues
U.S. Government Accountability Office

Questions from Chairman Stephen F. Lynch

1. Does GAO anticipate any appreciable drop in retail revenue if the USPS closed nearly 1,000 post office branches and stations? What would the short-term and long-term consequences of this consolidation effort be on retail revenue?

The closing of such retail facilities would likely not result in a significant decline in the amount of retail revenue in the short- or long-term. Nearly $19 billion in retail revenue (about one-quarter of total USPS revenue[1]) was generated at nearly 37,000 Post Offices, stations and branches, and alternate retail channels in fiscal year 2008. The targeted branches and stations being considered for closure as part of the USPS's recent efforts most likely account for a relatively small portion of retail revenue. This impact would be lessened further because (1) as a result of ongoing analysis, USPS has already narrowed down the list of stations and branches under consideration from nearly 1,000 to about 413, and the ultimate number of closures may be smaller, and (2) in the areas where these stations and branches are located, USPS noted the availability of other USPS stations and branches, as well as alternative retail access channels from which revenue can be generated. Further, a growing amount of USPS retail revenue comes through alternate channels, which include Automated Postal Centers, contract postal units, usps.com, and the sale of stamps at grocery stores and other commercial outlets. These channels generated almost a quarter of retail revenues collected by USPS in fiscal year 2008 ($4.5 billion of the aforementioned $19 billion).

USPS has stated that revenue implications are a key factor to be considered when determining whether a branch or station should be closed. In its filing with the Postal Regulatory Commission (PRC), USPS stated, among other things, that detailed, facility-specific information on revenue implications will be collected and analyzed as part of this process.

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[1]Most revenue is generated from commercial bulk mail entered at mail processing plants, such as large mailings of bills, statements, and advertising.

Enclosure

2. Why has GAO asked USPS to develop and implement a broad restructuring plan? What elements should be included in such a plan?

USPS urgently needs to restructure to address its worsening financial condition and the shortcomings associated with its business model (one that has relied on growth in mail volume to help cover costs). Restructuring is also needed because USPS's incremental efforts have not been enough; it simply has not cut costs fast enough to offset the accelerating declines in mail volume and revenue. These issues became the basis for adding USPS's financial condition to GAO's high-risk list and concluding that a restructuring plan is needed.[2]

Accordingly, GAO called for USPS to develop and implement a broad restructuring plan that not only incorporates input from the PRC and other stakeholders, but is approved by Congress and the administration. The plan should include key milestones and time frames for actions and identify steps Congress and other stakeholders may need to take. Specifically, this plan should address how USPS will:

- realign postal services, such as delivery frequency, delivery standards, and access to retail services, with changes in the use of mail by consumers and businesses;
- better align costs and revenues, including compensation and benefit costs;
- optimize its operations, networks, and workforce;
- increase mail volumes and revenues; and
- retain earnings, so that it can finance needed capital investments and repay its growing debt.

3. As you are aware, the Senate passed a provision on July 29, 2009, to require that GAO complete its business model study by March 31, 2010. Do you think you will be able to issue a report by then? If not, what will you be able to report by then?

Yes, we will be able to issue our report by that date. Our work on this study is under way. However, the short time frame may require us to conduct some of the work—visits to USPS facilities as one example—more quickly. It will also require that USPS corporate fully with our information and data requests.

4. Considering the Postal Service's dire financial situation, how can stakeholders—including mailers, the public, and employees—help the Postal Service become a financially viable provider of affordable universal service?

USPS plays a vital role in the U.S. economy and in providing postal services to all communities. The various postal stakeholders, including mailers, the public and postal employees, and their unions, are central to financing and providing these services. As such, their involvement is going to be crucial in successfully restructuring USPS in such areas as:

- reducing compensation and benefits, which generate roughly 80 percent of postal costs;

[2]GAO, *High-Risk Series: Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, GAO-09-937SP (Washington, D.C. July 28, 2009).

Enclosure

- optimizing retail, mail processing, and delivery networks to remove excess capacity, including closing and consolidating facilities; and
- realigning postal services based on changing use of the mail and the need to appropriately balance the need for service and the cost of providing service, taking into account issues such as delivery frequency and standards.

Effective coordination will be required throughout the scope of the entire postal network to help sustain USPS's financial viability. We have recently reported on the success of USPS actions to engage stakeholders in promoting operational efficiencies in the delivery network.[3] USPS and the National Association of Letter Carriers reached agreement on an expedited process for adjusting city carrier routes in response to declining volumes. This agreement is an excellent example of how collaboration between postal management and unions can help improve efficiency. USPS also has taken actions to keep stakeholders such as the mailing industry and the public informed of route adjustments: listing possible routes to be adjusted on USPS's Web site, having monthly address updates available for mailers, and establishing policies and procedures for notifying the public if they will be affected by adjustments. Furthermore, USPS has actively worked with members of the mailing industry and unions to facilitate the implementation of its Flats Sequencing System, which is aimed at improving the efficiency of mail delivery operations by automatically sequencing flats (e.g., large envelops, catalogs, circulars, and magazines) in the exact order of carrier delivery.

5. In your statement, you said that "[t]o achieve financial viability, USPS must align its costs with revenues, generate sufficient earnings to cover costs, finance capital investment, and manage its debt." What actions should the USPS be taking to achieve these results?

Actions will be needed in multiple areas, as no single change will be sufficient to address USPS's challenges. First, the development and implementation of the restructuring plan will be a key step to articulating USPS's strategy. As this plan is being developed, however, USPS should continue to address the following areas that GAO identified when it placed USPS on the high-risk list that can help achieve financial viability including:

1. Reduce compensation and benefit costs through
   - retirements: About 162,000 postal employees are eligible to retire this year, and this number will increase to almost 300,000 within the next 4 years.
   - early retirements: About 150,000 postal employees were recently offered voluntary early retirement, but fewer than 3 percent accepted.
   - lower benefit costs: USPS pays a higher percentage of employee health benefit premiums than other federal agencies (80 percent versus 72 percent, respectively). In addition, USPS pays 100 percent of employee life insurance premiums, while other federal agencies pay about 33 percent.

[3]GAO, *U.S. Postal Service: Mail Delivery Efficiency Has Improved, but Additional Actions Needed to Achieve Further Gains*, GAO-09-696 (Washington, D.C.: July 15, 2009).

Enclosure

2. Consolidate retail and processing networks
   - Remove excess capacity in USPS's mail processing network, where processing capacity for First-Class Mail exceeds needs by 50 percent.
   - Maximize use of lower-cost retail alternatives, as alternative retail channels are generating increasing amounts of revenue.
   - Reduce the network of nearly 37,000 retail facilities, where maintenance has been underfunded for years, resulting in deteriorating facilities and a maintenance backlog.

3. Consolidate field structure
   - Review the need for 74 district offices and 9 area offices.

4. Generate revenue through new or enhanced products
   - Use USPS's pricing and product flexibility to maximize profitable mail volume.

6. Your statement notes that USPS has a window of opportunity to reduce the cost and size of its workforce through attrition and the large number of upcoming retirements to minimize the need for layoffs. Why is it critically important for the Postal Service to take advantage of this window of opportunity in this area?

USPS employs about 633,000 career and 94,000 noncareer employees and faces significant challenges in controlling the cost and size of this workforce. USPS's compensation and benefit costs are a significant cost component and consistently account for nearly 80 percent (roughly $60 billion in fiscal year 2008) of USPS's annual operating expenses. These costs have been pressured by semiannual cost-of-living allowances provided to postal employees covered under contracts with its four largest unions, as well by growing health benefit, retirement, and workers' compensation costs. However, a significant portion of USPS's workforce is eligible to retire or will become eligible in the next few years. About 162,000 USPS employees are eligible to retire this year, and this number will grow within the next 4 years to nearly 300,000.

Thus, USPS has a rare opportunity to take advantage of the large number of upcoming retirements to help address the challenges in controlling the size and costs of its workforce. In particular, key components of USPS's restructuring efforts—mainly realigning its delivery, mail processing, and retail networks to remove excess capacity—will be predicated on USPS's ability to realign its workforce with its changing operational needs. Effectively managing these the potential staff reductions that would result from these retirements may allow the Service to make these needed reductions without resorting to layoffs.

American Postal Workers Union, AFL-CIO

1300 L Street, NW, Washington, DC 20005

August 13, 2009

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The Honorable Stephen F. Lynch, Chairman
House Subcommittee on Federal Workforce,
Postal Service and the District of Columbia
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Representative Lynch:

Thank you for providing the American Postal Workers Union the opportunity to testify at the July 30 oversight hearing. I am pleased to respond to the Subcommittee's written questions, which were submitted to my office on August 4, 2009.

1. **Given the financial problems facing the Postal Service and the declining volume of mail, what viable preferred alternatives to consolidations and closures exist?**

   - The Postal Service's financial crisis is the result of the Postal Accountability and Enhancement Act of 2006, which required the USPS to pre-fund retiree healthcare benefits. *Legislative relief from the funding requirement is essential.*

     The general perception--that the Postal Service's dire situation is the fault of e-mail, the Internet, the recession, or a flawed business model--is wrong. The funding requirement of the PAEA--during a severe recession and in amounts of over $5 billion each year--accounts for the deficit that has brought the Postal Service to the brink of insolvency. This single factor has jeopardized the future viability of the USPS.

     Over the past two years, as the economy has declined, mail volume has plummeted. The Postal Service has responded to the decline in volume and should be applauded for its efforts. If the USPS had not been required to pre-fund retiree healthcare costs, it would have shown a surplus of $1.2 billion over the two-year period of Fiscal Years 2008 and 2009.

     Closing and consolidating post offices based on recession-level volume is short-sighted, and will leave the Postal Service with an infrastructure unable to accommodate the larger volume of mail that will be generated by a more robust economy.

   - Generating mail volume (in quantities sufficient to produce revenue equal to the Postal Service's liabilities) could serve as an alternative to closings

and consolidations, but there is little expectation that significant volume will return until the economy recovers.

- In the interim, postal management should limit the workshare discounts that are given to large mailers for performing activities that could be performed by postal employees, such as sorting mail and affixing bar codes. (Large mailers apply bar codes and make zip-code separations on more than 50 percent of letter mail, and receive rate discounts for performing these services.)

  The postage discounts reduce rates far in excess of postal "costs avoided." As a result, despite the increased efficiency of postal employees, mail that is processed privately avoids the efficiencies of cost-cutting measures, and deprives the USPS of much-needed revenue.

  When reviewing the processing network for efficiencies, postal management excludes these worksharing activities from consideration. Postal managers claim the USPS has "excess capacity," yet their rate-setting policies encourage the growth of private mail-processing companies that divert volume.

  The Postal Service could increase revenue in the range of $1 billion annually by eliminating rate discounts for processing activities that can be performed by postal employees with underutilized USPS equipment.

- The Postal Service could accelerate employee attrition by offering a reasonable retirement incentives. In the current economic climate, employees are reluctant to retire unless there is an incentive. Postal managers say they cannot afford incentives, but this is a short-sighted response. They cannot afford *not* to offer them.

  At a time when postal finances are in such dire straits, how can postal management refuse to allocate a minimum amount in order to generate substantial savings in future years?

- Postal management must acknowledge that its primary business is advertising: Seventy-five percent of mail volume is associated with commercial activity. Television, radio and newspapers – the Postal Service's competitors for advertising dollars – have long recognized that their primary product is advertising, and have restructured accordingly.

  The Postal Service continues to view itself as a personal mail company, which limits its behavior and expansion. But households are not the main source of postal volume; mail is primarily a means to advertise. Personal communication represents less than 3 percent of total mail volume, yet the Postal Service justifies calls to restructure its business model by citing changes in personal mailing habits.

  The Postal Service should redefine its business plan recognizing that its principle source of revenue is advertising, and its operations should be adjusted to reflect this reality.

2. **USPS is limited in its ability to lay off postal workers. In light of this restriction, how should USPS go about reducing its operating costs when mail volumes and revenues fall?**

   The question implies that protection against layoffs has been imposed on the Postal Service and that the prohibition is absolute. This is an inaccurate premise. The USPS agreed to limited, conditional protections against layoff in collective bargaining.

   Full-time employees with less than six years of continuous service *can* be laid off, and 50,360 part-time employees are guaranteed pay for just two hours or four hours of work per bi-weekly pay period (depending on the size of their facility). Approximately 88,500 non-bargaining unit employees have no protection against layoffs. Of the 722,300 USPS employees, only 480,000 have protection against layoffs.

   Since no employees have been laid off, we must conclude that postal management has determined that layoffs are unnecessary.

   Any assertion that layoffs are prohibited is erroneous.

3. **USPS pays a higher percentage of employee health-benefit premiums than other federal agencies. In addition, USPS pays 100 percent of employee life insurance premiums, while other federal agencies pay about 33 percent. In light of the financial condition of the Postal Service, do you expect to retain these benefits going into the next round of collective bargaining? Please explain.**

   It is not possible or appropriate to compare the benefits of federal employees to postal employees. Postal employees have collective bargaining rights, while the wages and benefits of federal employees are determined by Congress. Many other disparities exist between the two groups, including the hours and days of work, the nature of the activities that are performed, locality pay and holiday work. There are many differences that are unique to the requirements of the positions.

   I also note that the "comparability standard" in current law applies to employees performing comparable levels of work in the "private sector." Lest one believes that the reference to private sector is all encompassing, the compensation for *Postal Inspectors* is required to be "maintained on a standard of comparability to the compensation and benefits paid for comparable levels of work ***in the executive branch of the Government outside of the Postal Service.***" [Emphasis added.] Congress was explicit in deciding that the policy for compensation standards and percentages of health benefit premiums for federal employees are not relevant to postal employees.

   Despite this, during the last round of contract negotiations, each of the unions negotiated reductions in the Postal Service's contribution rate for health benefits premiums.

The APWU and postal management have negotiated 12 contracts since the passage of the Postal Reform Act of 1970, with six decided by interest arbitrators. It is inappropriate to select a single issue from the hundreds that have been debated, agreed to, or arbitrated, and use it for comparison to other groups of employees. The parties have engaged in 39 years of collective bargaining and achieved agreements on wages, benefits and working conditions. This represents the true spirit of collective bargaining in a democracy, and variations should be expected.

4. **What does your organization think about GAO's recommendation for the Postal Service to develop and implement a broad restructuring plan? In your view, does the Postal Service need to restructure to achieve financial viability?**

Successful organizations continuously review their business plans. The USPS should do likewise, but it would be a serious error to modify the long-term business plan in response to current events. The downturn in the economy has depressed mail volume, but the economy will recover, and with recovery there will be growth opportunities. It would be a mistake to make structural changes in response to this temporary condition; eliminating Saturday mail delivery would be especially short-sighted.

The current financial position of the USPS is directly related to the obligations imposed by the Postal Accountability and Enhancement Act. Without the requirement to pay $5.6 billion into the Postal Service Retiree Health Benefit Fund, the Postal Service would have experienced a $2.8 billion surplus in FY 2008; absent the $5.4 billion payment in FY 2009, the deficit would be in the range of $1.6 billion. Over the two-year period encompassing the worst economic slump in 70 years, the Postal Service would have recorded a surplus of approximately $1.2 billion. Postal management and the employees have performed admirably during the nation's economic crisis, despite the fact that mail volume declined by 30 billion pieces. If Congress had not imposed the stifling retiree healthcare payment schedule, the Postal Service would exemplify unqualified success.

The media has identified the Internet and e-mail, employee labor costs, the size of the network and other factors as the cause of the current financial condition. But it is the burden of funding future healthcare liabilities that has proved to be beyond the Postal Service's ability to overcome at this time.

What began as an effort to rebate the USPS overfunding of CSRS was converted into an obligation to pre-fund future retiree healthcare costs. This obligation is not required of any other federal, state, or private organization. The payment schedule was designed by Congress to be stifling: It was intended to force the Postal Service to implement "efficiencies."

This crisis is of Congress' own making, and should be corrected accordingly.

In reference to our expectations for bargaining in 2010, we expect to negotiate a contract that is fair for the Postal Service, postal workers and the American public.

5. **Are you satisfied with the notification, public comment and appeals process for station and branch consolidations? What are your concerns and how might your members be affected?**

   The union and postal management have negotiated an agreement that **"all existing retail operations will remain within the installation of which they are a part."** I expect that postal management will fully comply with this agreement.

   The process of public notification when stations and branches are being considered for consolidation should be improved so that citizens have a meaningful voice in service changes. The notice period is too short; the means of notification is inadequate, and it should be assured that the final decision addresses public input.

   The Postal Service treats "stations and branches" very differently from "post offices," claiming that decisions to close stations and branches are not subject to appeal. Citizens can file complaints with the Postal Regulatory Commission (PRC) only *after* the station or branch has closed and customers have experienced poor service. The after-the-fact complaint process is clearly inadequate.

   It appears that the PRC may disagree with the Postal Service on the appropriate procedure to follow when considering the closure of stations and branches. Chairman Ruth Goldway pointed out in testimony before a Senate Subcommittee Aug. 6, 2009, that the PRC may consider some stations and branches as subject to the more rigorous rules that govern the closure of "post offices." According to Chairman Goldway, the appropriate procedure would be determined by the services the stations and branches provide to the community.

   Because of these differences, legislative change may be needed to ensure that citizens are heard and that their concerns are considered.

Thank you again for the opportunity to share our views on these important topics.

Sincerely,

William Burrus

William Burrus
President

cc: Subcommittee Members

WB:RB/lbb(sd)
opeiu#2, afl-cio

1. The Postal Service could provide the same level of service by simply changing the way it operates the numerous facilities it maintains. Better utilization of existing facilities could include reducing the number of managers at each of the facilities. Indeed, there does not have to be a postmaster at each of the smaller locations - many of the small towns in a local geographic area could be put under the management of one larger office and the small office staffed for the necessary hours to provide the same level of service. This would allow the smaller communities to maintain their identities, enjoy the same service, and reduce the costs for the Postal Service.

2. The Postal Service is going to have to take a good look at what its core functions are and how to best achieve those functions. I believe the Postal Service exists to collect, transport, and deliver the mail. The Postal Service needs to look at the jobs that contribute to those core functions and if the position does not contribute directly to the achievement of one of these core functions it most likely could be eliminated. There are many positions that are what I would consider to be a luxury item - they are great to have when the money and volume are there to support them, but when volume and revenue are down they are luxuries the Postal Service simply cannot afford.

3. For years, the National Rural Letter Carriers' Association along with the other Postal Unions have bargained for the health and life insurance benefits that we currently enjoy. All of the Unions have given up salary increases and many other items of value to keep those insurance benefits. The NRLCA has over 50,000 part-time employees that are not career employees (and receive no benefits) so that full-time employees could maintain the current level of insurance benefits. We do expect to prevent further attacks by the Postal Service on our insurance programs and associated costs. We have paid dearly for what we now have and do no want to lose the benefit of our bargain.

4. We completely agree with the GAO that the Postal Service is top heavy. Many of the current Districts can be consolidated. There is no logic to the number of Areas that currently exist. One only has to look at a map to see how illogical the current structure really is. The consolidation of Districts and Areas, with the repetitive positions in each of those districts and areas would save the Postal Service millions if not billions of dollars, and in my opinion would make for more consistent policy and better more consistent service. There also exists a top heavy structure of managers. At a ratio of approximately 1 to 7, the ratio of managers to employees in the Postal Service is among the highest in the country. This is simply not necessary. There exists far too many layers of management - many of which have nothing to do with the core function of the Postal Service: the collection, transportation, and delivery of the mail. Again, many of these high paying positions could be eliminated with no deterioration of service and a huge savings for the Postal Service.

5. The rural carrier craft has not yet been affected much by station or branch closure or consolidation; however should we become involved with those situations, it would most certainly affect our craft. It could mean longer commutes to work only to turn around and drive

back that distance to deliver our routes. We have little experience with this so it is hard for me to comment on the notification process. I would certainly expect that any where the Postal Service anticipates either closure or consolidation our craft and everyone affected would be given ample opportunity to express their views.

6. Because the Rural Craft works under an evaluated pay system we have dealt with route consolidation for many years. Each year our routes go through a mail count and are re-evaluated. This re-evaluation dictates what adjustments will be made to the route. A route evaluation will fluctuate with the mail volume, either going up when mail volume increases or going down when mail volume decreases. The evaluated system has benefited the Postal Service for many years because each year the salary that a rural carrier receives directly relates to the volume of mail that they collect and deliver. We have no major issues with the process so long as the count is done fairly and accurately. We have provisions in our collective bargaining agreement that offers protection to our craft should route evaluations drop so low that a route would be consolidated. There are provisions that allow carriers to relocate in order to save their job. Although we have this provision, it still does not lessen the impact on our carriers' lives.

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August 14, 2009

The Honorable Stephen F. Lynch
Chairman
Subcommittee on Federal Workforce, Postal Service,
and the District of Columbia
2157 Rayburn House office Building
Washington, DC 20515-6143

Attention: Margaret McDavid

Re: Follow-up Questions from July 30, 2009 Oversight Hearing

Dear Mr. Chairman:

Thank you for your leadership in holding the July 30, 2009 oversight hearing on the Postal Service and its financial condition. In furtherance of your request, I am providing the attached answers in response to the Subcommittee's follow-up hearing questions.

Please contact me if you or your staff have any questions or require assistance.

Sincerely,

Louis Atkins
Executive Vice President

Attachment Enclosed.

ANSWERS FROM LOUIS ATKINS
EXECUTIVE VICE PRESIDENT
NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

1. Given the financial problems facing the Postal Service and the declining volume of mail, what viable preferred alternatives to consolidations and closures exist?

We believe that the Postal Service needs to apply greater effort and resources to increasing its revenues, especially through new alternative sources of income, including:

-- Partnerships with for-profit enterprises, for example with banks in introducing ATMs into post offices and with greeting card companies to offer the sale of cards in post offices;

-- Requiring government agencies to use the Postal Service as their preferred provider of parcel and express mail services; and

-- Co-location of government services within postal offices.

Additionally, we believe that the Postal Service is not devoting sufficient and earnest effort to through an open, transparent and collaborative process with NAPS and the other two management associations to achieve greater revenues and reduced costs.

2. USPS is limited in its ability to lay off postal workers. In light of this restriction, how should the USPS go about reducing its operating costs when mail volumes and revenues fall?

In late 2008, when the Postal Service asked NAPS and the other management associations for assistance in reducing costs, we provided the following recommendations, which are as relevant today:

-- Eliminate the Mystery Shopper Program. This is a costly program that measures the skills and product knowledge of our window associates.

== Eliminate the redirection of mis-sent mail through the use of the Hub concept that is being used nationwide, On a daily basis, carriers and other employees are sent out on the street to re-deliver mail that has been returned to the office as it was sorted incorrectly.

-- Eliminate all contract employees. There are literally thousands of contract employees who are performing duties that could be done by existing career employees.

-- Eliminate the VOE survey. This is a costly survey that determines the levels of

satisfaction of postal employees' work environment.

== Eliminate all details to unauthorized positions. There are hundreds of employees who are not in their regular positions and are working in positions that are not authorized. This results in the use of overtime and having other individuals perform the duties of the individuals who are in unauthorized positions.

-- Eliminate the use of the MHTS program. This is a program that requires supervisors to review all mail that is sorted for delivery through automation and retrieve letters that are not properly sequenced.

-- Eliminate the Priority Recovery program that is used to redirect and deliver mis-sent Priority Mail. Some form of this program is in use throughout the country where employees are required to travel extraordinary distances to deliver Priority Mail that has been sent to the wrong office. This is done without regard to the cost to perform this function.

-- Eliminate the use of Spot Awards for all employees. This program does provide recognition for exceptional performance but we believe that it should be abandoned for the time being.

-- Eliminate many of the "perks" that are received by the officers and executives of USPS. Bonuses, non-contributory health and life insurance, relocation upon retirement and many other benefits are available only to executives and officers of USPS.

In addition, as NAPS urged in its March 25, 2009 testimony to the Subcommittee, the Postal Service could capture significant savings through a reorganization of its operating structure. Its nationwide management framework, currently built around 74 district offices and nine geographic areas, too large, bureaucratic and costly. The Postal Service should return to an organizational structure based on 5 geographic regions. As the Government Accountability Office has noted in recent testimony, by consolidating its field structure, the Postal Service would eliminate needless bureaucracy, save costs, and operate more efficiently. The Postal Service needs to apply the same rigorous cost-cutting scrutiny to its upper management ranks as it applies to middle and lower-management.

3. USPS pays a higher percentage of employee health benefit premiums than other federal agencies (80 percent versus 72 percent, respectively). In addition, USPS pays 100 percent of employee life insurance premiums, while other federal agencies pay about 33 percent. In light of the financial condition of the Postal Service, do you expect to retain these benefits in the future? Please explain.

The obligation of the Postal Service to pay 80 percent of the health benefit premium is the product of collective bargaining between the postal employee unions and USPS

management. It may not be helpful to compare the percentage paid by USPS and federal agencies because the federal agency percentage is not the product of collective bargaining. Had federal agencies been required to collectively bargain, the percentage may have been higher. Similarly, had postal employee union priorities been different, they might have pursued higher pay raises, likely generating a lower health benefit premium payment by USPS.

4. What does your organization think about GAO's recommendation for the Postal Service to develop and implement a broad restructuring plan? In your view, does the Postal Service need to restructure to achieve financial viability?

We believe significantly more attention should be devoted to securing operational efficiencies and improvements through network realignment before proceeding to the study of five-day delivery.

5. Are you satisfied with the notification, public comment and appeals process for station and branch consolidations? What are your concerns and how might your members be affected?

We are very dissatisfied and frustrated with the notice and comment process the USPS has pursued – both internally and externally – in connection with station and branch consolidations. The Postal Service is notifying nor not holding meetings early enough with the public to collaboratively and beneficially consider the merits of each facility's usefulness and value. The Postal Service also is not seeking the input of affected employees, including our members, sufficiently or early enough. The result is a preordained outcome that fails to receive respect or support both inside and outside the Postal Service.

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