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POSTAL INFRASTRUCTURE: HOW MUCH CAN WE AFFORD?

HEARING

BEFORE THE

SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL SERVICE AND LABOR POLICY

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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POSTAL INFRASTRUCTURE: HOW MUCH CAN WE AFFORD?

WEDNESDAY, JUNE 15, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL SERVICE AND LABOR POLICY,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:24 p.m., in room 2154, Rayburn House Office Building, Hon. Dennis A. Ross (chairman of the subcommittee) presiding.

Present: Representatives Ross, Amash, Lynch, Connolly, and Davis.

Also present: Representative Napolitano.

Staff present: Robert Borden, general counsel; Adam Bordes, senior policy analyst; Molly Boyl, parliamentarian; Drew Colliatie, staff assistant; Howard A. Denis, senior counsel; Ronald Allen and Kevin Corbin, minority staff assistants; and William Miles, minority professional staff member.

Mr. ROSS. Good afternoon. I will now call the Subcommittee on the Federal Workforce, U.S. Postal Service and Labor Policy to order.

And before we begin, as is customary with the full committee and our subcommittees, I will read the Oversight Committee mission statement.

We exist to secure two fundamental principles: First, Americans have a right to know that the money Washington takes from them is well spent; and, second, Americans deserve an efficient, effective government that works for them.

Our duty on the Oversight and Government Reform Committee is to protect these rights. Our solemn responsibility is to hold government accountable to taxpayers, because taxpayers have a right to know what they get from their government. We will work tirelessly, in partnership with citizen watchdogs, to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy.

This is the mission of the Oversight and Government Reform Committee.

I believe that there is a unanimous consent request for Representative Napolitano to participate in the hearing. Without objection, so ordered.

We have votes that may start in about an hour, so we are going to try to wrap this up as best we can.

With that, I will yield 5 minutes to myself for my opening statement.

Today's hearing marks the fourth this year held by this committee to hear testimony relating to the fiscal standing of the U.S. Postal Service. Unfortunately, today's Postal Service is on a pathway toward insolvency and the current postal infrastructure is bloated.

In fiscal year 2010, the Postal Service operated approximately 32,000 postal facilities and 528 mail processing facilities. Unfortunately, 59.2 million fewer customers visited post offices in 2010, continuing a 3-year trend in declining customer visits. Moreover, annual mail volume, predominantly first-class mail, has declined by more than 42 billion pieces since fiscal year 2006. This year, first-class mail has fallen by an astonishing rate of nearly 7 percent. The handwriting is on the wall. We either make the necessary systemic changes to the postal infrastructure or we continue to watch it become more outdated and accelerate the demise of the Postal Service.

When the Postal Service was confronted with the advent of universal home delivery at the beginning of the 20th century, it made adjustments. From 1901 to 1970, the Postal Service closed more than 30,000 retail facilities from its peak of 76,945, because universal home delivery demanded changes to their business model.

The Postal Service must acknowledge the economic realities it faces today. The fact is that the Postal Service operated at an $8.5 billion loss in 2010 and is projected to lose $8.3 billion this year and another $8.5 billion next year.

Today, postal customers are finding it more convenient to purchase postal services away from the traditional brick-and-mortar facilities. Revenue from postal alternatives such as Click N' Ship, PC Postage, and USPS.com continue to grow. Unfortunately, the Postal Service has not responded to these challenges with the same vigor that it has done so in the past. For example, despite the trend of postal customers utilizing alternative locations to purchase stamps and mail packages, the Postal Service has closed only 6,000 retail facilities since 1971.

According to a Postal Service estimate, retail service cost the USPS an estimated $4.2 billion in fiscal year 2010. With the continuing growth of alternative postal services and the decline in mail volume, the Postal Service can realize tremendous savings by right-sizing retail service locations and consolidating mail processing facilities, while still improving customer access to postal services.

I have to applaud Postmaster General Donahoe's vision to return the Postal Service to profitability. The Postmaster General has begun to reduce costs by consolidating facilities and implementing other cost-saving measures. Unfortunately, cost-cutting is not occurring fast enough to keep pace with the Postal Service's decline in revenue. Given the decline, the Postal Service will need to reduce its annual expenses by more than $10 billion just to break even in 2020.

Regrettably, labor costs continue to constitute 80 percent of Postal Service expenses, despite the elimination of 230,000 workers over the last decade. More troubling is the fact that the new con-

tract negotiated with the American Postal Worker Union expands layoff protections for workers, guarantees wage and COLA increases, and in-sources at least 4,000 positions.

As we all know, the Postal Service has announced its intention to default on a $5.5 billion retiree health benefit pre-funding payment due to the Treasury on September 30, 2011. However, even missing the large payment will not be enough to stave off further insolvency as the USPS now projects to fall short on a mandatory workers compensation payment due on October 15, 2011. Therefore, to save the Postal Service, the time to act is now. As Mr. Herr's testimony states, status quo for the Postal Service is no longer sustainable, and reform is urgently needed to ensure postal services are available to all Americans. The Postal infrastructure is antiquated and must be transformed to accommodate 21st century customer service preferences.

I do thank the witnesses that will be appearing today on both panels, and I look forward to their testimony.

I would like to recognize the distinguished gentleman from Massachusetts and the ranking member, Mr. Lynch, for his opening statement.

Mr. LYNCH. Thank you, Mr. Chairman.

First of all, I want to thank our witnesses for coming before the committee to help us with our work.

Today's hearing will examine the current state of our postal infrastructure, including the range of retail and mail processing networks operated by the U.S. Postal Service. In light of the worsening financial challenges faced by the Postal Service, coupled with the steady decreasing mail volume, we will be focusing our attention in this hearing on the Postal Service's efforts to generate significant cost savings through network consolidation.

As we all know, the Postal Service has reached a financial breaking point. Last month, we received word from the Postal Service that the agency had compiled its second quarterly report for fiscal year 2011. Regrettably, the results were once again deeply troubling. In addition to what the chairman has noted, the Postal Service ended the second quarter with a net loss of $2.2 billion, as compared to a net loss of $1.6 billion during the same reporting period for fiscal year 2010. This compares with the $1.9 billion and $770 million losses in the second quarter of 2009 and 2008 respectively. So it is clear that, despite prior cost-cutting efforts, the situation continues to worsen.

In addition, the Postal Service continues to see decreases in total mail volume, which dropped from 42.3 billion to 41 billion pieces. Mailing services revenue also declined by $568 million, and total operating revenue also fell by $500 million. As a result, the Postal Service projects that it will have reached its statutory debt limit of $15 billion by the end of this fiscal year.

Were it not for all the other crises we have in this country and the problem with the national debt limit, I think this would be a major, major issue. But it is being overlooked I think by some because of all the other priorities that we are concerned with.

Moreover, absent legislative changes, the Postal Service expects that it will be forced to default on its mandatory payment to the

Federal Government, including a $5.5 billion retiree health benefit fund payment due on September 30th of this year.

Against this extraordinary financial backdrop, the Postal Service has undertaken action to review its extensive network of retail and mail processing facilities and begin to consolidate its operational infrastructure. Notably, this consolidation initiative falls in line with the advisory recommendations issued in July 2009 by the Government Accountability Office, which conducted a comprehensive audit of the Postal Service's financial condition and determined that the Postal Service should consider network realignment due to its costly excess capacity.

There should be no remaining doubt that the Postal Service's financial situation will require us to make some very difficult choices, including consolidating excess postal infrastructure. However, in doing so, we must be sure to exercise due diligence so as to make certain that any effort to realign the Postal Service retail and mail processing infrastructure does not compromise customer service or delivery standards or cause unnecessary impacts on our dedicated, hardworking postal employees and retirees.

The potential realignment of more than 500 mail processing plants merits particular oversight, given their critical connection to universal service and the central role they play as hubs of economic and employment activity. To this end, I strongly urge the Postal Service to adopt a network realignment process that is fair, it is transparent, and it is accountable, and allows for all of the stakeholders, including Members of Congress and the communities that are affected, to have input into the process.

As is the case with most businesses, communication is critical. So I feel strongly that the Postal Service must be held accountable in terms of making sure communities are fully informed and involved at every juncture of consolidation study, notwithstanding whether it is the closing of a small postal branch in a rural area that has three staffers or relocating a large-scale processing and distribution center in an urban area that employs hundreds of workers.

In addition, we need to look at other reasonable steps that the Postal Service may take to improve its long-term financial viability. In particular, while the Postal Service has already undertaken a series of revenue-generating and marketing initiatives, we must continue to examine the feasibility of the Postal Service plans to diversify its retail portfolio to include the sale of some nonconventional items as well as expand its marketing strategies and digital platform.

Most notably, we can immediately address the significant overpayment by the Postal Service of both its Civil Service Retirement System and the Federal Employees Retirement System liabilities through legislative action. For example, immediately repaying the Postal Service the near $7 billion owed them for their overpayment of their Federal Employee Retirement System obligations will at least place the Postal Service on a better financial footing for this fiscal year, thereby affording us additional time to examine other important alternatives and reforms for the long term.

In order to address this matter, I have introduced legislation, H.R. 1351, to rectify these overpayments and allow the Postal Serv-

ice to use the resulting surplus to cover various on-budget obligations which will help to improve its current liquidity position.

Mr. Chairman, I look forward to our witnesses' testimony this afternoon and hope that we will all be able to work in a bipartisan manner to get our trusted government institution back on the right track.

I want to thank you for yielding the time.

I also want to thank you for the unanimous consent agreement that you announced to allow Ms. Grace Napolitano of California to weigh in, in contravention of the rules of the committee.

I also ask you to please consider a unanimous consent request to enter into the record the statements of Representative Judy Chu of California and Representative Adam Schiff of California, which I will present for entry into the record.

Mr. ROSS. Without objection, they are entered into the record. And thank you.

[The prepared statements of Hon. Stephen F. Lynch, Hon. Judy Chu, and Hon. Adam B. Schiff follow:]

Opening Statement

Rep. Stephen F. Lynch, Ranking Member
Hearing on "Postal Infrastructure: How Much Can We Afford?"

Thank you, Mr. Chairman. I'd like to welcome our witnesses and thank all of you for helping this Subcommittee with its work.

Today's hearing will examine the current state of our postal infrastructure, including the range of retail and mail processing networks operated by the United States Postal Service.

In light of the worsening financial challenges faced by the Postal Service, coupled with steadily-decreasing mail volume, we'll be focusing our attention on the Postal Service's efforts to generate significant cost-savings through network consolidation.

As we all know, the Postal Service has reached a financial breaking point. Last month, we received word from the Postal Service that the agency had compiled its second quarterly report for Fiscal Year 2011. Regrettably, the results were, once again, deeply troubling.

Specifically, the Postal Service ended the second quarter with a net loss of $2.2 billion, as compared to a net loss of $1.6 billion during the same reporting period for Fiscal Year 2010. This compares with $1.9 billion and $770 million second quarter losses for 2009 and 2008 respectively.

So it is clear that despite prior cost-cutting efforts, the situation continues to worsen.

In addition, the Postal Service continued to see decreases in "*Total Mail Volume*," which dropped from 42.3 billion to 41 billion pieces. "*Mailing Services Revenue*" also declined by $568 million and "*Total Operating Revenue*" fell by $500 million.

As a result, the Postal Service projects that it will have reached its statutory debt limit of $15 billion by the end of this fiscal year. Moreover, absent legislative change, the Postal Service expects that it will be forced to default on its mandatory payments to the federal government, including a $5.5 billion Retiree Health Benefits Fund payment due on September 30th of this year.

Against this extraordinary financial backdrop, the Postal Service has undertaken action to review its extensive network of retail and mail processing facilities and begin to consolidate its operational infrastructure.

Notably, this consolidation initiative falls in line with advisory recommendations issued in July of 2009 by the Government Accountability Office, which conducted a comprehensive audit of the Postal Service's financial condition and determined that the Postal Service should consider network realignment due to its costly excess capacity.

There should be no remaining doubt that the Postal Service's financial situation will require us to make some very difficult choices, including consolidating excess postal infrastructure. However, in doing so, we must be sure to exercise due diligence so as to make certain that any effort to realign the Postal Service's retail and mail processing infrastructure does not compromise customer service or delivery standards, or cause unnecessary impacts on our dedicated, hardworking, postal employees and retirees.

The potential realignment of more-than-500 mail processing plants merits particular oversight, given their critical connection to universal service and central role as hubs of economic and employment activity. To this end, I strongly urge the Postal Service to adopt a network realignment process that is fair, transparent, and accountable and allows for meaningful input from all postal stakeholders, Members of Congress, and the affected communities at-large. As is the case with most businesses, communication is critical. So, I feel strongly that the Postal Service must be held accountable in terms of making sure communities are fully informed at every juncture of a consolidation study, notwithstanding whether it's the closing of a small Postal branch that has three staffers or relocating a large scale processing and distribution center that employs hundreds of workers.

In addition, we need to look at other reasonable steps that the Postal Service may take to improve its long-term financial viability. In particular, while the Postal Service has already undertaken a series of revenue-generating and marketing initiatives, we must continue to examine the feasibility of the Postal Service's plans to diversify its retail portfolio to include the sale of some non-conventional items as well as expand its marketing strategies and digital platform.

Most notably, we can immediately address the significant overpayment, by the Postal Service, of both its Civil Service Retirement System and Federal Employee Retirement System Liabilities through legislative action. For example, immediately repaying the Postal Service the near $7 billion owed them for their overpayment of their Federal Employee Retirement system obligations will at least place the Postal Service on better financial footing for this fiscal year, thereby affording us additional time to examine other important alternatives and reforms for the long-term.

In order to address this matter, I've introduced legislation, H.R. 1351, to rectify these overpayments and allow the Postal Service to use the resulting surplus to cover various on-budget obligations, which will help to improve its current liquidity position.

Mr. Chairman, I look forward to our witness' testimony this afternoon and hope that we can all work in a bipartisan manner to get our most trusted government institution back on the right track. Thank you, Mr. Chairman, I yield the balance of my time.

Written Statement Submitted Rep. Judy Chu

House Committee on Oversight and Government Reform
Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy

Hearing on "Postal Infrastructure: How Much Can We Afford?"

Thank you for holding this hearing about the infrastructure of the United States Postal Service (USPS). The USPS is undoubtedly under great financial strain, and there is no question that we must do what we can to ensure a fiscally solvent Postal Service.

However, we must meet this goal in a thoughtful and transparent way, and ensure the USPS continues to meet the American people's needs for years to come. To that end, I am gravely concerned about how Area and Mail Processing (AMP) studies are conducted.

AMP Study Process – Need for Greater Transparency and Public Input

As you know, the USPS conducts AMPs to determine where greater efficiencies and savings can be found through the consolidation of various mail operations. The USPS examines a host of expenses for a particular facility to identify potential savings, and the USPS claims they take the public's concerns into account in a transparent manner.

But this isn't necessarily the case. The United States Postal Service's recently decided to consolidate some of the outgoing mail operations at the City of Industry's mail processing facility, which neighbors my district. These operations are now being moved to another facility in Santa Ana, which is 36 miles away, all the while not clearly explaining or identify how such a move would save the USPS money. This proposal was overwhelming opposed by the community and local businesses. I also expressed my strong disapproval, as did Reps. Napolitano, Schiff, and Baca.

The USPS held a public meeting this January on their proposal, but they offered few details on how money would be saved, and refused to publicly share the study's details. USPS claimed they couldn't release the AMP's details because it was an unfinished product and contained proprietary information.

Only after a personal appeal to the Postmaster General, did USPS agree to share the Industry facility's AMP study with my staff and me. Despite this promise, we were only allowed to review its details with USPS staff on one of their laptops, and were not given a copy of the study's data. A copy of the study was finally provided and privy to public disclosure, but only after the final decision had been made and with many of its most important provisions redacted. These decisions can have a great impact on local economies and mail delivery, and there must be some form of middle ground so information can be more readily shared with Congress and the public.

This issue isn't just limited to this one facility – numerous AMPs are being held throughout the United States. Many studies recommending consolidation are being implemented right now. But looking back on recent consolidations we know that some have not produced their desired savings, while putting strain on communities, the postal system and its workers. With so many AMPs now

being conducted throughout the United States, Congress and the public deserve to have a degree of greater transparency and oversight over this process.

We all want a vibrant and self-sustaining Postal Service that can continue to serve America for many years to come. But their decisions to consolidate post offices, move service and alter communities must be more transparent and take into consideration the needs of the American people, who rely on the Postal Service. I hope this hearing will be useful towards shedding light on these and other matters.

Rep. Judy Chu

Rep. Adam Schiff

Comments for the Record

Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy

"Postal Infrastructure: How much can we afford?"

June 15, 2011

Chairmen Ross and Ranking Member Lynch, thank you for providing me the opportunity to participate in this hearing about USPS's infrastructure and its efforts to consolidate post offices and postal operational facilities. Mr. Williams and the other witnesses thank you for testifying today on the important issue of ensuring that USPS provides high quality service to individuals, businesses and consumers, while remaining financially viable. Mr. Williams, I want to talk to you about USPS's recent announcement that USPS plans to consolidate some of the operations at its City of Industry plant, in my region of Southern California, into the operations of the Santa Ana plant.

One of the most frustrating aspects of this announcement was the opaque nature of the process used to approve the consolidation. Joined by some of my other Southern California colleagues, I have repeatedly requested that USPS share with our offices information obtained from the Area Mail Processing (AMP) studies, so that we could better understand the reasons for the proposed consolidation and discuss this issue with our constituents.

These requests were often ignored, or USPS, citing proprietary concerns, did not provide my office with this important information. It was not until a few weeks before the final decision was announced, that USPS provided my office this information but it was not in a useful and usable format. Most of the most useful information was blacked out (allegedly due to proprietary concerns) and it was only showed to my staff on a computer file that they were not

allowed to keep. Because of this, I did not have the time to delve into the data and ask critical follow-up questions. By then it was too late and USPS shortly announced it was going ahead with the consolidation.

USPS must do better with sharing information with Congressional offices, so they can effectively interact with constituents. So, Mr. Williams as USPS pursues it nationwide consolidation plan of USPS facilities, does it have any plans to improve communication and the sharing of information with Congressional offices about the consolidation or closing of such facilities?

I was also disappointed that USPS did not release the AMP study before a final decision was made. This is a long standing policy of USPS, but it ensures that there is no oversight and transparency in the final decision. Without releasing the AMP study before a decision is made, how can we be sure that the study reflects community input and concerns raised by Members of Congress, which are supposed to be given serious consideration in the study? Furthermore, how can we be sure that the USPS's analysis of potential cost savings is credible without releasing the study first? Mr. Williams, does USPS have any plans to change the long standing policy of not releasing an AMP study before making a final decision?

Yesterday I sent a letter along with Rep. Napolitano and Rep. Chu to USPS Inspector General David William requesting an expedited audit of the consolidation process. Such audits have been requested by Members of Congress in the past and at least one revealed that an ongoing consolidation was failing to meet expected cost savings. I urge USPS to comply and cooperate with this request.

Lastly, as we look at consolidation efforts at the national level, I have a few points to make. While, USPS is clearly in poor financial shape, I doubt that the national consolidation plan will be sufficient to solve USPS's financial woes. USPS faces multibillion dollar annual

operating deficits and the expected savings from consolidating post offices or mail processing facilities – the consolidation of the City of Industry plant is only expected to save a little over $1 million – hardly seem adequate to USPS's needs. Instead, USPS's deficits are both structural – it has to pre-fund $5.5 billion annually in retirement health plans – and cyclical – the drop in mail volume, due to the recession, has lead to a significant drop in USPS revenues. This is why I support legislation to use previous USPS overpayments to the Civil Service Retirement System to pay for the pre-funding of retirement health benefits and policies to get our economy moving again. Steps like these would strengthen USPS's financial performance far greater than any national consolidation plan ever could and would ensure that jobs remain in our communities and that businesses and consumers have the reliable access to USPS services they need to run their businesses and for their daily errands, respectively.

Thank you.

Mr. LYNCH. Thank you, and I yield back.

Mr. ROSS. Thank you, Mr. Lynch.

The Members may have 7 days to submit opening statements and extraneous materials for the record.

At this point, I would like now to introduce our first panel.

Mr. David E. Williams is vice president of Network Operations Management for the U.S. Postal Service; Mr. Dean Granholm is vice president, Delivery and Post Office Operations, for the U.S. Postal Service; and Mr. Phillip Herr is a Director on the Physical Infrastructure Issues team at the U.S. Government Accountability Office.

Pursuant to committee rules, all witnesses must be sworn. So if you would please stand and raise your right hands.

[Witnesses sworn.]

Mr. LYNCH. Thank you.

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

We will now allow each panel member to have 5 minutes to present their opening testimony. Please also note that your written testimony has already been entered into the record here.

With that, I will I will recognize Mr. Williams for 5 minutes.

STATEMENTS OF DAVID WILLIAMS, VICE PRESIDENT, NETWORK OPERATIONS MANAGEMENT, U.S. POSTAL SERVICE, ACCOMPANIED BY DEAN GRANHOLM, VICE PRESIDENT, DELIVERY AND POST OFFICE OPERATIONS, U.S. POSTAL SERVICE; AND PHILLIP HERR, DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

STATEMENT OF DAVID WILLIAMS

Mr. WILLIAMS. Good afternoon, Mr. Chairman, Ranking Member Lynch, and members of the subcommittee.

My name is Dave Williams, and I serve as the vice president of Network Operations for the Postal Service. I am responsible for the management of a national network of 512 mail processing facilities, as well as coordination of automation initiatives.

I am accompanied today by Dean Granholm, vice president of Delivery and Post Office Operations. Mr. Granholm is responsible for all aspects of mail delivery, as well as operations at nearly 32,000 post offices, stations, and branches.

The Postal Service is the cornerstone of a vital industry which impacts every community in America. This year, we will process and deliver over 168 billion pieces of mail. The mailing industry pumps over $1 trillion into the economy every year and employs over seven million Americans. Over 90 percent of mail-related jobs are in private companies of all sizes, like mailing and fulfillment services, envelope manufacturers, printers, consolidators, to name a few. The success of these firms depend on a healthy and thriving Postal Service.

Today, however, the Postal Service is poised on the brink of a financial crisis, and we need your help to get back on the path of profitability. The Postal Service does not relish being in this position. A little over 5 years ago, in 2005, our debt stood at zero. How-

ever, at the end of this fiscal year, we will reach our $15 billion statutory debt limit, and we will not have the cash to make a $5.5 billion retiree health benefit pre-funding payment due September 30th. This payment, mandated by the Postal Act of 2006, is one of the primary drivers of our precarious financial situation.

The focus of this hearing is the Postal Service's mail processing and retail infrastructure and our efforts to right-size our overall network. The decline of first-class mail and the increased use of electronic means of communication is something the Postal Service predicted and planned for. We have been closing all types of postal facilities on a continual basis since the early 1970's, when we became the self-supporting U.S. Postal Service. Using area mail processing studies and other consolidation activities, we have reduced a sprawling network that once consisted of over 2,000 facilities. Today, our primary outgoing mail processing facilities number less than 300.

We are taking a similar approach to reducing the size of our retail infrastructure, which currently consists of roughly 32,000 postal-operated retail locations.

Right-sizing our network is one of many strategies the Postal Service has employed to cut costs and improve efficiency. In the past 4 years, the Postal Service has cut costs by $12 billion, including a reduction of career employment of 110,000.

Our achievements notwithstanding, a gap still exists between revenue and costs mainly because of a series of events outside our control.

There are three critical areas which need to be addressed this year. They are resolving the retiree health benefit pre-funding requirement, finding a solution to the overfunding of FERS and CSRS pension benefits, and giving the Postal Service authority to adjust delivery frequency.

There are a number of bills already introduced in both Chambers which address some or all of these issues. We appreciate the hard work and interest of the subcommittee, especially those Members who have proposed legislation or plan to introduce bills in the coming weeks.

The Postal Service knows how to cut costs, streamline our excess retail and processing network, and make the necessary changes to bring our organization further into the 21st century. But we cannot do it alone.

Absent congressional action this year, the Postal Service will face a liquidity crisis. The Postmaster General's stated goal is to reduce our work force to 400,000 employees and cut costs to $60 billion annually as quickly as possible. How quickly we reach this goal depends largely on the enactment of legislation that will free the Postal Service to pursue even greater levels of efficiency and cost savings. Working together, we can continue the evolution of the Nation's postal system into a more stable and viable organization. We look forward to working with all of you.

Thank you again, Mr. Chairman, and we will be happy to answer your questions.

[The prepared statement of Mr. Williams follows:]

UNITED STATES
POSTAL SERVICE

STATEMENT OF
DAVID E. WILLIAMS, JR., VICE PRESIDENT, USPS NETWORK OPERATIONS
BEFORE THE

SUBCOMMITTEE ON THE FEDERAL WORKFORCE, THE POSTAL SERVICE AND LABOR POLICY
UNITED STATES HOUSE OF REPRESENTATIVES
JUNE 15, 2011

Good afternoon, Mr. Chairman and members of the Subcommittee.

My name is Dave Williams and I serve as Vice-President of Network Operations for the U.S. Postal Service. I am responsible for the management of a national network of 512 mail processing and distribution facilities, as well as coordination of automation initiatives. Accompanying me today is Dean Granholm, Vice President of Delivery and Post Office Operations. Mr. Granholm is responsible for all aspects of delivery to the nation's 150 million household and business addresses, as well as operations at nearly 32,000 Post Offices, stations and branches.

It is an honor to appear before the subcommittee today to discuss the Postal Service's infrastructure, in particular our mail processing network and retail facilities. We thank you, Mr. Chairman, for calling this hearing and I appreciate the invitation to testify.

I will provide a general description of our overall network, including information on strategies we have implemented to take costs out of the system. I will discuss some of the obstacles we have encountered, along with options for overcoming those obstacles. Finally, I will highlight the importance of Congressional action this year to address specific issues over which the Postal Service has no control.

The Postal Service has a long history of developing useful strategies and formulating comprehensive plans to cut costs, reduce excess capacity and streamline its operations. These efforts are not new. They stretch back over the last decade and before. In fact, the Postal Service recognized the effect electronic communications would have on mail volumes as far back as 1998, and we have produced regular, comprehensive plans to address these shifting customer habits.

The Postal Service has, since 1998, produced a series of five-year strategic plans, in accordance with the *Government Performance and Results Act of 1993*. In addition to these five-year plans, in 2002 we took steps to both create new strategies and accelerate existing ones with the development of a comprehensive Transformation Plan, which has been updated regularly in subsequent years. We consistently report to Congress, the Government Accountability Office (GAO), the Office of Inspector General (OIG) and the Postal Regulatory Commission (PRC) on our strategies, our network plans, and our future business model. And in March 2010, we developed a ten-year Strategic Action Plan for the Future which identified not only the changes USPS needed to make, but legislative changes as well.

Much of our overarching strategy is focused on making adjustments in the postal infrastructure. I would like to provide a brief overview of our network, which is made up of numerous components. The ones familiar to most Americans are our retail facilities. These Post Offices, stations and branches are where customers purchase stamps, pick up and mail parcels, or perhaps have a P.O. Box. The Postal Service continues to actively explore opportunities to reduce the number of postal-operated retail facilities, as part of our overall strategy to become leaner, faster, and smarter. These efforts are described in greater detail in this testimony.

The other major part of our network consists of facilities that serve as mail processing locations. In 1970, with passage of the *Postal Reorganization Act* (PRA), the old Post Office Department was transformed into the U.S. Postal Service. At the time of enactment of the PRA, more than 2,000 facilities served as our primary, outgoing mail processing locations. Today, that number has been reduced to less than 300. Throughout the last four decades, the Postal Service has centralized its mail processing system, with large facilities sorting mail for Post Offices and ZIP Codes over a large geographical area. The postal mail processing network has historically been set up to meet service standards between ZIP Codes, subject to capacity and distance constraints.

As operational practices have evolved, a growing amount of mail enters the mail system closer to its final delivery point, which allows the mail to bypass several steps in the processing system. This mail requires less sortation, resulting in fewer total mail pieces being handled and thus, necessitating cost reductions in our network. The Postal Service has, for decades, employed the sound business practice of evaluating and reviewing our processing needs and plant capacity to determine how and where modifications can be made to achieve improved productivity and eliminate redundancies in our network.

Similarly, a combination of factors - especially changing customer habits - has demanded we also continually evaluate both the number and location of our retail facilities. These factors include not only a mail volume decline of 43.1 billion pieces, but an attendant reduction of 200 million in the number of customer visits, a decline of $2 billion in retail transactions at postal-operated facilities, and the continued expansion of access to Postal Service points. Approximately one-third of all Postal Service retail revenue is now generated through channels other than a Post Office, including the Internet, contract units, and other retail partners. This month, the Postal Service announced more than 1 million downloads of its free mobile application, or "app," to iPhone, iPod touch and iPad customers. As the communications world evolves, the Postal Service is changing with it. Part of that change is the careful, but continuous streamlining of our retail facility footprint.

Recently, the Postal Service proposed changes to existing rules under the Code of Federal Regulations (CFR) which deal with discontinuance of Postal Service-operated facilities. We made these proposals to create a more efficient process; one that is open, fair and equitable and that enhances the way our customers view postal retail operations.

We received comments from a number of stakeholders, including Members of Congress, and currently we are evaluating this input. Before filing the proposed changes, the Postal Service established a solid business case, describing the need for continued evaluation of postal-operated facilities to determine what action was appropriate. When studying the existing retail infrastructure, the Postal Service examined the effects of a proposed discontinuance on the community and postal employees, the ability to provide a maximum degree of effective and regular postal services to the affected community, and economic savings. The proposed rule changes focus on six key areas:

- **Streamlining the process:** The proposed rule improves the administration and management of the discontinuance process by removing redundant steps and utilizing an automated system to reduce what formerly was a nine-month process to only 130 days.
- **Updates criteria/qualifiers that trigger a study:** Under previous guidelines, the Postal Service could close a Post Office for only two reasons – a Postmaster vacancy or because of suspended operations. The proposed rule would enhance our flexibility by adding additional factors when considering a discontinuance study, such as community need, the workload of the Post Office, and alternate access.
- **Conversion of Post Offices to Stations or Branches:** The conversion of a Post Office to a subordinate station or branch would no longer be subject to the notice and comment procedures applied to Post Office discontinuance. This change in naming convention is an internal process and would be transparent to customers. The term "consolidation" would only apply when a Postal Service-operated retail facility is converted to a contractor-operated unit.

- **Station and Branch Discontinuance:** Previously, procedures for discontinuance of a station or branch were more abbreviated and were not subject to the same notice and comment periods applied to Post Office discontinuance. The proposed rule would erase virtually all of these differences and would apply the same time periods and procedures to both.

- **Postmaster to Post Office Ratios:** The proposed rule would clarify that Post Offices may be staffed by postmasters, as is commonly the case, or by other personnel acting under the supervision of a postmaster. Thus, a postmaster could serve in more than one Post Office, or an employee other than a postmaster could be responsible for the day-to-day responsibilities of a Post Office. This change is consistent with the definition of a postmaster under the *Postmaster Equity Act.*

- **Top-Down Process:** Previously, the Postal Service used a "bottom-up" process to identify Post Offices for possible discontinuance. Under the proposed rule, Postal Service Headquarters management can also identify candidate offices for study, thereby using a "top-down" approach.

Implementing these changes will allow the Postal Service to close the right Post Office, as opposed to simply closing the vacant Post Office, which was the case under existing rules. We will continue to partner with other retailers to provide our customers expanded access to our products where they live, work and shop. Today, over 35 percent of retail transactions take place outside of the retail counter. We will continue to follow existing law, as well as adhering to past practices such as consultations with postmaster and management organizations, notification to customers, employees and labor unions, and solicitation of customer comments and feedback. Aligning the number and location of postal-operated retail facilities to fit ongoing customer habits and needs is just one part of a multi-layered effort, reaching into every aspect of our organization, to enhance access, while taking costs out of the system.

The pursuit of realignment of the mail processing network is based on a similar and equally sound business case. Advancements and innovations made in the areas of mail preparation, handling and processing have enabled the Postal Service to capture savings and improve productivity. For example, we introduced barcodes over thirty years ago to improve processing efficiency. These ideas have continued to evolve, from simple barcodes to the POSTNET barcode to today's Intelligent Mail barcode (IMb).

Deployment of cutting-edge mail processing technology throughout the last several decades has allowed us to further enhance productivity. We introduced the first machines to sort letters in 1922 and have been at the forefront of the industry ever since, working with partners in the technology field to develop and utilize increasingly efficient mail processing machinery. These improvements continue with deployment of the Flats Sequencing System (FSS). Redesigning our network is an ongoing process and one with which we have a great deal of experience. Our work and success in this area illustrates how, using an integrated

approach, districts, areas and headquarters all work together to trim and refine our processing network.

One tool we use to address changing network needs is the Area Mail Processing (AMP) study. A key driver of AMP activity, especially over the last few years, has been the steady decline of single-piece First-Class Mail, which requires more handling and sortation. Since fiscal year 2001, this category of mail has declined by 23 billion pieces, or almost 42 percent. Mail volume declines, along with advances in technology and productivity improvement have combined to create an imbalance between operational needs and facility space. Currently, the Postal Service has 90 active AMP studies. Since 2008, we have successfully implemented 48 AMP studies, with an estimated total annual savings of over $140 million. To date, 33 of these AMP consolidations have undergone Post Implementation Reviews (PIR) which demonstrates that AMP consolidations, combined with other productivity improvement initiatives and volume loss, have resulted in over $433 million in annual savings.

The Postal Service uses a well-defined and thoughtful process when undertaking an AMP study. This procedure has been honed over time to support and ensure consistency and transparency when making a fact-based sound business decision to consolidate processing operations. When a decision is made to begin a study, the Postal Service utilizes a process which includes strict adherence to existing provisions of applicable collective-bargaining agreements with our unions. We also employ a robust communications process with members of the community, local, state and federal elected officials, local customers and mailers, and the media. This process ensures customer and employee concerns are heard and evaluated as the Postal Service proceeds with making a prudent business decision, taking into account all factors.

Enhancements made to our AMP study process were the result of input expressed by customers, employees, the GAO, the OIG and Members of Congress. We continue to refine the AMP process to fully address the questions and issues raised by numerous stakeholders. In some instances, the Postal Service has declined to move ahead with an AMP study, if our findings suggest service would be unreasonably impacted, or if savings would not be realized. We take a careful approach when making final decisions about consolidation of mail processing needs. Our efforts have led to undeniable success in virtually all cases.

We have, at times, been hindered from successful completion of AMP studies. Many people are under the impression that AMP studies are a new occurrence, something the Postal Service created just in the last few years to combat declining mail volume. In fact, AMP studies have been used since the 1970's, resulting in an 80 percent reduction in our mail processing network since that decade. However, there have been instances where AMP activity was delayed for a time. In the last few years, following such a period of AMP inactivity, the Postal Service began a renewed effort to streamline our network.

This was in response to a variety of factors, chief among them a Congressional recommendation, contained in the *Postal Accountability and Enhancement Act (PAEA)* of 2006, which stated, "Congress strongly encourages the Postal Service to expeditiously move forward in its streamlining efforts." In addition, recommendations regarding network and retail facility rightsizing have been made by both the GAO and the OIG. The direction given by these and other external stakeholders supports the actions of the Postal Service to aggressively address the issue of excess capacity in its network.

To ensure we capture savings while still providing top-notch service to customers, the AMP process consists of two Post-Implementation Reviews (PIR), which must be completed following implementation of an AMP study. The PIR determines whether planned savings, work hour savings, and levels of service are met. One example of a successful AMP is in Kansas City, where the Postal Service consolidated all operations from the Kansas City, KS, Processing and Distribution Center (P&DC) into the Kansas City, MO, P&DC. This consolidation, along with other concurrent productivity improvements, resulted in total annual savings of $16.9 million, with no change to service performance or service standards. These positive results are not limited to this one example. To date, every PIR has supported the corresponding AMP business case, meeting, and in most cases, exceeding, operational savings goals. In addition, the PIR is not the only means by which AMP studies are evaluated.

The OIG has validated the business case underlying the implementation of AMP studies in numerous parts of the country. Since 2005, they have conducted 35 audits related to AMP studies and consolidations. In each case, the OIG found that a valid business case existed to support consolidation.

Our efforts and our successes are not limited to AMPs. Over the last decade, the Postal Service has addressed its excess mail processing capacity by employing the following realignment activities:

- In 2010, we completed the transformation of Bulk Mail Centers (BMC) into Network Distribution Centers (NDC). We finished the change seven months ahead of schedule, with estimated savings, according to the OIG, of $111 million in total annual savings.
- As of today, we have one remaining Airport Mail Center (AMC). At one time, the Postal Service operated 80 AMCs, which were often located in high-cost areas on airport grounds. Total program savings to date is estimated at $99 million.
- In the past ten years, we have reduced the number of Carrier Sequence Barcode Sorters (CSBCS) in Post Offices to 441, down from 3,750. By moving this workload to more productive mail processing equipment located in larger facilities, the Postal Service made significant productivity gains.
- In FY 2010, we closed the Philadelphia Logistics and Distribution Center (L&DC), resulting in savings of $10 million annually.
- We reduced the number of Mail Transport Equipment (MTE) Service Centers, closing eight of 23 in 2010, resulting in annual savings of $75 million.
- In the last decade, we closed almost all Remote Encoding Centers (REC), down to only two from a high of 55. The closure of these 53 REC sites resulted in cumulative savings and cost avoidance, from 1999 to today, of approximately $715 million.

The Postal Service takes a partnership approach to network realignment, using both a top-down and bottom-up process. Local postal officials provide insight and analysis about their specific geographic region. These efforts are combined with the use by headquarters personnel of sophisticated computer modeling and in-depth analysis of equipment needs to achieve savings and improve efficiency.

One example of the collaborative nature of our approach is the recent realignment of operations in Springfield, MA. With implementation of the NDC network transformation plan, local management recognized that consolidation of outgoing operations at the Springfield NDC would allow for mail processing equipment to be removed. This in turn led to a decision to consolidate two additional facilities, each within five miles of the Springfield NDC - the Springfield Surface Transfer Center (STC) and the Springfield L&DC. Through this consolidation effort, the Postal Service was able to close two facilities, consolidate operations and create a package and transportation hub in one facility, allowing for significant economies of scale and transportation efficiencies. The net effect was an annual savings of approximately $10 million. Most important, this change, as well as our other consolidation

efforts, was implemented with minimal impacts to mail service, no adverse affect to our customers and without layoffs of postal employees.

The Postal Service is extremely effective at implementing these types of cost-saving efforts not only in mail processing, but in delivery operations, through route reductions and carrier placement, and in retail units, through Post Office discontinuances. By taking a multi-pronged approach and aggressively examining all aspects of our operations, we have achieved unprecedented success in cutting costs, trimming work hours, and reducing employee complement, while increasing productivity and efficiency and keeping our commitment to the public by delivering consistently high levels of service.

We continue to pursue new ideas and strategies that will take us as quickly as possible toward the stated goal of a workforce numbering 400,000 employees and costs of $60 billion or below. We continuously evaluate opportunities to more efficiently utilize all aspects of our operations – our people, equipment, facilities and transportation. It is crucial that we match all these components to ensure we have the right number of employees, machines, facilities, and transportation routes, to collect, process and deliver the type of mail in our system today.

Since 2001, the Postal Service has reduced its total employee complement by over 230,000 – without layoffs. At the same time, we have continued to make enhancements in productivity. Despite a 3.5 percent decline in mail volume, significant efficiency gains were achieved in 2010, improving Total Factor Productivity (TFP) 2.2 percent, compared to 2009. This marked the ninth year of productivity growth since 2000. Productivity gains are a result of effective workforce management, efficient use of supplies and services, including transportation, and maximizing the return on automation investments. The Postal Service continues to realize savings and increase efficiency, even in the face of continual opposition.

Actions taken by external entities have, in the past, slowed or prevented the Postal Service from enacting needed mail processing consolidations and Post Office discontinuances. However, as we approach a critical juncture in our organization's history, another kind of Congressional action is urgently needed this year. The Postal Service is currently facing a liquidity crisis. The inability of the Postal Service to make specific payments to the Federal government is a certainty, absent Congressional action.

Last month, the Postmaster General provided testimony to the Senate that described two scenarios, one of which will occur in the coming months and which will have consequences

stretching into fiscal year 2012 and possibly beyond. To avoid the least palatable of these outcomes – the inability to pay employees and suppliers and the curtailment or cessation of postal operations altogether – the Postal Service needs Congress to:

- Address the Retiree Health Benefit (RHB) pre-funding requirement and Civil Service Retirement System (CSRS) overfunding issue
- Resolve the overfunding of the Federal Employees' Retirement System (FERS)
- Give the Postal Service the authority to adjust delivery frequency

Legislation currently exists to enact all of these changes. We appreciate the efforts of Congress to hold hearings such as these and bring attention to the Postal Service's dire situation. Passage of legislation to address the crushing obligation of making a $5.5 billion annual pre-payment for RHB would lessen the impact of this significant drain on postal finances. The Postal Service is not seeking to walk away from these obligations. We have been recognized as one of the few entities, public or private, that does an excellent job meeting both its health care and pension benefit obligations. We have already paid $43 billion into RHB. We will meet our commitment to future retirees; however, a ten-year pre-funding schedule is overly aggressive and simply not possible under current economic and financial conditions.

Similarly, finding a resolution to the long-standing problem of pension overfunding is critical to helping the Postal Service get back on firm financial footing. Numerous agencies, regulators and external consultants have all agreed that a surplus exists in both the CSRS and FERS postal funds. The Office of Personnel Management (OPM) has repeatedly stated it cannot act on this matter without direction from Congress. We ask you to provide that direction as swiftly as possible.

One of the most urgently needed actions is the ability to adjust delivery frequency. If Congress gave the Postal Service this authority, we could move to a five-day a week model, as one example, and realize annual savings of $3.1 billion. Just as the Postal Service modified its AMP study process in response to concerns expressed by customers, elected officials and others, we adjusted our five-day delivery proposal, based on feedback from mailers, customers, and additional stakeholders. This input resulted in the decision to adjust our plan and keep Post Offices open on Saturday, provide P.O. Box and remittance mail service, and deliver Express Mail. Shifting to a five-day delivery model would involve change, but we believe it is an idea whose time has come.

We know that legislative action alone is not sufficient. It must occur in concert with the continued efforts of the Postal Service, many detailed throughout this testimony, to reduce costs by trimming its network footprint, employee complement and work hours, while exploring innovative ideas to generate revenue with new products and services. We continue to reorganize our management structure, including an ongoing redesign of district, area and headquarters functions, which will be completed in September of this year and will produce an additional $750 million in savings. Last month, a total of 2,506 career employees separated from the Postal Service. Some chose to accept a Voluntary Early Retirement (VER) incentive, some were eligible to retire and some voluntarily resigned.

All of the efforts discussed here – ranging from network consolidation to Post Office discontinuances, employee reductions, workhour savings, and others – illustrate the commitment the Postal Service has made to address all areas over which we have direct control. But while we have achieved cost-cutting and savings that would be the envy of most companies, these actions alone are not enough to achieve the substantial savings that would be brought about by the ability to adjust delivery frequency, resolution of the RHB pre-payment and solving the FERS and CSRS overfunding issues. This combination of actions is what is needed to secure the future of the nation's postal system.

Our situation is dire. We will reach our statutory debt limit of $15 billion by the end of this fiscal year, along with a cash shortfall. Our goals continue to be aggressive but achievable. We can and will do our part, but we need Congress to act on three key issues: RHB pre-funding, overpayments to FERS and CSRS, and delivery frequency.

The proof of what the Postal Service has achieved, through the relentless efforts of our employees, is seen in the astonishing savings and efficiency gains of the last decade. We have no plans to slow down or curtail our efforts. We know how to do this, Mr. Chairman. By joining our efforts with swift Congressional action, we can stave off a looming liquidity crisis, keep the nation's postal system moving, and continue implementing cutting-edge strategies to boldly push ahead with our evolution into a 21st century Postal Service.

I appreciate again the opportunity to testify today and I will answer any questions you may have. Thank you.

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Mr. ROSS. Thank you, Mr. Williams.

Mr. Granholm, you are recognized.

You are here for technical response. Thank you very much.

Mr. Herr, you are recognized for 5 minutes for an opening statement.

STATEMENT OF PHILLIP HERR

Mr. HERR. Thank you.

Chairman Ross, Ranking Member Lynch, and members of the subcommittee, I am pleased to participate in this hearing.

There is broad agreement that the Postal Service is in a serious financial crisis, linked in part to the 20 percent decline in mail volume since 2006 and its difficulty aligning revenue with costs. Today, I will first discuss the urgent need to right-size postal operations and networks, followed by GAO's analysis of changes needed to facilitate progress in restructuring.

A few key financial facts make clear why action is needed. As discussed today, the Postal Service has experienced a cumulative net loss of nearly $20 billion over the last 5 fiscal years. By September 30th, it projects it will reach its $15 billion borrowing limit and also not make its mandated retiree health payment to the Federal Government. For this reason, the Postal Service's financial condition and outlook is on GAO's 2011 list of high-risk programs and agencies.

I will discuss three areas where realignment is needed.

While there are 32,500 postal retail facilities, how customers purchase postal products has changed. In fiscal year 2010, about one-third of postal retail revenue came from purchases made outside of post offices, a figure estimated to reach 60 percent by 2020.

Over the past 10 years, visits to post offices have declined by 21 percent, and revenue from sales at post offices has dropped by 16 percent, but the number of post offices has remained relatively unchanged. Statutory requirements prohibit closing small post offices solely for operating at a deficit. Yet 80 percent, about 26,000 postal retail facilities, do not cover their costs. This is simply unaffordable.

Postal officials say the time required to close facilities has hindered realignment efforts. The current process can take 270 days once the decision to pursue an individual closure has been reached.

Foreign posts we reviewed address stakeholder resistance through regular outreach. When modernizing its retail network, one European postal operator launched a national campaign to proactively inform customers about how and where they could access postal services in alternate locations.

Turning to the processing network of 500 facilities used to sort mail, which has also not been significantly adjusted in response to recent mail volume declines. To its credit, the Postal Service reports it is evaluating 90 proposals to consolidate processing operations.

Excess mail processing capacity remains for several reasons. Single-piece first-class mail has dropped by about 23 billion pieces over the past decade, leaving less mail to be processed end to end through the network. In 2009, a senior postal official testified be-

fore this subcommittee that there was 50 percent excess capacity in first-class mail processing operations at that time.

Increased automation enables faster and more efficient sorting, and 83 percent of standard mail now bypasses most of the processing network through a process called drop shipping.

Turning to mail delivery, there are ongoing efforts to improve what is the Postal Service's most costly activity, involving delivery to about 150 million points 6 days a week, employing 310,00 carriers. Key efforts to improve delivery operations include realigning city routes and introducing new systems to sort large mail pieces.

Congress and the Postal Service urgently need to reach agreement on how to accelerate progress on network restructuring, particularly since many processes for closing facilities have not changed since the 1970's.

Some key topics to consider include: What aspects of universal service are appropriate in light of fundamental changes in the use of mail? Should delivery standards be modified? How can access to retail services be enhanced while maximizing savings? What statutory or regulatory changes are needed as a catalyst for network-wide restructuring while assuring appropriate oversight and accountability? What role should Congress, the Board of Governors, and the PRC have in modernizing and realigning postal operations? How and when should the Postal Service get public input and provide notice about decisions to close facilities?

Additional considerations that could facilitate restructuring include revising legal requirements to facilitate shifting the focus from individual closures to network-wide restructuring similar to the BRAC approach used by DOD. Improving outreach and transparency through strategic communication with key groups is also important and simplifying rules, terms, and requirements so that they are easily understood.

In closing, right-sizing the Postal Service will require congressional support and senior postal leadership, because past attempts at even modest restructuring have faced formidable resistance. Going forward, stakeholders, the unions, management associations, the mailing industry, and political leaders need to recognize that a major realignment of postal networks is imperative for the Postal Service to be financially viable in the 21st century. The status quo is no longer sustainable if the Postal Service is to be self-supporting.

This concludes my prepared statement, and I am pleased to answer questions.

[The prepared statement of Mr. Herr follows:]

United States Government Accountability Office

GAO

Testimony

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

For Release on Delivery
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U.S. POSTAL SERVICE

Dire Financial Outlook and Changing Mail Use Require Network Restructuring

Statement of Phillip Herr, Director
Physical Infrastructure Issues

GAO-11-759T

GAO
Accountability • Integrity • Reliability

Highlights

Highlights of GAO-11-759T, a testimony before the Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy, Committee on Oversight and Government Reform, House of Representatives.

Why GAO Did This Study

The U.S. Postal Service (USPS) recently reported that its financial results for the first half of this fiscal year—a net loss of $2.6 billion—are worse than projected. USPS expects continued financial challenges as mail volume continues to decline. Most notable is the decline of First-Class Mail (its most profitable mail) by over 25 billion pieces, or about 25 percent, over the past decade. GAO has reported on proposals to revise USPS pension and retiree health obligations, but such actions alone will not be sufficient to address the accelerating volume decline and changing use of the mail.

This statement discusses (1) why it is important to restructure USPS's networks and (2) what actions are needed to facilitate additional progress. This statement is based primarily on past and ongoing GAO work.

GAO is not making new recommendations in this statement. Recently, GAO has reported that Congress, the administration, and USPS urgently need to reach agreement on a package of actions that will address constraints and legal restrictions to facilitate progress in rightsizing USPS's operations, networks, and workforce. GAO has also recommended that Congress consider providing USPS with financial relief, and in doing so, consider all options available to reduce costs.

View GAO-11-759T or key components. For more information, contact Phillip Herr at (202) 512-2834 or herrp@gao.gov.

June 15, 2011

U.S. POSTAL SERVICE

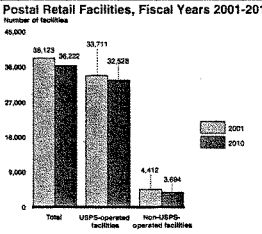
Dire Financial Outlook and Changing Mail Use Require Network Restructuring

What GAO Found

USPS urgently needs to restructure its networks and operations as its financial condition and outlook are reaching a crisis. USPS has been experiencing billion-dollar losses and cash shortfalls over the last 5 years, and expects to reach its $15 billion borrowing limit this year. USPS officials have stated that USPS may default on its retiree health payments owed to the federal government in September 2011. These financial problems are due to declining mail volume brought on by customers' shift to electronic alternatives and USPS's difficulty in reducing costs and eliminating excess network capacity. USPS faces restructuring challenges in three areas:

- Retail—Although USPS has provided alternatives to post offices, it has been slow to modernize its network. As customer visits to, and revenue generated at, post offices have declined, USPS has not made commensurate reductions in its number of retail facilities (see figure).
- Mail processing—USPS has improved operational efficiency and reduced employee work hours, but excess capacity remains as large mail volume declines continue.
- Delivery—USPS has adjusted routes and deployed new sorting equipment to make delivery more efficient, but additional efforts are needed, since delivery is USPS's most costly activity.

Postal Retail Facilities, Fiscal Years 2001-2010



Source: GAO analysis of USPS data.

Restructuring decisions involve key public policy questions. For example, what postal services are needed and what is affordable? In order for USPS to be self-sustaining, it needs to significantly reduce its costs to match its revenues. Change is needed to facilitate restructuring postal networks and operations. GAO has suggested the following changes:

- Revise legal requirements to facilitate network-wide restructuring, perhaps similar to the Defense Base Closure and Realignment Commission approach.
- Improve outreach and the transparency of information used to make decisions.
- Enhance public input by simplifying rules and requirements so that they are consistent, timely, and easy for the public to understand.

June 15, 2011

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

I am pleased to be here today to participate in this hearing to address the challenges facing the U.S. Postal Service (USPS). USPS is in a serious financial crisis, and as mail volume continues to decline, it has not generated sufficient revenue to cover its expenses and financial obligations. At the end of this fiscal year, USPS officials project a substantial cash shortfall and report that USPS may default on its retiree health payments owed to the federal government. Within the next 4 months, critical decisions by Congress and USPS are needed to avoid its projected default and set USPS on a path to financial solvency.

My statement today focuses on the urgent need for USPS to rightsize its operations and infrastructure in light of the current and projected decrease in demand for its services. This means downsizing and modernizing its networks to reflect the accelerating decline in mail volume resulting from changing mail use by businesses and the public. Specifically, my statement addresses (1) why it is important to restructure USPS's networks and (2) what actions are needed to facilitate progress in restructuring.

This statement is primarily based on our extensive body of work on USPS's activities including our reviews over the past several years of USPS's business model, financial condition, networks, and service; foreign posts; and postal reform. In addition, it draws on interviews with senior USPS officials conducted in May and June 2011. We conducted the performance audit work that supports this statement in accordance with generally accepted government auditing standards. Additional information on our scope and methodology is available in each issued report.

USPS's Dire Financial Outlook and Changing Mail Use Require Network Restructuring

USPS urgently needs to restructure its networks and operations as its financial condition and outlook reach a crisis level. USPS has experienced a cumulative net loss of nearly $20 billion over the last 5 fiscal years and has already reported a net loss of $2.6 billion through the first 6 months of fiscal year 2011. By the end of this fiscal year, USPS projects that it will incur a $8.3 billion loss[1], experience a substantial cash shortfall, reach its $15 billion borrowing limit, and be unable to make its scheduled retiree health benefits payment to the federal government. USPS's financial problems have been building, as customers' mail use has been changing—that is, mail volume is declining as customers shift to electronic communications and payment alternatives. Total mail volume peaked in fiscal year 2006 at 213 billion pieces and declined by about 20 percent by the end of fiscal year 2010, to about 170 billion pieces. In the first 2 quarters of this fiscal year, the volume for First-Class Mail—USPS's most profitable product that accounted for 44 percent of USPS total volume—has declined by almost 7 percent. USPS has projected a further drop in total mail volume to 150 billion pieces or less by 2020.

Declining mail volume exposes fundamental weaknesses in USPS's business model, which has historically relied on mail volume growth to help cover the costs associated with national retail, processing, and delivery networks. USPS does not have sufficient revenue to cover the growing costs of expanding delivery service to roughly 1 million new residences and businesses each year while maintaining about 33,000 USPS-operated retail[2] and processing facilities. Furthermore, USPS faces a variety of challenges in trying to reduce costs, including an inflexible cost structure; legal and regulatory restrictions; stakeholder resistance; difficulty reducing compensation and benefit costs, which comprise 80 percent of USPS's total expenses; and increasing difficulty in achieving work hour savings. For these reasons and more, we placed USPS's financial condition and outlook on our 2011 list of high-risk programs and agencies.[3]

[1]The Postmaster General testified in May 2011 that USPS projects a loss of approximately $8.3 billion in fiscal year 2011, before any non-cash adjustments to workers' compensation liabilities.

[2]USPS-operated retail facilities include (1) main post offices, where local postmasters oversee retail operations in the geographic area; (2) postal stations located within a municipality's corporate limits; and (3) postal branches located outside a municipality's corporate limits.

[3]GAO, *High-Risk Series: An Update*, GAO-11-278 (Washington, D.C.: February 2011).

Retail

USPS currently operates about 32,500 retail facilities. Customers can also purchase some USPS products or services at over 70,000 locations, including about 3,700 contract postal units and community post offices[4] and through partnerships with retailers, as well as through usps.com. In fiscal year 2010, about 31 percent of retail revenue from USPS products and services was generated through retail alternatives, and USPS estimates that by 2020, these alternatives may account for nearly 60 percent of retail sales. Meanwhile, fewer customers are visiting USPS-operated retail locations. According to USPS, customer visits have declined over the last decade by about 21 percent and retail revenue generated at USPS-operated retail locations has dropped by about 16 percent, yet the number of USPS-operated facilities has remained largely unchanged since fiscal year 2001.

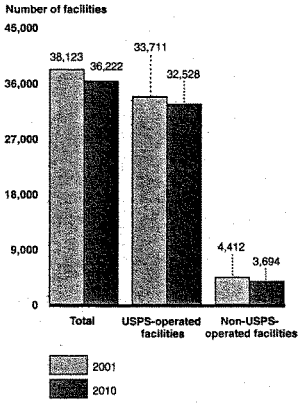
Although the number of channels through which customers can access USPS's products and services is expanding, USPS has been slow to modernize its legacy retail network. Figure 1 compares the number of selected groups of postal retail facilities—USPS-operated facilities and non-USPS-operated[5]—in fiscal years 2001 and 2010. Non-USPS facilities may be operated by partners and are therefore less costly for USPS and may be more conveniently located where there is higher customer traffic. While USPS has slightly reduced the total number of USPS-operated and non-USPS-operated retail facilities over the last 10 years, the ratio of USPS-operated versus non-USPS-operated facilities has barely changed (88 percent in fiscal year 2001 compared with 90 percent in fiscal year 2010). Foreign postal operators we studied have modernized their legacy brick-and-mortar retail networks by drastically reducing the proportion of facilities they operate relative to the proportion of those operated by others.[6]

[4]Contract postal units are operated by nonpostal employees in privately operated businesses, such as convenience stores, grocery stores, greeting card stores, and pharmacies. Community post offices are contract postal units that are located in small communities and function as main post offices.

[5]Non-USPS-operated facilities include community post offices and contract postal units, described previously.

[6]GAO, *U.S. Postal Service: Foreign Posts' Strategies Could Help Inform U.S. Postal Service's Modernization Efforts*, GAO-11-282 (Washington, D.C.: Feb. 16, 2011). We are currently conducting two reviews related to USPS's retail network: one on retail alternatives and another on retail closures.

Figure 1: Postal Retail Facilities, Fiscal Years 2001 and 2010



Source: GAO analysis of USPS data.

Note: USPS-operated facilities include post offices, stations, and branches. Non-USPS-operated facilities include community post offices and contract postal units.

Several factors have constrained USPS's efforts to make significant changes to its retail network:

- *Legal requirements:* USPS officials have stated that the legal process has hindered USPS's ability to make progress in retail realignment. Statutory requirements prohibit USPS from closing small post offices solely for operating at a deficit,[7] and, therefore, certain retail facilities cannot be closed based on financial performance alone. USPS has reported that about 80 percent of postal retail facilities do not generate sufficient revenue to cover their costs. Additionally, the Postal Regulatory Commission (PRC) has authority to hear appeals on "post office" closures.[8] However, USPS and the PRC have differed in their

[7]39 U.S.C. §101. Also, annual appropriations provisions have restricted post office closures. See e.g., Pub. L. No. 111-117 (Dec. 16, 2009).

[8]39 U.S.C. § 404(d)(5).

interpretation of the PRC's statutory authority to review appeals of USPS decisions to close stations and branches. Further, when USPS proposes changes in the nature of postal services that will generally affect service on a nationwide or substantially nationwide basis, it must request an advisory opinion from the PRC.[9]

- According to USPS officials, the amount of time taken to complete the required statutory process for closing facilities has hindered USPS from timely realignment of its retail network. USPS is required to provide 60 days advance notice of closing a post office, and any person served by the facility may appeal the closure decision. The PRC has 120 days after receiving an appeal to make a determination, which is made on a case-by-case basis. So far this fiscal year, the PRC has received more appeals of retail facility closures than it did in the last decade combined (18 in 2011 compared with 8 in fiscal years 2001 through 2010). Of these 18 appeals, 10 involved stations and branches. The PRC may affirm USPS's decision or require USPS to reconsider its closure decisions, but the ultimate authority to close a post office rests with USPS. Currently, after the PRC's determination, USPS must wait at least 90 days to take action after posting a final closure determination.[10]

- In its filings with the PRC, USPS has asserted that, in cases where the closing involves a station or branch, the PRC lacks subject matter jurisdiction to hear appeals that do not involve a "post office." Nevertheless, the PRC issues determinations on appeals of USPS decisions to close retail facilities, including stations and branches. This issue remains unresolved.

- In 2009, USPS filed a request for a PRC advisory opinion of its analysis of over 4,000 stations and branches for possible closure, which resulted in the closure of about 145 facilities from this proceeding. The PRC's opinion advised USPS to improve public notice and input prior to making closure decisions.[11] It also suggested that USPS implement uniform procedures for closing or consolidating all types of retail facilities—post offices, stations, or branches. Since then, USPS officials have told us that they plan additional closings of certain retail facilities.

[9]39 U.S.C. § 3661(b).

[10]USPS has proposed reducing the waiting period from 90 days to 60 days, consistent with statutory requirements. 76 Fed. Reg. 17794 (Mar. 31, 2011).

[11]Advisory Opinion Concerning The Process For Evaluating Closing Stations and Branches, Docket No. N2009-1, March 10, 2010.

- *Stakeholder resistance:* USPS has often faced formidable resistance from employees, affected communities, and Members of Congress when it has attempted to close post offices because of concerns about possible effects on service, employees, and communities. Although USPS is taking steps to improve its communication for making these retail changes, stakeholders continue to protest the closure of postal facilities.

The foreign posts we recently studied have also experienced declining mail volume and revenue. Their solutions to addressing stakeholder resistance involved regular engagement with stakeholders, including strategic communication and outreach efforts. These posts emphasized that although a neighborhood post office would be closing, retail alternatives were available with local merchants who had extended operating hours and were located where customers frequently visit—such as grocery, convenience, and drug stores. For example, when modernizing its retail network, the Swedish postal operator launched a nationwide campaign that focused on the post as "a service" instead of "a place" and proactively informed customers about how and where they could access postal services. The Swedish Post reported that customers adapted to the change and preferred the expanded service options. Officials we interviewed at Australia Post discussed the importance of involving local communities in deciding, for example, whether to contract with a local retail partner or close a post office.

Mail Processing

USPS has taken actions to reduce excess capacity and improve operational efficiency throughout its mail processing network for sorting and transporting mail, but has had difficulty comprehensively adjusting its network to respond to the unprecedented mail volume decline since fiscal year 2006. As a result, costly excess capacity remains.[12] USPS's mail processing network comprises over 500 mail processing facilities and corresponding transportation services, equipment, and staff. USPS has made some progress in streamlining its processing network, such as by closing smaller facilities like Airport Mail Centers and Remote Encoding

[12]We are currently conducting a more detailed review of the excess capacity in USPS's mail processing network.

Centers.[13] These and other actions have helped USPS eliminate nearly 108 million workhours from its processing network over the last 5 years (or nearly 40 percent of its total workhour reduction over that time).

Costly excess mail processing capacity remains for several reasons:

- Mail volume has declined, particularly single-piece First-Class Mail, which has dropped by about 23 billion pieces over the past decade. As a result, less mail is processed end-to-end through USPS's processing network. In 2009, for example, a USPS official testified that USPS had 50 percent excess plant capacity in its First-Class Mail processing operations.
- Continuing automation improvements enable USPS to sort mail faster and more efficiently. Some space once needed for manual sorting is now excess.
- Eighty-three percent of Standard Mail in fiscal year 2010 was destination entered by mailers,[14] meaning that it bypassed most of USPS's mail processing network and long-distance transportation. This increase—16 percent over the last decade—has left USPS with excess processing capacity.

As a result of these factors, USPS's mail processing network could handle significantly more mail than is currently going through the system. USPS has often faced resistance from employees, affected communities, and Members of Congress when it has attempted to consolidate its processing operations and networks, close mail processing facilities, or both because of concerns about possible effects on service, employees, and communities. In particular, we have reported that stakeholders have concerns about USPS's ongoing efforts to consolidate its Area Mail Processing (AMP) facilities.[15] Proposals to consolidate these processing operations and facilities are

[13]Airport Mail Centers primarily process mail to expedite its transfer to and from different commercial passenger airlines. Remote Encoding Centers are separate plants established to apply address barcodes on letters that could not be read by the automated equipment in the mail processing plants.

[14]Mail that is destination entered is sorted and transported by mailers to USPS facilities that are generally closer to the final destination where the mail will be delivered.

[15]GAO, *U.S. Postal Service: Mail Processing Network Initiatives Progressing, and Guidance for Consolidating Area Mail Processing Operations Being Followed*, GAO-10-731 (Washington, D.C., June 16, 2010).

intended to reduce costs and increase efficiency by making better use of excess capacity or underused resources. The AMP proposals consist of consolidating operations from one mail processing facility that downsizes its mail processing operations to other facilities nearby that gain the processing operations. USPS has improved its processes for communicating and implementing its AMP consolidation plans and is currently evaluating over 130 proposals for consolidations.

Delivery

USPS has ongoing efforts to increase the efficiency of mail delivery, which is its most costly activity and involves more than 310,000 carriers accounting for approximately 47 percent ($23 billion) of USPS's total salary and benefit expenses in fiscal year 2010. Two key efforts are underway:

- Realignment of city delivery routes to remove excess capacity and improve efficiency. USPS expects this effort to generate nearly $1 billion in annual savings by reducing space needs in post offices and other facilities and helping provide more consistent delivery service.
- Installation of new automated systems to sort certain mail, such as catalogs and magazines, into delivery order so that costly manual sorting by carriers is no longer needed. USPS expects this effort to improve delivery accuracy, consistency, and timeliness.

These efforts, along with other actions and declines in volumes, have helped USPS eliminate approximately 70 million delivery work hours over the last 5 fiscal years (or nearly a quarter of USPS's total workhour reduction over that time). USPS has attempted to further reduce delivery costs by asking Congress not to include the language in its annual appropriations legislation that requires it to deliver mail 6 days a week. USPS officials have stated that moving to 5-day delivery would result in annual savings of about $3 billion once the change would be fully implemented.

Because USPS expects mail volume to continue declining, it will need to continue working to improve delivery efficiency. According to USPS, it generated $1.80 in daily revenue contribution for each delivery point in fiscal year 2000; by fiscal year 2009, that number had shrunk to $1.40, and by fiscal year 2020, USPS estimates that it could decline to about $1.00. While moving to 5-day delivery would not, by itself, resolve USPS's considerable financial challenges, this and other restructuring strategies will need to be considered to adapt to changes in mail use and achieve financial viability.

USPS and Congress Need to Take Urgent Action to Restructure Networks

Congress and USPS urgently need to reach agreement on a package of actions that will address difficult constraints and legal restrictions and allow USPS to accelerate progress on restructuring its networks. Members of the 112th Congress have introduced legislation to promote network restructuring, and USPS has proposed regulatory changes. We also have recommended in prior reports that USPS realign its postal operations, networks, and workforce with changes in mail usage and customer behavior. As part of this work, we proposed options for action by Congress and USPS to reduce costs and improve efficiency.

These proposals and options, which are presented in more detail below, offer an opportunity to reconsider some of the key statutory requirements and processes for closing postal facilities, many of which have not changed significantly since the 1970s and may not be conducive to the type of networkwide changes that are currently needed. Table 1 highlights Congress's, USPS's, and GAO's key retail proposals and options.

Table 1: Retail Proposals and Options for Restructuring

Congress has introduced legislation that would, among other factors,
• Give USPS greater flexibility to close unneeded post offices by eliminating the prohibition against closing small post offices solely for operating at a deficit.[a]
• Make procedures for closing or consolidating stations and branches the same as those for post offices.[b]
• Require USPS to submit a plan for the co-location of post offices at retail facilities—that is, for moving postal services to non-USPS-operated facilities—and to report to Congress on its progress in implementing this plan.[c]
• Require USPS to develop a plan for expanding retail alternatives and regularly report to Congress on its progress in implementing this plan.[a]
• Permit USPS to adjust its delivery frequency notwithstanding any other provision of the law.[a]
USPS has introduced a proposed rule that would
• Permit USPS to initiate a closure study for a facility where, among other factors, the workload at a facility is below an established level.
• Shorten the regulatory waiting period for closing a retail facility from 90 days to 60 days, after a final closure determination has been made.
• Make the retail closure processes uniform, regardless of whether the facility is a post office, station, or branch.
GAO has presented options and strategies for restructuring USPS's retail network including
• Streamline USPS's retail network by consolidating and closing unneeded retail facilities.
• Modernize customer access by providing services "where the customers are," including increasing and enhancing customer access through less costly alternatives, such as partnerships, kiosks, and improved online offerings.

Source: GAO analysis.

[a]S.1010.

[b]The Post Office Transparency Act, H.R. 2024, 112th Cong. (2011).

[c]The Postal Service Improvements Act of 2011, S. 353, 112th Cong. (2011). Reform the Postal Service for the 21st Century Act, H.R. 1262, 112th Cong. (2011).

In addition to options for retail networks, the following are among the options we have previously identified for restructuring USPS's mail processing and delivery networks:[16]

Mail processing network options:

- Close unneeded mail processing facilities.
- Relax delivery standards[17] to facilitate closures and consolidations.

Delivery network options:

- Expand the use of more cost-efficient delivery methods, such as clusterboxes and curbline delivery.[18]
- Decrease delivery frequency from 6 to 5 days a week.

Stakeholders have raised concerns about these restructuring options and strategies. For example, postmaster management associations and the PRC have raised objections to USPS's proposed rule to modify its retail structure.[19] Similarly, USPS received a variety of comments raising concerns about its 5-day delivery proposal.

[16]GAO, *U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability*, GAO-10-455 (Washington, D.C.: Apr. 12, 2010).

[17]Service standards are performance measures for on-time delivery of mail. These standards help enable USPS, mailers, and customers to set realistic expectations for delivery performance, such as the number of days mail takes to be delivered, and to organize their activities accordingly. To illustrate a potential reduction, in 2010 we reported that one senior USPS official estimated that about 70 processing facilities could be eliminated if local First-Class Mail were to be delivered in 2 days instead of overnight.

[18]Curbline delivery is where mail is delivered to a curbline mailbox and a clusterbox is a centralized unit of individually-locked compartments for the delivery of mail.

[19]USPS expects to finalize the proposed rule in summer 2011. 76 Fed.Reg.17794 (Mar. 31, 2011).

Realigning Postal Networks Involves Key Public Policy Questions and Consideration of Changes

Restructuring decisions involve key public policy questions as well as difficult trade-offs—for example, what postal services are needed and what is affordable? Some tension exists between USPS's role as a federal government entity expected to provide universal postal services, including access to retail service, while also being self-financing through businesslike operations. As we have reported, Congress's decisions about how to address the following questions will shape USPS's future role, operations, networks, and ability to adapt to changes in mail use and mail volume:

- **Universal service:** What aspects of universal service, including 6-day delivery, are appropriate in light of fundamental changes in customers' use of the mail? What, if any, changes are needed to delivery standards? How can USPS improve customers' access to postal services through modernizing its retail network to maximize costs savings?
- **Statutory and regulatory changes:** What statutory or regulatory changes are needed to give USPS the flexibility it needs to restructure its operations, networks, and workforce, while also assuring appropriate oversight? For example, what changes may be needed to clarify whether or not the PRC has the authority to review appeals of closures and consolidations of stations and branches?
- **Stakeholder involvement:** What role, if any, should Congress, the Board of Governors,[20] and the PRC have in developing, approving, or reviewing decisions to modernize and realign postal services? What input should postmasters or other postal employees and the public have in these decisions? How and when should USPS notify the public of its decisions to modernize and realign services?
- **Accountability:** What incentives and oversight mechanisms would help to balance the public's expectations of universal service, USPS's need for more flexibility to achieve efficiencies, and the government's responsibility to ensure sufficient transparency, oversight, and accountability?

In order for USPS to be self-sustaining, it needs to significantly reduce its costs to match its revenues. Change is needed to needed to facilitate

[20]The USPS Board of Governors, which has responsibilities similar to the board of directors of a publicly held corporation, directs the exercise of the powers of USPS, directs and controls its expenditures, reviews its practices, conducts long-range planning, and sets policies on all postal matters.

restructuring postal networks and operations. Some changes to consider include:

- *Revise legal requirements to facilitate networkwide restructuring.* This would broaden the current focus on individual facility closures, which are often contentious, time consuming and inefficient, to a broader networkwide restructuring, perhaps similar to the Defense Base Closure and Realignment and Commission (BRAC) approach. Under this approach, expert panels have successfully informed and permitted difficult restructuring decisions, helping to provide consensus on intractable decisions.

- *Adapt PRC review processes to changes made to facilitate networkwide review.* The current appeals process focuses on decisions USPS has made about individual facilities closing. Another oversight approach to facilitate networkwide restructuring would be an annual reporting and review requirement, whereby USPS would report all service changes, including facility closures, completed over the past year and changes planned for the next fiscal year in its annual compliance report to the PRC. The PRC could then review and comment on any potential impacts on service in its annual compliance determination report.

- *Improve outreach and transparency of information used to make decisions.* For example, strategically communicate and conduct outreach with retail customers, government officials, and employee groups; use maps and a template of specified data to show all locations of postal facilities, alternatives, and retail partners where postal services are available in a designated service area; indicate proposed changes in this context; and allow the public to submit questions or comments.

- *Enhance public input by simplifying rules and requirements so that they are consistent, timely, and easy to understand.* For example, eliminate references to internal USPS terms that are not clear to the public, such as whether a retail facility is a post office, station, or branch, and clearly define what is meant by such terms as facility closings, consolidations, discontinuance, conversions, or replacements.

In summary, effectively rightsizing USPS will require both congressional support and USPS leadership to address resistance to change. USPS senior management will need to provide leadership and work with stakeholders for such actions to be successfully implemented. USPS must explain its plans in an open and transparent manner; engage with its unions,

management associations, the mailing industry, and political leaders; and then demonstrate the results of its actions. In turn, stakeholders need to recognize that major change is urgently needed if USPS is to be financially viable and self-sustaining. It is time for USPS management, unions, the public, community leaders, and Members of Congress to take a hard look at what postal services residents and businesses need and can afford. The status quo is no longer sustainable. Changes are necessary to ensure that postal services remain available to all U.S. residents and businesses by a USPS that is financially healthy and self-supporting.

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.

Contacts and Staff Acknowledgments

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Mr. ROSS. Thank you, Mr. Herr.

I will now recognize myself for 5 minutes for questions.

And I do want to recognize also and agree with the ranking member, Mr. Lynch, that if it weren't for other crises that are going on right now in addition to the debt ceiling crisis, this would be the major crisis and most likely will be the major crisis as time progresses. Because where we are today as a country with the U.S. Postal Service is, after 230 years, it is still one of the most well-established, best infrastructures, going to 150 million homes a day.

But we also know—and I want to address this to Mr. Williams—that there are issues out there that we must confront. And I want to hit this one head on with regard to the overfunding issue, which is an issue. I recognize that. There is no question that that is something we have to address. But even assuming we address it to the satisfaction of everybody involved, it still doesn't solve the future problems that the U.S. Postal Service will have, will it?

Mr. WILLIAMS. No, it will not.

Mr. ROSS. In fact, we have to make some systemic changes.

Mr. WILLIAMS. We do.

Mr. ROSS. As you pointed out, reduce the work force to at least 400,000. We have to consolidate certain processing centers.

Let me ask you this. What options does the Postal Service have to create a modern processing network? I toured one facility. There was still a lot of labor-intensive involvement there. Where I tour a facility in the private sector where the labor involvement is not near what is done in the U.S. Postal Service. Do you have any suggestions?

Mr. WILLIAMS. The Postal Service operates one of the most technology advanced systems in the world. We have a tremendous infrastructure in place that provides our ability to be very, very efficient in processing mail in our network facilities. But what I would like to add is our financial situation is such at a critical point right now that having capital programs to even further enhance our infrastructure, we simply can't afford.

Mr. ROSS. I agree with you. You have to have the business plan on one side, and then you have to have the capital investment in order to implement that business plan. I think that is where these crossroads are going to have a severe train wreck if we are not careful over the next couple of months.

With regard to drop ship, it seems to be that private carriers are doing more drop shipping, which is becoming more economically feasible. For example, I toured a facility where they would drop ship to an SFC, I think is what it is.

Mr. WILLIAMS. SCF?

Mr. ROSS. SCF. Thank you.

Is that something that we ought to look at in terms of transitioning the private sector to providing that as a cost-saving service to the Postal Service?

Mr. WILLIAMS. Our drop ship program, our work share program has been one of the cornerstones in our ability to shrink our infrastructure. Because mail gets dropped further into our network, and it bypasses many of the processing steps. So, yes, work sharing, pre-sorting, drop shipping volumes deeper into our network allows

us to further contract our infrastructure, our operational footprint, and allows us to be a lot more efficient.

Mr. ROSS. Mr. Herr, you talked about the retail facilities and, in fact, some of the processing facilities, but I want to talk about the retail facilities. Because we have to agree that the Postal Service is a business.

Mr. HERR. That is correct.

Mr. ROSS. And it operates on the revenues gained by the rate payers, the people that buy the service and do that and so forth. So if we are going to assess it based on it being a business, then we have to look at the facilities that are out there that provide the service. And if they are not providing the service at a rate that is at least profitable or break even, then we should get rid of them.

Mr. HERR. We need to take a hard look.

Mr. ROSS. Not necessarily get rid of them, but wouldn't it be in the best interests of not only the consumers but also the U.S. Postal Service to look at partnering with established retail outlets?

Mr. HERR. Yes, it would. That is what we found in our review of foreign posts. That is exactly what we have seen other industrialized countries doing.

Mr. ROSS. In fact, you wouldn't have the investment of the bricks and mortar. You would have probably better hours, because it would be utilizing the hours of the retail establishment. Let's say it was a 7–11 or a Starbucks or whatever—a grocery store, maybe. You could provide the services there. But it would still provide the consumer that which they are desiring from the U.S. Postal Service, and that is the day-to-day contact that they want to have.

Mr. HERR. Right. That is certainly one alternative to do that.

Mr. ROSS. Let me ask you, at the rate the Postal Service is going now, how many years do you think it would take to eliminate the redundant retail facilities?

Mr. HERR. Given the rate of change over the past 10 years, I don't—at the rate over the last 10 years, they have closed about a thousand facilities, more or less. And mainly that has only been where there has been an opportunity, say a vacancy. If they continue at that rate, it won't get done nearly in time, given the gravity of the financial situation we are discussing today.

Mr. ROSS. So we need—as a Congress, we need to empower the Postmaster General to be able to make those decisions based on economic factors in order to reduce the size or the obligations of the Postal Service to stay in those.

Mr. HERR. I believe so.

Mr. ROSS. Okay. I see my time is up; and I will now recognize the ranking member, Mr. Lynch, for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman.

Mr. Herr, you are a frequent flyer to this committee.

Mr. HERR. It feels like it.

Mr. LYNCH. And a pretty bright guy, in my opinion.

I think we have 38,000 post offices in the United States today. How many do you think we really need?

Mr. HERR. You know, actually, we have a job that we are just getting under way now taking a look at the postal network. I have heard different figures. I think one of the things that I would hope that comes out of that review that we are doing now is a better

sense of what the core might look like and then how that might be complemented by alternate retail facilities.

But in terms of venturing a guess, I don't have a figure. Mr. Granholm has probably thought about this to some degree in his capacity working with postal retail.

Mr. LYNCH. All right. Mr. Granholm, you want to take a look at that?

Mr. GRANHOLM. It is a difficult question. We need to build a model that reviews our infrastructure not only today but in 10 years.

Mr. LYNCH. Yeah.

Mr. GRANHOLM. When our alternate access grows to the 60 percent level, it definitely puts a huge strain during that period of time——

Mr. LYNCH. Alternate access. What do you mean?

Mr. GRANHOLM. That means where we sell our products in grocery stores, in contract stations. Online definitely is a huge growth area for our alternate access. We currently have over 63,000 retail locations that are not our traditional brick and mortar. Those will continue to grow.

Mr. LYNCH. Yeah, but just to push back on that, a lot of the stuff we closed was stuff that you expanded. You expanded to airports and malls and places like that. Those are the places we closed. Nobody was using them.

Mr. GRANHOLM. You are absolutely right. And we need to close more.

Mr. LYNCH. I don't want to burn my time on this one question.

Here is the problem. Mail volume keeps dropping. And from what I see in Europe and these online services, where you can actually go online and click your mail, if you don't want it delivered, you can just click on it. So I don't know, what term do they use? They don't use junk mail. But what is the term they use?

Mr. GRANHOLM. Electronic mail, hybrid mail.

Mr. LYNCH. No. No. No. Stuff that just—advertisements that come in the mail.

Mr. GRANHOLM. Bulk business mail.

Mr. LYNCH. Right. If you don't want that delivered, you can just click on it. And a lot of that stuff is going to get clicked on. So, as that comes online, less and less and less mail is going to get delivered. And, you know, I talked to the Postmaster General last week, and volume dropped off a cliff again——

Mr. GRANHOLM. Yep.

Mr. LYNCH [continuing]. In this last quarter. And we haven't seen that happen since the economy went in the toilet around—you know, 2008 we saw a big drop. And you know, I know we are not talking about—we are not supposed to talk about a double dip, but, you know, if you just take mail volume as an indicator of economic activity, it looks pretty bad. It looks pretty bad. So we got to figure out a way to get this ship back on course.

And change is painful. People hate change. I understand that. But if we don't get ahold of this thing and straighten it out, you know, then it is going to further damage the system; and we are going to continue this downward spiral. So we have to make a good, hard look at this.

Look, I come from a postal family. My mom was a postal clerk of 30 years. I have told people before these hearings, I probably have 17 people in my family—my cousins, in-laws, everybody—who worked for the Post Office. And you know, a lot of them are retirees. I worry about their benefits going away and what they worked for and what they were promised.

So we've got to get serious about this. And if there are postal facilities—you know, I was an ironworker for 18 years; and all I did for 18 years, just about, was build bridges and high rises. And every time we built a high rise, whether I was in New York or Boston or Chicago, we would stick a post office in the bottom floor. And, you know, the volume of mail would justify the location of that post office.

But we would pay top dollar for that location, and we are paying top dollar now. In every major city in America, we are paying top-dollar, class-A office space for a post office to be located there. And there is a high rise across the street; and we are paying that rent, too.

So what I am saying is, okay, let's look at some of these urban areas where you have facilities across the street from each other that are both paying enormous rent, and let's close one of them and make them walk their mail across the street to the next one. We could save a lot of money that way.

You know, the plain fact of the matter is that this labor-intensive activity that we see at the post office, we call that work. That is work. And it takes work to sort the mail, and it takes work to deliver the mail. Until we come up with a robot letter carrier, we are going to have to pay these folks to go out and deliver the mail. And we are adding a million addresses a year. So there is more and more work as people are moving to the suburbs, and we are still servicing those groups. So, you know, getting rid of people is not going to maintain the quality of service.

I know I am way over my time, and you are being extremely gracious. I will save the rest for the rest of the hearing.

But we have to really look at the expense side of this thing. We are spending a lot of money on facilities that we are underutilizing, and I think that is one of the areas that we are neglecting to address.

Thank you. I yield back.

Mr. ROSS. Thank the ranking member.

I now recognize the gentleman from Michigan, Mr. Amash, for 5 minutes.

Mr. AMASH. Thank you, Mr. Chairman, and thank you to our panel.

Mr. Williams, with mail volume declining significantly over the past several years, why does the Postal Service continue to maintain significant excess mail capacity?

Mr. WILLIAMS. The Postal Service has been very aggressive in eliminating excess capacity. And we define capacity in a couple of ways. We have capacity with staffing, we have capacity with machines, and we have capacity with facilities. And over the last 4 or 5 years we have been dealing with that capacity. We have pulled out thousands of machines out of our mail processing network. We have pulled out—over the last 4 years, one out of every three work

hours in our mail processing operations have been extracted from the system.

So we are looking at every opportunity. Because of our dire financial situation, we have been looking at every opportunity to cut costs and to take out capacity, staffing, machines, and now we are in a position right now where we haven't been, in my career, we have been dealing with more area mail processing and other mail processing consolidations than we ever have that I know of in the past. We are up to 138 consolidation opportunities right now on the mail processing side. So we are being very aggressive with cost cutting.

Mr. AMASH. You mentioned staffing. If the Postal Service has reduced its number of employees by 230,000 since 2001, then why does labor still make up 80 percent of the cost?

Mr. WILLIAMS. Our entire operational footprint is continuing to shrink. So we are shrinking not only our labor costs, we are shrinking the facilities, we are shrinking overhead. We have pulled out this year alone, year to date, about 2 million square feet of space out of our operations. So as we continue to contract the entire operating costs of the Postal Service, we are doing it not only on the labor side but also on the other components of costs outside of labor.

Mr. AMASH. Now—and you want Congress to get involved. Why should Congress be involved here? Isn't it more important for the Postal Service to address its business model and make some changes internally?

Mr. WILLIAMS. We are doing everything that we can do, but we need help from Congress. We need to address the retiree health benefit pre-funding, we need to address the overfunding of CSRS and FERS pension, and we need the ability to determine the delivery frequency for the Postal Service that will allow us to continue to shrink our infrastructure.

Mr. AMASH. Isn't it just kicking the can down the road?

Mr. WILLIAMS. No. We believe with our plan that we put in place on March 2nd, our comprehensive plan, our initiatives around cost cutting that we have control over, we believe that if we get the retiree health benefit, if we get the overfunding issues around FERS and CSRS and have the ability to determine the delivery frequency, we believe that that will address the issues and improve the viability of the Postal Service.

Mr. AMASH. If workers compensation costs are ignored, are the Postal Service costs up this year? Is that correct?

Mr. WILLIAMS. If the workers compensation are ignored—I don't understand the question.

Mr. AMASH. If you ignore the payment, the adjusted payment for the year. I am sorry.

Mr. WILLIAMS. I don't have that information. I would be happy to respond for the record.

[The information referred to follows:]

[NOTE.—The information referred to was not provided to the subcommittee.]

Mr. AMASH. Okay. Mr. Herr, I have a few seconds here still, is the Postal Service moving fast enough to right-size its work force?

Mr. HERR. Given the gap between the revenues and the expenses, not—in our judgment they are not.

Mr. AMASH. And what fundamental weaknesses in their business model would you say they have?

Mr. HERR. Right now, the profitable mail, first-class mail is dropping, as acknowledged earlier today in the hearing by Mr. Lynch and Mr. Ross. It is dropping considerably, with no end in sight. And what I think ultimately what will be left will be the standard mail, which doesn't bring in that much revenue.

Mr. AMASH. Would you attribute the Postal Service's problems to Congress or to—or should the Postal Service take more responsibility here, in your opinion?

Mr. HERR. Well, I think the Postal Service needs to articulate what its vision would look like. One area we talked a little bit about earlier would be on the retail side. The Postal Service laid out with a vision for what 5-day delivery, what potential savings would come with that. I think an alternate study relative to what might happen with the retail network would be a nice complement to that to give Congress a sense of what potential cost savings there might be.

Mr. AMASH. Thank you. Thanks to both of you.

Mr. ROSS. Thank you.

The gentleman from Illinois, Mr. Davis, is recognized for 5 minutes.

Mr. DAVIS. Thank you very much, Mr. Chairman; and let me thank the witnesses for being here.

Mr. Williams, according to some of your post-implementation reviews, what is the largest areas of savings usually generated from processing and consolidations?

Mr. WILLIAMS. The largest savings component typically in an area mail processing study, and validated in our post-implementation review, are, typically, labor costs.

Mr. DAVIS. And in considering a move to 5-day delivery, has the Postal Service evaluated what impact such a move would have on processing and distribution centers? And, without Saturday mail, I would assume that these facilities would experience increased workload on Monday or possibly Tuesday if a holiday fell on a Monday.

Mr. WILLIAMS. The Postal Service has a very robust modeling process where we model every single plant across the network. And in that modeling process, which is where we identify candidates for consolidation opportunities based on matching demand with excess capacity and determining which facilities are candidates for closure, in that process we have included the scenario of 5-day delivery and the impact that added volume into Monday's processing into that scenario. So we have included the 5-day delivery scenario in our modeling, and we have completed that effort last year.

Mr. DAVIS. Mr. Williams and Mr. Herr, can I ask you, in light of recent increases in the price of fuel, transportation obviously continues to be a key cost driver in the postal system. So as the Postal Service moves to downsize or right-size the number of mail processing facilities in the network, is it logical to assume that these trucks are going to have to travel further in terms of their routes and the mail that they will deliver?

Mr. WILLIAMS. I will take that first.

As we shrink the infrastructure of mail processing and have fewer network buildings in our network, what we are actually seeing is the opportunity to consolidate not only workload into a building but to consolidate mail onto our trucks and our vehicles. So we are able to build bigger loads and actually have fewer trucks. In fact, year to date through March, we have taken out, compared to prior year March, we have taken out approximately 56 million miles out of our network. So consolidating facilities, having fewer nodes in our network is actually driving bigger loads for transportation and therefore allowing us to have less miles and less consumption in terms of transportation.

Mr. DAVIS. Would the cost of fuel, as it continues to fluctuate—but I guess it goes up more than it goes down, unfortunately—but would the cost of fuel negate perhaps some of those savings or——

Mr. WILLIAMS. The cost of fuel, all things being equal, as long as we are taking miles out of the system and taking consumption out of the system, all things being equal, we are saving.

If we had those miles still in the system, those 56 million miles that we pulled out year over year in March would have just exacerbated our fuel spend, because prices continue to rise. And, from our standpoint, it is taking consumption out, taking miles out, and balancing this whole demand equation with capacity. And that includes staffing, includes facility footprint, and it includes transportation.

Mr. DAVIS. What would either one of you say to those individuals who continue to suggest that there might be some additional cost-cutting, cost-saving opportunities for the system?

Mr. WILLIAMS. We are in a serious financial situation. We have to act with speed. We have to make good, sound business decisions; and we are looking at every opportunity to cut costs. There will be further cost-cutting initiatives down the road. We can't afford not to question every cost in our system and look for opportunities to reduce costs and to reduce our operating footprint to make sure that we are matching our capacity with the changing customer behavior that we are seeing with our volume declines.

Mr. DAVIS. Thank you very much.

Thank you, Mr. Chairman. I yield back.

Mr. ROSS. Thank you.

The chair now recognizes the gentlelady from California, Mrs. Napolitano, for 5 minutes.

Mrs. NAPOLITANO. Thank you, Mr. Chairman; and thank you for allowing me to sit on the dais.

I have a ton of questions, plus a lot of information to submit for the record, and I have been listening with great interest.

We have in my area a distribution center that is scheduled—I am sure you already have been briefed—for transition over to another area, which is roughly 30 miles away in one of the most heavily trafficked areas of southeast L.A. County, from Industry to Santa Ana, California.

We started working since January 2009, and according to what I am reading from the staff report is that by law you have to notify the area that you will be closing. There was no notification—or at least none that I found out. I found out from the employees who

called my office to give us the information, and so we started delving into.

Since then, I have asked for verbally, in writing, you name it, to try to get information from any of the postal authorities, local, Washington; and I have been given what I would call the runaround. The report that was given to me is blank. The second report I received, it is—they called it redacted, which is blacked out. So, essentially, we can't make any comparison.

You say this is information that is proprietary. Well, how are we to be able to understand what you are trying to do and how you are trying to do it?

Now, the report indicates there is 26 employees that will be either transferred or manned up, moving along in their retirement, whatever. Yet there is no real way for me to understand what is going to happen. There is no plan B. What happens if Santa Ana can't afford them, cannot accept that amount of traffic? Now, understanding that in December you moved some of it to Industry, Christmas mail, because Santa Ana couldn't handle it. So that tells me there is an issue.

I have asked for capacity. What is the capacity of one versus the other? The footprint. I can't get any information from you guys. It is proprietary. Why can't we get some information so that I can tell my cities?

And, by the way, I have letters and city council resolutions in the packet telling you and this committee of their opposition without information. So I am very frustrated by all this.

And then when I hear—and, by the way, into the record I am introducing a Postal Reporter News Blog on significant degradations in service, Lima consolidation. And they state very openly, report delayed, lost, damaged bills, payments, packages, and medicine.

Now, in my corridor I have the city of Industry, which is 95 percent industrial. These are people that ship in and out that are constantly doing package mailing or mail; and we are saying, sorry, guys, you don't matter. This industrial area, which is one of the hubs of the L.A. County, it doesn't matter. We are sending it to Santa Ana, which is mostly residential—well, not residential, it has a mixture of everything.

So there has been no way for me to be able to gauge what is being based on. When you talk about the junk mail, are you studying, are you increasing those rates? Because two-thirds of my mail at home is junk. Who is paying for that? Is it being at the expense of regular mail or other services?

Are you studying anything that is going to tell us are you retiring people? Are you allowing them to retire? And you say that you have done some review to be able to make up for that loss in USPS income. There is a million questions that I have.

And I would like to, Mr. Chairman, introduce into the record several files that I have on this. And I would like to just show off for you guys' edification, this is what I received. Thank you very much. Isn't that nice? Blanks. Black. So, to me, it is not the way you treat a request from Members of Congress.

Thank you, Mr. Chair.

Mr. ROSS. Without objection, so entered into the record.

[The information referred to follows:]

[NOTE.—The information referred to was not provided to the subcommittee.]

Mr. ROSS. Thank you. That being the last of our panelists, I want to thank—or our questions, I want to thank the panelists for being here. We are going to take just a brief break—just seconds, minutes—break to get our next panel going and hopefully have a chance to get done before they call us for votes.

Thank you all very much for being here.

[Recess.]

Mr. ROSS. We will reconvene.

I appreciate everybody's patience here. I want to again thank the second panel for their patience as well and thank you for being here.

I will introduce our second panel.

We have Mr. Michael Winn, who is president of Greylock Associates; Mr. Hete, who is president and CEO of Air Transport Services Group; and Mr. Cliff Guffey is president of the American Postal Workers Union.

As you all know, know pursuant to committee rules we swear in our witnesses. I ask you to please stand and raise your right hands.

[Witnesses sworn.]

Mr. LYNCH. Thank you.

And let the record reflect that all witnesses answered in the affirmative.

Please be seated. I am going to now recognize each of you for 5 minutes for your opening statements, and please note that your written opening has been entered into the record.

With that, I will recognize Mr. Winn for 5 minutes.

STATEMENTS OF MICHAEL WINN, PRESIDENT, GREYLOCK ASSOCIATES, LLC; JOE HETE, PRESIDENT AND CEO, ATSG, INC.; AND CLIFF GUFFEY, PRESIDENT, AMERICAN POSTAL WORKERS UNION, AFL–CIO

STATEMENT OF MICHAEL WINN

Mr. WINN. Thank you, Mr. Chairman; and thank you to the entire subcommittee for allowing me to testify today.

First, may I introduce RR Donnelley. RR Donnelley is a Fortune 250 company and is the largest printer in North America. We employ nearly 35,000 people across 45 States. Printing is one of the largest domestic manufacturing industries; and RR Donnelley has production facilities in 26 States, coast to coast, border to border.

Anybody have a Verizon wireless phone? We print the statements and put them in the mail for you. And magazines such as The Economist, very timely, very critical with delivery of content to their customers. And do you receive an Ikea catalogue or brochure? We have been recognized as an award-winning provider for Ikea. And what about Williams Sonoma from California? We produce many of their catalogues and promotional material and perform mailing and logistic services for them. And then, for the U.S. Government, we are proud to have printed 160 million first-class mail pieces for the 2010 census, as well as about 40 million Medicare & You booklets.

RR Donnelley doesn't just print material and deliver it back to our customers. We print material and deliver it for our customers, collaborating with the U.S. Postal Service, deploying a sophisticated logistics network nationwide. The health and viability of the Postal Service is critical to our business.

And may I introduce myself? I was an employee of RR Donnelley for over 35 years. Currently, I am retired. That is open to interpretation. But I still represent RR Donnelley on postal matters in Washington. My positions over my career have ranged from introducing new technologies and managing operations, running some of the largest plants in the RR Donnelley network.

I was invited to testify today because of my experience with facility and capacity management; and that is what this testimony is all about, facility and capacity management to meet the demands of customers. That reflects the need to manage equipment, buildings, locations, and employees.

In the private sector, we answer to stockholders, stakeholders, our communities, and employees. They all examine what we are doing, executing our responsibilities as caretakers of the organization. There is very little room for forgiveness.

In my career, there were many difficult decisions. Laying off groups of people, shutting down pieces of equipment, and closing plants, all of which affected people's lives, customers, and communities.

Please let me relate just one story about this responsibility of management.

In 1976, I began my career with RR Donnelley as an engineer in a plant located in Old Saybrook, Connecticut. The plant was started in 1960 to serve customers in the Northeast part of the United States. Many great people taught me the trade and helped me become a member of management.

In 2003, I was responsible for the operation of three plants, two in Lancaster, Pennsylvania, and the Old Saybrook plant. It became painfully obvious that I needed to shrink capacity to meet the demand of my customers and to serve them in the best way possible. Customers would benefit from the closure of Old Saybrook and the combination of operations into Lancaster.

I closed Old Saybrook. There were 484 employees in the plant, and all were retrained, relocated to other positions within RR Donnelley or other employers. The plant was closed and sold. All of the equipment was relocated or sold. All of the community obligations were met, including things like our commitment to the United Way. There were three employees that helped start the plant up in 1960 that were relocated as a result of this closure.

Painful? Yeah, you bet. But it was absolutely necessary to meet my responsibilities and obligations to shareholders, customers, and stakeholders of RR Donnelley. That is what responsible management does in the private sector.

Why do I tell this story and how does it relate to the U.S. Postal Service? Well, the USPS has the same issues that I faced, capacity management of processing and management of employees. That all means expense to the USPS' operation and all that needs to be absorbed by someone. Usually, that is the rate payer. That is why they are all seeking alternate ways of delivering their message to

the customer. Electronic substitution and alternate delivery will not go away and may be sought by more of the USPS' customers if rates go up.

As a Nation, we need a strong and viable postal delivery service. That means the USPS management must step up to the responsibility of managing capacity of processing and the retail system to manage demand. There is no need for 30,000 or more retail stores. By the way, that is more than McDonald's has worldwide. There is no need for 400 processing facilities. The demand was for 206 billion mail pieces in 2006. Now it is down to 167 billion. Projections are for 150 billion in 2020.

The USPS has many strong advantages to help it compete. They are masters at delivering the last mile. They should concentrate on that. Outsource the retail operations to supermarkets and other existing establishments to save employees and facility expense. Reduce the number, size, and complex nature of the processing network. Make the USPS user friendly and control the costs. That is what we do in the private sector.

[The prepared statement of Mr. Winn follows:]

TESTIMONY OF MICHAEL J. WINN FOR RR DONNELLEY

HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

JUNE 15TH 2011

First, may I introduce RR Donnelley. RR Donnelley, a Fortune 250 Company, is the largest printer in North America. We employ nearly 35,000 people across 45 states. Printing is one of the largest domestic manufacturing industries and RR Donnelley has production facilities in 26 states - from coast-to-coast and border-to-border.

Anybody have Verizon Wireless mobile service? RR Donnelley actually produces your statement and puts it in the mail.

And magazines such as the ECONOMIST. Many readers value the content and our ability to deliver consistently.

Do you receive an IKEA catalog or brochure in the mail? We've been recognized as an award-winning provider for IKEA.

How about Williams Sonoma? RR Donnelley produces and handles the mail logistics associated with many of their premier catalogs.

And for the US Government, we are proud to have printed 160 million First Class mail pieces for the 2010 Census as well as 40 million "Medicare and You" booklets.

RR Donnelley doesn't just print material and deliver it back to our customers. We print material and deliver it FOR our customers, collaborating with the USPS and deploying a sophisticated logistics network nationwide. The health and viability of the United States Postal service is critical to our business.

And may I introduce myself. I was an employee of RR Donnelley for over 34 years. Currently I am retired but still represent RR Donnelley on postal policy issues. My positions ranged from introducing new technologies to managing operations, running some of the largest plants in the RR Donnelley network. I was invited to testify today because of my experience with facility and capacity management.

And that is what this testimony is all about – facility and capacity management to match the demand of customers. That reflects the need to manage equipment, buildings, locations, and employees. In the private sector, we answer to our stockholders, stake holders (communities), and employees. They all examine how well we are doing executing our responsibilities as care takers of the organization. There is little room for forgiveness.

In my career, there were many difficult decisions. Laying off groups of people, shutting down pieces of equipment, and closing plants. All of which affected people's lives, customers, and communities. Please let me relate just one story about this responsibility of management.

In 1976 I began my career with RR Donnelley as an engineer in a plant located in Old Saybrook Connecticut. That plant was started in 1960 to serve customers in the Northeast part of the United States. Many great people taught me the trade and helped me become a member of management.

In 2003, I was responsible for the operation of three plants, two in Lancaster Pennsylvania, and the Old Saybrook plant. It became painfully obvious that I needed to shrink capacity to meet demand and the best way was to close Old Saybrook and combine it with Lancaster. Customers would benefit from better utilization of equipment, flexibility of scheduling, and better distribution.

I closed Old Saybrook. There were 484 employees in the plant and all were retrained and relocated to other positions within RR Donnelley or other employers. The plant was closed and sold. All of the equipment was relocated or sold. All of the community obligations were met – including things such as our commitment to the United Way. There were three employees hired as part of the start up in 1960 and still employed at the date of the shut down.

Painful, you bet. But it was absolutely necessary to meet my responsibilities and obligations to the share holders, customers, and stake holders of RR Donnelley. That is what responsible management does in the private sector.

Why do I tell this story, and how does it relate to the United States Postal Service? Well, the USPS has the same issues that I faced – capacity management of processing, and management of employees. This all means "expense" to the USPS's operation and it needs to be absorbed by someone. Unfortunately, that usually is the postage rate payer. That is why they are all seeking alternate ways of delivering their message to the customer. Electronic substitution and alternate delivery will not go away, and may be sought by more of the USPS's customers if rates increase.

We, as a nation, need a strong and viable postal delivery system. That means that USPS management must step up to their responsibility of managing capacity of processing and the retail system to match demand. There is no need for 30,000+ retail stores (more than McDonalds worldwide!), or 400+ processing facilities. The demand was for 206 billion mail pieces in 2006, and now it is down to 167 billion, if the USPS is accurate with their projections. Projections are for 150 billion mail pieces in 2020.

The USPS has many strong advantages to help it compete. First, they are masters at delivering "the last mile" to everywhere in the United States. Capitalize on that capability. Outsource the retail operations to super markets and other existing establishments to save employee and facility expense. Reduce the number, size, and complex nature of the processing network. Make the USPS "user friendly" and control the cost. That is what we do in the private sector!

Mr. ROSS. Thank you, Mr. Winn.

Mr. Hete, you are recognized for 5 minutes.

STATEMENT OF JOE HETE

Mr. HETE. Good afternoon, Chairman Ross and members of the committee. I appreciate the opportunity to testify today and assist with identifying real solutions for the U.S. Postal Service. This hearing is a vital step toward averting the looming business liquidity crisis as the USPS is on the brink of insolvency due to continued losses in both mail volume and revenue.

My name is Joe Hete, and I am Chief Executive Officer for Air Transport Services Group, which is the parent company of ABX Air and four other wholly owned subsidiaries. It was only 2 short years ago that I testified before the Transportation and Infrastructure Committee about the devastating impact of DHL opting to pull out of the domestic market and its potential impact on our company, its employees, and our community.

ABX Air, headquartered in Wilmington, Ohio, was part of a Fortune 1,000 organization, with annual revenues exceeding $1.6 billion, with over 12,000 employees. On May 28, 2008, ABX Air was notified by DHL that it currently was in negotiations with UPS to take over DHL's air uplift for DHL Express U.S. domestic and international shipments within North America. This news devastated the company and community.

On November 10th, with still no UPS deal and many people uncertain what was next, DHL again would make an announcement that would accelerate the decline of what was ABX Air's business model. It announced it would pull out of the domestic market completely, effective January 30, 2009. All 15 hub locations across the United States would be closed, and ABX Air would be forced to make a quick business model transition, including a mass reduction in force. What was ABX Air declined to just under 1,000 employees.

While the USPS is not exactly in a similar situation, there are many parallels between the business challenges and threats of its current business environment and the last 36 months for ABX Air and its sister companies.

The USPS is an iconic institution that the American people have grown to trust and respect when it comes to service and reliability. In its own right, it would be considered the first social network.

Regrettably, the USPS has seen its market share decrease over a long period of time, and volume has continued on a sharp decline.

Several factors are outside the control of USPS and are driving the decline, specifically technology that is continually evolving. In fiscal year 2010, 170.6 billion pieces of mail were delivered, a drop of 6 billion pieces from the previous year. It is estimated that volume will continue to decline at the rate of 7 percent every year.

Not unlike ABX Air, the USPS is now forced into an unfortunate position that will demand that it restructure its business model to ensure its long-term viability. The USPS has offered solutions that include an exigent rate increase of 5.6 percent, which was denied by the Postal Regulatory Commission; reduced mail delivery from 6 days to 5 days per week; to refund overpayments to the Civil Service Retirement fund of $5.5 billion to pre-fund retiree health

benefits and $1.2 billion to Federal Government workers' compensation insurance fund; and flexibility to close postal and sorting locations that are underutilized.

While helpful, these solutions do not address one major factor that has a potential to significantly contribute to the long-term financial stability, which is to restructure its labor costs to match its current level of operations.

Beginning immediately after the May 2008, announcement, ABX Air began to explore plans for restructuring its work force based on what it then believed to be the go-forward plan for support for DHL. It engaged its employees, being transparent on what the changes in the business model would mean for all those involved. ABX Air was able to make changes to much of its work force, free from the encumbrances of an employee base predominantly represented by a union.

Wages were reduced, pension plans were frozen and replaced with defined contribution plans, and paid time off was reduced. It was a sobering experience when it appeared all 12,000 ABX Air jobs would be eliminated because of DHL's announcement. However, ABX Air's flexible work force relationships allowed us to go back to our customers and offer solutions to retain parts of their business.

USPS has made attempts to restructure its work force to match diminishing mail volumes. Using attrition and early retirement buyout options as its primary attempt to right-size its organization, a 16 percent reduction in upper-level management, and minimal closings of underutilized post offices and operations, it has yet to achieve the efficiencies it needs to survive.

The USPS' inability to reduce its work force to match its operational needs due to legacy union contracts and no-layoff clauses restricts its potential to continue to be the most trusted government agency. It has a reputation that has been earned over hundreds of years of hard work and reliable service. Unmistakably, the USPS business model needs to change.

ATSG developed a comprehensive business strategy that segmented specific functions from ABX Air and created sister companies to align its work force and core lines of business with current market needs.

Through these initiatives, we are able to position our company for job growth; and we are growing. By identifying our strengths, we developed business lines that offered us the strongest chances of success. That success resulted in a 25 percent job growth. We succeeded. We are the anchor for redevelopment and growth in our community.

USPS needs the authority to redevelop and implement its business strategy. The USPS has offered solutions. However, none of these solutions fix the cost and productivity constraints that are imposed by the union contracts. The USPS is hindered in acting in the best interest of its "shareholders," every American household that receives mail.

Though the USPS does not use taxpayer funding, it is here today because it is in financial distress. The current union contracts are cost prohibitive and contribute to the severe financial losses. This should not go unaddressed.

We had a union contract with our pilots, but the financial viability of our company won out over perpetuating noncompetitive labor agreements.

Restructuring is required when what you have been doing is no longer a viable plan, and for the USPS it will take many forms. We need to give them every opportunity to achieve their core business objective.

There are dire consequences that have been identified by the USPS as its teeters on insolvency, and one is that in fiscal year 2012 the USPS may not be able to make its payroll.

I have watched the USPS from afar, and they mirror many of our struggles over the last few years. However, unlike the USPS, we had a nimble work force that we could maneuver to build a better business model after a devastating loss of business. When the industry thought we were going to fail, our stock price was at its lowest price of 12 cents per share. Stakeholder confidence was at an all-time low, and our employees were down but not broken. Today, we are a thriving and growing company, and our stock has increased more than 50-fold.

I look forward to working with you to address these issues and find solutions that will keep the Postal Service as a viable part of our economy.

I will be happy to answer any questions you might have.

[The prepared statement of Mr. Hete follows:]

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JUNE 15, 2011

STATEMENT OF
JOE HETE, CEO OF AIR TRANSPORT SERVICES GROUP, INC.
BEFORE THE
COMMITTEE OF OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES

Good afternoon, Chairman Ross and members of the committee. I appreciate the opportunity to testify today and assist with identifying real solutions for the United States Postal Service (USPS). This hearing is a vital step toward averting the looming business liquidity crisis as the USPS is on the brink of insolvency due to continued losses in both mail volume and revenue.

My name is Joe Hete and I am the Chief Executive Officer for Air Transport Services Group, also known as ATSG, which is the parent company of ABX Air and four other wholly owned subsidiaries. It was only two short years ago that I testified before the Transportation and Infrastructure Committee about the devastating impact of DHL opting to pull out of the domestic market, and its potential impact on my company, its employees, and our community.

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The news devastated the company and community.

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The USPS is an iconic institution and embodies reliability and service that the American people have grown to trust and expect when it comes to service and reliability. In its own right, it could be considered the first social network. Regrettably, the USPS had seen its market share decrease over a long period of time and volume has continued on a sharp decline.

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Several factors are outside the control of the USPS and are driving the decline—specifically technology that is continually evolving. In fiscal 2010, 170.6 billion pieces of mail were delivered, a drop of 6 billion pieces from the previous year. It is estimated that volume will continue to decline at the rate of 7% every year.

Not unlike to ABX Air, the USPS now is forced into an unfortunate position that will demand it to restructure its business model to ensure its long-term viability. The USPS has offered solutions that include:

1. "Exigent" rate increase of 5.6%—which was denied by the postal Regulatory Commission
2. Reduce mail delivery from 6 days to 5 days per week
3. To refund the overpayment of the Civil Service Retirement fund from payments of $5.5 billion to pre-fund retiree health benefits and $2.5 billion to federal government's workers' compensation insurance fund.
4. Flexibility to close postal and sorting locations that are underutilized.

While helpful, these solutions do not address one major factor that has the potential to significantly contribute to the long-term financial stability, which is to restructure its labor costs to match its current level of operations.

Beginning immediately after the May 2008 announcement, ABX Air began to explore plans for restructuring its workforce, based on what it then believed to be the go-forward plan for support for DHL. It engaged its employees—being transparent on what the changes in the business model would mean for all of those involved. ABX Air was able to make changes to much of its workforce, free from the encumbrances of an employee base represented by a union. Wages were reduced, pension plans were frozen and replaced with defined contribution plans, and paid time off reduced.

It was a sobering experience when it appeared all 12,000 ABX Air jobs would be eliminated because of the DHL announcement. However, ABX Air's flexible workforce relationships allowed us to go back to our customers and offer solutions to retain parts of the business.

The USPS has made attempts to restructure its workforce to match diminishing mail volumes. Using attrition and early retirement buyout options as its primary attempt to right-size its organization, a 16% reduction in upper-level management, and minimal closings of underutilized post offices and operations; it has yet to achieve the efficiencies it needs to survive.

The USPS' inability to reduce its workforce to match its operational needs due to legacy union contracts and no-layoff clauses restricts its potential to continue to be the most trusted government agency. It is a reputation that has been earned over a hundred of years of hard work and reliable service. Unmistakably, the USPS business model needs to change.
ATSG developed a comprehensive business strategy that segmented specific functions from ABX Air and created sister companies; to align its workforce and core lines of business with current market needs. In addition, it redesigned its infrastructure to be more competitive and adapt to the changing economic demands.

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Through these initiatives, we were able to position our company for job growth.
And we are growing:

- ABX Air now has 576 jobs, a 9% increase;
- AMES now has 523 jobs, a 53% increase;
- LGSTX now has 126 jobs, an 8% increase;

By identifying our strengths we developed the business lines that offered us the strongest chances of success. That success resulted in 239 jobs or 25% growth.

We succeeded. We are the anchor for the redevelopment and growth in our community.

USPS needs the authority to redevelop and implement its business strategy.

The USPS has offered solutions, including raising the price of the stamp, reducing delivery days, repaying of pension and the flexibility to close underutilized locations. However, none of these solutions fix the cost and productivity constraints that are imposed by the union contracts. The USPS is hindered in acting in the best interests of its "shareholders" – every American household that receives mail. Though the USPS has not used taxpayer funding, it is here today because it is in financial distress. The current union contracts are cost prohibitive and contribute to the severe financial losses. This should not go unaddressed. We had a union contract with our pilots but the financial viability of our company won out over perpetuating non-competitive labor agreements.

When you are able to adjust your workforce to the operational needs, infrastructure changes will naturally follow. The USPS needs the authority to close underutilized centers as a business decision that will attain savings that will affect the bottom line.

The political outcry for the USPS to mitigate financial losses needs to balance with the closures that need to happen in respective districts and acknowledge how difficult that will be.

Restructuring does not come without pain. I know this first hand. As previously noted, my company lost over 10,000 employees that I considered family members. I knew many of them by name, I knew their spouses, their children, and had worked closely with them for many years. They were not an employee number, they had names, they were neighbors, and I knew most of them on a personal level. It was difficult for everyone involved.

Restructuring is required when what you have been doing is no longer a viable plan and for the USPS it will take many forms. We need to give the USPS every opportunity to achieve its four business strategies:

- Strengthening the Business-to-Consumer Channel
- Improving Customer Experience
- Competing for Package Business
- Continuing to become a Leaner, Faster and Smarter organization

Keeping in mind these strategies, the USPS has made aggressive and targeted efforts to combat the economic recession and the digital revolution, but has constraints that won't allow it to restructure to the

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depth required to fulfill its four business strategies.

USPS solutions are bound by current legislation. These solutions affect the customer. Given the ability to realign the workforce and the infrastructure the USPS will be able to have a more sustainable business environment, and a majority of the changes would be invisible to its customers and not negatively affect service. The USPS' historic reliable service is its most coveted brand. It cannot afford to be jeopardized.

The USPS' financial state is not just a government problem any more—it may soon become a taxpayer issue.

There are dire consequences that have been identified by the USPS as it teeters on insolvency, and one is that in fiscal year 2012, the USPS may not be able to make its payroll. Your constituents are the shareholders of the USPS. Your action can help the USPS renegotiate legacy union contracts, which will enable them to restructure successfully and return to financial solvency.

Cost efficiencies are something that every business is looking to maximize. We have worked with the postal group in a myriad of capacities over the last 6 years. We have offered cost savings proposals that we have identified through observations of heavy labor costs and layers of network operations. Unfortunately, none of these proposals, with an aggregate benefit of hundreds of millions of dollars in cost savings, have come to fruition due to labor contract constraints.

Part of business strategy is to watch not only your competition but also your peers. You look to refine your strategy watching their every move and monitor successes and failures. Success is an intricate process that is compounded—but so is failure.

I have watched the USPS from afar, and they mirror many of our struggles over the last few years. However, unlike the USPS we had a nimble workforce that we could maneuver to build a better business model after a devastating loss of business. When the industry thought we were going to fail, our stock price was at its lowest point of 12 cents per share, stakeholders confidence was at an all-time low, and our employees were down, but not broken—we flourished. Today we are a thriving and growing company, and our stock has increased more than 50-fold.

I look forward to working with you to address these issues and find sound solutions that will keep the Postal Service as a viable part of our economy. I will be happy to answer any questions you might have.

Thank you.

Mr. ROSS. Thank you.

Mr. Guffey, you are recognized for 5 minutes.

STATEMENT OF CLIFF GUFFEY

Mr. GUFFEY. Good afternoon, Mr. Chairman and members of the committee. I am Cliff Guffey, president of the American Postal Workers Union. I am here today to address the modification of the retail and mail processing networks of the Postal Service in response to diminishing mail volume.

First, I want to respond to the title of this hearing, Postal infrastructure: How can we afford it? "We" in this question is postal customers, not taxpayers. After the passage of the Postal Reorganization Act of 1970, the Postal Service progressively phased out its reliance on Federal appropriations. Beginning in the 1980's, in a series of omnibus budget resolutions aimed at balancing the Federal budget, many billions of dollars in costs were shifted from the Federal Government to postal rate payers. Today, the Postal Service receives no subsidy from the Federal Government, only compensation for services rendered.

If the Postal Service is to act in a businesslike manner, as its critics have often implored it to do, it should be permitted to change and charge businesslike rates as other national posts are permitted to do.

I do not say this lightly. We see the mailing community as customers and Postal Service supporters not as adversaries. We know that the suggestion that rates should be permitted to increase more than inflation is not welcome to them, particularly in difficult financial times. We are not presuming to set postage rates. We are saying that, on a rate-by-rate basis, the Postal Service needs to have the flexibility to increase rates in order to find a way to cover its costs.

This has been and continues to be a time of rapid change in the Postal Service. Between 1999 and 2010, the postal work force has been reduced by 458 million work hours. This is the equivalent of removing 259,000 full-time employees from the employment rolls. People represented by the APW made up 67 percent of that total reduction. That is the equivalent of eliminating 174,000 full-time jobs in APW bargaining units.

Postal workers have been directly affected by these changes. Normal attrition among bargaining unit employees has reduced the complement of bargaining unit employees as fast as the need for workers has been reduced by facility closures and consolidations and by other steps taken to increase efficiency. This will continue to be the case for the foreseeable future. Approximately 37 percent of the workers in the APW bargaining units will be eligible for retirement by 2014.

The APW has actively resisted some consolidations of mail processing operations where we have reason to question the accuracy of the Postal Service's projected cost savings and service impacts. In many cases, we have found that cost savings have been overestimated and the actual potential cost savings cannot justify the adverse service impacts of the changes under consideration.

An example of these problems was recently documented by the OIG in its report on the area mail processing study and consolida-

tion of operations from Lima, Ohio, to Toledo, Ohio. After the usual AMP study, management consolidated mail processing operations from Lima to Toledo in 2010. The OIG found that postal customers in Lima experienced "significant degradation in service, and management did not project these degradations in the AMP proposal." After these service problems arose, management addressed them in part by increasing employees in Toledo and by implementing two additional Lima hub facilities. But at the time of the OIG report on this AMP, the problems had not been solved.

Similar points need to be considered concerning the closing or consolidation of retail operations. The APWU has been a vocal critical of the Postal Service's plan to close or consolidate some of its retail operations. As we showed in proceedings before the Postal Regulatory Commission, these closures adversely affect individual postal customers who are least able to afford alternative services and small businesses that continue to rely heavily on the Postal Service. In many cases, postal customers, both individuals and small businesses, community leaders, and elected representatives have strongly opposed post office closures because of the negative impacts they have on affected communities.

We strongly urge postal policymakers to think creatively about how the Postal Service should be adapting its retail services to meet society's current needs. Senator Carper has introduced legislation that would permit the Postal Service to partner with other government agencies at the Federal, State, and local levels to more efficiently deliver government services and to provide sufficient economic justification to maintain a postal presence in rural or economically disadvantaged communities.

We strongly support these ideas and observe that the time to pursue them actively is now. It would be tragic to dismantle the postal retail infrastructure and lose an opportunity to maintain it and improve the delivery of government services.

In closing, I want to particularly emphasize the importance of maintaining a postal presence in small communities. The Post Office provides a unique public service that is still necessary for many people. Being from Oklahoma, which has many small towns and rural Post Offices, I can tell you from firsthand experience that the post office is the focal point of many small communities. It is where the flag flies. It is where the government can provide support for the community.

In all that we do during this time of change and economic challenge, consideration must be given to the availability of postal services and other necessary services that may be offered through the Postal Service.

I would be happy to answer any questions.

[The prepared statement of Mr. Guffey follows:]

Good afternoon Mr. Chairman and members of the Committee. I am Cliff Guffey, President of the American Postal Workers Union, AFL-CIO – the APWU. We appreciate the opportunity to testify in this hearing.

I am here today to address the question of right-sizing the retail and mail processing networks of the Postal Service in response to diminishing mail volume. I will speak to that issue in a few moments; but first I want to respond to the title of this hearing: "Postal Infrastructure: How Much Can We Afford?" A key point to bear in mind is that the "We" in this question is postal customers not taxpayers.

After the passage of the Postal Reorganization Act of 1970, the Postal Service progressively phased out its reliance on federal appropriations. Beginning in the 1980's, in a series of omnibus budget resolutions aimed at balancing the federal budget, many billions of dollars in costs were shifted from the federal government to postal rate-payers. Today, the Postal Service receives no subsidy from the federal government, only compensation for services rendered.

We consider the question how much postal customers can afford to be a very important question. Consideration of that question should begin with the observation that since the passage of the Postal Reorganization Act of 1970 postal rates have risen at about the pace of inflation. As Exhibit A to my

testimony shows, postal rates today, adjusted for inflation, are about where they were in 1972. As Exhibit B shows, the postage stamp, that is the rate for the first ounce of First Class letter mail, is very low in the United States compared to other industrialized countries. Postage rates for large mailers who take advantage of workshare discounts are even lower and have risen at a rate less than inflation since 1976. See Exhibit C. A recent study by the OIG shows that many posts in developed countries in Europe and Japan have higher prices than in the United States. Their prices are as much as 86 percent higher when expressed in purchasing power parity. The mailing operations of these posts are almost all profitable. Thus, developed economies support these high postal prices."[1]

This is particularly significant in light of the unrealistic and artificial CPI cap that has been placed on postage rate increases by the PAEA legislation enacted in 2006. If the Postal Service is to act in a businesslike manner, as its critics have so often implored it to do, it should be permitted to charge businesslike rates as other national posts are permitted to do. In a recent study, the OIG found that the imposition of the CPI cap by class of mail is particularly unrealistic and confining. If the Postal Service had simply been permitted to apply the CPI rate of increase

[1] Report No. RARC-WP-10-006.

available to it across all its products instead class by class, it could have captured as much as $2 billion in additional revenue per year since 2009.[2]

In addition, more needs to be done to correct excessive workshare discounts. The Postal Regulatory Commission and the Inspector General of the Postal Service have found that 30 workshare discounts presently in place exceed the amount that can be justified by Efficient Component Pricing as required by the Postal Accountability and Enhancement Act. The Inspector General found that over half of these excess discounts cannot be justified by any statutory exceptions to the legal requirement that workshare discounts not exceed costs avoided. Correcting these unlawful and inefficient discounts would strengthen the Postal Service's financial outlook and return some mail processing activity to the Postal Service from the less efficient consolidators presently performing that work.

I do not say these things lightly. We see the mailing community as customers and Postal Service supporters, not as adversaries. We know that the suggestion that rates should be permitted to increase more than inflation is not welcome to them, particularly in difficult financial times. We are not presuming to set postage rates; we are saying that, on a rate by rate basis, the Postal Service needs to have the flexibility to increase rates in order to find a way to cover its costs.

[2] Report No. CRR-AR-10-005, at 3.

This has been and continues to be a time of rapid change in the Postal Service. Between 1999 and 2010 the postal workforce has been reduced by 458.5 million workhours. This is the equivalent of removing 259,500 full-time employees from the employment rolls. People represented by the APWU made up sixty-seven percent (67%) of that total reduction. That is the equivalent of eliminating 174,306 full-time jobs in APWU bargaining units. Postal workers have been directly affected by these changes. Thousands of postal workers have been required to change jobs, including changing the type of job they do, in order to maintain their postal employment. Many employees have been required to uproot their families and move their homes hundreds of miles.

In one sense, it might be said that postal workers have been relatively fortunate. Despite very rapid reductions in postal employment, there has been no need to lay off bargaining unit employees. Normal attrition among bargaining unit employees has reduced the complement of bargaining unit employees as fast as the need for workers has been reduced by facility closures and consolidations and by other steps taken to increase efficiency. This will continue to be the case for the foreseeable future. Approximately 37% of workers in APWU bargaining units will be eligible for retirement by 2014.

We also observe that the Postal Service is presently paying overtime to some employees. The Postal service reduced overall work hours by 77.3 million hours,

or $1.51 billion in 2010; but still increased the use of overtime by 17.2 percent compared with 2009. The OIG found that the Service paid an additional $419.5 million in overtime due to lower staffing levels. Understandably the Service is not replacing employees it will not need in a year; but at this moment it needs most of the people it now has. Attrition is a little ahead of the consolidations, automation and productivity programs that will eventually lead to a career workforce of about 400,000 in 2020. The Service cannot reduce the workforce more rapidly without significantly harming service performance.

The APWU has recognized the need for change in response to reductions in mail volume and changes in the mail mix. Our recently-completed collective bargaining agreement makes provision for a substantial increase in the temporary workforce that will provide the Postal Service increased workforce flexibility at lower wage rates without increasing legacy costs. In addition, we negotiated non-traditional full-time work assignments of fewer or more than the standard 40 hours per week. These assignments will change the staffing matrices at postal facilities so we can meet our customers' needs for longer hours without incurring unnecessary overtime costs.

Despite the facility closings and workforce reductions that already have occurred, we recognize that more change is inevitable. This is not to say that anyone can calculate precisely, on an aggregate basis, the amount of mail

processing capacity that could efficiently be eliminated. Many factors must be considered to determine optimum capacity. For example, the Postal Service may have sufficient capacity in plant A to process the mail from plant B, but could not transport and process the mail quickly enough between the plants to meet current delivery standards. In such a case, it would be hard to characterize the capacity at Plant B as unnecessary. The Postal Service has published strategic plans that include information about its current and future mail processing capacity needs. In a time of rapid change in mail processing operations, it is not very meaningful to pick a static number as an "excess" amount of capacity. Evaluation of mail processing capacity and potential efficiencies is an ongoing process.

We will continue to take an active part as participants in the changes that are being made, and as close observers of the decision-making process that leads to change. The APWU has actively resisted the consolidation of mail processing operations where we have reason to question the accuracy of the Postal Service's projected cost savings and service impacts. In many cases, we have found that cost savings have been over-estimated and that actual potential cost savings cannot justify the adverse service impacts of the changes under consideration.

An example of these problems was recently documented by the OIG in its report on the Area Mail Processing (AMP) study and consolidation of operations from Lima, Ohio to Toledo, Ohio. After the usual AMP study, management

consolidated originating mail processing operations from Lima to Toledo in June 2010 and destinating mail processing operations from Lima to Toledo in December 2010. The OIG found that postal customers in Lima experienced "significant degradations in service … and management did not project these degradations in the AMP proposal."[3] After these service problems arose, management addressed them in part by transferring employees from Detroit to Toledo and by implementing two additional Lima hub facilities. But at the time of the OIG Report on this AMP the service problems had not been solved.[4]

Analogous points need to be considered concerning the closing or consolidation of retail facilities. The new National Agreement includes innovative provisions that will permit management to provide retail services at lower costs. The Agreement makes provision for the employment of lower-level employees with flexible schedules to make retail facilities more efficient and more responsive to our customers' needs.

The APWU also has been a vocal critic of the Postal Service's plans to close or consolidate its retail operations. As we showed in proceedings before the Postal Regulatory Commission (Docket No. N2009-1), these closures adversely affect individual postal customers who are least able to afford alternative services, and small businesses that continue to rely heavily on postal services. In many cases,

[3] Report No. EN-AR-11-004, at 2.
[4] Id., at 2, 4.

postal customers (both individuals and small businesses), community leaders, and elected representatives have strongly opposed post office closures because of the negative impacts they have on affected communities.

We strongly urge postal policy-makers, both inside the Postal Service and elsewhere in government, to think creatively about how the Postal Service should be adapting its retail services to meet society's current needs. Senator Carper has introduced legislation that would permit the Postal Service to partner with other government agencies at the federal, state and local levels to more efficiently deliver government services and to provide sufficient economic justification to maintain a postal presence in rural or economically disadvantaged communities. We strongly support these ideas and observe that the time to pursue them actively is now. It would be tragic to dismantle the postal retail infrastructure and lose an opportunity to maintain it and improve the delivery of government services.

We also observe that these points apply as well to the broader question of the importance of the Postal Service in the digital age. That is a topic that is beyond the scope of this hearing, but we think it is important to keep it in mind. Hard copy communications continue to be an important part of our economy, and the Postal Service will continue to serve that need efficiently. In addition, it can and must expand its services to fill needs emerging because of digital communications. We observe that a February 2011 Report by the OIG includes

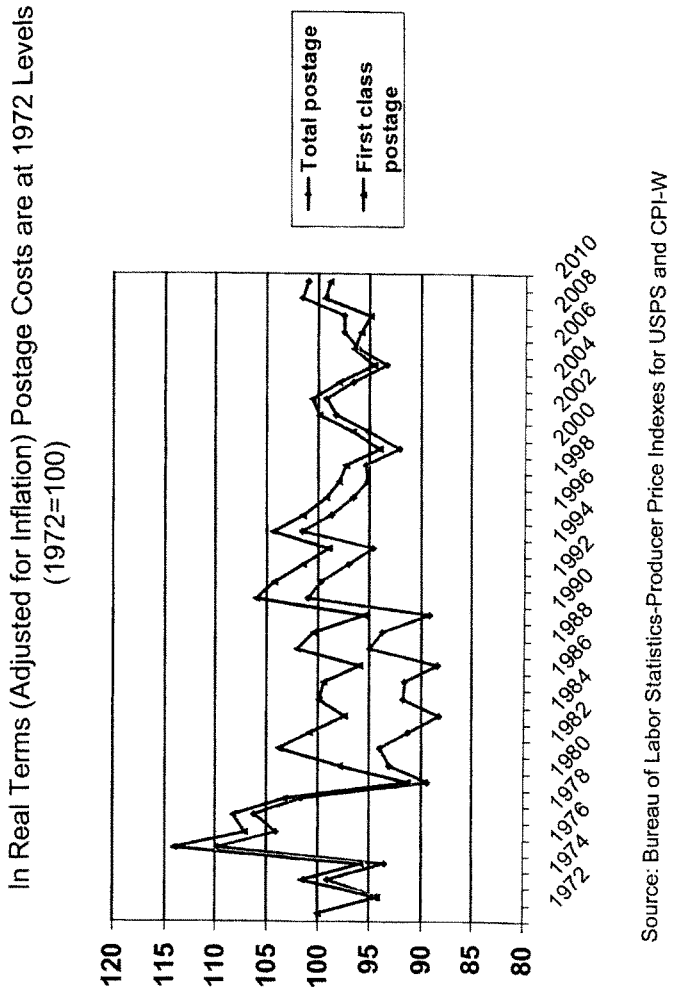
suggestions about how the Postal Service can play an important role in the digital economy.[5]

In closing, I want to particularly emphasize the importance of maintaining a postal presence in small communities. The Post Office provides a unique public service that is still a necessity for many people. Being from Oklahoma, which has many small towns and rural post offices, I can tell you from first-hand experience that the Post Office is a focal point of many small communities; it is "where the flag flies;" it is where the government provides support for the community.

In all that we do during this time of change and economic challenge, consideration must be given to the availability of postal services, and other necessary services that may be offered through the post office.

[5] Report No. RARC-WP-11-002.

EXHIBIT A



Source: Bureau of Labor Statistics-Producer Price Indexes for USPS and CPI-W

EXHIBIT B

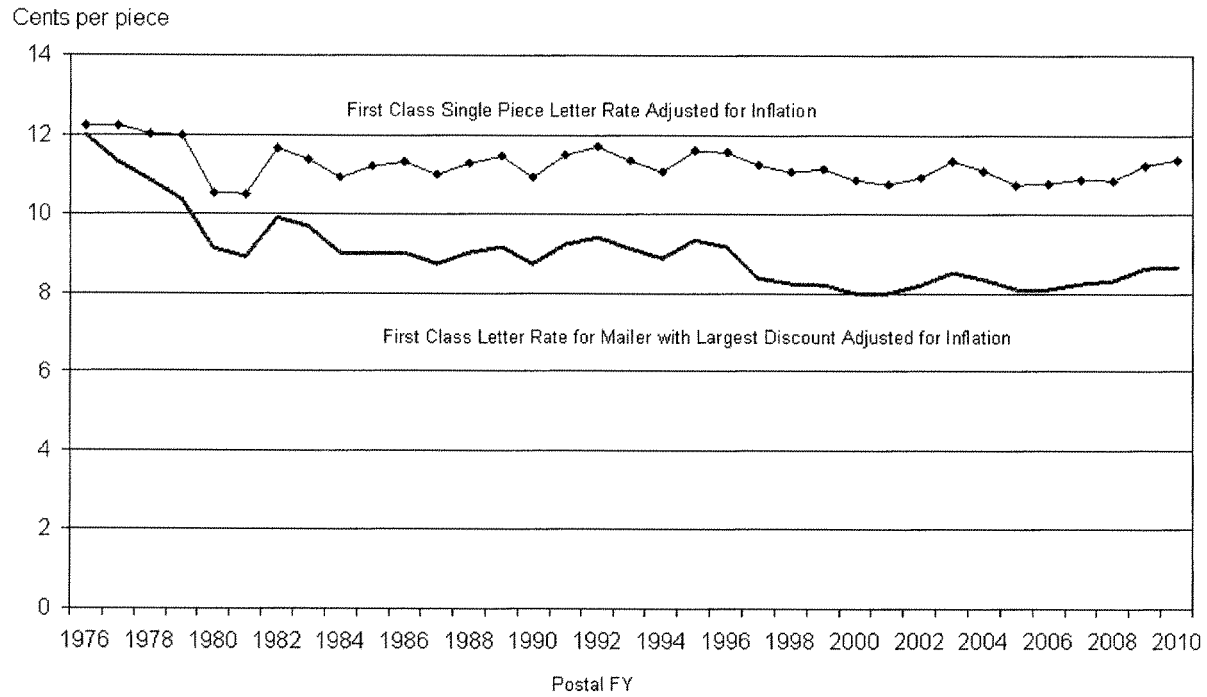
Comparative First Class Letter Mail Rates for Different Countries

Country		Cost in US$
United States	Up to 1 oz. (28.3 grams)	$0.44
Canada	Up to 30 grams (1.08 ozs.)	$0.61
Australia	Up to 250 grams (9 ozs.)	$0.62
Japan Post	Up to 25 grams (0.9 ozs.)	$0.71
German Post	Up to 20 grams (0.7 ozs.)	$0.78
France	Up to 250 grams (9 ozs.)	$1.07
Royal Mail (UK)	Up to 100 grams (3.5 ozs.)	$0.74

Source: Various Posts, April 4, 2011 exchange rates
Cost is for sending a letter to a domestic destination that weighs approximately 1 ounce

EXHIBIT C

First-Class Single Piece Letter Rate and Rate Paid by Mailer with Largest First-Class Discount in Constant FY 1976 $



Inflation adjustment was done with CPI-U

Mr. ROSS. Thank you, Mr. Guffey.

They have called us for votes. Hopefully, we can get this done in time. With that, I recognize myself for 5 minutes for questions.

Mr. Winn, your testimony is very poignant in the sense that I think it tries to finely show how significant the Postal Service is to so many walks of life and to this economy. I am reminded that because of RR Donnelley's need for the Postal Service and its infrastructure to deliver its product of a trucker who has all these products to deliver or ship by way of his truck but then has the interstate system closed off and can't accomplish that.

But I also see from what you have done that you have made changes over the years to adapt to market trends and to adapt to technology. My question to you is: What would you recommend that the U.S. Postal Service do to try to adapt as well?

Mr. WINN. With considerable respect to Mr. Williams, who testified before me and who is a wonderful associate at the Postal Service, the AMP process that he spoke about, the mail processing consolidation and elimination of facilities, is extremely cumbersome. Where I closed a plant in Connecticut, it was done in 10 months. Everything was done. The plant was closed, people were retrained and relocated, and the equipment was all moved, and all the customers were moved.

I would say that the best thing we could do for the Postal Service and for Mr. Williams would be to help him shorten the AMP process. Make it less, quite frankly, less than the painful process it is today.

Mr. ROSS. Thank you.

Mr. Hete, you have great testimony as well. You have adapted to a major client removing itself from the market, and yet you adapted significantly well, in fact, keeping the jobs you did and reestablishing yourself in the market. Are you satisfied with what the Postal Service is doing to realign its processing and retail networks at this point?

Mr. HETE. We do some current work with the Postal Service. We operate through their STC facilities for them in Memphis, Dallas, and Indianapolis; and we are involved in a pilot project for consolidating and deconsolidating truckloads. So they are doing some of the right things. I think it is the speed at which they do it.

The one piece, as I touched on in my testimony that doesn't seem to get much attention, is the cost of the labor that it takes to provide the services of the U.S. Postal Service. If you compare the Postal Service wage and benefit packages to those of the private sector, for years, we were a subsidiary of Airborne Inc. before we sold to DHL. We did all the sorting for Airborne and DHL both, and the wage and benefit differentials between the private sector and the Postal Service are significant. It is as much as 50 percent higher on the wage piece than what we are paying in the private sector.

Mr. ROSS. Mr. Guffey, I think there are some things you and I agree on, and I think it is good common ground. For example, in your testimony when you talk about how it is not the taxpayers, it is the customers, it is the rate payers that are more affected by this, I think you and I will agree that for years the U.S. Postal Service has been self-sustaining, self-sufficient. And it is a busi-

ness, and I admire that, and I think that it is a business and can operate and should operate well into the future on its own with the rates that it takes in.

The second thing I think I agree with you, you stated in an article on January 24, 2011, that USPS can only remain relevant and resolve its financial difficulties if it improves and expands its service. I think service is important. I assume you are suggesting service to the customers need to be improved?

Mr. GUFFEY. Correct.

Mr. ROSS. If that service also includes the closing of Post Offices or retail facilities or mail processing centers because of a lack of capacity, would you not agree that is something that ought to be done?

Mr. GUFFEY. There are opportunities and places where the Postal Services, post offices should be closed.

As I said, I am from rural Oklahoma. Many towns used to have 4,000 or 5,000 people. Now they may be down to 400 or 500 people. Those services should be transferred over to something like a community post office.

But in our contract this time in the larger cities, we have given reduced prices and also provided 20 percent of the work force without legacy costs to the Postal Service so that they could keep offices open longer without paying overtime so that the community could come when it is relevant to the community. In other words, many post offices in this country close at 5 p.m. Well, that is when the businesses empty and people need to come and use the services, and so we provided them without overtime an opportunity to keep the post offices open so they would be more relevant to the business community.

Mr. ROSS. And you are open to innovation.

One of the things that I would draw your attention to and those of the U.S. Postal Service, as my time runs out here, is that 20-some years ago I read a book called "In Search of Excellence" by Thomas Peters and Robert Waterman. It talked about Fortune 500 companies who were successful because of certain things they did.

They had eight themes. One of those was close to the customer; learning from people served by the business; autonomy and entrepreneurship; fostering innovation; nurturing champions; simple form; lean staff; some of the best companies have minimal HQ staff.

I just offer that as I close here. My time is up. I hope that those not only with the APWU but also the U.S. Postal Service have a chance to look at it.

With that, I yield to the ranking member, Mr. Lynch, for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman. We have 17 votes scheduled, and I want my colleagues to get a chance to ask questions.

First of all, Mr. Winn, thank you for your attendance here.

Mr. Hete, thank you as well for your involvement.

President Guffey, in the previous panel there was a group that—well, there were some witnesses talking about reducing the frequency of delivery. They are talking about 5-day delivery. I have some concerns that the projections of savings, as in other cases,

aren't quite what they—well, I think they are overstated, going to 5-day delivery.

Now, I understand this affects the letter carriers more than it affects your folks, because post offices will still be open on Saturday, but they won't deliver on Saturday. But I am just concerned that taking the Postal Service delivery out of the picture for Saturdays—and that is how it appears it will be implemented. There will be no mail delivery on Saturday or Sunday. I am just concerned that would cause customers to look at the situation of mailing something on Thursday and saying, well, should I call FedEx or, you know, UPS instead of the Post Office since I know it is not going to be delivered Saturday or Sunday, and I might to have to wait until Monday to have a certain piece of mail delivered.

I am worried that it takes the Post Office out of that space and will not only not save money but by driving mail volume to your competitors on the weekends it will actually accelerate the decline in mail volume handled by the Postal Service.

You are a pretty smart guy. You know this business pretty well. Am I reading this wrong?

Mr. GUFFEY. I dislike any opportunity that is taken to reduce the service to the American public. I would hope that, if this does come about, that the Postal Service will reinstate its ability to deliver special deliveries so that medicines and necessary packages and parcels and priority mail and that type of thing will be delivered on Saturday.

But, again, I would not like to see any service deteriorate, but the necessities of the company will probably be taken into consideration in the overall bills that are passed—or ultimate bills that are passed in Congress.

Mr. LYNCH. The other thing, President Guffey, I know that you just concluded negotiations on a labor contract. I have seen over the years the willingness of the labor unions at the Postal Service to bring in technology, to create efficiencies there, and I know that the contract that you agreed to was a pretty tough contract to bring back to your members. The increases are modest.

Mr. GUFFEY. We froze wages for 3 years.

Mr. LYNCH. Yes. Why don't you talk about that, about what your contract negotiations involved? I know your co-witnesses have talked about the need to reduce labor costs, and I thought it was a pretty tough contract and one that recognized the realities of the situation.

Mr. GUFFEY. Well, we realize that we are no longer in an 8–to–5 world, because we work 24 hours a day. But the shifts no longer can be necessarily 8 straight hours. So we gave the Postal Service the ability to post positions that are—it could be four 10's, various configurations on different days, different hours, and we gave them the ability to have a lower-wage work force to come in and to supplement.

We recognize that in the long term the Postal Service is going to look a lot different over the next 15–20 years. We could not project what it would look like 35 years ago when I came to work for the Postal Service what it looks like now. And our membership cannot project what it will look like 25 years from now.

The tragedies and mistakes that have been made—the Post Office tried to enter the electronic communications world many years ago, and Congress kind of barred that from happening. But I read in the papers now where they are saying why don't they change their business model to do this or that, and they basically were prevented from doing some of that. But I think electronic communications is the future. Whether or not the Postal Service will have a piece of that, we don't know.

Mr. LYNCH. I yield back.

Mr. ROSS. Thank you.

The gentleman from Illinois, Mr. Davis, is recognized.

Mr. DAVIS. Thank you very much.

Mr. Hete, in your testimony you make the suggestion that the Postal Service should restructure its labor costs to match its current level of operations. You are aware that the recently negotiated contract between the Postal Service and the postal workers union contains a number of new work force and labor flexibilities for management to use. Do you think any of these changes are the kind that you are talking about in your testimony?

Mr. HETE. Well, certainly any flexibility you get with the work force, as Mr. Guffey testified to. They have changes where they can vary shifts according to demand flows, etc., are all going to be helpful. The question always is whether what you have done is enough to bring the entity to solvency.

I mean, in the private sector the difficulty is, if you are not making money, you are not going to be in business very long, and you don't have anybody else to look to. Banks are not going to lend you money if you are not making a profit. Then it is at what point do you need to tweak the labor costs in terms of either increased efficiency, lower benefits, or more contributions by employees for benefits.

I am not familiar enough with the details, but I do know that in comparison to the private sector postal costs are significantly greater.

Mr. DAVIS. All of us are aware of the fact that the Postal Service is the only government entity required to pre-fund its retiree health benefits at an accelerated rate over a truncated 10-year period. To date, the Postal Service has set aside over $40 billion in their retiree health benefits account to meet this mandate and are required to deposit an additional $5.5 billion by the end of September. Given its current financial situation, do you think it might be reasonable that they not have to meet that requirement?

Mr. HETE. You are asking me that question?

Mr. DAVIS. Yes.

Mr. HETE. Yes, in the private sector for retiree health benefits, as a general rule, you do not have to pre-fund those. It is kind of a pay-as-you-go system. But, again, that doesn't change the systemic cost structure. That is more or less a one-time give-back.

Mr. DAVIS. I guess my last question would be, would either one of you be prepared for the Postal Service to raise its debt limit? Do you see that as any kind of possibility that would be beneficial to the operation of the postal system?

Mr. GUFFEY. I do not.

Mr. HETE. I would agree.

Mr. WINN. I would agree.

Mr. DAVIS. Thank you, very much, Mr. Chairman. I think we can still make the vote.

Mr. ROSS. Thank you, Mr. Davis, for your brevity.

I want the thank the panel as well for being here and taking the time out of your schedule.

With that, this subcommittee stands adjourned. Thank you.

[Whereupon, at 3:50 p.m., the subcommittee was adjourned.]

[The prepared statements of Hon. Elijah E. Cummings and Hon. Gerald E. Connolly, and additional information submitted for the hearing record follow:]

STATEMENT OF CONGRESSMAN ELIJAH E. CUMMINGS

"Postal Infrastructure: How Much Can We Afford?"

June 15, 2011

Thank you, Mr. Chairman.

Thank you for calling today's hearing, and I thank all of the witnesses for helping us understand how Congress can help improve the financial footing of the postal service without sacrificing the service on which Americans depend.

Although mail volumes are declining, the Postal Service is still the largest retail mailing service provider, moving 41 billion pieces of mail in the second quarter of fiscal year 2011 alone.

This Committee is deeply familiar with the Postal Service's precarious financial condition, and we are now mere months away from a potential September default on certain payments if Congress fails to intervene.

A number of factors have contributed to the Postal Service's financial challenges, including declining mail volume, increased electronic communication, the economic downturn, and competition with other service providers. While the Postal Service has moved to address those factors from this list that it can influence, including the recent agreement with APWU, offering Postal customers more alternative access points, and harnessing industry partnerships, there certain aspects of its operations that the Postal Service simply cannot address, resulting in expenses outpacing the revenue the Service is generating.

In its review of the Postal Service's financial condition, the GAO recommended that the postal operations and networks be "right-sized" to match mail usage and customer behavior. Following that guidance, the Postal Service is also working to consolidate facilities in what I hope is the most thoughtful and responsible manner. Certainly, we all are reluctant to see Postal Services leave our communities; however, requiring that post offices remain open when they are unneeded or under-utilized is akin to imposing an unfunded mandate on the Service.

I believe the Postal Service needs more flexibility to consolidate retail facilities. This flexibility should extend to processing facilities as well. Particularly given the budget constraints we face, we in Congress cannot micromanage processing plant closures. It is a complex and multifaceted concept that requires expertise that in many ways only the Postal Service has. Additionally, the Postal Service, PRC and GAO have already weighed in, and have shown that they are capable on their own of making cost-efficient decisions. This Committee should continue to monitor the progress they make, and submit our sparing input only when appropriate.

That said, I share many of Mr. Guffey's concerns regarding the impact that these consolidations will have on Postal employees. I urge the Postal Office to give these concerns full consideration as it assesses facility consolidations going forward.

That said, despite the many efforts the Postal Service has made to modernize its services and cut costs, it still seems likely that the Postal Service will default this September. Here, Congress does have an urgent role to play to help avert default. The substantial overpayments to FERS, as well as the pre-funding requirement, must be dealt with before the deadline for default is reached. Rep. Lynch has introduced H.R. 1351, which I am proud to cosponsor, and I urge the committee to take up his legislation as soon as possible so we can help relieve the Postal Service from the some of its pending obligations.

I am confident that there is much room for bipartisan cooperation on this issue, and I hope to continue working with Chairman Ross and Ranking Member Lynch as we consider what we can and should do to improve the financial state of the Postal Service.

Statement of Congressman Gerald E. Connolly
Subcommittee on Federal Workforce and the Postal Service
Postal Service Infrastructure
June 15th, 2011

Chairman Ross, while I appreciate your continued focus on postal issues, once again ~~you~~ we are asking the wrong question. The title of this hearing should be "Postal Infrastructure: Taking Advantage of a Competitive Advantage," rather than implying that an expansive retail network is necessarily a liability. I have not noticed Wal Mart, McDonalds, or Starbucks rushing to close outlets. If we are going to venerate the private sector then maybe we should attempt to learn from it, and recognize that part of business growth is revenue enhancement as well as improvements to operational efficiency.

During the last Congressional session we had a joint House/Senate hearing at which business representatives from Hallmark and Amazon noted that the Postal Service's six day mail service and extensive retail network is a competitive advantage. These business representatives also noted that the Postal Service's competitors, UPS and FedEx, have a different business model with fewer customers and more expensive service. To put it in economic terms, UPS and FedEx are serving a very narrow slice of the demand curve. Do we want the Postal Service to make the same choice, terminating mail service for most Americans while driving up prices?

As of this week Mr. Lynch's bill to correct the pension overpayment has nearly 150 cosponsors. I hope this committee will report that bill and send it to the Senate in order to buy some time us to enact deeper reforms for the Postal Service's business model. $23 billion in Postal Service losses—representing the totality of USPS losses since the recession began--are a direct result of the unique and onerous prefunding requirement Congress imposed on the Postal Service in 2006. First, let's remove that prefunding requirement which no other business in America faces, and fix the $50-75 billion pension overpayment.

Second, let's give the Postal Service the opportunity to compete, because that is when it can take advantage of its retail network. The Postal Service should be able to offer packaging services, ship wine and beer, sell drinks, or offer any other services that could be located in its existing retail network, as envisioned in my legislation and Senator Carper's. In addition, we should enact thoughtful collocation standards so the Postal Service can adjust its footprint to meet changing demand. I have drafted language which would accomplish that goal without gutting rural service or inflicting gratuitous pain on the workforce.

Once again, individual operational questions must fit within the context of the Postal Service's updated business model, which we cannot reform if we allow ideological blinders to prevent us from even considering a vital, growing Postal Service.

GOVERNMENT RELATIONS

March 17, 2011

The Honorable Grace F. Napolitano
House of Representatives
Washington, DC 20515-0534

Dear Congresswoman Napolitano:

This is in response to your February 28 letter to Postmaster General Patrick R. Donahoe, cosigned by three of your colleagues, regarding the Area Mail Processing (AMP) study currently under way at the Industry Processing and Distribution Center (P&DC).

I appreciate the opportunity to address the concerns that you expressed and to provide information about the circumstances that dictate that we conduct comprehensive evaluations of our mail processing operations nationwide. As you are aware, the U.S. Postal Service is an exceptional government agency in that we are totally self-supporting—all of our income is derived from the sale of our products and services, and not operational subsidies from taxpayers. The continuing effects of the economic slowdown and the rate at which correspondence is migrating from traditional postal hard copy services to electronic media continue to negatively impact mail volume and the related revenue. Mail volume declined by 6.2 billion pieces in 2010, after a 26 billion piece decline in 2009. Despite increases in productivity and $11 billion in cost savings over the past three years, the Postal Service experienced net losses of $8.5 billion, $3.8 billion, and $2.8 billion for the years ended 2010, 2009, and 2008, respectively. Our forecasts for 2011 appear equally as dim.

It has been quite evident for a long period of time that excess capacity exists in our mail processing network, largely as a result of declining First-Class Mail volumes due to electronic diversion, changes made by businesses in the way they present mail to us, and continuing technological advancements in mail processing equipment. The current financial landscape and its detrimental consequences to the Postal Service have significantly exacerbated this excess in our network capacity and the necessity to address it. The Government Accountability Office has repeatedly urged the Postal Service to close and consolidate mail processing facilities.

The intent of the current AMP study at the Industry P&DC is to ascertain whether efficiencies and savings can be achieved by consolidating originating mail processing operations of the facility into the Santa Ana P&DC, while maintaining our strong level of service. As you know, the Postal Service held a public meeting in the City of Industry on January 26, during which postal officials presented information about the AMP study and the findings thus far. It should be noted that the public's comments conveyed at this meeting and those sent in writing to the Santa Ana District Consumer Affairs Manager (postmarked by February 10) will be considered thoroughly in any final determination. Input from the public meeting is summarized and submitted to the Area Vice President for consideration. Additional review by the Postal Service's Consumer Advocate ensures that adequate attention and resolution is given to the public input at the District and Area levels prior to final consideration by the Vice President of Network Operations.

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You can be assured that postal officials are applying careful attention and consideration to this study, as we are following our nationally implemented, comprehensive process for evaluating consolidation opportunities. We will notify your office when a final decision has been issued.

Please see the following responses to the concerns in your letter:

1. Although the recommendation calls for 26 employees to lose their positions, these employees would remain on the payroll elsewhere. The USPS described labor cost reductions as the predominate savings in its plan. But the postal budget will experience a cost-shift, not a cost savings.

The savings from the implementation of AMP proposals primarily derive from a reduction in the number of positions that need to be funded with salaries and benefits, the avoidance of infrastructure costs associated with running separate mail processing operations (equipment, maintenance, electricity, etc.), and the efficiencies gained from capturing economies of scale. In accordance with collective bargaining agreements between the Postal Service and the postal unions, we have been withholding vacant career positions for employees whose positions have been or will be eliminated in the nationwide repositioning of our workforce. If the Industry AMP proposal is approved, our workforce complement will be reduced by approximately 26 positions and the affected employees will be reassigned in accordance with our collective bargaining agreements.

2. Two previous studies conducted by the Postal Service found no significant benefits from moving mail operations from Industry to Santa Ana.

Previous AMP studies at the Industry P&DC were never completed. The first study, which was initiated on January 22, 2009, to evaluate the transfer of mail processing operations from the Industry P&DC to the Santa Ana and/or Santa Clarita P&DCs, ended on June 3, 2009, without the Postal Service issuing a summary of findings or holding a public meeting.

The next study was initiated on September 17, 2009, to evaluate the transfer of mail processing operations from the Industry P&DC to the Santa Ana P&DC. On February 1, 2010, the study was expanded to include the Los Angeles and Santa Clarita P&DCs. The study was subsequently placed on hold May 5, 2010, and terminated on Oct. 6, 2010, before any final conclusions were reached.

The current study, which is still in progress, was initiated on October 6, 2010, to evaluate the transfer of mail processing operations from the Industry P&DC to the Santa Ana and Los Angeles P&DCs. However, during the development of the study, it was proposed that originating mail processing operations be moved to only the Santa Ana P&DC.

From the time when the first Industry AMP study was initiated, total mail volume has declined an additional 15 percent and the Postal Service has experienced significant net losses. In the face of such difficulties, the Postal Service must continue to evaluate its processing and distribution network to determine if savings and efficiencies exist.

3. USPS conceded that transportation costs for the Postal Service would increase. Trucks will carry outgoing mail from Industry to Santa Ana. Once sorted, the mail destined for the 917-918 zip codes would return to Industry as incoming mail. This necessitates higher transportation outlays. This raises concern about the cost savings in the plan.

Before an AMP proposal is approved, a valid transportation plan must be developed that demonstrates that operational clearance times will be met. The full cost of this transportation plan is included in the financial analysis of the study and is used in our decision making.

4. The USPS plan brings additional congestion to local freeways and at the Santa Ana dock, noise, air pollution and more wear and tear on California highways and streets. For these reasons, the proposed action must comply with federal law, in particular the National Environmental Policy Act (NEPA).... To our knowledge, the City of Industry postal consolidation report does not include a NEPA analysis of project-specific or cumulative environmental impacts, or consideration of alternatives.

The Postal Service recognizes the importance of considering the environmental impact when making final decisions concerning AMP proposals, and we are aware of our responsibility to comply with federal law and the NEPA. Accordingly, the Industry AMP study will include a NEPA analysis.

5. We know that this change will cause most San Gabriel Valley residents and businesses to lose their 5 PM pickup service. Postal Service officials claim that pickup times will decrease by 30 minutes, but we do not know if these 30 minutes are a floor or a ceiling.

The Postal Service held a public meeting in the City of Industry on January 26, during which postal officials explained that the time of the last scheduled collection from boxes located in front of the Industry P&DC could possibly be adjusted from 8 p.m. to 7:30 p.m., and that the time of the last scheduled collection for a limited number of boxes located in front of some stations and branches could be adjusted from 5 p.m. to 4:30 p.m. However, every community would still have at least one 5 p.m. collection location at their local Post Office.

6. It is unclear if the Santa Ana facility even has the capacity to process this additional mail. Santa Ana actually shipped its own mail to Industry for at least three weeks in December 2010 because of high volume.

Because the Industry P&DC has so much extra capacity, some collection mail was transferred from Santa Ana to Industry during the holiday period to balance workload. However, this was in no way an indication that the Santa Ana P&DC does not have the capacity to process additional collection mail throughout the year. The transfer of collection mail between mail processing facilities is a common occurrence nationwide during our peak holiday periods.

7. We are troubled by how the USPS has conducted this process.

In each location where a study is initiated, we follow our established, nationally implemented AMP study process. This facilitates accurate data collection and analysis, proper recording and recognition of public input, and effective decision making. AMP studies are conducted because a potential may exist to reduce postal costs. It is fiscally responsible to examine every cost-savings opportunity for the purposes of keeping postage prices affordable and to ensure that the Postal Service will remain a cost-effective communication medium for every American.

8. At least two members of Congress have requested a copy of the study's data so we can evaluate the evidence supporting the consolidation recommendation. To date, no data has been received, and we reiterate this request.

In each location where a study is initiated, we follow our established, nationally implemented AMP study process. An important component of the AMP process is making information available to employees and union representatives, congressional and municipal officials, local businesses, and of course, the general public.

We provide information about the study's estimated savings, the number of career employee positions that may be reduced, and the impact, if any, to customer service that may occur if the consolidation is approved. We issue such information in conjunction with the public meeting announcement and during the public meeting itself, and we do so prior to reaching a final decision on the study. The information, including the public meeting presentation, also is posted on our Web site at www.usps.com/all/amp.htm. We cannot release proprietary business information collected as part of the study or pre-decisional documentation in a study. When a final determination is made in response to an AMP study, the Postal Service will make available a copy of the AMP study (with some redactions of proprietary data) to union officials in Washington, D.C., and to Congressional representatives upon request.

If I can be of assistance in other postal matters, please let me know.

Sincerely,

Mary Ann Simpson

Mary Ann Simpson
Manager, Government Relations

UNITED STATES POSTAL SERVICE

February 7, 2011

The Honorable Grace F. Napolitano
House of Representatives
Washington, DC 20515-0534

Dear Congresswoman Napolitano:

This is in response to your January 25 letter to Postmaster General Patrick R. Donahoe, regarding the Area Mail Processing (AMP) study at the City of Industry Processing and Distribution Center (P&DC).

I appreciate the opportunity to provide you with information about the Area Mail Processing (AMP) feasibility study at the City of Industry Processing and Distribution Center (P&DC). The U.S. Postal Service is an exceptional government agency in that we are totally self-supporting—all of our income is derived from the sale of our products and services, and not operational subsidies from taxpayers. The continuing effects of the economic slowdown and the rate at which mail is migrating from traditional postal hard copy services to electronic media continue to negatively impact mail volume and the related revenue. Mail volume declined by 6.2 billion pieces in 2010, after a 26 billion piece decline in 2009. Despite increases in productivity and $11 billion in cost savings over the past three years, the Postal Service experienced net losses of $8.5 billion, $3.8 billion, and $2.8 billion for the years ended 2010, 2009, and 2008, respectively. Forecasts for 2011 continue to appear dim.

On a national basis, it has been quite evident for a long period of time that excess capacity exists in our mail processing network, largely as a result of declining First-Class Mail volumes due to electronic diversion, changes made by businesses in the way they present mail to us, and continuing technological advancements in mail processing equipment. The current financial landscape and its detrimental consequences to the Postal Service have significantly exacerbated this excess in our network capacity and the necessity to address it.

The intent of the AMP study at the City of Industry P&DC is to ascertain whether efficiencies and savings can be achieved by consolidating some mail processing operations of the facility into the Los Angeles or Santa Ana P&DC, while maintaining our strong level of service. Please know that no decision has been reached in the study, as the time frame for a final decision in an AMP study is approximately 5 months from the announcement of the study's initiation.

As you know, the Postal Service held a public meeting in the City of Industry on January 26 during which postal officials presented information about the AMP study and the findings thus far. It should be noted that the public's comments conveyed at this meeting and those sent in writing to the Santa Ana District officials (postmarked by February 10) will be considered thoroughly in any final determination. Input from the public meeting is summarized and submitted to the Area Vice President for consideration. Additional review by the Postal Service's Consumer Advocate ensures that adequate attention and resolution is given to the public input at the District and Area levels prior to final consideration by the Vice President of Network Operations.

Please be assured that postal officials are devoting careful attention and effort to this study.

Sincerely,

Linda Macasa

Linda Macasa
Government Relations Representative

Post-Hearing Questions for the Record

Submitted to David E. Williams
Vice President, Network Operations
U.S. Postal Service

From Rep. Napolitano via Chairman Ross

'Postal Infrastructure: How Much Can We Afford?'

June 15, 2011

Q1. Why is information pertaining to area mail processing studies not shared with members of Congress who represent those areas?

A. **The Postal Service shares information pertaining to each facility-specific Area Mail Processing (AMP) study with members of Congress who represent the service area of the mail processing plant being analyzed. As a matter of standard operating policy, the Postal Service informs affected members of Congress by letter when it initiates an AMP study. The Postal Service sends a second letter when it announces a public meeting at which it will solicit comments from postal customers in the service area of the plant under review. Notices and letters pertaining to the public meeting summarize the operational changes, employee impacts, and service changes being contemplated, as well as a preliminary estimate of cost savings. The same information is shared at the public meeting. In the interest of transparency and accountability, the Postal Service also posts copies of the aforementioned summary for each AMP proposal on its public website before each public meeting, as well as an after-the-fact summary of the issues raised at the meeting. For examples, please see http://about.usps.com/streamlining-operations/area-mail-processing.htm.**

Throughout the pre-decisional internal management review of an AMP proposal, postal Headquarters operations and Government Relations managers routinely provide briefings to individual members of Congress and their staffs, and state Congressional delegations upon request. In providing these briefings, the Postal Service strives to assist members of Congress in achieving an understanding of a particular AMP consolidation proposal undergoing internal review. At the same time, the Postal Service is obliged to shield from disclosure the internal pre-decisional exchange of preliminary opinions and deliberations among postal managers analyzing the AMP proposal, consistent with Freedom of Information Act exemption 5 U.S.C. § 552(b)(5). In addition, the briefings are conducted in a manner intended to protect from public disclosure commercially-sensitive postal product volume data that, in keeping with good business practice, is not publicly disclosed. *See* 39 U.S.C. § 410(c)(2) and 5 U.S.C. § 552(b)(3).

When the preliminary operational, employee and service change proposals and cost estimates are internally vetted, corrected and finalized, and internal deliberations are concluded, Postal Service headquarters makes a final AMP decision. Shortly thereafter, the same members of Congress are informed by letter. Upon request, members are provided a copy of the final AMP decision file, subject to redactions consistent with 39 U.S.C. § 410(c)(2). Postal Headquarters operations and Government Relations managers routinely provide briefings to

members of Congress and their staffs upon request to assist members and further their understanding of a particular AMP decision.

In compliance with the Postal Accountability and Enhancement Act, Pub. L. 109-435 Title III § 302(c)(4), the Postal Service also submits to Congress an annual update of the AMP plant closure activity completed as a part of its June 2008 Network Plan.

Q2. Why is the proprietary nature of the information relevant when dealing with members of Congress, who represent the people of the area?

A. In order to develop accurate estimates of costs that may result from consolidation of mail processing plant operations, Area Mail Processing (AMP) spreadsheets reflect facility-specific mail volume data, often for particular mail classes or products for virtually all operations of the plant being analyzed. In addition, if service upgrades or downgrades are being contemplated between specific 3-digit ZIP Code pairs, worksheets in the AMP decision document also may reflect the volume of mail by class or product flowing through that plant that could be subject to a service upgrade or downgrade.

Under the Freedom of Information Act (FOIA), agency records are required to be publicly disclosed, unless their contents fall within the scope of one of the exemptions in 5 U.S.C. § 552(b), or another statutory exemption authorized by 5 U.S.C. § 552(b)(3). The Postal Service considers mail class or product specific volume data disaggregated at the facility level to be commercially sensitive and exempted from mandatory public disclosure by 39 U.S.C. § 410(c)(2). Similar disaggregated data are not made public or shared with the Postal Service by its competitors. Accordingly, it would not be in keeping with good business practice for similar postal data to be accessible to anyone simply upon request. When it responds to requests for public access to AMP final agency decision documents under the FOIA, the Postal Service discloses aggregate cost and service data, but withholds from disclosure those portions of each document reflecting the commercially-sensitive disaggregated volume data (or data from which such volumes may be deduced).

Although certain information can be exempted from disclosure in response to FOIA requests, 5 U.S.C. § 552(d) makes clear that FOIA exemptions do not provide an agency such as the Postal Service authority to withhold records in response to requests from Congress. However, as interpreted by the courts and the Department of Justice, FOIA subsection (d) only applies to requests made by or under the authority of a Congressional committee or subcommittee, not to requests made by individual members of Congress.

Agency disclosures to Congressional committees made under section 552(d) generally do not waive the agency's right to exempt the records from public disclosure under the FOIA. However, the FOIA does not extend the same protection to documents provided to individual members of Congress, and the Postal Service is therefore concerned that disclosure to a member of Congress could be deemed as a waiver of its right to exempt the same information from public disclosure under 39 U.S.C. § 410(c)(2).

Q3. What is the size, mail capacity and staffing of the Santa Ana facility compared to the Industry facility (pre-consolidation)?

A. **The AMP study reflects the relative processing capacity of the two facilities. Prior to the consolidation, there were 944 craft employees and 81 management positions in Santa Ana compared to 727 craft employees and 55 management positions in Industry. The Santa Ana facility had 11 Automated Facer Canceller Systems (Letter cancelling machines) and Industry had five (5). The Santa Ana facility had 54 Delivery Bar Code Sorters (letter processing machines) and Industry had 44. The Santa Ana facility is 312,017 square feet with approximately 236,000 square feet of processing space. The Industry facility is 459,542 square feet with approximately 244,000 square feet of processing space and the remaining space is administrative.**

Q4. A March 17, 2011 letter from USPS responding to a February 28 letter send (sic) by Reps. Napolitano, Chu, Schiff, and Baca said a NEPA analysis would be included in the final study to account for the increased noise, air pollution, and wear-and-tear from the move. Was such an analysis conducted, and if so, why was it not included in the final study as we were assured it would be?

A. **An environmental analysis of the impact on this consolidation was completed on April 19, 2011, which reflected that no further environmental review was required. The results of this analysis were fully considered before a final decision to consolidate was rendered on May 16, 2011.**

Q5. What will the USPS's course of action be if a future audit finds the consolidation does not achieve the expected cost savings and service standards?

A. **The PO 408 AMP process has been externally reviewed and supported by the Government Accountability Office and USPS Office of the Inspector General as a valid method to estimate the financial impacts of a consolidation. To ensure that the business case is achieved, each consolidation has two separate Post Implementation Reviews (PIRs); one is conducted six months after implementation and the other is conducted one year after implementation. The purpose of these reviews is not only to evaluate the business case and service performance of a consolidation, but to ensure that control measures of successful consolidation are in place. To date, every PIR that has been conducted has supported the corresponding business case for consolidation and most have shown significantly greater than estimated savings. If the business case were not supported in the PIR, the USPS would pursue the correction opportunity that would yield the most savings while providing service to the customers.**

Q6. Will quality of service for users whose mail is currently processed at the Industry facility be maintained?

A. **Service Standards are expected to improve with this consolidation. Mail sent from Industry to San Diego is currently a two-day standard and will be measured as an overnight standard after the consolidation. There are no projected First-Class Mail downgrades associated with this AMP.**

The AMP process centralizes mail processing operations to better use resources, including space, staffing, processing equipment, and transportation. AMPs take advantage of state-of-the art technologies available at the gaining facility so originating and/or destinating mail can be processed more efficiently. AMPs support network rationalization and reduce redundancies. Post-

implementation studies conducted on the recent Long Beach P&DC AMP of originating volume into the Santa Ana P&DC demonstrated that levels of service were maintained or exceeded after the consolidation.

AMPs have minimal if any impact to customer service. Business mail entry, retail, and delivery services are improved or remain unchanged. Local mailers' indicia requirements for their postage meters or permit imprints remain the same. Local postmarks continue to be available at Post Offices. ZIP Codes will not change as a result of AMP.

Q7. The final study contains little information on how service will be maintained. Where is this information, and how has the USPS made certain there will be no degradation of service due to longer transportation times and other changes?

A. **The transportation and processing schedule for this consolidation was developed to align with the facility operating plan. This includes clearance times of operations and dispatch times of transportation to ensure that the processing profile will provide an environment capable of meeting the service standards. Also, service performance is a key part of operations management. Service results are used by operations managers on a daily basis to identify the processes that are successful and to replicate them throughout the network. This consolidation will meet the operational target windows and be measured using the same performance metrics as all other facilities.**

Q8. A recent audit of a consolidation in Lima, Ohio found there was insufficient staff to handle new mail, and customer service suffered as a result. Is there adequate staff at the facility in Santa Ana, California, to absorb the incoming mail from Industry?

A. **The USPS Office of Inspector General's audit on Lima, Ohio supported the business case of the consolidation and recommended actions to improve the transition of operations. One of the recommendations was to create cross-functional implementation teams and to track the progress of the necessary steps in a project plan. This recommendation has been incorporated into the AMP implementation process and we have a structured approach to project planning, which includes assessing staffing changes necessary to support the incoming workload at the gaining facility.**

Q9. January 25, 2011 was the first and only public input meeting of the three-year period in which AMPs were underway. Why did the questions at this meeting go unanswered and why was there no follow-up meeting to address concerns?

A. **The Public Input Meeting gives the public an opportunity to provide input regarding the consolidation and provides them with available information regarding the AMP process and potential impacts. A video explaining the AMP process is shown and an AMP summary brief handout and presentation are given to explain the proposal. A question and answer period follows, when the public is given all available information. The concerns are recorded and reviewed by the Area Vice President, the Consumer Advocate, and the Vice President of Network Operations prior to a final decision. The public meeting is held early in the process in order to ensure that public input can be reviewed and incorporated into the proposal. After review, a summary of the comments are also posted on *usps.com*. Detailed information regarding the study is released to the public once the AMP proposal is complete and a decision is made.**

Q10. At the January 25 public meeting and in the March 17 letter, the USPS stated that pickup times could be moved from 8:00 to 7:30 PM and from 5:00 to 4:30 PM, but that each community would retain "at least one" 5:00 PM pickup location. What is the specific breakdown of which locations will have altered pickup times?

A. **There is only one projected collection box change associated with this consolidation. The last collection time for the box located in front of the Industry P&DC will be moved from 8:00 p.m. to 7:30 p.m. This is the latest collection for all boxes in the Industry Service Area. All other collections are projected to remain at their current times.**