

**ADDRESSING THE U.S. POSTAL SERVICE'S  
FINANCIAL CRISIS**

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**HEARING**

BEFORE THE

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

OF THE

COMMITTEE ON  
HOMELAND SECURITY AND  
GOVERNMENTAL AFFAIRS  
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# ADDRESSING THE U.S POSTAL SERVICE'S FINANCIAL CRISIS

TUESDAY, MAY 17, 2011

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

The Subcommittee met, pursuant to notice, at 10:35 a.m., in room 342, Dirksen Senate Office Building, Hon. Thomas R. Carper, Chairman of the Subcommittee, presiding.

Present: Senators Carper, Akaka, Pryor, McCaskill, Begich, and Brown.

## OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. The hearing will come to order.

Welcome. We welcome our guests, our witnesses, the first panel as well as our second panel. I especially want to welcome back Senator Danny Akaka, who has been on the DL for a week or two, but he is back, tan, fit, and rested. We need him at his best and that is what we are going to get. We are happy to be here with Senator Akaka, and with Senator Scott Brown, and with all of you.

This is not the first hearing that we have held with regard to the Postal Service's financial challenge, but it is an important one. It is an important one. And while the witness list at this hearing is full of familiar names and organizations, the hearing today is likely to be somewhat different from those we have held in the past. It needs to be different because the crisis the Postal Service faces is more urgent now than it has been in the past.

Absent prompt and dramatic action on the part of Congress, our next Postal hearing may well be about how we pick up the pieces from a shutdown in operations. It is my hope that this hearing will jump-start the process of developing a bipartisan, bicameral consensus around the changes needed to restructure the Postal Service's finances and transform its operations to reflect the uncertain future that it now faces.

Just last week, the Postal Service Board of Governors released some sobering data on the Postal Service's financial performance in the second quarter of this fiscal year, which ended on March 31. The Board also released numbers summarizing mail volume and revenues for the fiscal year to date. These data show that, as those of us who follow Postal issues feared may happen, the Postal Serv-

ice is not recovering along with the economy as a whole. Rather, the continued electronic diversion of the mail has likely permanently reduced mail volume, despite the Postal Service's best efforts to bring in new customers and preserve those that it has today.

In the period between the beginning of January and the end of this March, mail volume declined by just more than 2 percent versus the same period last year. This follows two quarters of modest growth. At the same time, the Postal Service's most important product, first class mail, actually lost 6 percent of its volume, continuing its pattern of years of steady decline.

These developments are contributing to losses by the Postal Service. Midway through the current fiscal year, the Postal Service booked losses totaling some \$2.8 billion. Its projected losses for the year now stand at \$8.3 billion, nearly matching the record \$8.5 billion in losses experienced last year. These volume and revenue numbers are all worse than the Postal Service initially projected, and if the losses at the end of the year are truly as bad as we are now being told they will be, I understand that the Postal Service will have exhausted all of its \$15 billion line of credit from the Treasury by the end of September and will limp into Fiscal Year 2012 with just enough cash on hand to get by.

And it does not get a lot better from there. Getting by in 2012 will likely mean that the Postal Service will not be able to make its \$5.6 billion retiree health prefunding payment and could even have difficulty making other normally routine pension and workers' compensation related payments.

On top of that, a major crisis that occurs over the next year or so, such as further economic slowdown or a terrorist attack, could well push the Postal Service over the edge into insolvency and result in a shutdown of its operations, something that none of us want or need.

If the Postal Service were to shut down, the impact on our economy would be dramatic. As Postmaster General Donahoe will testify to us today, the Postal Service operates at the center of an industry that employs some seven million people and generates more than \$1 trillion in sales and revenue each year. At such a difficult time for our country, we cannot afford to put those jobs and that kind of productivity in jeopardy.

In recent years, the Postal Service has done its share to respond to the declining demand for hard copy mail and to better align its costs with its revenues. Total costs have been reduced by \$12 billion in recent years. A big contributor to that success has been the elimination of more than 113,000 Postal Service jobs since 2007 through attrition and more than 200,000 over the past decade. I think that represents a reduction in the workforce by a little bit over 25 percent. These savings are continuing with the Postal Service's new contract with the American Postal Workers Union (APWU), which includes wage and benefit concessions and significant new workforce flexibilities.

In addition, the Postal Service has introduced and successfully promoted a number of new products—a number of them. One of those, maybe the best known, is the flat rate Priority Mailbox.

We are rapidly reaching the point, however, at which the Postal Service will no longer have the authority under current law to do what it needs to do in order to survive and prosper. That is why I am introducing today legislation that aims to clean up the Postal Service's finances and help it implement the ambitious reorganization plan that it announced last spring. The main provision in my bill, the Postal Operations Sustainability and Transformation Act (POST Act), aims to permanently address the various pension and retiree health-related issues that have plagued the Postal Service for years now.

The Postal Service, the Postal Service's Inspector General, the Postal Regulatory Commission (PRC), and two independent actuaries have all come to the conclusion that the Postal Service has overfunded its obligation to the Civil Service Retirement System (CSRS) by between \$50 billion and \$75 billion. In addition, numerous observers and even the Office of Personnel Management (OPM) have pointed out that the Postal Service has paid \$7 billion more than it owes into the Federal Employees Retirement System (FERS).

My bill would give the Postal Service access to the funds it has overpaid. It would be able to use them to make its required retiree health prefunding payments, taking upwards of \$5 billion off its books each year for the next several years. Once those payments are satisfied, the funds that this bill would free up could be used to pay workers' compensation obligations and to retire debt owed to the Treasury. These changes, or something very similar to them, will need to be a vital part of any effort to improve the Postal Service's financial condition in both the short and the long term.

But stopping with these reforms and avoiding further potentially more difficult changes simply will not be enough. The Postal Service is projecting cumulative losses of more than \$230 billion between now and 2020—\$230 billion. The savings generated by the pension and retiree health reforms in my bill and in others that have been introduced, including a bill introduced by Senator Collins and bills introduced in the House, would only address about a third of these losses. In addition, the Postal Service's latest financial data shows that even if the retiree health prefunding payment is not made this year, the Postal Service would still face the risk of insolvency and shutdown in 2012. And even if the 2012 retiree health payment is also not made, the Postal Service would enter 2013 with no cash and no borrowing room at all.

More will clearly need to be done. That is why my bill takes important steps toward truly giving the Postal Service the flexibility that those of us in Congress always say we want to give them to adapt to new realities and operate more like a business. No business facing the kind of difficulties and challenges that the Postal Service faces today would survive for very long if it were told how many retail outlets it should have and where they should be located, or if it were prevented from making operational changes or taking full advantage of the resources and expertise that it has at its disposal. Yet that is what the Congress does to the Postal Service.

My bill aims to address these problems and to take Congress out of the day-to-day management of the Postal Service. Assuming that

the Postal Service can continue to build on its recent cost cutting efforts—and I commend them and the labor unions that represent most of the workers for those efforts—these changes could help set the Postal Service on more solid footing in the years to come.

The report that the Government Accountability Office (GAO) is releasing today on the state of the Postal Service's vehicle fleet provides, I believe, a valuable case study. The report clearly details the negative impact that financial uncertainty and well-meaning but sometimes harmful dictates from Congress have on Postal operations. GAO found, for example, that due at least in part to the Postal Service's dire financial situation, Postal management currently has no plan in place to replace its very large fleet of delivery vehicles, some of which were first put on the streets a generation ago or more. The cost of operating and maintaining these vehicles are increasing, and in at least some cases, it is having a negative impact on operations.

I believe it is unacceptable that the Postal Service has no plans to date to begin replacing its aging fleet, perhaps with more fuel-efficient vehicles, the purchase of which in large numbers could help commercialize important new technologies. But it is also unacceptable that the Postal Service has been placed in this position financially, in part due to the acts of Congress, or to the inaction of Congress.

I look forward to hearing from our witnesses today about these and other pressing issues facing the Postal Service.

I would also note that Senator Collins, with whom I have worked on a lot of issues in the past, including Postal issues, has introduced her own bill, and there is a fair amount of overlap between what she has proposed and what you will find in the legislation I am introducing today. My hope at the end of the day is that Senator Collins and I, who have worked on these issues and others in the past, will find common ground. That is what we need. And we need to, as I said earlier, we need to develop a bipartisan, bicameral approach to address these challenges, and my hope is that many of the Members, Democrat and Republican, of the Subcommittee and this Committee will be a part of that solution.

With that having been said, let me recognize Senator Brown for any comments that he would like to make, and then we will turn to Senator Akaka. Senator Brown.

#### **OPENING STATEMENT OF SENATOR BROWN**

Senator BROWN. Thank you, Mr. Chairman. I am not going to repeat a lot of what you said, but I do want to point out that I agree with you and that we need to allow, or give the Postal Service the tools and resources they will need to move forward. We need to remove some of the roadblocks so they can provide the universal service and have it be guaranteed so the communities are not adversely affected.

You have already addressed, obviously, the pension fund overpayment. I think there is general agreement with that. It is just a question of giving them the flexibility to work in a responsible manner to solve their own problems, because, clearly, the path that they are going down is not sustainable, as you pointed out, and I



look forward to working, obviously, with you and Senator Collins, in working on these very real issues.

So I appreciate the opportunity and look forward to the testimony. I will submit my balance for the record.

Senator CARPER. All right. Thanks so much, and your entire statement will be made part of the record.

Senator Akaka, welcome.

#### OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Chairman Carper. I want to thank you very much for holding this important hearing about the future of the U.S. Postal Service (USPS).

I also want to welcome our Postmaster General and Chief Executive Officer (CEO) of our U.S. Postal Service and also Phil Herr from GAO to our hearing.

As we have heard time and again over the last 3 years, the Postal Service faces a devastating financial crisis. By the end of this fiscal year, the Postal Service may not be able to fully pay its \$5 billion retiree health benefits prefunding obligation. The Government Accountability Office report released last year examines several options to help the Postal Service.

So I want to commend Senator Carper and Senator Collins, who have both introduced legislation that aims to help the Postal Service meet its obligations by addressing overpayments to the retirement funds. Additionally, Senator Carper's POST Act offers several provisions which would allow the Postal Service to innovate and expand its business. However, both of these bills still contain a provision introduced in the last Congress which would bias the collective bargaining process to favor the Postal Service during arbitration. The fact that the Postal Service and the APWU ratified a new 4-year contract just last week demonstrates that the Postal Service and employees can work together to reach an agreement that meets everyone's needs. Congress does not need to inject itself in the collective bargaining process.

I also want to mention the issue of 5-day delivery. As I expected, the Postal Regulatory Commission's estimated savings for cutting a day of service is lower than the Postal Service's. The PRC also points out that the Postal Service did not examine thoroughly the impact on rural areas. I am concerned about the impact of cutting service on Hawaii, which already has slower mail delivery due to its location and challenges moving mail between islands. Ultimately, I do not believe this change would help the Postal Service attract new business or revenue. Instead, it could harm those who rely on the Postal Service.

Again, I want to thank my colleagues for their hard work on these issues and thank all of our witnesses for their contributions to the entire process. These hearings will help us to move forward with legislation to finally ensure a long-term fix for the Postal Service.

Thank you very much, Mr. Chairman.

Senator CARPER. Senator Akaka, thanks. It is great to have you back again.

Our first witness today is our Postmaster General, Pat Donahoe. Oh, Senator Begich, you slipped in on me. Thanks for joining us.

Good to see you. Again, we start our day together and we will spend most of our day together, I suspect.

Senator BEGICH. It is looking that way.

Senator CARPER. Our first witness today is the Postmaster General, Pat Donahoe. This is Mr. Donahoe's first time testifying before this Subcommittee as Postmaster. Is that true? Is this your first time?

Mr. DONAHOE. It is true.

Senator CARPER. First time as Postmaster General. Before assuming that position last year, Mr. Donahoe served as Deputy Postmaster General and Chief Operating Officer (COO) at the Postal Service. Mr. Donahoe has spent his entire career at the Postal Service, beginning as a clerk in his home town of Pittsburgh.

Next, we have Phillip Herr, Director for Physical Infrastructure Issues at the Government Accountability Office. Mr. Herr has been with GAO since 1980 and manages a broad range of issues there, including Postal issues. We appreciate his previous help and we look forward to your testimony here today.

Both of your statements will be admitted in their entirety for the record and you are free to summarize as you see fit. If you exceed 5 minutes, I will not say much. But if you exceed 7 or 8 minutes, I will say something.

So please proceed, Mr. Postmaster General.

**STATEMENT OF PATRICK DONAHOE,<sup>1</sup> POSTMASTER GENERAL  
AND CHIEF EXECUTIVE OFFICER, U.S. POSTAL SERVICE**

Mr. DONAHOE. Thank you, Mr. Chairman. Do not worry. I will not exceed that 5 minutes.

Good morning, Mr. Chairman and Members of the Subcommittee. I appreciate the opportunity to testify today on behalf of the U.S. Postal Service. Thank you for the invitation, and thank you, Mr. Chairman, for calling this hearing.

The Postal Service plays a vital role in American society and the American economy. The Postal Service will deliver more than 165 billion pieces of mail this year and ship more than two billion packages. We are the backbone of a \$1 trillion mailing industry. The Postal Service is a self-funding entity that innovates and competes for customers. We provide a reliable, secure, and affordable delivery platform for American business. Therefore, it is in the national interest to keep the Postal Service financially strong.

Like any business, the Postal Service is subject to marketplace trends, and unfortunately, we have seen a significant long-term decline in our most profitable product category, first class mail, which accounts for approximately 50 percent of our revenue. People and businesses are electing to send and receive statements and pay bills electronically. This reduces mail volume.

We have aggressively cut costs in response to economic conditions and customer trends and reduced the size of our workforce by more than 113,000 employees over the last 4 years, and we are consolidating both mail processing and retail facilities. Our total cost reduction during this 4-year period is in excess of \$12 billion. We have responded to volume declines by working with corporate part-

<sup>1</sup>The prepared statement of Mr. Donahoe appears in the appendix on page 48.

ners, improving our customer experience, and creating innovative products to spur demand.

It is important to recognize that our employees have done an outstanding job during some turbulent times in the marketplace. In fact, absent the retiree health benefit prepayment mandate, the Postal Service would have recorded a cumulative profit over the last 4 years.

Mr. Chairman, despite our significant role in the American economy and our aggressive cost cutting and revenue generating efforts, I regret to say that we are in a serious financial predicament today. As things stand, we do not have the cash to make the \$5.5 billion prepayment for future retiree health benefits due on September 30, and we may be forced to default on other payments. This could extend to operational expenses.

The costs of potential delivery disruptions to the economy and to the country cannot be overestimated. Even the threat of such disruption would have a significant impact on America's business and do irreparable harm to America's faith in the mail.

Mr. Chairman, we need legislation this fiscal year, and I am grateful, indeed, that both you and Senator Collins have introduced bills that address some of our most serious constraints. We especially support provisions that would eliminate the retiree health benefit prepayments by reallocating our Civil Service Retirement overpayments, that would return the Federal Employees' Retirement System overpayments to the Postal Service, and provide the Postal Service with the flexibility to determine its own delivery schedule.

I would also urge the Subcommittee to start the legislative process with a long-term approach to our business model. We have sustained financial losses over the past several years that have created negative perceptions about the mail and Postal Service, and to some extent has had a negative impact on our business. The fact is, with the right legislation, the Postal Service can return to profitability. If given the flexibility to do so, the Postal Service can continue to serve the American public very effectively and continue to sustain and propel American commerce.

Mr. Chairman and Members of the Subcommittee, I look forward to working with you in support of these goals and thank you for your leadership on these important issues. Thank you, and this concludes my remarks.

Senator CARPER. Thanks very much. You are a lot shorter than Jack Potter. [Laughter.]

Mr. DONAHOE. We have a motto, 5 minutes or less, so I wanted to make sure we did that.

Senator CARPER. He was always good, too. Thanks.

Mr. Herr, please proceed.

**STATEMENT OF PHILLIP R. HERR,<sup>1</sup> DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE**

Mr. HERR. Chairman Carper, Senator Brown, and Members of the Subcommittee, I am pleased to be here to discuss GAO's work on the Postal Service. I will briefly discuss the Postal Service's financial condition, key issues in our report on the Postal delivery fleet that is being released today, and options for addressing its fleet and broader challenges.

The Postal Service is on GAO's list of high-risk agencies because it needs to realign its business model in the face of declining mail volume. Total mail volume decreased 3 percent in the second quarter of this fiscal year, with first class mail declining by 7.6 percent compared with the same period last year. Halfway through this fiscal year, the Postal Service is reporting a net loss of \$2.6 billion. As acknowledged today, the Postal Service projects it will reach its \$15 billion debt limit this year and default on a \$5.5 billion prefunding payment for retiree health benefits.

Against this decidedly grim backdrop, the Postal Service needs to modernize its operations, including preparing to upgrade its delivery fleet. The Postal delivery fleet has about 192,000 vehicles, most of which are custom-built right-hand-drive vehicles about 16 to 23 years old that are approaching the end of their expected 24-year operational lives. The fleet includes about 22,000 commercially available minivans, ranging in age from 2 to 13 years, with an expected operational life of 10 years.

Maintaining and fueling the delivery fleet cost about a billion dollars in Fiscal Year 2010, or about \$18 per day per vehicle. Our analysis of repair data found that direct maintenance costs averaged about \$2,600 per vehicle, which is a bit understated because some contractor costs were not included. About 5,300 vehicles required more than \$7,000 in direct costs, and 700 vehicles required more than \$10,500 in direct costs, over one-third the estimated replacement cost of the vehicle. And at least 31 percent of delivery maintenance costs were for unscheduled maintenance, 11 percentage points over the Postal Service's goal.

While Postal employees we interviewed believe the delivery vehicles can continue to operate without major interruptions for at least several more years, we identified maintenance problems during our site visits. In Minnesota, agency requirements for replacing rusted frames were not being followed at the Postal maintenance facility we visited. Frames were only replaced when one or more holes perforated the metal. We also found frames with severe rust problems in New York State. Each frame replacement costs about \$5,000, and private fleet managers we interviewed said that replacing frames is a key indication that it is time to replace, not repair, vehicles.

However, upgrading the fleet will be costly. Purchasing 185,000 delivery vehicles is estimated to cost about \$5.8 billion, about \$31,000 for vehicles with a gasoline engine. Fully refurbishing the fleet would cost less, about \$3.5 billion, or about \$20,000 per vehi-

<sup>1</sup>The prepared statement of Mr. Herr appears in the appendix on page 62.

cle, although the current course of replacing frames, motors, and transmissions is effectively refurbishment at a slower pace.

EPACT acquisition requirements will need to be factored into replacing delivery vehicles, as well, namely that 75 percent of its acquisitions be capable of using alternative fuel. Another complicating factor in considering alternative fuel vehicles is that higher acquisition costs may not be recouped over the vehicles' operating lives, given that delivery vehicles currently travel about 17 miles a day and use about two gallons of gasoline.

While the Postal Service has been able to maintain its current fleet, the time will soon come when the cost of this approach will not allow further delays. We have recommended the Postal Service develop a strategy and time line for addressing this need. More broadly, agreement is needed on a package of actions to stabilize the Postal Service and align its costs with revenues and generate sufficient funding for capital investments.

As we previously reported, Congress should consider modifying the funding requirements for retiree health payments in a fiscally responsible manner to provide short-term relief, and addressing constraints and legal restrictions that hamper closing facilities so that more aggressive action can be taken to control costs. Proposed legislation discussed today provides an important starting point for action.

Chairman Carper, Senator Brown, and Members of the Subcommittee, this concludes my prepared statement and I am pleased to answer any questions.

Senator CARPER. Thanks. Our thanks to both of you for that testimony.

I want to just drill down, if you will, on the GAO's report released today, dealing with the vehicles. As I understand it, the number of vehicles that the Postal Service has is roughly 185,000, close to 200,000. It sounds like the average age is about 20 years. They do not go very far on a day, an average of about 17 miles. And the cost of fuel—would you just go back and clarify it for me, Mr. Herr. What are we talking about, the cost of fuel for these vehicles?

At a billion dollars, is that what I heard?

Mr. HERR. We said a billion dollars, but that was for maintenance and fuel, so the direct maintenance costs were about \$750 million and then fuel costs last fiscal year were about \$300 million, although with prices going up, it would have increased this year, obviously.

Senator CARPER. Yes. One of the things I have encouraged the previous Postmaster General, the Board of Governors, the labor unions that represent many of the Postal employees, is to just be as creative as possible and think outside the box. And I have even suggested, as the Postmaster General may recall, I almost suggested that you create, if you do not have it already, within the Postal Service an entity whose job is to think outside the box and to come up with clever ways to create revenues and equally clever ways to reduce costs.

I want us to just think about energy costs and just talk with you about what you are doing already to bring down energy costs within buildings—there are a lot of Postal buildings—and whether or

not there is any potential for a similar approach with reducing the energy costs, maybe the maintenance costs that flow from 185,000 vehicles. Can you just start with that, please?

Mr. DONAHOE. Sure. Well, first of all, let me thank you for your positive comments about our energy program. We are very proud of that. We embarked on an energy program probably about 4 or 5 years ago now to look at anything and everything we do, mainly focused on buildings, and a lot of the costs or a lot of the focus was on electrical costs. And when you look at electricity, it comes down basically to how much it costs to keep the lights on in a facility. So we have done a lot of investment around special systems that help us in our large facilities to manage that, but we have done a lot of simple things, just like replacing light bulbs for a more cost-efficient bulb, fixtures, and very simple things like keeping the lights off. So we have been able to cut electric usage by about 30 percent over the last 4 years and that is something we are very proud of.

We have also looked at a number of other facility innovations and upgrades. We have invested in things like green roofs to help us not only sustain buildings for a long time, but that helps from an energy conservation standpoint, too.

From a vehicle standpoint, we are looking at all the options right now. We have been experimenting with hydrogen vehicles, natural gas, diesel, electric, and hybrid. We are trying to make sure that we look at everything and anything out there, and we have two considerations. No. 1, the daily cost to operate the vehicle, but more importantly, the long-term costs, and that is why as we look at electric we have to maintain in mind, at least, the idea that you have to replace batteries and that has to be considered as part of the long-term investment, too.

Right now, we are at a place where we will have to buy some vehicles in the next few years, but in order to do that, we have to get our finances in order. So, again, I appreciate your bill, because that is going to help us get the short-term finances in order so that we can address some of these long-term investments.

Senator CARPER. All right. Mr. Herr, do you want to make any comments just in response to that, please?

Mr. HERR. We did ask a few folks in the industry about the idea of the energy sharing contracts, and one of the points that they made to us is because the vehicles travel relatively short routes and use relatively small amounts of fuel, that configuration may not—it may work very well in buildings, but it may be a tougher thing to use in terms of the vehicles.

Senator CARPER. And under the energy sharing contracts, as I understand it, what you have, folks will come in and will actually do work to reduce energy consumption for buildings and their payment stream will flow from the energy savings that are created by the retrofit. And that just does not work, though, for vehicles, does it?

Mr. HERR. Well, it is apparently a more—it would be a new idea for that field, but I think given the configuration of the fleet and also, I think, the long—they are hoping to do another buy for another 25-year vehicle—that would raise some other questions, I guess, in terms of the long-term commitment for the industry.

Senator CARPER. Yes. One other thing I would ask you to keep in mind is this huge reliance we have on oil in this country. Most of it is from foreign sources. A lot of it is from places that are undemocratic, frankly, unreliable, and we need to reduce that. We all know we need to reduce that.

Among the initiatives that we are pushing in my State is offshore wind. We hope within a couple of years to have deployed maybe the first offshore windmill farm off of Rehoboth Beach, about 12 miles out, and to be able to fuel vital electricity for at least 100,000 homes a day.

But we know the wind does not always blow and the sun does not always shine. One of the things I would like for us to keep in mind, and I do not expect you to comment on this today, but as we think outside the box and we are looking at trying to reduce not just our building costs for energy but also our vehicle costs for energy, to see if there is some other way we can use that as an opportunity to make money or to save money, and I will just throw out an idea.

We are moving toward hybrid vehicles. Chevrolet Volt, initially, they were going to build 10,000. This year, they are going to build 50,000. Next year, they were originally going to build 50,000 and they are going to build 200,000. We are going to launch the Fisker, which will get about 80 miles per gallon, in the old GM plant in Delaware at the end of next year—80 miles per gallon. They have to be fueled someplace, and we are going to be looking for fueling stations for electricity. And to the extent that the Postal Service were in the business of using electricity to power its vehicles, there might be the opportunity to also sell electricity to customers, or if we are looking at compressed natural gas, we are looking for fueling stations there. The Postal Service could be literally a go-to place for that energy.

One of the thing is if you have a fleet of—one of the things we have a hard time doing is storing electricity that is generated from unpredictable sources of electricity, wind and solar, because they are not always there. But if we had somehow a fleet of vehicles, maybe 185,000 vehicles, that could almost be a reservoir, if you will, of electricity, so that when the sun is shining, the wind is blowing, we actually charge the batteries of those vehicles and then sell it back onto the grid, that might be the opportunity to make some money for the Postal Service.

I do not know if any of those ideas in the end will actually work out but this is the way we have to be thinking. We just have to be thinking outside of the box, being more entrepreneurial than we have ever been in the past, and part of that responsibility is for us on this side. Part is yours. And the other is maybe working with the folks in the auto industry, the folks in the auto industry on what might be possible.

Let me just stop there. I have another round of questions and I will come back to that. Let me go to Senator Brown. Thanks.

Senator BROWN. Thank you, Mr. Chairman.

So, Mr. Donahoe, so what do you need Congress to do so you can get your fiscal and financial house in order? I mean, what recommendations do you want to give us so we can solve the problems? I mean, it is great—I appreciate the hearing, certainly. It is

a great opportunity. So I would like to hear exactly, specifically what you need from us in order to become financially viable.

Mr. DONAHOE. Well, we need this bill passed this year. That is critical.

Senator BROWN. Well, OK. What bill? There are two competing bills. What bill do you recommend be passed?

Mr. DONAHOE. I think that the POST bill as recommended by Senator Carper answers the needs for the Postal Service, both in the short term and the long term. There are some very good portions of the bill that has been introduced by Senator Collins, and hopefully everybody can get together and get those parts into the POST bill. What the POST bill does for us is it provides immediate resolution on the retiree health benefits. That has to be—

Senator BROWN. So that is the No. 1 thing, is—

Mr. DONAHOE. That is the No. 1 thing. But here—

Senator BROWN. So you need the ability to shift that over and then you—

Mr. DONAHOE. That has to be addressed. But the critical thing, and that is the reason I say the entire bill, is because that only gets us to break even now. It does not help us in the future in terms of paying off debt, and even when you get out 2, 3 years down the line, we will be back in the same boat.

Senator BROWN. Right. So if we allow for that shifting, it will basically bring you even and give you, what, about a year window to kind of—

Mr. DONAHOE. That gives us a year window. That is why it is critical we have that—

Senator BROWN. That is No. 1. What is No. 2?

Mr. DONAHOE. No. 2 is to resolve and return our FERS overpayment, Federal Employees' Retirement System. We are overpaid \$6.9 billion into that system. Using the provisions of the POST bill to use that to pay against the retiree health benefits would be great, and also to pay debt going forward, that—

Senator BROWN. So assume that happens. What does that get you? How far out does that get you?

Mr. DONAHOE. It is worth—it is worth, we think, \$6.9 billion, that would pay half of our debt off.

Senator BROWN. OK, and then what? No. 3?

Mr. DONAHOE. And then delivery flexibility. One of the big issues that we are faced with going forward is the problem of declining First-Class revenue. I mentioned, First-Class mail is half of our revenue. It is two-thirds of our contribution in terms of paying for the overhead, so it pays for keeping the routes fully staffed on a daily basis, 200,000 routes, plus 35,000 Post Offices. That is all paid by First-Class mail.

Senator BROWN. Well, and if the price of the first class keeps going up, I mean, the biggest complaint I have is that I will just get online and work it out. Why would I spend another 44, 50 cents, whatever the number ultimately is going to be—

Mr. DONAHOE. Right.

Senator BROWN. So what if the volume goes down to—

Mr. DONAHOE. That is what we are facing. This year, we are going to face a 7-percent loss—

Senator BROWN. OK—



Mr. DONAHOE [continuing]. In First-Class. In the last 4 years, first class mail has dropped 25 percent. It puts unreasonable pressure on the organization. So what we are proposing is flexibility for delivery, which would be the elimination——

Senator BROWN. So you are talking about routes and elimination of potential services and just the ability to get in there and kind of get right at it and figure out what is cost effective and what is not——

Mr. DONAHOE. Well, here is the thing. There are two things. We have worked very well with the unions, the Letter Carriers Union, Rural Carriers Union, to consolidate routes. We have taken 15,000 routes out in the last 4 years, which is well over a billion dollars in cost there alone. What we need is the flexibility to eliminate Saturday delivery as required and mandated by Congress. So we need that bill to——

Senator BROWN. Just Saturday everywhere, or just Saturday somewhere?

Mr. DONAHOE. What we are proposing is this. Keep the Post Offices open. Allow customers to receive mail through Post Office boxes on Saturday. But we would eliminate regular delivery on Saturday and regular collections. We would deliver Express Mail on Saturday. So there would still be service——

Senator BROWN. Yes.

Mr. DONAHOE [continuing]. But we would take \$3 billion in costs out of our network.

Senator BROWN. OK. And then what is next?

Mr. DONAHOE. What is next after that is continue to be able to be very flexible as far as what we do with product offerings and additional revenues generated in the organization. Senator Carper mentioned innovation. We are very pleased with a lot of the innovation that we have taken on, listening to our customers. You have heard about Flat Rate Boxes. I have brought one along.

Senator BROWN. Yes.

Mr. DONAHOE. If it fits, it ships. This is great, because customers can use this, many different sizes, different prices. All you do is put what you want in. You can even ship it from your home with a free carrier pick-up. We have some other products. We have a new sample box coming out. This is great, samples in there. We think there is a lot of growth in there.

Here is something that is really interesting. We have been talking to the mailers about this. It is called QR codes. This ties in some of the latest technology with hard copy mail, and here is how it works. You as a mailer would send this to somebody's house. They take this out of their mailbox and the message says, for more information, take your phone and scan this little bar code. What that does is that hooks you up to a Web site, and you could not only find out more about the product, you can actually buy the product online. So you can conduct the whole transaction within about 5 minutes.

Senator BROWN. And you are going to get a piece of that?

Mr. DONAHOE. What is that?

Senator BROWN. You are going to start using QR codes?

Mr. DONAHOE. Oh, yes. We get the postage, and we have even talked to people about click charges going with that. So freedom to

do those things, and continue working with the Postal Regulatory Commission. We think there are a lot of options in there, too.

Senator BROWN. And, Mr. Herr, thank you. When you were talking about the fleet vehicles and updating, obviously, whereas they travel such a short amount, I have a hybrid conversion bill that will allow conversion, a pretty simple process, and save 25 percent of fuel consumed. I am interested in kind of dissecting your report a little bit and understanding it. So if there is a mandate to do X amount, does it come into play that it may not be cost effective to do that?

Mr. HERR. In terms of the alternative fuels?

Senator BROWN. Yes.

Mr. HERR. Right now, there is a price differential of \$8,000 to \$10,000 for a hybrid vehicle compared to a non-hybrid version of the same vehicle.

Senator BROWN. A substantial price difference.

Mr. HERR [continuing]. Over a fleet of that size, this would raise some challenges. Now, there have also been improvements in technology. There are more fuel-efficient gas engines that are being developed, as well. Some of those have been certified by EPA as low emission. So, the market has been evolving, and I think that over the next few years, I think, as Senator Carper said, watching how that industry changes will be important to see what makes the most sense.

Senator BROWN. OK. I'm all set, Mr. Chairman, for now. Thank you.

Senator CARPER. Thanks very much.

Senator, part of the Mark caucus here today. There are more Marks in the U.S. Senate than any other name. How many are there, four or five? Are there five?

Senator BEGICH. Four, and if you include Marco, it would be—

Senator CARPER. All right. Well, we are glad that the Mark Caucus is well represented here today. Mark Begich of Alaska.

Senator BEGICH. Thank you, Mr. Chairman.

Let me, if I can do a quick followup on the vehicle issue on a couple fronts, I agree with you, I think, on the short term, or short distance. It is hard to get economics out of fuel efficiency. But on your long-haul trucks, are you looking on those, because some of the Postal Service, the large semi truck movements, I mean, that is where the real money is in energy savings on vehicles. Vehicles, not necessarily until they get into mass production and go down a big long path there. But trucks, in the sense of long haul, are you looking at that piece of the equation?

Mr. DONAHOE. Yes, Senator, we are. We do two things with what we call the heavy fleet. We have our own fleet of vehicles, two-ton all the way up to, like you say, tractor trailers. We are working with the industry to have the latest as far as technology. As a matter of fact, in New York City, we operate 30 electric two-ton vehicles right now, like a big bread truck, and we have been very successful, we think, with using that technology.

The majority of our long-haul heavy fleet is done by contract, and we work with our contractors on that, too. There are incentives in their contract to make their vehicles more energy efficient. If you

see when you are driving along the roads today these skirts that they have been putting on the trailers—

Senator BEGICH. Right.

Mr. DONAHOE [continuing]. All of our contractors are moving in that direction, because we found just a simple addition like that helps fuel economy. So we incent people and we work closely with them.

Senator BEGICH. Have you thought of, on the vehicle end of it, and I forget the number, you said 185,000, 200,000 vehicles, just going out to the market and saying, look, here is what we need. We need to replace this vehicle fleet. We are open to lease, purchase, like when we got heavy into updating all our computer systems, for example, when I was Mayor, the departments came and said, buy all this stuff, and we said, we are not buying this stuff because the changeover that occurs. But also, we figured we could get a better deal with the companies because they would use us to bulk up their production, and therefore cut their costs and do other product sales off the same frame. In this case, it would be the same frame. In ours, it was the same computer technology.

Have you looked into saying to the private sector, rather than you all trying to—I sometimes worry, to be very frank with you, with government and quasi-government trying to always analyze what is the best result rather than just going out to the private sector and saying, OK, this is what we have. We have 185,000 vehicles we need to purchase. Here are the parameters. Give us your best deal on what you can do to bring us in. Even though your hesitation will be, well, we do not have the money, well, you do not know what they can offer until you ask that question. And they are hungry out there, so have you approached it that way?

Mr. DONAHOE. Here is the way we have been doing it. We have been working through the technologies just to get an idea of how well it works within our organization. One of the things we learned from the vehicles we have now—we call them long life, and the original intent was to try to keep them for 25 years—was when we bought them, we tested them in Arizona. Arizona is not a real good place to test vehicles—

Senator BEGICH. Come up to Alaska.

Mr. DONAHOE [continuing]. If you need them to be in the snow. Well, hey, I am from Pittsburgh. We are not as snowy as you, but we have our obstacles going up and down hills in the wintertime. But at any rate, what we are doing is this. We are looking to figure out what the best technology is.

Now, we are working with private industry. We have had General Motors (GM) working with us on the hydrogen fuel. We have had a number of different companies in on electric—Ford, Chrysler, and a couple other companies. So we are trying to figure out the best thing.

The key for us right now is this. We have to get a good idea going forward, to the Chairman's point, about what the technologies look like 4, 5, 6, and 10 years down the road. We have done some lease-back work in the past. It has not been the most effective for us from a financial standpoint because I cannot write any of that off from a tax perspective. So we are looking ahead. We have been talking with private industry. We will make some deci-

sions, probably 2 or 3 years down the line, because, again, I have to get the short-term finances straightened out in this organization first. But rest assured, we are working with private industry on this.

Senator BEGICH. OK. Let me ask you, and again, I thank you for when you came to my office a couple months ago. First, I want to say thank you for recognizing Alaska is unique, and we had a conversation about universal service, or service for all areas. And as you know, we have written you a letter regarding the 5-day service. I recognize you need flexibility, but my big concern is how do you deal with areas very remote that may have flights coming in, that have certain kind of supplies that come in on certain days in rural Alaska. It may be Saturday is the day because the weather is good and some other issues.

Can you give me, first, your thought on universal service and bypass mail, the combination of the two, and then how you will address rural communities, and obviously in Alaska, with 5-day versus what it is today? But first, on the universal and bypass mail comments.

Mr. DONAHOE. Well, we are fully in support of our mission to provide universal service to the American public. Any changes that we would make, that still comes first and foremost. Service is in our name and that is our mission.

From a standpoint of how that ties into bypass, we realize how important the Postal Service is to not just the economy in Alaska like it is to the rest of the United States, but people's livelihood and ability to get food and medicine, and we also take that very seriously, and I think our people up there do a really good job making sure that the mail gets through every day.

Your point about the delivery and the discussion around Saturday is something that we have been looking at. We have had some comments from a number of people from different parts of the country about what do you do going forward. Our proposals are for delivery flexibility and it is just that. We think, for the most part, that we would make the changes and Saturday would be the day, but there are some weeks during the year that we do not deliver mail on Monday. We are thinking of maybe delivering on Monday in some of those cases. And in the case of Alaska and in the case of Hawaii, if there are some provisions that we have to work with, you just, like you said, if there are no clouds on a Saturday, the mail has to get through that day. We have to be flexible with that, too. That is why we have used the term "delivery flexibility"—

Senator BEGICH. Got you.

Mr. DONAHOE [continuing]. And not just elimination, OK. We want it to work, because we realize it is our responsibility to provide that service.

Senator BEGICH. And last, because my time is about to expire, what is your—or how will you be engaging stakeholders, and again, like in the case of rural Alaska versus Anchorage or Fairbanks or going out to rural—how will you engage them on this schedule flexibility?

Mr. DONAHOE. Well, one of the things we did, last year, we spent some time, and, of course, we could do that again as we move toward changes that we would be getting out of the passage of the

POST Act, we would engage customers the same way we do as we change Post Office access points. We are going through a process right now where we are looking at small Post Offices. We are actually mailing out letters and inviting people in to talk to us. We would do the same thing. We would listen to the customers who receive the mail and the customers who send the mail.

Senator BEGICH. Very good. Thank you, Mr. Chairman. I just want to agree with you on the pension issue. I think that is a critical No. 1 issue, and I am very supportive, as you and I have had this conversation about—

Mr. DONAHOE. Thank you.

Senator BEGICH [continuing]. So I think you are doing a good job there. Thanks.

Senator CARPER. Thanks, Senator Begich. Senator Pryor.

Senator PRYOR. Thank you, Mr. Chairman.

Mr. Donahoe, let me start with you, if I may. The Postal Regulatory Commission made some recommendations, I believe it was last year, about some things you should do as you are closing Post Offices. One of the recommendations is that the people in the area should receive actual notice, which I assume would be like a postcard type notice, but actual notice. And apparently your current practice is just to notify your P.O. box customers and carrier delivery customers about the affected facility.

And the second recommendation would be that the Postal Service would expand the methods available for providing and receiving customer input.

And the third recommendation they made is that they would expand the contents of the public notice and include better information about alternatives for customers.

My understanding is you did not implement those recommendations. Do you know why you did not? We are having some Post Offices close in our State and the people in our State, at least, feel like they are not notified of this adequately. They do not have opportunities for input. When there are opportunities for input, it seems like the decision has been made, and maybe you are going through the motions, checking the box, but you are really not taking input. So if you want to comment on that—

Mr. DONAHOE. We do not go through the motions, OK. Let me say this to you. We agree with all the recommendations and we have made some changes that we have posted in the Federal Register just recently. It has just closed, as a matter of fact, the comment period to implement those changes.

Here is what we are looking at—and we like to call it access change versus just closing Post Offices, because the intent is to provide better access to the American public. We are going through a process right now and we have had a process that has been in place for 30 years where we have examined small offices and we agree that it could be much more customer friendly. Mailing notices out to customers, having community meetings, and also listening to and providing them with—listening to their recommendations and providing what they are asking for.

We are looking at this across the country. Today, 35 percent of all Postal services and products are bought outside the Post Office, so whether it is online or at the Costco or Office Depot and places

like that, you can buy stamps, ship packages, and that is going to continue to evolve in that direction.

What we want to do is make sure we are where the American public needs us to be. Now, that is the case of large downtown offices, like you see in Washington, D.C., or in rural Arkansas. What we want to do is take a good look at how to provide that access in the best way, both financially as well as the number of hours a day, and I will give you an example of some of the things we are looking at.

In some small offices, we are looking at consolidation because what we are finding is many of these offices do not even have an hours worth of work in a day. People do not do that much business with us. And if it is close, to another postal facility a mile or so, we can consolidate.

In other cases, what we are looking at is many towns have three businesses, the gas station, a general store, and a Post Office, and what we are looking for is talking to the general store or the gas station to take a contract to provide service. That keeps them in business. That keeps the cash-flow. That allows people to have access to those businesses and at the same time get their Postal services that way.

There are so many options. We are willing and we want to hear from people, but we have to move on these things.

Senator PRYOR. All right. Well, let me ask you this followup, then. You say you are listening and you want to hear from people.

Mr. DONAHOE. Yes.

Senator PRYOR. How many facilities have been on the list for closure, and then you went through the public comment process and you decided not to close those?

Mr. DONAHOE. I will have to get back to you on that. I cannot tell you off the top of my head. What we have been focusing on most recently are places that were already what is called suspended, so they were already closed and we have just cleaned the paperwork up and finished them off. There is a number that we are looking at right now, about 1,000, but I would have to get back to you as far as specifics, and I will be more than happy to do that.

Senator PRYOR. Yes. I would like to know those numbers, and Mr. Chairman, I have other questions for the record along those lines, as well, but I would like to ask about Senator Carper's bill. It sounds like you have already said that you support the financial parts of his legislation. You think that is very important for the financial viability of the Postal Service. But what about, if you go to 5-day delivery, how much will that save the Postal Service?

Mr. DONAHOE. That will save us about \$3.1 billion.

Senator PRYOR. A year?

Mr. DONAHOE. A year.

Senator PRYOR. OK. And on the criteria, and this is another part of the Chairman's bill here, but on the criteria for closing Post Offices and Postal facilities, you mentioned today small facilities or maybe, I do not know if you said this, but low-volume facilities. What is your criteria there? What criteria does the Postal Service use?

Mr. DONAHOE. What we are looking at right now, the first look was just places that did less than an hours worth of business in a day, and that is generally 10 or less transactions.

Senator PRYOR. So does that mean that the Post Office will close there?

Mr. DONAHOE. No.

Senator PRYOR. What does that mean?

Mr. DONAHOE. That means we are looking at it to either consolidate it or potentially contract the work out or leave it alone. We are trying to keep as wide—as much of an open mind on these things, but again, from a financial perspective, we have to put everything on the table as far as taking costs out of the organization.

Senator PRYOR. To me, it seems like if it is just numbers-driven, I can think of some areas in Senator Begich's State where, naturally, it is going to be low volume—

Mr. DONAHOE. Yes.

Senator PRYOR [continuing]. Because of the very sparse population.

Mr. DONAHOE. Yes.

Senator PRYOR. So would you consider that as a factor, as well?

Mr. DONAHOE. Well, what we have to do, again to my comments with Senator Begich, is balance the requirement for universal service. In many cases, and this is something we definitely look at, if you have a small office that does not generate much revenue but there is nothing within 30 miles of it, we certainly would not close it. But if it is something that generates low revenue and there is a potential for better access within a half-mile or a mile, then that is a different story.

Senator PRYOR. One of the provisions in Senator Carper's bill talks about the shipping of alcoholic beverages, which right now you are prohibited from doing.

Mr. DONAHOE. Yes.

Senator PRYOR. Do you know how much revenue it would generate for you if you were allowed to ship alcoholic beverages?

Mr. DONAHOE. We do not know, but we think it is an excellent idea because what the Postal Service brings is convenience in that whole industry. We have seen other posts, Australia Post, for an example, has done that, and that is one of their biggest growth products. And we have the network to provide that service, along with the ability to have it held. Our proposal is to hold packages for pick-up, so an adult would have to come in and pick that alcoholic beverage up. But we think it is a very interesting proposal.

Senator PRYOR. OK. And one last question on Senator Carper's bill, and that is there is a provision in there about when you are in arbitration with your employees, that the arbitrator could consider the financial condition of the Postal Service. Is that the rule today, or would that be a change?

Mr. DONAHOE. That would be a change. We support that. We think it is important, anytime you go to arbitration, and especially in today's world, where if you look at the future of the Postal Service, the arbitrator should consider that. We have recently conducted a negotiation with the American Postal Workers Union. I think it was a very good, responsible contract by both sides. That is a great thing. But we also think it is responsible for the industry

that protection is in there in case a union decided to go to arbitration and did not want to sit down and work with us.

Senator PRYOR. All right. Thank you, Mr. Chairman.

Senator CARPER. Thanks. Those were great questions.

Senator PRYOR. The ones about your bill, were—

Senator CARPER. Especially the ones about my bill.

Senator PRYOR. Were those the best questions?

Senator CARPER. As a matter of fact, I would yield you more time if you want to ask more questions about my bill. [Laughter.]

Senator PRYOR. Thank you.

Senator CARPER. Thank you.

I just want to followup on the shipping of wine and beer. That is a little bit like thinking outside the box. The idea of on Mother's Day, my son who was living at the time in New Delhi, India, sent his mom a greeting card, and I think it was a partnership between Hallmark. He used pictures that he had taken when she was over there visiting a month or two earlier and made just a beautiful Mother's Day card and it was delivered by the Postal Service. That is very smart. Our next-door neighbors get Netflix, and that is a pretty good piece of business. I am not sure how long-lived that business will be when people move into streaming, but it is a nice piece of business and it is the kind of thing that we just want you to do more and more of.

I want to ask a question about how important is it that the Postal financial relief bill that we consider here in Congress go beyond pension and retiree health issues. How important is that?

Mr. DONAHOE. It is critical. As I mentioned to Senator Brown, what happens is if we just address the retiree health benefits, that just gets us through this year from a cash standpoint and a net income standpoint. If you recall, last year, we lost \$8.5 billion. Unfortunately, this year, we are predicting losses around \$8 billion. So you can see, even if we got the relief, \$5.5 or \$5.6 billion going forward. That will not be enough.

It is critical that we address the FERS issue, the overpayment, and that we can get that money back. That will go against the debt. We will not spend that anywhere else. It will either be on retiree health benefits or against the debt. The delivery flexibility, the flexibility going forward on the products that we have talked about, anything and everything in that bill is critical. We have to get the whole thing done, and then from an industry standpoint, we have to make sure that we make all those things happen.

Senator CARPER. And it seems to me that there is a fair amount of agreement that we ought to try to redirect the overpayments in the Civil Service Retirement System, the overpayments into the Federal Employee Retirement System, and to use those to pay down the obligation for employee retiree health and also for debt and maybe for workers' compensation. But as I understand it, that is only about maybe a third of the problem in terms of going forward. The flow of moneys from the Civil Service Retirement System and stopping the overpayments to FERS, I think that is only about a third of the problem, is that correct?

Mr. DONAHOE. This is what would happen. Right now, we have an outstanding responsibility of \$91 billion for the prepayment of the health benefits. We have paid \$43 billion so far through rate-



payer money. So that is—we have about 47 percent of the way paid. If we were able to access the funds, \$50 to \$75 billion, that would clear that side of the ledger.

The volume loss that we are experiencing in first class mail keeps the pressure on our organization and the industry as a whole to continue to reduce costs and at the same time figure out how to use the mail in more creative ways, like I had shown here before, with standard ad mail, with packages, and even trying to slow down the drop-off from first class.

One of the things that our customers told us, is that if you can figure out a way to make First-Class more appealing from a bill presentment standpoint, we will stay—we will try to work with our companies to stay in the mail.

The first recommendation was what was called Reply Rides Free, where we were going to give—charge the same postage for 1.2 ounces as we do for one ounce. The customers said, too complicated, so what we are proposing now is to give two ounces for the price of one. This way, the customer can use better paper, can put messages in there with their first class correspondence, because in many cases, that is the only way that a customer—a bill sender gets in front of their customer's eyes. So our proposal is we want to keep our foot on the gas pedal on the cost side, like we have been talking about, but that revenue, the top line is just as important.

Senator CARPER. All right. Mr. Herr, do you want to just comment very briefly on the question, really the first question I asked here in this exchange, and that is how important is it that the Postal financial relief bill that we consider here in Congress go beyond simply pensions and retiree health issues.

Mr. HERR. I think that if you take care of one side without addressing overcapacity in the processing network and also looking at alternative ways to provide retail access, in a few years, you will come back and you will find that some of these structural problems will not have been addressed and you will be facing a similar set of challenges. Net mail volume is down 20 percent since 2006. The projections are that it is going to continue to decline. Addressing excess capacity and making sure that the systems align with the needs for the mail coming in is critical.

Senator CARPER. All right. Thanks very much.

You have concluded a round of negotiations. There will be people who always criticize what you do and the contract you negotiated with the APWU, but I think maybe most fair-minded people say it seems like a fair contract and it certainly heads in the right direction. You have three other unions that you deal with. Give us the status on negotiations with those, please.

Mr. DONAHOE. Well, we are still in negotiations with the Rural Carriers. We would like to conclude a successful negotiation with the same outcome that we did with the APWU. I think the APWU is a very responsible contract, not just for the Postal Service and the employees, but also for the industry. So we would like to conclude with the Rural Carriers the same way.

This November, we begin discussions—or I should say August, because the contract ends in November—with the Mail Handlers and the National Association of Letter Carriers, so we expect to see

the same type of framework in those contracts that we have been able to negotiate with the APWU.

Senator CARPER. All right. I want to go back, and this will be the last question I ask. We have been joined by Senator McCaskill. Welcome. But the other question I want to ask, I want to talk about business opportunity. People ask me how I feel about 6-day delivery and I say I am agnostic on that. And if a way could be found to save substantial amounts of money, maybe not as much as \$3 billion, but substantial amounts of money through negotiations, then I think we ought to consider that.

If we cannot find substantial savings, then we are not going to consider that as much, but talk to us about the opportunity costs of not having 6-day delivery. I have always said, and we have talked about this before, some day, somebody will look back at the Postal Service and say we had a Post Office in every community in America and we went to every door 6 days a week. Why did we not think of X, Y, or Z in being able to more fully exploit that business model? Just talk to us, just very, very briefly, about the opportunity cost of eliminating Saturday mail delivery, whether it is Express or whether it is actually doing the work of FedEx and UPS. Just talk about that a little bit, if you would.

Mr. DONAHOE. We would rather not eliminate Saturday delivery. It is something we feel very proud of, the fact that we do go to homes and businesses every day, 6 days a week, to every home and business across America. The critical issue is the continued pressure that we have on First-Class mail and the fact that the contribution, as that drops, continues to put financial pressure on the organization.

We think that it is important to provide that service. Even at 5 days a week, we will still be the—we will have the greatest network reach of everyone because we will continue to go to every home and business 5 days a week. We also think it is important to continue to work with our customers to sustain first class as long as we can, as well as add new opportunities from a revenue standpoint.

I think it would be—I do not know of any one specific cost area that we could achieve that would be able to offset the benefits of the reduction of that day of delivery. Our goal is to get the organization from an expense standpoint down to \$60 billion as soon as possible, and that is a combination of reducing costs and eliminating the retiree health benefits, and delivery flexibility. That takes us from \$73.5 down to \$65 billion. And between administrative cuts, work hour cuts, successful union negotiations, I would like to get us down to \$60 billion.

What that does is that gives us about a \$5 billion cushion from the revenues right now, \$65 billion that we will have this year. That gives us the ability to pay down the debt. That keeps us strong going into the future. And then that addresses some of the capital issues that we have been talking about today.

Senator CARPER. Thanks so much.

Senator McCaskill, welcome.

Senator MCCASKILL. I would like to followup on the Chairman's question he just asked. We have a difference between two different agencies that say that the 5-day delivery—you all say, Mr.

Donahoe, that it is going to save \$3 billion, and the Regulatory Commission said it would generate \$1.7 billion. I do not know how much of that difference is attributable to the loss of business that inevitably is going to occur when you cannot do 6-day delivery. I mean, you guys have an advantage right now with 6-day delivery. If you were looking at this through the very cold lens of just a pure business model, you are giving away the major advantage you have when you give away that sixth day.

Can you speak to why there is such a wide disparity between the savings that these two agencies came up with, and what keeps us from going to four? And are we not really, if we are not careful, if we go to five, are we not really talking about the beginning of a death spiral here?

Mr. DONAHOE. Yes. Let me address a number of your questions, Senator. First of all, just to repeat what I said to the Chairman, we do not want to go from the six to five, but financially, we are in a situation where we have to take that as an option going forward. It is tied directly to the loss of the contribution on First-Class mail. If I had an answer to stop that, we would get that in place right now, but America is changing. People are paying bills online. Every bill that is paid online, that is 18 cents that comes out of our coffers to cover 6-day delivery and a number of the small Post Offices out there.

The difference between our estimate and what the PRC estimates boils down to two things. Their estimate of revenue loss is \$600 million. Ours is \$200 million. We have talked to a lot of customers. We have done a lot of opinion polls. Many customers in the past used to make sure that we delivered mail on Saturday. They have moved away from Saturday. It is by far our lightest day of volume for two reasons. No. 1, many businesses are closed on Saturday. And No. 2, what we have been told is people, to a large extent, do not look at their mail on Saturday as much as they do the rest of the week because they are busy with many other things. So the \$200 versus the \$600 million, that is one part of the difference.

The other part of the difference is our estimates of being able to save and to capture the costs. We think that we can capture a substantial portion of the cost of Saturday delivery by absorbing it into Monday. The reason we say that is 95 percent of the letter mail that we deliver today is sorted by automated machines in our processing facilities. So that variable cost in the morning that a carrier would have experienced years ago, they do not experience today.

We also know that once you are out on a route and you deliver to a number of houses, our average coverage factor is around 90 percent today. A letter carrier absorbs a lot of that time in their daily work. Saturday business today costs us \$3.8 billion. We think we can save \$3.1 billion. We know we will have to add some costs in there that we cannot absorb, but we think, based on our history of taking costs out of this organization, we will be able to do that.

The other thing is, I have committed everybody to do it. It is going to get done.

Senator MCCASKILL. Let me also ask you about the potential impact on 5-day delivery on rural residents. I was disappointed when I realized that the Postal Service's survey that you did in this regard were not really in rural communities. I mean, one was in sub-

urban Atlanta and the other was suburban Seattle. Would it be possible to take a real look at a rural community, not one that is within a commuting distance of a major city? It is those folks that, in terms of getting their medicine, which, of course, we all know that Saturday delivery is very important for, in terms of their ability to receive mail on Saturdays. Is there a reason why what I would call a true rural community was not included in the survey?

Mr. DONAHOE. Well, we can go back and take a look at that. There have also been a number of surveys done across the country by Rasmussen and the Gallup Poll that have looked at many different communities across the country, and consistently what comes back is this. When asked the question, if you made a choice between no delivery Saturday, closing Post Offices, or substantial increases in postage rates, 70 percent of Americans have come back and said, eliminate Saturday delivery.

Our proposal is to eliminate delivery but to keep the Post Offices open. So from a rural perspective, people would still have access to Postal services, and if they wanted, they could rent a box, too, and get their mail that way.

Senator MCCASKILL. The rural Post Office closings, I am a little worried about what I have learned, that there may be a situation where you call something other than a Post Office so that you get around some of the requirements in terms of notice to the community. Could you illuminate that situation for me, because changing the name of a Post Office to a substation or to some other name and then not having to go to the community and get the kind of input that is needed, I mean, I am not—I get it that we have a huge problem here. I get it that the money coming in does not match the money going out. And I am not trying to throw tacks in front of the bus, except I do think it is important that these rural communities feel like that they have an opportunity to weigh in and I want to make sure that there is not some ability that you may have to get around the regulations for notice and public hearing by just renaming it something different.

Mr. DONAHOE. We agree 100 percent. We have a process in place right now—as a matter of fact, we just finished up a Federal Register notice where we will provide public notice and gather public input on any changes to access that we make out there. We know that the Postal Service, especially in rural areas, is very important. And to your point, we have to balance the cost and the benefits to those.

We will not do anything to hoodwink the American public that way. We have what we are proposing in the Federal Register is a top-down approach. That assures fairness, so you do not have one State that is going gung-ho and another that does not take a look at it. It also assures that we make the right decisions. With Senator Begich, we were talking earlier about the importance of what we do in Alaska, and I appreciate in Missouri and in Arkansas, we have a lot of rural areas, too.

So you have my assurances that we will make it a very fair process. People will have plenty of input. We will make the right decisions. We will make sure that we reach out. We are going to send—anybody that is going to be affected, postcards will go out to cus-

tomers. We will have a public hearing. We will discuss it. We will take their input.

Senator McCASKILL. Mr. Chairman, I want to compliment you on so many pieces, so many parts of your legislation. I think a lot of it is very, very strong, and I know how hard you have worked on this. And I do want to compliment Mr. Donahoe. I think you are trying very hard in very difficult circumstances to figure out how to put this puzzle together.

I do feel very strongly that if we can save 6 days, it is very important to the integrity of the product we have, which is the U.S. Postal Service, rain, snow, or sleet, 6 days a week, it is going to happen, and I worry that we are going to diminish the ability of that business model to really survive if we start cannibalizing it by going to 5 days. So if there is any way I can work with you to save the 6-day delivery, I sure would like to do that.

Senator CARPER. Good. Well, let us give it a shot. I am going to go back to the negotiations that will take place between the Postal Service and one or two of the unions going forward. That is a part of it, as well. And our ability to help them in other ways—

Mr. DONAHOE. Yes.

Senator CARPER [continuing]. To compensate for the—savings which are anywhere between \$1.7 billion and roughly \$3.1 billion. It is somewhere between there. That is real money.

Mr. DONAHOE. It is a lot—

Senator CARPER. That is real money.

I want to come back, and before I yield to Senator Begich for his closing questions, just for clarification, your view of what would still be provided in a Postal world where there is no Saturday delivery. Would it include access to post office boxes?

Mr. DONAHOE. Sure.

Senator CARPER. Post Offices would be open?

Mr. DONAHOE. Yes.

Senator CARPER. What did you say about Express Mail?

Mr. DONAHOE. Here is what we would do. We would keep the Post Offices open. We would have Post Office box accessibility. We would deliver Express Mail. We would also run the network, so mail coming through the network, payments and remittance for credit card companies and what not, that would all still run, so Monday that would be delivered, or in some cases, if people have what is called caller service, they would have access 24 hours a day at our large facilities for that mail.

Senator CARPER. All right. Thanks very much. Senator Begich.

Senator BEGICH. Mine is just a clarification and then just a statement. I caught what you had said to Senator Pryor in regards to 30 miles or within. As you know, in Alaska, 80 percent of our area is non-road access, so I am assuming that is part of the equation.

Mr. DONAHOE. Sure.

Senator BEGICH. OK, because when we did Essential Air Service (EAS), there was a great debate that we would cutoff Essential Air Service because you can get to a hub, to the next town. In many cases, it is hundreds and hundreds of miles away, and no road to get there.

Mr. DONAHOE. Right.

Senator BEGICH. So you recognize that as——

Mr. DONAHOE. Absolutely. Again, Alaska presents a situation with universal service similar to Hawaii.

Senator BEGICH. Right.

Mr. DONAHOE. Those are the two States that, really, we have to take a different look as we work through that.

Senator BEGICH. Great. And just a statement. As you send out notifications to folks, I know everyone gets mail. They get material in the mail and they do not really pay attention to it until something bad happens, and then they go, I did not realize that was happening. In more of just jest, I would send out your postcard and it would say, "Closing your Post Office," and I guarantee you, you will get 100 percent engagement. Otherwise, if it is just a regular, "We are notifying you of the Post Office situation and change in operation," here is what will happen. They will look. They will set it aside. They will pull the catalog and sit down and read their catalog for the day.

Mr. DONAHOE. Maybe we will use the QR code, click here to find out what is going on with your Post Office.

Senator BEGICH. I will tell you, Mr. Chairman——

Mr. DONAHOE. If anybody complains, though, I am going to tell them that you gave me the idea.

Senator BEGICH. Well, I will tell you what happened. I will just give you one quick example. I was invited to a meeting when I was Mayor and it was about a land use issue. Of course, no one was going to come out, probably, for it, because it was so many months away. So the flier they sent out to the neighborhood was, "Come learn about how your taxes are going up." The room had full capacity, and the two local city council members came in and said, "You are up front. We are not." And then we talked about land issues and people were a little confused, but they got fully engaged.

Mr. DONAHOE. Thank you for using the mail, too. We appreciate that.

Senator BEGICH. They did, and they hand-delivered it on top of that.

Mr. DONAHOE. There you go.

Senator BEGICH. Thank you.

Senator CARPER. Senator Begich, thanks so much. Thanks for being here today and for being a very active participant on this issue. We need your full participation, so thanks.

All right. I think that is going to do it for our first panel. Thank you very much for joining us. Thanks for your testimony.

Mr. DONAHOE. Thank you, Mr. Chairman.

Senator CARPER. There will be some followup questions, I am sure, and we would appreciate your prompt response to those. Thank you.

Senator BEGICH. Mr. Chairman, as the panel is coming up, do we have a vote at noon?

Senator CARPER. Initially, we were going to have it at noon. It has been moved to, I am told, 12:17.

Senator BEGICH. Twelve-seventeen.

Senator CARPER. Twelve-seventeen, so we have the opportunity to hear our panel, the second panel, and will probably have to break it off around 12:30.

Senator BEGICH. OK. Thank you.

Senator CARPER. Sure. Thank you.

If you would all go ahead and find your seats, please, and I will ask those who are planning to leave to go ahead and make your way to the door. [Pause.]

I am going to briefly introduce the witnesses for our second panel. As I said earlier, if you did not catch it, our vote has been moved from noon to about 12:15 and I want to complete the testimony for this panel before we have to break. We have a vote followed immediately by our respective weekly caucus meetings. But I want to finish this panel, have a chance to ask you a couple of questions, and then we will move on.

Our first witness on panel two today is Margaret Cigno, pinch hitting today for Ruth Goldway, and we welcome you, the Director of Accountability and Compliance at the Postal Regulatory Commission. Ms. Cigno has also worked as a Specialist on rates and classification at the Commission and served as the lead Postal Auditor at GAO.

Next, David Williams. Welcome. Nice to see you again. He is the Postal Service's Inspector General. Mr. Williams is the second independent Inspector General at the Postal Service in its history, is that correct?

Mr. WILLIAMS. Yes, Senator.

Senator CARPER. All right. Before taking on the job, he worked as a Deputy Assistant Administrator for the Aviation Operation at the Transportation Security Administration. He has also served as Inspector General at five other agencies. Time allowed, I would ask you to tell us which ones, but we will find out another day.

Next is Cliff Guffey, President of the American Postal Workers Union. How long have you been in office now?

Mr. GUFFEY. Less than a year.

Senator CARPER. All right. Does it seem longer? [Laughter.]

Mr. GUFFEY. It has the propensity to be difficult.

Senator CARPER. You have had a full year. Well, congratulations so far. I know it is not easy.

Before becoming President, Mr. Guffey served for 9 years as the APWU's Executive Vice President. He has served in top leadership positions in the union since 1986, and he started his career with the Postal Service in 1971.

Next is Mark Strong, President of the National League of Postmasters, where he has held leadership positions in the League since 2006, I am told. Mr. Strong is currently the Postmaster in Sun City, Arizona. We could use some sun around this city. Maybe in a couple of days, we will get it.

Finally, we have Jerry Cerasale, Senior Vice President for Government Affairs at the Direct Marketing Association (DMA). Mr. Cerasale has a long history working on Postal issues, including stints at the House Committee on Post Office and Civil Service and on the legal staffs at both the Postal Service and the Postal Regulatory Commission.

It is great to see you. Thanks for coming today. Your full testimony will be a part of the record. Please proceed.

**STATEMENT OF MARGARET CIGNO,<sup>1</sup> DIRECTOR OF ACCOUNTABILITY AND COMPLIANCE, U.S. POSTAL REGULATORY COMMISSION**

Ms. CIGNO. Good morning, Chairman Carper, Senator Brown, Members of the Subcommittee. I thank you for the opportunity to present the views of the Postal Regulatory Commission on addressing the U.S. Postal Service's financial crisis.

Commission Chairman Ruth Goldway regrets being unable to testify personally today.<sup>2</sup> She has prepared written comments highlighting her concerns with the rapid pace of Post Office closings. I ask that Chairman Goldway's comments be made part of the official hearing record.

Senator CARPER. Without objection.

Ms. CIGNO. In 4 months, the U.S. Postal Service will conclude its fiscal year and it will not have sufficient cash or borrowing authority to pay all of its bills. Commission analysis during review of the Postal Service's request for an exigent rate increase found that the Postal Service's cash-flow problem is related to an overly ambitious requirement for the Postal Service to prefund its future retiree health benefit premiums.

Over the past 4 years, the Postal Service has paid \$21.9 billion to prefund these benefits. All other things being equal, without the prefunding requirement, the Postal Service would have achieved a small net profit over that time. Instead, over the last 4 years, it has accumulated losses exceeding \$20 billion. This year, it will exhaust its borrowing authority and anticipates another multi-billion-dollar loss that will leave the agency insolvent.

Chairman Carper, you have proposed legislation to address this immediate crisis and to build on the Postal operating model of the Postal Accountability Enhancement Act (PAEA). The Commission supports the fundamental approach of your bill in addressing the financial crisis as well as longstanding issues related to Postal Service funding of its employee pensions and its future retiree health benefits. The strategy is grounded on objective, expert analysis that incorporates the best modern practices of business and government, as identified by the Commission in previous studies.

The Commission appreciates that your bill also provides for regulatory oversight of non-Postal products and services that may be proposed under new flexibilities to be provided to the Postal Service. This will promote Postal growth and innovation while protecting the public interest, as is currently the case with Postal products and services.

The Commission also supports modernization of its advisory opinion process to make it quicker and more robust. The requirement for the Postal Service to respond to the issues and recommendations in the advisory opinion is an important improvement which may be further strengthened by requiring its response prior to implementation of the proposed changes.

The bill would alter the advisory opinion process to produce decisions within 90 days from the date of the Postal Service's request to the Commission. Under current law, the Commission evaluates

<sup>1</sup> The prepared statement of Ms. Cigno appears in the appendix on page 81.

<sup>2</sup> The prepared statement of Ms. Goldway appears in the appendix on page 76.



national service changes in formal hearings on the record that are subject to the Administrative Procedures Act protections. This type of proceeding can be time consuming.

The proposed legislation would diminish the opportunity for citizens, mailers, competitors, and other interested parties to obtain information from the Postal Service and fully test Postal Service presumptions. As a result, the Commission would be able to produce its opinions more promptly. However, the detailed analysis and extensive outreach of the Commission's recent advisory opinion on 5-day delivery would not have been possible in a 90-day case. The Commission has not yet concluded whether it supports the 90-day limit.

The Postal Service has also advised that in the near future, it plans to request an advisory opinion related to the closing of a large number of Post Offices nationwide. The Commission understands the Postal Service's need to adjust its retail network to reflect changing customer demand and its own evolving capabilities. However, the PAEA requires that affected Postal customers be properly notified and involved when the Postal Service considers closing the retail office on which they depend.

The Postal Service has proposed revisions to its rules for closing and consolidating retail facilities. The Commission has provided its comments to the Postal Service, including recommendations to better ensure customers' ability to offer input, improve the evaluation of affected facilities, and coordinate discontinuances with the availability of replacement retail services.

In closing, I would like to reiterate the Commission's support for addressing the Postal Service's financial crisis as outlined in your bill. Timely congressional action to address the pension and retiree health benefit issues remain a key element of any reform effort.

Effective oversight is vital when the entire mail system is under such great stress. The Commission will ensure Postal transparency and accountability and promote positive change and adequate service levels needed to keep the Postal Service vital and relevant.

That concludes my oral statement. I would be happy to answer any questions.

Senator CARPER. Well, I do not think you anticipated being here today, but since Chairwoman Goldway could not be here, you did a nice job and thank you very much for your participation. Give her our best. Thank you.

Mr. Williams, please proceed.

**STATEMENT OF DAVID WILLIAMS,<sup>1</sup> INSPECTOR GENERAL, U.S. POSTAL SERVICE**

Mr. WILLIAMS. Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to discuss the serious financial condition of the Postal Service, whose leadership anticipates being unable to meet its financial obligations in the fall.

The Postal Accountability and Enhancement Act was crafted to incentivize the Postal Service to adopt a volume-driven infrastructure. PAEA also required prefunding of benefit plans, but the framers were unaware that the benefit funds had been subject to

<sup>1</sup>The prepared statement of Mr. Williams appears in the appendix on page 85.

wrongful overcharges. Consequently, the resulting payments have caused almost 90 percent of the \$20 billion loss in the past 4 years. This causes inflated infrastructure costs and burdensome debt.

In the near term, cost containment and infrastructure optimization are underway. It will take time, unless numerous large-scale actions are undertaken simultaneously, which could outstrip management's ability to control optimization and to avoid unintended consequences, including service disruptions.

So what is needed? In addition to benefit reform, Postal Service optimization of plants, Post Offices, and administrative infrastructure, my office has recommended conversion to evaluated letter carrier routes for effective management, flexible work rules matching the ebb and flow of mail, a comprehensive delivery point strategy maximizing curbside delivery and cluster boxes, evaluating the number of area and district offices, simplification of mail acceptance and pricing, growing the value of mail, and finding the Postal Service's role in the digital age.

The digital age is continuing to disrupt many communication industries. The technologies provide Americans low-cost instant communications, sophisticated data organization, search engines, hyperlinks, and impressive mobility. However, Americans need stronger infrastructures to cope with serious collateral issues. I believe citizens would benefit if the Postal Service could support Americans in addressing the emerging confidentiality, security, dependability, and privacy problems of digital communications; partner with Federal, State, and local government agencies to provide e-government services and Post Office window services for more complex business and provide a safety net for those being left behind by the digital revolution.

Senator Carper's bill proposes allowing the Postal Service to provide non-Postal services utilizing Postal physical and digital infrastructure in a manner consistent with public interest. The bill would provide the Postal Service an opportunity to find its digital role in America.

The Postal Service has set aside more than \$300 billion in cash to meet its future benefit fund obligations. Additional contributions of \$55 billion will result in a 100 percent prefunding level. The \$300 billion does not include the overcharges of \$82 billion documented by my office and others. If the overcharges are returned, the prefunding levels will exceed 100 percent.

While the benefit funds are reexamined and awaiting action, Congress and the Postal Service could explore an option of clarifying prefunding requirements to be inclusive of Postal Service assets. The purchase price of Postal Service real estate is \$27 billion, but the fair market value is far greater. The Postal Service owns real estate in premium locations. For example, the nearby National Postal Museum has a purchase price of \$47 million, but a tax assessed value of \$304 million. If this example is any indication of the fair market value, taxpayers are well protected and a surplus of assets would likely be given over to the Treasury if the Postal Service were suddenly shut down, a very unlikely event.

Alternatively, there are statutory provisions that may allow the Postal Service to work with OPM to fashion an appropriate arrangement to recognize the assets and meet the obligation.

Against this backdrop of overfunding, the Postal Service continues to be billed \$11 billion every year for retiree obligations instead of taking the annual costs out of the funds created for that purpose. As I have testified before, I agree with Senator Collins's call in September 2010 for OPM to change its calculation of Postal Service pension fund payments. Failing action by OPM, Senator Carper's bill to require an OPM recalculation to correct the mistakes and balance the accounts is desperately needed to stop the crippling payments.

As I outlined, there is an overwhelming need for a substantial and objective review of the benefit plans and payments. This will allow construction of a clear, fair, and accurate financial map for the Postal Service's future course. Otherwise, the Postal Service will be billed into insolvency while overfunding its benefit funds.

Thank you, sir.

Senator CARPER. Thanks for your testimony. Not only thanks for your testimony, thanks for the work that you have done and continue to do on these areas.

Mr. Guffey, please proceed. Thank you so much for joining us.

**STATEMENT OF CLIFF GUFFEY,<sup>1</sup> PRESIDENT, AMERICAN  
POSTAL WORKERS UNION**

Mr. GUFFEY. Mr. Chairman and Members of the Subcommittee, I am Cliff Guffey, President of the American Postal Workers Union. I am pleased to participate in this hearing today with PRC Representative Margaret Cigno and Inspector General Williams, who have through their hard work, dedication, and leadership done much to help preserve and protect the U.S. Postal Service.

As the Chairman and this Subcommittee know, legislative relief is necessary to restore the financial stability of the Postal Service. The APWU very much appreciates the leadership shown by the Chairman in proposing legislation that will meet the Postal Service's critical need for immediate financial relief. We strongly support and the entire Postal community strongly supports the proposal to permit the Postal Service to use more than \$5 billion each year from its overpayments in the civil service and FERS retirement accounts to meet its obligations to prefund Postal retiree health benefits and pay workers' compensation obligations.

It bears emphasis that this is not a request for a subsidy or a bailout of the Postal Service. The Postal Service has been dealing effectively with the challenge it is facing because of declining mail volumes. We are confident that under the leadership of Postmaster General Donahoe, it will continue to do so.

Exhibit A to this testimony is a chart<sup>2</sup> that shows that the Postal Service's net income for Fiscal Years 2007 through 2010—as this chart shows, during this period that included the most severe recession since the Great Depression, the Postal Service had a net income excluding retiree health benefits prefunding payments of more than \$600 million, and only in a government agency could they refer to that as a little amount of profit. That is profit.

<sup>1</sup>The prepared statement of Mr. Guffey appears in the appendix on page 90.

<sup>2</sup>The chart referenced by Mr. Guffey appears in the appendix on page 92.

This was achieved by the Postal Service through very aggressive cost cutting measures. Over the past 3½ years, the Postal Service has reduced work hours by 245 million hours and cut costs by \$12 billion. It will cut another 30 to 40 million work hours this year. The historic collective bargaining agreement just concluded by the APWU and the Postal Service will save the Postal Service billions of dollars and will provide necessary workforce and work hour flexibility.

Thus, the Postal Service has shown the capacity to sustain itself during difficult times of declining mail volumes. What it cannot sustain is the burden of the unique and unreasonable requirement that it prefund its retiree health benefits over a 10-year period without access to the billions of dollars by which it already has overfunded CSRS and FERS.

During the 4-year period of 2007 through 2010, when the Postal Service otherwise would have had a financial surplus, the statutorily required payments to prefund retiree health benefits totaled nearly \$21 billion. In Fiscal Year 2010, the payment for retiree health benefits consumed 8.2 percent of Postal revenue. With the additional payment of \$2.2 billion to fund retiree health benefits for current employees, that meant that the Postal Service was required to pay 11.5 percent of revenue for retiree health benefits. These payments deprived the Postal Service of capital needed to improve and maintain its distribution networks and develop and launch new products, and they resulted in a \$12 billion debt.

Mr. Chairman, I want to emphasize that we very much appreciate the leadership of the Chairman in addressing the issues of CSRS and FERS overfunding and retiree health benefits prefunding. We also appreciate the fact that Senator Collins has introduced legislation that would address the issues of CSRS and FERS overfunding and provide relief from retiree health benefits funding requirements, and we are encouraged by the fact that the members of the House also have introduced bills that would deal with these problems.

There is a broad and strong consensus in the Postal community to support these measures. There is also a broad consensus to support the proposals to revise the prohibition on offering non-Postal products to permit the Postal Service to partner with State and local governments to offer additional government services in Postal facilities and accept beer and wine for shipment. We also support efforts to help the Postal Service adapt to changes in communications while continuing to fulfill the essential mission. These measures will help bolster Postal revenues and help maintain a Postal network that can deliver Postal services to every part of the country.

I think that everyone should remember that Postal Service Post Offices are where the American flag flies in every community in this country, and to take those flags down and replace them with grocery stores or gas stations should be the last alternative and we should be putting government services, more government services, into those Postal facilities. We will help in any way we can to support sensible legislation that does not seek to address Postal financial problems at the expense of Postal employees.

I will be happy to answer any questions the Subcommittee may have. Thank you.

Senator CARPER. Thanks, Mr. Guffey.

Mr. Strong, you are recognized. Please proceed.

**STATEMENT OF MARK STRONG,<sup>1</sup> PRESIDENT, NATIONAL  
LEAGUE OF POSTMASTERS**

Mr. STRONG. Mr. Chairman, Members of the Subcommittee, thank you for inviting the National League of Postmasters to testify here before you today. It is a pleasure to be here and I commend you for holding this hearing.

My name is Mark Strong and I am the Postmaster of Sun City, Arizona, a very large urban Post Office. I am the President of the League. I am originally from Montana and served in many small, rural Post Offices. Founded in the 19th century, the League is a national trade association that represents Postmasters throughout the United States.

In examining how to address the Postal Service financial crisis, it is critical to understand why the Postal Service finds itself in the position it does today. It is not because of electronic diversion of mail. True, electronic diversion is slowly pulling some mail out of the system, but that has been with us for decades. Electronic diversion was a factor 30 years ago, was a factor present during the recession, and will be a factor for years to come. Electronic diversion has been and is a fundamental factor of Postal life and has not changed much in recent years.

The two largest factors that caused the current crisis were the recession and the fact that the Postal Service has to make annual payments to prefund its retiree health benefit obligation, even though there are surplus funds in this pension plan. Today, the Postal Service is still running a deficit, but mostly because of the retiree health benefit payments that we are making. We would not be running a deficit if we were not paying \$5 billion-plus into our Retiree Health Benefit Fund, despite the fact that there is \$50 to \$75 billion surplus sitting in our pension fund.

Both Senator Carper's bill and Senator Collins's bill would fix this problem, and we strongly support those efforts. In fact, the League was one of the original supporters of Senator Collins's bill.

Without substantial relief in this area, the Postal Service cannot continue as a viable entity for the long term. No business of any type in any part of the country could afford to pay a \$5 billion supplemental annual income tax that its competitors do not pay and remain viable.

One thing the Postal Service should not do is close small Post Offices. As Senator Collins will tell anyone, small rural Post Offices are the keystone of many rural communities, and keeping them open costs the Postal Service very little money. According to the PRC data, and we recently checked this, the total net cost of the 10,000 smallest Post Offices, more than one-third of all Post Offices in the United States, is less than seven-tenths of one percent of the total cost for the U.S. Postal Service. This is nothing, a rounding error in Postal Service spreadsheets. Closing small Post Offices

<sup>1</sup>The prepared statement of Mr. Strong appears in the appendix on page 103.

does not save the Postal Service any significant amount of money, but it is one of those cost-saving measures that is popular with some mid-level Postal officials because they can look good and give the impression that they are driving large costs out of the system.

Closing Post Offices is not popular with the American public. As indicated in my testimony, according to the 2010 Gallup Poll, 86 percent of Americans oppose closing Post Offices. This is overwhelming nationwide endorsement of Post Offices, consistent with a 2009 Gallup Poll which showed that 88 percent of the public opposed closing Post Offices.

As shown in my testimony, few other government services rank this high in importance in the public's mind. The reason for this is that, as detailed in my testimony, Post Offices and Postmasters do much more than sell stamps and deliver mail. They perform all sorts of other community functions and are the glue that binds rural America together.

Although it is sometimes difficult for urbanites to understand this, those words, the glue that binds rural America together, are not empty words. These words are not useless rhetoric and they are not gross exaggeration. They are the truth. If you allow the Postal Service to close substantial numbers of rural Post Offices, then you will seriously hurt America, even if the Postal Service could provide adequate Postal services without them, which it cannot do.

One way to maintain rural Post Offices is to allow them to sell other non-Postal products, such as office supplies, in order to offset some of their costs. Senator Carper's bill would do this. This poses a minimal problem of competition with the private sector, since there would be no local competitors in most rural areas.

Thank you for considering our views, and I will take any questions.

Senator CARPER. Thanks, Mr. Strong, for sharing those views with us today.

Mr. Cerasale, please proceed.

**STATEMENT OF JERRY CERASALE,<sup>1</sup> SENIOR VICE PRESIDENT,  
GOVERNMENT AFFAIRS, DIRECT MARKETING ASSOCIATION**

Mr. CERASALE. Good afternoon, Senator Carper. Thank you for having me here—

Senator CARPER. Our vote has just started, so we have about 15 minutes and then we will wrap it up.

Mr. CERASALE. OK. I will be very quick, sir.

Senator CARPER. Go right ahead.

Mr. CERASALE. Thank you for having me here and thank you for all that you have done for the Postal Service and the DMA.

Senator CARPER. It was my pleasure.

Mr. CERASALE. I am Jerry Cerasale, Senior Vice President for DMA. DMA is the leading trade organization for marketers and nonprofits, reaching consumers directly. Our members represent about 70 to 80 percent of the mail and 85 percent of Postal Service revenues. The Postal Service is an important communication channel for all our members and those of the magazine publishers, Alli-

<sup>1</sup>The prepared statement of Mr. Cerasale appears in the appendix on page 117.

ance of Nonprofit Mailers, and the 21st Century Coalition, and it is in financial crisis.

We agree with you on what you have done on the pensions. The pension obligations for every hour worked in the Postal Service have been fully funded by postage that we have paid. We have also paid between \$50 to \$75 billion in pension obligations for hours worked before the Postal Service was ever created, and that is a tax. We have also overpaid in FERS payments. And we ask, as you have done, we ask that these overpayments be used to offset the retiree health payments that are currently harming the cash-flow position of the Postal Service. We think that legislation should require the government to use any pension overpayment refund for retiree health benefits until those legacy costs are completely funded.

Concerning facilities, we agree with you in the POST Act to give the Postal Service more flexibility. We support the use of kiosks and others to give retail services to the American public. We also support, as Senator Collins has, the collocation of Postal facilities in other retail outlets and vice-versa. We think the Postal Service should look very hard at collocating with Federal, State, and local governments, as well.

We support the provisions on new products in the POST Act. We think that the Postal Service should work with and partner with the private sector with their expertise on those products, however, rather than starting out from scratch. We want to commend fully the Postal Service trying to merge and leverage mobile and print communications with their summer sale with the QR codes. We say to Postmaster General Donahoe, keep it up! Bring some more!

We support the provisions in S. 353 requiring a cost-benefit analysis for any new mail preparation requirement, and if that cost-benefit analysis shows that there is a shift of cost to the mailer, we think that should be considered as a rate increase under the cap, as well.

DMA specifically has two concerns with the POST Act. First, we think that powers given specifically to the Governors should not be delegated. There is a reason to have Presidential-appointed Governors and we think that specific powers of the Governors should not be delegated.

We also believe that the 45-day decision requirement on the Postal Regulatory Commission for transfer, just for transfer of products, from the market dominant to competitive and vice-versa, is too short. Transfer between those provisions can have serious consequences for DMA members, and we believe that extending the period would not harm the Postal Service because that product is still being offered, even though the PRC is looking at the transfer.

And finally, the Postal Service has to right-size to deliver 150 billion pieces of mail rather than 250 billion, and we cannot afford that excess capacity and it has to be done today and not tomorrow.

Thank you very much.

Senator CARPER. Thanks so much for your testimony. In fact, I thank all of you for really valuable testimony.

I just wanted to share, on the subject of whether or not the world has changed with regard to diversion to electronic media, I was just back over in Afghanistan and Pakistan. Senator Begich and I

have been over there together before. I know Scott Brown and I were over there a year or so ago.

And I think about what the world was like when I was a Naval flight officer serving in Southeast Asia during the Vietnam War and how important to us and our squadron—I was not on a ship or a submarine, but our squadron—how important the mail was to us, just to hear from our friends and families back home, to get letters, cards. I lived in California. We were home stationed in California when we were not overseas, and to be able to receive like at least a Sunday San Francisco Chronicle about 5 days late, to receive Time or Newsweek, again, about 4 or 5 days late, but at least to have them.

When I was over in Afghanistan 2 or 3 weeks ago, I saw a lot of our soldiers, sailors, airmen, marines Skyping. They can literally access the San Francisco Chronicle or any newspaper they want to through the Internet. They can pay their bills electronically. I mean, the world has changed just dramatically and continues to.

And for us, we have to have a Postal Service. We have to have one that does not add to our budget deficit. The idea that, whether or not it is 86 percent of the people that oppose closing Post Offices or 76 or 66 percent, at least that many people also oppose running huge budget deficits and they want us to do something about that, and what we have to do is to come up with a way to continue to have a strong, vibrant Postal Service, but at the end of the day, not add to our \$230 billion for our budget deficit over the next 10 years. I think we can do that, and the challenge for us is to figure out, working together, how to do that, and to think outside the box.

Let me go to Senator Begich and then I have a question, but Mark, I would just ask you, no more than 5 minutes.

Senator BEGICH. Yes. No, I am just going to make some general comments first, just because we have a vote and we are tight on schedule.

But first, I want to thank all of you, and I think there is a recognition between the last panel and this panel, and I think I am going to use your words, to right-size the Post Office for the times that we are in today, and that is a challenge. And I think the bill that Senator Carper has brought forward is a good step. There are obviously tweaks that need to be done.

As a matter of fact, Mr. Strong, I was in Healy, Alaska, not long ago, meeting with the Postmasters. It was interesting. They had no conference room, so they had to do the meeting in a restaurant bar, which I thought was very appropriate because we had great discussion of a lot of issues at lunchtime. But what was good was they talked about, especially in rural Alaska, the importance of the Postmaster and how that is a critical piece of the puzzle.

So I just want to really say to all of you that you will find me a partner in trying to solve this problem. I can tell you, on the pension issue, I have dealt with this when I was Mayor. We had three pension programs, police and fire. Two were overfunded, one was underfunded, and we restructured it. End result, the city no longer had to pay a payment because we restructured it. The employees became more satisfied with the long-term benefit that they received. It was a win-win all the way around and they were highly unionized police and fire folks, but we figured it out. It was painful



getting there, to be very frank with you, but at the end of the day, we figured it out and the cash-flow worked out better.

So I think the approach, again, Mr. Chairman, that you are taking is the right approach. I think there is going to be some work to do, and that is why this hearing was good, to kind of hear from you kind of some of the issues you had on the table. So thank you for what you are doing.

I will just end with this comment. My son and I, I like having him collect stamps because there is history behind each stamp and we get to read about it at night. Last Thursday, we went to the Post Office Web site, ordered some first day edition stamps, and they came on Monday. When you think about that, that shows the efficiency, that you had to organize it, package it, put it in, deliver it, and we got it. That is just an amazing thing, or a stamped envelope that I could send from here and get it out to a village in Western Alaska is amazing. And so I credit the Post Office for great work, but we have challenges.

And so, again, thank you, Mr. Chairman, for allowing me to say a few words.

Senator CARPER. Great. We are delighted that you could be here and look forward to working with you on these issues.

Maybe one question in wrapping it up, and this would be for maybe Mr. Guffey and Mr. Strong. Your members work directly with Postal customers every day, as we all know. What do you think the Postal Service needs to do to reach out to customers, whether individual customers or small businesses or the biggest mailers out there, to attract new business? What do we need to do to attract new business?

Mr. GUFFEY. Well, one of the problems we have been facing for many years is maybe our work rules have gotten in a lot of the way to prevent the Post Office from staying open past 5pm. There is a Post Office within a block of our offices at 13th and L and there is one, I think, at 18th and K, but if they close at 5pm, the people who are bringing down the mail packages and what have you just miss out. They must go to one of our competitors. And we changed our work rules to allow the Post Office to stay open longer without the payment of overtime and doing certain things.

We have also lowered some costs of new employees and long-term benefits so that the Postal Service can open, and where there are clerks working can lower their costs to perhaps keep Post Offices open longer in the general community rather than shutting them down because of their cost factor. In other words, we have tried to help the cost factors.

We must be—we have also lowered the cost of processing inside plants. We have tried very hard to do that so that the big mailers could keep their discounts and bring more mail to the Post Office as necessary, to try to keep the costs down for the Post Office.

The men and women of the American Postal Workers Union are very concerned about the Post Office and they want to help it to be a viable institution, and they overwhelmingly voted to do those type of things.

Senator CARPER. Good. Congratulations. Thanks. Mr. Strong.

Mr. STRONG. A number of things. I had a privilege of being on a panel with Jerry a couple of weeks ago, and I always talked

about the complexity of the back end of the Post Office, the bulk mail units where our customers come in, and it is a very complex operation. And I think we have to reduce that complexity and make it easier, for especially the occasional users to induct mail into our system.

But one of the things that Jerry brought up was the fact that we also had to look at the complexity of our window, our retail services. Upselling the products that we currently have sometimes can be a struggle, not only for the customer to understand, but for our retail associates. So we have to reduce the complexity of the retail operation, as well.

We already have an outreach program where we have carriers involved, we have rural carriers involved, we have the Postmasters involved, and it is a business connect, customer connect, and a rural outreach. We need to expand that and continue to grow that and get all of our employees very involved.

Postmasters are great salesmen. We need to continue to get them into the field and to sell the products that we have. We have to get them the time and away from the desk to get that done. I think we can grow our product. I think we have the people to do it and I think we have the product lines to continue to grow and be a vital part of America and we need to continue to work at that.

Senator CARPER. All right. We have about 5 minutes to vote. They do not hold the votes open for me, so I am going to run over there and vote. Maybe when they let me be the leader, I can, but I have about 5 minutes to go, so I am going to roll.

Thank you so much for joining us today. Thanks for your preparation. Thanks for your hard work that you do every day to help make sure that we have a strong and vibrant Postal Service.

I would like to quote Albert Einstein, who used to say, "In adversity lies opportunity." And I think there is plenty of adversity here for the Postal Service, but there is also opportunity, and it is incumbent on each and every one of us to find that opportunity and to work together in a really creative way, thinking outside the box to come up with opportunities we had never thought of before.

And when I see my neighbors getting those Netflix in the mail, when I see my wife being delighted to receive a Mother's Day card from the other side of the world, when I see the Flat Rate Boxes that the Postmaster General was holding up here, when I talk to folks who are getting their medicines delivered 6 days a week to their mailboxes at home or at work, there is a lot of good ideas out there. Some of them have been realized. A lot of them have not even formed in our minds yet. We need to get to work on that. Maybe some of it can be with respect to the energy costs as I discussed earlier.

The last thing I want to mention, we did not touch on this, but it is really part of the, what I call the 800-pound gorilla in the room in terms of driving Federal budget deficits, the cost of health care. It dwarfs almost everything else. And one of the major drivers in business today in this country, ever more so, is the cost of health care. We are spending today something like 18 percent of our GDP for health care costs. In Japan, they spend half that, 9 percent. They cover everybody. They get better results. They cannot be that smart. We cannot be that dumb. But part of our challenge here is

to figure out how to get better health care results for less money or better health care results for the same amount of money. That is an issue for another day, but it is an important issue as we deal with this one here today.

I look forward to working with my colleagues that are here today and those that were not. I certainly look forward to working with Senator Collins. We are going to get this done. We are going to figure this out. It is not going to be easy. It is not going to be tomorrow or next week, but we are going to figure this out, and we will figure it out this year.

With that having been said, this hearing is adjourned. Thank you all.

[Whereupon, at 12:32 p.m., the Subcommittee was adjourned.]



## APPENDIX



FOR RELEASE: May 17, 2011  
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### U.S. SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

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

#### HEARING: "Addressing the U.S. Postal Service's Financial Crisis"

WASHINGTON – Today, Sen. Tom Carper (D-Del.), Chairman of the Senate Subcommittee on Federal Financial Management, convened the hearing, "Addressing the U.S. Postal Service's Financial Crisis." For more information or to watch a webcast of the hearing, please click [here](#). A copy of Sen. Carper's opening remarks, as prepared for delivery, follows:

"I'd like to welcome our witnesses and guests to the latest in a series of hearings that this subcommittee has held in recent years to examine the Postal Service's serious financial problems.

"While the witness list at this hearing is full of familiar names and organizations, the hearing today is likely to be different from those we held in the past. It needs to be different because the crisis the Postal Service faces is more urgent now than it ever has been. Absent prompt and dramatic action on the part of Congress, our next postal hearing may well be about how we pick up the pieces from a shutdown in operations.

"It is my hope that this hearing will jumpstart the process of developing a bipartisan, bicameral consensus around the reforms necessary to restructure the Postal Service's finances and transform its operations to reflect the uncertain future it faces.

"Just last week, the Postal Service's Board of Governors released some sobering data on the Postal Service's financial performance in the second quarter of this fiscal year, which ended on March 31. The Board also released numbers summarizing mail volume and revenue for the fiscal year to date. These data show that, as those of us who follow postal issues feared may happen, the Postal Service is not recovering along with the economy as a whole. Rather, the continued electronic diversion of the mail is likely to permanently

reduce mail volume despite the Postal Service's best efforts to bring in new customers and preserve those that it has today.

"In the period between the beginning of January and the end of March, mail volume declined by just more than 2 percent versus the same period last year. This follows two quarters of modest growth. At the same time, the Postal Service's most important product – First Class Mail – actually lost 6 percent of its volume, continuing its pattern of years of steady decline.

"These developments are contributing to further record losses by the Postal Service. Midway through the current fiscal year, the Postal Service has booked losses totaling \$2.8 billion. Its projected losses for the year now stand at \$8.3 billion, nearly matching the record \$8.5 billion in losses it experienced last year.

"These volume and revenue numbers are all worse than the Postal Service initially projected. And if the losses at the end of the year are truly as bad as we're now being told they will be, I understand that the Postal Service will have exhausted all of its \$15 billion line of credit from the Treasury by the end of September and will limp into fiscal year 2012 with just enough cash on hand to get by.

"It gets worse from there. Getting by in 2012 will likely mean that the Postal Service will not be able to make its \$5.6 billion retiree health prefunding payment and could even have difficulty making other normally routine pension and workers compensation-related payments. On top of that, a major crisis that occurs over the next year or so, such as a further economic slowdown or a terrorist attack, could well push the Postal Service over the edge into insolvency and result in a shutdown of its operations.

"If the Postal Service were to shut down, the impact on our economy would be dramatic. As Postmaster General Donahoe will testify to today, the Postal Service operates at the center of an industry that employs some 7 million people and generates more than \$1 trillion in sales and revenue each year. At such a difficult time for our country, we can't afford to put those jobs and that kind of productivity in jeopardy.

"In recent years, the Postal Service has done its share to respond to the declining demand for hard-copy mail and to better align its costs with its revenue. Total costs have been reduced by \$12 billion in recent years. A big contributor to that success has been the elimination more than 113,000 Postal Service jobs since 2007 and more than 200,000 over the past decade. These savings are continuing with the Postal Service's new contract with the American Postal Workers Union, which includes wage and benefit concessions and significant new workforce flexibilities. In addition, the Postal Service has introduced and successfully promoted a number of new products such as the Flat Rate Priority Mail box.

"We are rapidly reaching the point, however, at which the Postal Service no longer has the authority under current law to do what it needs to do to get by. That's why I've introduced legislation today that aims to clean up the Postal Service's finances and help it implement the ambitious reorganization plan it announced last spring.

**"The main provision in my bill – the Postal Operations Sustainment and Transformation Act, or the POST Act – aims to permanently address the various pension and retiree health-related issues that have plagued the Postal Service for years.**

**"The Postal Service, the Postal Service's Inspector General, the Postal Regulatory Commission, and two independent actuaries have all come to the conclusion that the Postal Service has overfunded its obligations to the Civil Service Retirement System by between \$50 billion and \$75 billion. In addition, numerous observers and even the Office of Personnel Management have pointed out that the Postal Service has paid \$7 billion more than it owes into the Federal Employees Retirement System.**

**"My bill would give the Postal Service access to the funds it has overpaid. It would be able to use them to make its required retiree health prefunding payments, taking upwards of \$5 billion off its books each year for the next several years. Once those payments are satisfied, the funds this bill would free up could be used to pay workers compensation obligations and to retire debt owed to the Treasury.**

**"These reforms, or something very similar to them, will need to be a vital part of any efforts to improve the Postal Service's financial condition in both the short- and long-term. But stopping with these reforms and avoiding further, potentially more difficult changes will simply not be enough.**

**"The Postal Service is projecting cumulative losses of more than \$230 billion between now and 2020. The savings generated by the pension and retiree health reforms in my bill and in others that have been introduced in both chambers would only address about a third of these losses.**

**"In addition, the Postal Service's latest financial data shows that, even if the retiree health prefunding payment is not made this year, the Postal Service would still face the risk of insolvency and shutdown in 2012. And even if the 2012 retiree health payment is also not made, the Postal Service would enter 2013 with no cash and no borrowing room at all.**

**"More will clearly need to be done. That is why my bill takes important steps towards truly giving the Postal Service the flexibility those of us in Congress always say we want to give them to adapt to new realities and operate more like a business.**

**"No business facing the kinds of difficulties the Postal Service faces would survive for very long if it were told how many retail outlets they should have and where they should be located. Or if it were prevented from making operational changes or taking full advantage of the resources and expertise it has at its disposal. Yet that's what Congress does to the Postal Service.**

**"My bill aims to address these problems and to take Congress out of the day-to-day management of the Postal Service. Assuming that the Postal Service can continue to build on its recent cost-cutting efforts, these changes could help set the Postal Service on a more**

solid footing in the years to come.

"The report GAO is releasing today on the state of the Postal Service's vehicle fleet provides a valuable case study. The report clearly details the negative impact that financial uncertainty and well-meaning but sometimes harmful dictates from Congress have on postal operations.

"GAO found that, due at least in part to the Postal Service's dire financial situation, postal management currently has no plan in place to replace its very large fleet of delivery vehicles, some of which were first put on the streets a generation ago. The costs of operating and maintaining these vehicles are increasing and, in at least some cases, it's having a negative impact on operations.

"I believe it's unacceptable that the Postal Service has no plans to date to begin replacing its aging fleet, perhaps with more fuel efficient vehicles, the purchase of which in large numbers could help commercialize important new technologies. But it's also unacceptable that the Postal Service has been placed in this position financially, in part due to acts of Congress.

"I look forward to hearing from our witnesses today about these and other pressing issues facing the Postal Service."

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**STATEMENT OF SENATOR SCOTT BROWN, RANKING MEMBER****SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,  
GOVERNMENT INFORMATION, FEDERAL SERVICES AND  
INTERNATIONAL SECURITY****COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS****“Addressing the U.S. Postal Service’s Financial Crisis”****May 17, 2011**

Senator Carper, thank you for holding this hearing today on the future of the U.S. Postal Service. I share your concerns over the Postal Service’s failing financial health, and believe that some tough choices need to be made without further delay.

Once again, the Postal Service is facing an estimated \$8 billion loss at the end of this fiscal year. It will draw down its remaining \$3 billion from its \$15 billion line of credit with the U.S. Treasury, yet it will be so strapped for cash that it will not be able to make both retiree health benefit trust fund payments and meet October’s payroll.

There has been little disagreement for some time now that the Postal Service’s past business model was unsustainable. The evolution of electronic communications and the lingering effects of an economic recession have caused mail volumes to drop at unprecedented rates not expected to rebound in the future. These declines combined with enormous labor costs and statutory mandates have left the Postal Service financially crippled. During these times of runaway government spending and soaring federal deficits, a taxpayer bailout of the Postal Service is not an option. The Postal Service, its employees, and Congress must make some tough choices over the next year if the guarantee of universal service to all Americans is to be maintained.

The Postal Service must redouble their efforts to reduce excess capacity, streamline operations, and adapt to the information age. I’m encouraged by the various cost cutting measures that have saved over \$12 billion in the last three years, but it is clear there is more to be done.

Labor costs account for 80% of total expenses. During collective bargaining negotiations, Postal management and employee unions must continue to ensure a sustainable cost structure and flexible workforce rules for the Postal Service in the future.

The Postal Service can only do so much without some help from Congress. A number of well-intentioned regulatory and statutory mandates have further complicated the Postal Service's ability to adapt to the changing times. If the Postal Service is going to make further progress, Congress must remove some of these roadblocks, provided universal service can be guaranteed and communities are not adversely affected.

There is relative agreement that the Postal Service has significantly overpaid into its pension funds. Addressing these overpayments and allowing the postal service to transfer these funds to pay into its retiree health benefit obligations would help its cash position in the near term. Additionally, the Postal Service must be given the flexibility to manage its operations effectively and close unneeded facilities -- as long as this is done in a responsible manner.

The long term sustainability of other mandates, such as six-day service, has been questioned and requires thoughtful consideration. The Postal Service should have the flexibility to make operational changes where necessary, but we must ensure that the public service role of the Postal Service and its key role in a trillion dollar mailing industry is maintained. Both Senators Carper and Collins have worked hard to reform the Postal Service over the years, and I look forward to working with them to find a comprehensive solution to these important issues.

Lifting some of these legislative restrictions will give the Postal Service a substantial financial boost in the near term. There is no doubt, however, that declining mail volumes will continue to place significant fiscal strain on the Postal Service in the future. The Service must continue to find new ways to adapt its business model to ensure its financial survival and maintain the level of service so many Americans and businesses rely on.

I thank the hundreds of thousands of dedicated postal employees for the great work they do every day and the witnesses for their testimony today. Thank you Mr. Chairman.

FOR IMMEDIATE RELEASE: May 17, 2011  
Contact: Jesse Broder Van Dyke 202-224-7045  
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## STATEMENT OF CHAIRMAN DANIEL K. AKAKA

### *Addressing the U.S. Postal Service's Financial Crisis*

#### Hearing

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

Senator Akaka's remarks, as prepared for delivery:

*"I want to thank Chairman Carper for calling this important hearing today about the future of the United States Postal Service. As we have heard time and again over the last three years, the Postal Service faces a devastating financial outlook.*

*By the end of this fiscal year, the Postal Service may not be able to fully pay its five billion dollar retiree health benefits prefunding obligation. The Government Accountability Office report released last year examines several options to help the Postal Service.*

*I commend Senator Carper and Senator Collins, who have both introduced legislation that aims to help the Postal Service meet its obligations by addressing overpayments to the retirement funds. Additionally, Senator Carper's Postal Operations Sustainment and Transformation (POST) Act offers several provisions which would allow the Postal Service to innovate and expand its business.*

*However, both of these bills still contain a provision introduced in the last Congress which would bias the collective bargaining process to favor the Postal Service during arbitration. The fact that the Postal Service and the American Postal Workers Union ratified a new four-year contract last week demonstrates that the Postal Service and employees can work together to reach an agreement that meets everyone's needs. Congress does not need to inject itself in the collective bargaining process.*

*I also want to mention the issue of five-day delivery. As I expected, the Postal Regulatory Commission's estimated savings for cutting a day of service is lower than the Postal Service's. The Postal Regulatory Commission also points out that Postal Service did not examine thoroughly the impact on rural areas. I am concerned about the impact of cutting service on Hawai'i, which already has slower mail delivery due to its location and challenges moving mail between islands. Ultimately, I do not believe this change would help the Postal Service attract new business or revenue. Instead, it could harm those who rely on the Postal Service.*

*Again, I want to thank my colleagues for their hard work on these issues, and thank all of our witnesses for their contributions to the conversation. These hearings will help us as we move forward with legislation to finally ensure a long-term fix for the Postal Service."*

-END-



**STATEMENT OF  
POSTMASTER GENERAL/CEO PATRICK R. DONAHOE  
BEFORE THE  
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT  
INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY  
UNITED STATES SENATE**

**MAY 17, 2011**

Good morning, Mr. Chairman and members of the subcommittee. I appreciate the opportunity to testify today on behalf of the U.S. Postal Service. Thank you for the invitation and thank you, Mr. Chairman, for calling this hearing to discuss our arrival at what we believe is a critical juncture in the Postal Service's long history.

Today, I will update you on our financial situation for the first half of fiscal year 2011, discuss the Postal Service's continued aggressive and targeted efforts to manage costs and grow our business, and examine pending legislative remedies; specifically your bill, Mr. Chairman. I also will describe to the subcommittee the realities of what we perceive as two distinct paths – down one of which the Postal Service will travel in the immediate future. The consequences of following either path depend in great measure on the actions taken by Congress before the end of this fiscal year, less than five months from now. Members of Congress have, from the first days of our nation's history, played an integral part in the creation, progress and viability of America's postal system. In 2011, the role of Congress in securing the future of the Postal Service is more critical than ever. We are truly at a crossroads. It is my responsibility to ensure that all Members have a full understanding of the gravity of the situation, and that they comprehend what may – or may not – happen if Congress fails to act.

The latest financial results, unfortunately, show continued struggles in both mail volume loss and revenue. In the first six months of this fiscal year, we experienced a net loss of \$2.6 billion, compared to a \$1.9 billion loss for the same period last year. In Quarter Two, total mail volume declined by nearly 1.3 billion pieces, or 3.0 percent over the same period last year. First-Class Mail has declined at an accelerated rate, surpassing previous projections. So far this year, First-Class Mail volume is down by 2.7 billion pieces, or 6.6 percent. These numbers represent the continued migration away from traditional hard-copy communications to electronic means of receiving information. Although advertising mail – also known as Standard Mail – has shown slight improvement in total volume, this mail generates far less in profits than First-Class Mail, and the slight increases failed to offset the continuing First-Class Mail decline. The First-Class

Mail declines are driven mainly by customers making fewer bill payments by mail, companies sending out fewer hard-copy statements and financial institutions migrating to online transactions. The recent recession significantly sped up this trend. We expect this shift in the mix of mail to continue as the digital world expands and customer habits shift accordingly. Trends also continued to move downward for certain mail classes, such as Periodicals (newspapers and magazines), as consumers receive fewer hard-copy publications and increasingly utilize mobile devices to access information.

As sobering as these mail volume and revenue results are, however, they pale in comparison to the more immediate threat to our viability – the looming liquidity crisis that will come to a head at the end of this fiscal year, on September 30, 2011. Our financial projections predict a loss for this fiscal year of approximately \$8.3 billion, before any non-cash adjustments to workers' compensation liabilities. This loss is compounded by the approaching limit of \$15 billion in borrowing authority, which will be reached this year. We have two substantial payments due at or near the end of this fiscal year; a \$5.5 billion payment to pre-fund Retiree Health Benefits (RHB) and a \$1.2 billion payment to reimburse the Department of Labor for workers' compensation claims paid in 2011.

Without changes in these unfunded federal mandates, the Postal Service will be unable to meet all of its financial obligations and will default on payments due to the Federal government this fiscal year.

The Postal Service is committed to satisfying our core mission — delivering America's mail. That is an imperative. To do this, we must pay our employees and our suppliers. But it must be understood that, absent legislative action, the Postal Service is certain to default on these substantial payments. This is clearly not the outcome we would choose, but without Congressional involvement, the result is unavoidable.

Mr. Chairman, absent mandates imposed by law, which place a unique financial burden on the Postal Service, we would have been operating in the black, despite crushing volume and revenue losses. We have gone to great lengths to offset the effects of both the economic recession and the digital revolution. For over a decade, we have aggressively sought to effectively manage and control those factors over which we have direct responsibility. Some examples of our efforts include:

- Reducing our total cost line by \$12 billion over the last 3 ½ years.
- Development of our March 2, 2010 Comprehensive Strategic Plan to identify future trends and close the gap between future revenue and costs, using a variety of techniques.

- Eliminating 30 to 40 million work hours this year, adding to reductions totaling 240 million hours in the previous three years.
- Reducing the number of career employees to 571,586 at the close of Quarter Two; for a decrease of 113,208 employees since 2007 and a total reduction of over 200,000 employees in the last ten years, without layoffs.
- Undertaking an organizational redesign that will further streamline our work force by reducing 7,500 administrative positions.
- Reaching an historic agreement with the American Postal Workers Union (APWU) that will enhance workforce and work hour flexibility.
- Continuing to adjust our retail, mail processing and delivery networks by consolidating Post Offices, conducting Area Mail Processing (AMP) studies and realigning delivery routes.
- Creation of dozens of new products and services, designed to grow volume and revenue; including the Flat Rate Priority Box, Forever stamps, Every Door Direct Mail, Click-N-Ship, kiosks, digital apps and expanded access with retail partners like Office Depot.

Our nation has entered an era of heightened fiscal awareness; one that demands more streamlined and efficient government operations. The Postal Service serves as a model of such efficiency. Our relentless focus on managing costs, on right-sizing our retail and mail processing networks, and on better aligning our resources with the rapidly changing type and volume of mail has brought results any CEO would be proud to claim – and I am. I cannot adequately express how proud I am of each and every person in our organization for their tireless efforts to bring needed change to our organization, all while continuing to provide service that is second-to-none. But we have reached the point where our efforts alone are not enough to sustain the Postal Service. It is time for Congress to act.

Just as the mailing habits of the American people have changed over the last decade, just as the Postal Service has changed, so must existing law be changed. As noted above, the reasons behind the Postal Service's ongoing financial struggles are primarily due to matters other than declining mail volume and digital communication. One of the biggest challenges we face is the onerous burden of fulfilling pre-payments for Retiree Health Benefits, as set forth in the *Postal Accountability and Enhancement Act (PAEA)*. The PAEA, although well intentioned, was formed and brought to fruition in a very different world. In 2006, mail volume hit an all-time peak of 213 billion pieces. Gas prices had yet to spike and the recession was still around the corner. In 2007, fuel prices skyrocketed, the financial services sector began to contract and, as the economy went into a tailspin, mail volume began to plummet. As economic conditions worsened, the Postal Service was faced with a requirement to pay approximately \$5.5 billion per year into the RHB Fund. What seemed possible in the years preceding enactment of PAEA – making this hefty annual payment on an extremely aggressive ten-year timetable – is now virtually assured of bringing the Postal Service to the brink of insolvency.

Many people, including members of this committee, worked on PAEA for many years. That effort does not go unnoticed or unappreciated. However, parts of that law have become an impediment

to the Postal Service's financial stability. One need only look at our financial performance just prior to enactment of PAEA to see how the requirement to pre-fund RHB has put a stranglehold on Postal finances. In the four years preceding enactment of PAEA (2003-2006) the Postal Service had cumulative profits of \$9.3 billion and generated sufficient cash to pay down \$9.0 billion of debt. In the four years after PAEA was enacted (2007-2010), the Postal Service had cumulative losses of \$20 billion and increased its debt by \$9.9 billion while paying \$21 billion to pre-fund RHB. Without the pre-funding, the Postal Service would have had a cumulative net income of \$1 billion over the four years and \$9 billion of cash in the bank.

The results above for fiscal year 2009 would have been even worse, except for enactment of Public Law 111-68, which deferred the required payment to the Postal Service RHB Fund by \$4 billion. That change, while appreciated, was only a short-term, one-year fix and did not address the larger issues of continued future payments to the RHB Fund. No such exception was made for the fiscal year 2010 pre-payment of \$5.5 billion, significantly contributing to a net loss of \$8.5 billion for the year. And here we are again in fiscal year 2011, still without a long-term solution. It is clear that additional short-term fixes will no longer suffice.

Let me make clear that the Postal Service is in no way advocating changes that would endanger the future pension or health care benefits of our employees. We have always met and, in fact, have exceeded, funding amounts for future financial obligations to our employees. Currently, we have funded 47 percent of our total RHB obligations, with over \$42 billion on deposit with the Treasury. Unlike most other employers, the Postal Service has set aside substantial amounts of cash for its retirement obligations. According to independent actuaries, the Postal Service has overpaid its Civil Service Retirement System (CSRS) pension obligations by \$50-\$75 billion. We have also overfunded Federal Employees' Retirement System (FERS) benefits by an additional \$6.9 billion. Solutions exist that would allow the Postal Service access to the excess funds we have paid for CSRS and FERS. But such solutions can only be brought about through Congressional action. These are areas over which the Postal Service has no control.

We have, however, continually focused on all aspects of our operations over which we have sole responsibility. Our March 2, 2010 Comprehensive Strategic Plan was based on identifying and differentiating between those areas we alone must manage and those that lie outside the scope of our authority. The plan looked ten years into the future and, based on projections about mail volume and revenue, the Postal Service formulated a strategic plan to meet the challenges of the coming decade. We identified potential losses totaling \$238 billion by 2020. We specified a set of actions that addressed a \$123 billion gap consisting of areas of our operations over which we have control. Another key part of that plan included calling on Congress to enact measures that

would free the Postal Service to secure its future now and for decades to come. Action on these measures is needed now. Actions Congress must undertake this year include:

- Resolve the RHB pre-funding requirement (both long and short term).
- Solve the inequities present in the current CSRS pension methodology.
- Repay the FERS overfunding of \$6.9 billion.
- Permit the Postal Service to move to a five-day delivery model.
- Allow the Postal Service to make decisions more quickly and in a more business-like fashion regarding its retail facility and mail processing networks.

Failure of Congress to act will have a significant impact on a number of our stakeholders and on the economy of our nation as a whole. Threats to our liquidity and the consequences of defaulting on payments extend to a wide array of stakeholders. Constant negative discussions about the Postal Service's financial condition have a significant affect on our brand – a brand that is recognized, respected and valued by millions of people. The Postal Service is the cornerstone of an industry that employs over seven million Americans. Mail service providers, fulfillment companies, shipping firms, printers, transportation companies, and "Mom-and-Pop" small business owners all combine to use the mail and generate over \$1 trillion in sales and revenue for the nation's economy. This important segment of the business world represents seven percent of the total Gross Domestic Product (GDP) in America. If Congress does not act now, it will have far more serious issues to address when the Postal Service is unable to pay its employees and suppliers and cannot move the mail.

At this critical point in our history, the Postal Service sees two distinct paths ahead. Which path we take and the outcome directly depends on the actions taken by Congress. In the first example, the Postal Service continues its aggressive cost-cutting strategies, trimming work hours and streamlining our work force to reach the optimal number of employees needed for present-day mail volumes. We continue to work closely with our labor unions to secure meaningful and responsible agreements. We mirror those actions in consultation with our management organizations. We continue efforts to right-size our network by carefully evaluating Post Office locations, mail processing plants and transportation to better match our resources with mail volume and operational needs. And we continue to build on the success of innovative ideas such as the Flat Rate box, Forever stamps, online services, digital applications, and expanded access points so customers can have postal services available when, where and how they want.

Meanwhile, Congress takes up comprehensive and long-term solutions, allowing the Postal Service to access amounts overpaid into FERS and CSRS. This use of funds allows the Postal Service to fully fund its RHB obligation and ensures adequate funding of both its pension systems. The Postal Service is given delivery flexibility, thus saving an additional \$3.1 billion per



year. We continue delivering the mail, we pay employees, suppliers and contractors, and we make needed capital investments. The mailing industry continues to thrive as the value of the mail is enhanced, and the Postal Service continues its key role as a profitable platform for commerce and the best postal system in the world.

The second path starts out exactly as the first. The Postal Service continues its aggressive cost-cutting strategies and follows all previous attempts to save work hours, negotiate meaningful and innovative contracts with our unions, balance work load with resources, and streamline its network of postal retail facilities, processing plants, and transportation. We match these efforts with continued innovations in technology, products and services as we continue to reinforce the value of the mail.

However, in the second scenario, even as the Postal Service continues its relentless focus on improvement, Congress fails to enact measures for FY 2011. Before the end of FY 2011, the Postal Service begins to default on payments to the Federal government as a means to conserve cash and continue operations at optimum levels for as long as possible. At the close of the fiscal year, on September 30, 2011, the Postal Service is forced to default on its payment to the Treasury for pre-funding of RHB. We reach the limits of our \$15 billion debt ceiling and experience a cash shortfall. As we struggle to maintain liquidity, FY 2012 brings further mail volume and revenue declines. With no remaining borrowing authority, at some point in FY 2012, the Postal Service easily reaches a point where making payroll is no longer possible. Unable to pay our employees or suppliers, we are forced to cut back service. We cannot afford fuel for delivery vehicles and lack resources to operate our facilities. Unable to support our infrastructure, the mail delivery system grinds to a halt. No mail is collected or delivered, resulting in serious repercussions throughout the mailing industry, ultimately leading to million-dollar losses for thousands of companies and lost jobs, wages, and benefits for millions of workers. These results take a significant toll on an already shaky economy.

Please understand that the second example is not an exaggeration. Such an occurrence is entirely within the realm of possibility, if Congress does not act. We continue to analyze our financial forecasts, especially as revenue levels were disappointing for the second quarter and the trends have continued through April and into May. The five-year forecasts submitted to Congress in April, carried the caveat of being based on our Integrated Financial Plan, developed last fall. The most recent financial forecasts, which were reviewed by the Board of Governors last week, show a deteriorating mail volume and revenue trend that exacerbates our solvency crisis. Attached are our latest forecasts for 2011 and 2012 showing income and cash / debt positions without and with our proposed legislative changes. Unfortunately, satisfying the pre-funding of RHB with CSRS overpayments does not provide enough liquidity, on its own, to see us through

the month of October when we are scheduled to pay \$1.2 billion to the Department of Labor for workers' compensation costs. This underscores the need for the additional measures of repaying the FERS overfunding and allowing the implementation of five-day delivery. The Postal Service has also carefully evaluated the effects of these legislative changes for the next five years. The cumulative effects of legislation to address FERS, RHB pre-funding, CSRS overpayments, and five-day delivery, amount to \$46 billion over the next five years. Pre-funding of RHB alone represents about half of these total savings. Returning the Postal Service to profitability is within reach, but it will require comprehensive legislation by Congress.

We stress long-term solutions because, even if stopgap measures are enacted to ensure continuation of mail delivery operations, without meaningful and far-reaching legislation, other aspects of our operations will continue to struggle. Mr. Chairman, you referred to a Government Accountability Office (GAO) report on the Postal Service's vehicle fleet, which points out the costs associated with maintaining an aging fleet of over 200,000 delivery vehicles. Our vehicles are, on average, 25 years old. The GAO report recommends that the Postal Service develop plans to address its vehicle fleet needs. Such plans, of course, require a substantial capital investment approaching \$7 billion, which the Postal Service simply does not have. We realize, and the GAO notes, that repairing our delivery trucks and vans is a temporary measure at best and does not provide a permanent solution to our future vehicle needs.

Enactment of legislation this year would not only address RHB payments, pension obligations and liquidity concerns, but it would give the Postal Service enhanced financial flexibility to make capital investments for critical needs, such as vehicle replacement. Even with our limited resources, the Postal Service has researched and tested a variety of alternative fuel vehicles and we remain eager to explore ways to save fuel and protect the environment. But we are hindered by the realities of our financial situation. Like any business, we have the will and the desire to make these kinds of operational improvements, but without action from Congress, capital investment is an expenditure we simply cannot afford.

Fortunately, there are proposals on the table which will help us. You, Mr. Chairman, have just introduced a bill that we believe would go a long way toward improving the Postal Service's financial situation. Specifically, your bill seeks to address the CSRS issue by requiring the Office of Personnel Management (OPM) to use current actuarial practices to determine if a CSRS surplus exists and, if so, to allow for the transfer of any surplus to the RHB Fund to satisfy the annual pre-payment amount. It would also allow us to access the FERS over-funding for RHB. It would make needed adjustments to the PAEA to provide for continued and regular transfers of surplus amounts to the RHB fund every five years.

The bill would give the Postal Service the authority to shift to a five-day delivery model, thus saving in excess of \$3 billion per year. It would give us enhanced ability to consider the consolidation or closure of Post Offices and would allow for greater latitude in partnering with local businesses to ensure the continued availability of postal services in the communities we serve. We would be free to explore a greater variety of non-Postal offerings and would be able to partner more fully and easily with state and local governmental entities. Arbitrators would be required to take into consideration the financial health of the Postal Service when rendering decisions about collective bargaining. We could realize a significant increase in revenue by being permitted to handle the mailing of beer and wine. Your legislation takes a wide-ranging approach to solving the many issues involving the Postal Service and would play a significant part in returning the Postal Service to profitability.

We also appreciate Senator Collins' bill that would address the same issues involving CSRS and FERS surpluses and pre-funding of RHB, among other provisions. Members of the House have also introduced measures designed to resolve these critical legacy cost issues. We are extremely grateful for these proposed measures and it is our hope that they will progress swiftly through the legislative process. A failure to move these bills virtually assures that the second scenario detailed earlier will come to pass.

Although our focus is chiefly on Postal Service finances and our future, it is important to remember that the negative effects of taking the second path will not be limited to the Postal Service. The mailing industry is a crucial driver of our nation's economy, generating over \$1 trillion each year and employing more than seven million people. The most recent mailing industry study shows that the impact of the Postal Service on the economy is much larger than what is reflected in our own financial results. In fact, the Postal Service — as we continue to downsize our workforce and streamline our operations — represents only about 8.3 percent of the total jobs in the mailing industry. Over 90 percent of the workers in the mailing industry are employed outside the Postal Service. A healthy, profitable and thriving Postal Service is necessary not just to preserve Postal jobs, but to protect private sector employees and businesses.

Only two weeks ago, I attended the National Postal Forum in San Diego, CA. This annual gathering brings together a true cross-section of the mailing world; large mailers, medium-sized companies, small business owners, and the many suppliers of technology and service to the mailing industry. We engaged in a variety of activities, including workshops, networking and educational programs, all geared toward a singular focus on growing the use of the mail. But you cannot achieve success without a clearly defined and articulated plan. I outlined for attendees our four business strategies, designed to help us further define, improve and hone our core

function – delivering the mail. These four strategies were introduced as a complement to our March 2, 2010 Comprehensive Strategic Plan for the Future. Using these principles, the Postal Service will ensure future growth. Our guiding principles are:

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

The 21<sup>st</sup> century Postal Service will be a more market-responsive organization. As we focus on perfecting our core mission of delivering the mail, we will continue to promote the mail as a unique form of communication. We will enhance our efforts to educate businesses on the value of the personal touch only available through the mail. We plan to launch a major advertising campaign in September that will promote the use and value of the mail. We are looking at that 75 percent of the business world that currently does not use the mail and we will convince them, through incentives and special offerings, to give the mail a try. Going forward, the Postal Service will employ an integrated market strategy, one that combines the best of the digital world and the physical delivery of mail. We will continue our focus on making it simple and convenient to do business with us as we expand to include more alternate access sites. We plan to make changes in our permit system to further enhance the ease of doing business with the Postal Service. We will focus even more on our package business, capitalizing on the rise in e-commerce and the corresponding returns business.

For years, the Postal Service has been given a wide array of mandates and recommendations from myriad entities, including Congress, the GAO, the Postal Regulatory Commission (PRC), various Administrations and the President's Commission on the Postal Service, to name just a few. Virtually all of these mandates begin with the concept of the Postal Service operating more like a business. That has been, and will continue to be, our focus and our aim. With the continued evolution of communications in our nation, we cannot be a static, fixed government entity. We must continue to change with the pulse of the nation, and part of that change is continually reevaluating what kind of services we provide, where we provide them, and how customers gain access to them. The old philosophy — of a Post Office for every community, regardless of size, a Postmaster for every facility, regardless of demand, and a Postal Service that functions as the de facto government representative in every city, town and hamlet — is fading. If the nation wants to preserve its postal system, it must allow that system to adapt to the changing world.

As I noted earlier, the Postal Service will continue to seek out ways to improve our core business of delivering the mail, promote and grow the use of mail for businesses large and small, make it

easy and convenient for people to do business with us, and find innovative ways to continue providing the services our customers demand and expect. Our mission and our strategies will not change. But there are issues which remain out of our control and we look to Congress to act on these. The future of the Postal Service is at stake, certainly, but a huge portion of the nation's economy is also at risk. We have tried to clearly lay out the future and ensure Congress understands the consequences of a failure to take appropriate action.

We appreciate the continued support and efforts of you, Mr. Chairman, and other Senators, as well as House members. We are truly at a defining moment in the history of the Postal Service. We know the outcome that is needed by the Postal Service and the one that is needed by our business partners, employees, unions, management organizations and the Americans we serve. No one wants to see our mail system falter, but without some resolution from Congress, that is precisely what lies ahead. Working together, we can avoid these dire consequences and continue to be the world's best example of a modern, relevant, and profitable postal system. Thank you and I look forward to answering your questions.

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# 2011-2012 Forecasts

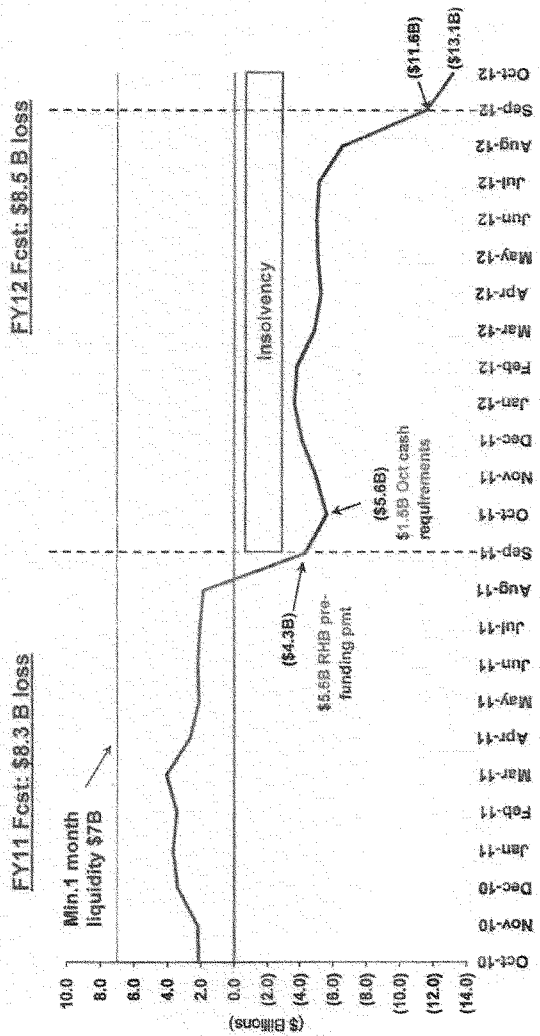
US Dollars in Billions	Forecasts	
	2011 IFP	2012
Mail Volume (pieces)	173	168
Revenue	67.7	65.5
Expenses (Net of \$1.7B Add'l Mgmt Action Effects in '12)	(68.6)	(68.4)
Op. Income (Loss) before RHB	(0.9)	(2.9)
RHB Pre-Funding	(5.5)	(5.6)
Net Income (Loss) Before Legislative Changes	(6.4)	(8.5)
Net (Debt) / Cash Before Legislative Changes	(17.7)	(26.6)
<b>Legislative Changes - USPS Proposal:</b>		
FERS Refund (lump sums received Sept 30, 2011 and 2012)	3.0	3.9
Five-Day Delivery (commences March 2012 & net of start-up costs)	-	1.0
RHB Pre-Funding Satisfied	5.5	5.6
(with CSRS overpayment or Pay-As-You-Go or G's 30% funding)		
Interest Savings from Legislative Changes	-	0.3
Net Income (Loss) After Legislative Changes	0.2	2.3
Net (Debt) / Cash After Legislative Changes	(10.8)	(7.3)

58

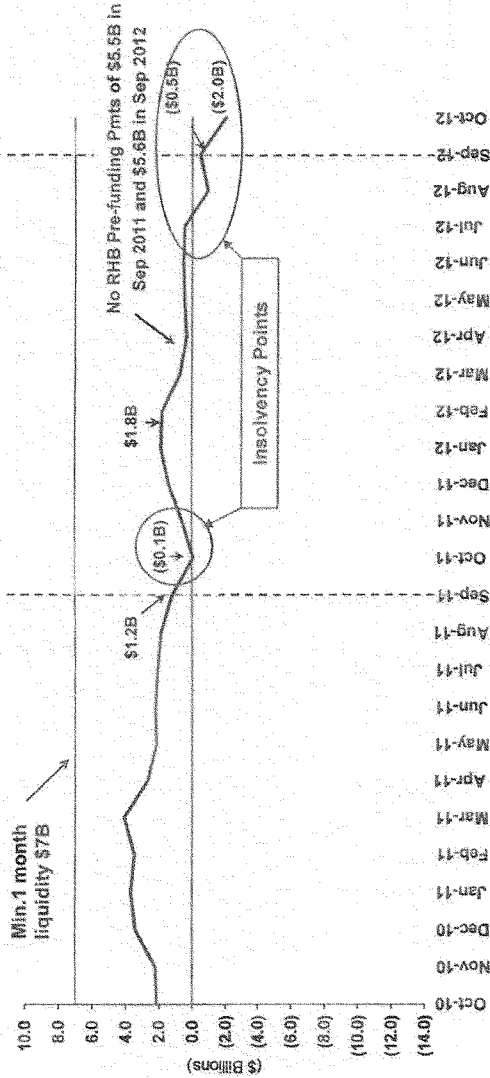
\$15 Billion Debt Limit

Notes for P/L and Cash Forecasts:  
 • Excludes Non-cash Adjustments to Workers' Compensation Liabilities; may impact net income but not near-term cash flows.

**Available Liquidity at Month-End:  
No Legislative Changes**

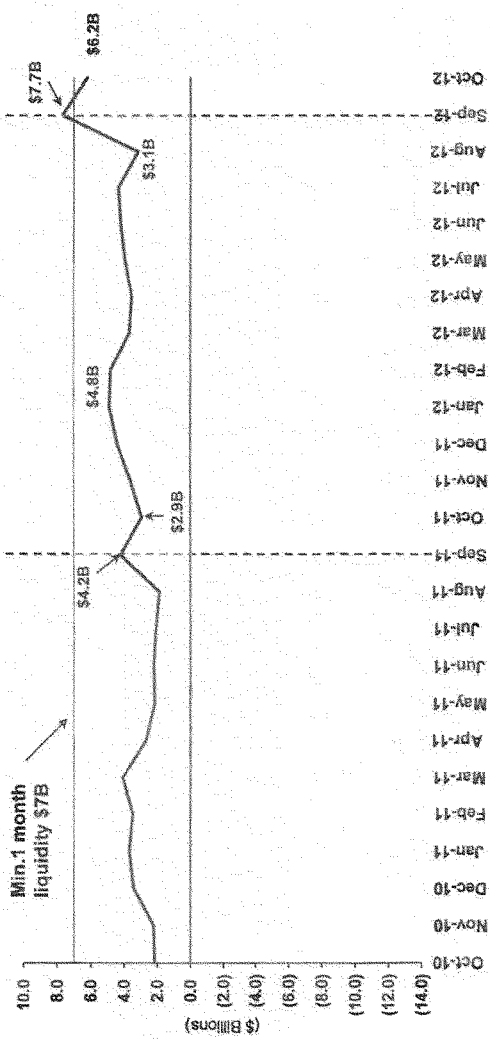


**Available Liquidity at Month-End:  
No RHB Pre-Funding Payments**





**Available Liquidity at Month-End:  
USPS Legislative Proposal Completed  
No RHB Pre-Funding Payments, FERS Refund & Five-Day Delivery**



United States Government Accountability Office

**GAO**

Testimony

Before the Subcommittee on Federal Financial Management,  
Government Information, Federal Services, and  
International Security, Committee on Homeland Security  
and Governmental Affairs, U.S. Senate

For Release on Delivery  
Expected at 10:30 a.m. EDT  
Tuesday, May 17, 2011

## UNITED STATES POSTAL SERVICE

### Strategy Needed to Address Aging Delivery Fleet

Statement of Phillip Herr, Director  
Physical Infrastructure Issues



GAO-11-671T

G A O  
Accountability • Integrity • Reliability

# Highlights

Highlights of GAO-11-671T, a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

### Why GAO Did This Study

The United States Postal Service (USPS) is in financial crisis. It also has the world's largest civilian fleet, with many of its delivery vehicles reaching the end of their expected 24-year operational lives. USPS is subject to certain legislative requirements governing the federal fleet, including a requirement that 75 percent of USPS's vehicle acquisitions be capable of operating on an alternative fuel other than gasoline. This testimony addresses (1) USPS's financial condition; (2) USPS's delivery fleet profile, including how USPS has responded to alternative fuel vehicle requirements and its experiences with these vehicles; (3) trade-offs of USPS's approach for addressing its delivery fleet needs; and (4) options to fund a major acquisition of delivery vehicles.

This testimony is primarily based on GAO-11-386, which is being released today. For that report, GAO analyzed USPS data, visited USPS facilities, and interviewed USPS and other officials. GAO recommended in that report that USPS should develop a strategy for addressing its delivery fleet needs that considers the effects of likely operational changes, legislative fleet requirements, and other factors. USPS agreed with the recommendation. For this testimony, GAO also drew upon past and ongoing work on USPS's financial condition and updated USPS financial information.

View GAO-11-671T or key components. For more information, contact Phillip Herr at (202) 512-2834 or [herrp@gao.gov](mailto:herrp@gao.gov).

May 17, 2011

## UNITED STATES POSTAL SERVICE

### Strategy Needed to Address Aging Delivery Fleet

### What GAO Found

USPS's financial condition continues to deteriorate. For the first 6 months of fiscal year 2011, USPS reported a net loss of \$2.6 billion—worse than it expected—and that, absent legislative change, it will have to default on payments to the government, including a \$5.5 billion payment for its retiree health benefits. GAO has reported that Congress and USPS need to reach agreement on a package of actions to move USPS toward financial viability.

USPS's delivery fleet is largely composed of custom-built, right-hand-drive vehicles designed to last for 24 years, including about 141,000 gasoline-powered vehicles (16 to 23 years old) and 21,000 flex-fuel vehicles capable of running on gasoline or 85-percent ethanol (E85) (about 10 years old). Its flex-fuel vehicles and many of its 22,000 left-hand-drive minivans, which are also capable of running on E85, were purchased to comply with the 75 percent acquisition requirement for alternative fuel vehicles. Delivery vehicles travel about 17 miles and use the equivalent of about 2 gallons of gasoline on average per day. USPS has a variety of limited experiences with other alternative fuel vehicles, such as compressed natural gas and plug-in electric vehicles, most of which have higher life-cycle costs than gasoline vehicles.

Delivery Vehicles at a USPS Maintenance Facility (left) and Post Office (right)



Source: GAO.

USPS's approach for addressing its delivery fleet needs is to maintain its current fleet until it determines how to address its longer term needs. USPS has incurred small increases in direct maintenance costs over the last 4 years, which were about \$2,600 per vehicle in fiscal year 2010. However, it is increasingly incurring costs for unscheduled maintenance because of breakdowns, which can disrupt operations and increase costs. In fiscal year 2010, at least 31 percent of USPS's vehicle maintenance costs were for unscheduled maintenance, 11 percentage points over USPS's 20 percent goal.

USPS's financial challenges limit options to fund a major delivery vehicle replacement or refurbishment, estimated to cost \$5.8 billion and (in 2005) \$3.5 billion, respectively. USPS and other federal and nonfederal officials see little potential to finance a fleet replacement through grants or partnerships. If Congress and USPS reach agreement on a package of actions to move USPS toward financial viability, such an agreement could potentially enhance USPS's ability to invest in new delivery vehicles.

United States Government Accountability Office

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Chairman Carper, Ranking Member Brown, and Members of the Subcommittee:

I am pleased to be here today to participate in this hearing to address the U.S. Postal Service's (USPS) financial crisis and the challenges it faces in modernizing its delivery vehicle fleet. USPS operates the world's largest civilian vehicle fleet—comprising more than 215,000 vehicles—of which about 192,000 are light-duty delivery vehicles<sup>1</sup> used to deliver mail to about 131 million residential and business addresses, in most cases, 6 days a week.<sup>2</sup> My statement addresses (1) USPS's financial condition; (2) the profile of its delivery fleet, including how USPS has responded to alternative fuel vehicle requirements and its experiences with alternative fuel vehicles; (3) trade-offs of USPS's approach for addressing its delivery fleet needs; and (4) options to fund a major acquisition of delivery vehicles.

This statement is primarily based on our report, being released today, on USPS's delivery fleet.<sup>3</sup> For that report, we visited USPS facilities, held interviews with USPS and other officials, and analyzed data from USPS's Vehicle Management Accounting System. We determined that these data were sufficiently reliable for the purposes of our review. This statement is also based, in part, on our prior and ongoing work on USPS's financial condition<sup>4</sup> and documents and a May 2011 interview with USPS officials regarding the agency's financial performance for the first 6 months of fiscal year 2011. Our work for this statement was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives. Additional information on our scope and methodology is available in our issued products.

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<sup>1</sup>In addition to delivery vehicles, USPS's fleet includes other vehicles, such as administrative vehicles used for sales, accident investigations, and other purposes, and larger trucks used for hauling mail.

<sup>2</sup>USPS also delivers to another 20 million addresses as part of its post office box service.

<sup>3</sup>See GAO, *United States Postal Service: Strategy Needed to Address Aging Delivery Fleet*, GAO-11-386 (Washington, D.C.: May 5, 2011).

<sup>4</sup>See GAO, *U.S. Postal Service: Modernization and Restructuring Needed to Address Financial Challenges*, GAO-11-428T (Washington, D.C.: Mar. 2, 2011).

**USPS's Financial Condition Continues to Deteriorate, and USPS Anticipates a Substantial Cash Shortfall This Fiscal Year**

USPS's financial condition has deteriorated significantly since fiscal year 2006, and its financial outlook is grim in both the short and long term. In July 2009, we added USPS's financial condition and outlook to our high-risk list because USPS was incurring billion-dollar deficits and the amount of debt it incurred was increasing as revenues declined and costs rose. USPS's financial condition has been negatively affected by decreasing mail volumes as customers have increasingly shifted to electronic communications and payment alternatives, a trend that is expected to continue. USPS reported that total mail volume decreased 3 percent in the second quarter of fiscal year 2011, while First-Class Mail declined by 7.6 percent compared with the same period last year, negatively affecting revenue as First-Class Mail is USPS's most profitable mail. Half way through fiscal year 2011, USPS reported a net loss of \$2.6 billion.

USPS has reported achieving some cost savings in the last 5 years—for example, it eliminated about 137,000 full- and part-time positions. However, USPS has had difficulty reducing its compensation and benefits costs and has struggled to optimize its workforce and its retail, mail processing, and delivery networks to reflect declining mail volume. USPS has relied increasingly on debt to fund its operations and has increased its net borrowing by nearly \$12 billion over the last 5 years. USPS recently reported that its financial performance for the first 6 months of fiscal year 2011 was worse than expected, and that, not only will it reach its \$15 billion statutory debt limit by the end of the fiscal year, it now projects a substantial cash shortfall and that it will be unable to pay all of its financial obligations. Specifically, USPS said that absent legislative change it will be forced to default on payments to the federal government, including a \$5.5 billion pre-funding payment for retiree health benefits due on September 30, 2011.

While USPS's financial condition continues to deteriorate, we and USPS have presented options to improve the agency's financial condition. Specifically, we have reported that Congress and USPS need to reach agreement on a package of actions to restore USPS's financial viability, which will enable USPS to align its costs with revenues, manage its growing debt, and generate sufficient funding for capital investment.<sup>5</sup> Proposed legislation, including S. 353<sup>6</sup> and draft legislation expected to be

<sup>5</sup>GAO, *U.S. Postal Service: Legislation Needed to Address Key Challenges*, GAO-11-244T (Washington, D.C.: Dec. 2, 2010).

<sup>6</sup>S. 353, 112<sup>nd</sup> Cong., (2011).

introduced by Senator Carper, provide a starting point for considering key issues where congressional decisions are needed to help USPS undertake needed reforms. As we have previously reported,<sup>7</sup> to address USPS's viability in the short-term, Congress should consider modifying the funding requirements for USPS's retiree health benefits in a fiscally responsible manner. For long-term stability, Congress should address constraints and legal restrictions, such as those related to closing facilities, so that USPS can take more aggressive action to reduce costs. Action is urgently needed as mail delivery is a vital part of this nation's economy.

The USPS Postmaster General has also presented strategies for improving USPS's financial viability, recently stating that the agency's focus should be on its core function of delivery, growing the package business, and aggressively controlling costs and consolidating postal networks to increase efficiency. Clearly, USPS's delivery fleet is a vital component of a strategy focused on delivery.

**Delivery Fleet  
Primarily Consists of  
Aging Long-Life  
Vehicles and  
Alternative Fuel  
Vehicles Acquired to  
Meet Requirements,  
Which Have  
Presented Cost and  
Infrastructure  
Challenges**

As shown in figure 1, there are three principal components of USPS's delivery fleet:

- about 141,000 "long-life vehicles" (LLV)—custom-built, right-hand-drive, light duty trucks with an aluminum body 16 to 23 years old, that are approaching the end of their expected 24-year operational lives;
- about 21,000 flex-fuel vehicles (FFV), also custom-built with right-hand drive, 9 and 10 years old, that are approaching the mid-point of their expected 24-year operational lives; and
- about 22,000 commercially-available, left-hand drive minivans that range in age from 2 to 13 years and have an expected operational life of 10 years.

According to USPS officials, right-hand-drive vehicles are necessary for curbside delivery.<sup>8</sup> In addition, USPS officials told us that the LLVs' and FFVs' standardized design minimizes training requirements, increases operational flexibility, and facilitates partnerships with parts suppliers. Moreover, LLVs and FFVs were made to withstand harsh operating

<sup>7</sup>GAO, *U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability*, GAO-10-455 (Washington, D.C.: Apr. 12, 2010).

<sup>8</sup>About one-quarter of USPS's delivery vehicles are used on curbside routes, in which the letter carrier delivers to mailboxes at the curb, typically without leaving the vehicle.

conditions, resulting from an average of about 500 stops and starts per delivery route per day. As a result, the LLVs and FFVs are expected to last more than twice as long as the minivans, which were not built to withstand these operating conditions.

**Figure 1: Examples of the LLVs, FFVs, and Minivans in USPS's Delivery Fleet**



LLV

Source: GAO.

FFVs have an extra window behind the door for improved visibility.

Minivan

USPS is subject to certain legislative requirements governing the federal fleet. For example, under the Energy Policy Act of 1992 (EPAct 1992), 75 percent of the light-duty vehicles that USPS acquires must be capable of using an alternative fuel such as ethanol, natural gas, propane, biodiesel, electricity, or hydrogen.<sup>9</sup> Since 2000, USPS has consistently purchased delivery vehicles that can operate on gasoline or a mixture of gasoline and 85 percent ethanol (E85) to satisfy this requirement. These vehicles are known as dual-fueled vehicles. USPS officials stated that E85-capable vehicles were chosen because they were the least costly option for meeting federal fleet acquisition requirements. In addition, officials expected that E85 eventually would be widely available throughout the United States. However, according to Department of Energy (DOE) data, as of December 2009,<sup>10</sup> E85 was not available at 99 percent of U.S. fueling stations.

<sup>9</sup>Pub. L. No. 102-486, § 303, 106 Stat. 2766 (Oct. 24, 1992). Legislation subsequently expanded the definition of alternative fuel vehicles to include hybrid vehicles.

<sup>10</sup>These data were the most recent available as of December 31, 2010.

Subsequent legislation required that alternative fuel be used in all dual-fueled vehicles unless they have received a waiver from DOE.<sup>11</sup> Because of E85's limited availability, USPS has sought and obtained annual waivers from DOE—for example, in fiscal year 2010, about 54 percent of its E85-capable vehicles received waivers permitting them to be operated exclusively on gasoline. The remaining 46 percent of its E85-capable vehicles were expected to operate exclusively on E85. However, USPS officials acknowledged that USPS does not always fuel these vehicles with E85 because using E85 increases operational costs.<sup>12</sup>

Apart from its experiences with E85-capable vehicles, USPS has a variety of limited experiences with other types of alternative fuel delivery vehicles. Collectively, these vehicles accounted for about 2 percent (3,490 vehicles) of its delivery fleet as of September 30, 2010, as shown in table 1.

**Table 1: Number of USPS Delivery Vehicles, by Alternative Fuel Capability, as of September 30, 2010**

Alternative fuel capability	Description of fuel type	Vehicle types	Number of vehicles	Percentage of delivery fleet
E85	E85 is a blend of 85% ethanol (primarily derived from corn) and 15% gasoline.	FFVs and minivans	39,149	20
Compressed natural gas	Primarily consists of methane, around 90%, with small amounts of ethane, propane, and other gases.	LLVs and 2-ton trucks	3,401	2
Propane	Both naturally occurring and derived by separating petroleum from crude oil or natural gas.	LLVs	34	less than 1
Plug-in electric	Electric vehicles store electricity in an energy storage device, such as a battery. Energy is replenished by plugging the vehicle into an electric source.	2 ton trucks and 3-wheeled vehicles	42	less than 1
Conventional hybrid	Uses both gasoline and energy stored in a battery to power the vehicle.	sport utility vehicles and a 2-ton truck	11	less than 1

<sup>11</sup>Pub. L. No. 109-58, § 701, 119 Stat. 594 (Aug. 8, 2005). DOE grants waivers to agencies that operate vehicles in areas where alternative fuel is (1) unavailable, (2) not available within 5 miles or 15 minutes of travel, or (3) more expensive per gallon than gasoline at the same fuel station. (Gasoline is distilled from petroleum. We used the terms "gasoline" and "petroleum" interchangeably throughout our testimony.)

<sup>12</sup>Because of E85's lower energy density, according to USPS officials, its FFVs are about 27 to 30 percent less fuel efficient when fueled with E85 than when fueled with gasoline, and therefore cost more to fuel—and USPS also may incur additional labor costs if letter carriers deviate from their routes to fuel with E85.



Alternative fuel capability	Description of fuel type	Vehicle types	Number of vehicles	Percentage of delivery fleet
Hydrogen	A fuel cell stack in the vehicle converts hydrogen gas and oxygen into electricity, which drives an electric motor.	sport utility vehicles	2	less than 1
<b>Total</b>			<b>42,610</b>	<b>22%</b>

Source: GAO analysis of data provided by USPS from a Vehicle Management and Accounting System report.  
 Note: Percentages do not total to 22 due to rounding.

According to USPS officials, to date, USPS has not invested more heavily in alternative technologies in part because alternative fuel vehicles likely would result in higher estimated lifecycle costs than gasoline-fueled vehicles. This is largely because any potential fuel savings from alternative fuel vehicles would be unlikely to offset generally higher acquisition costs over the vehicles' operating lives, given that USPS's delivery vehicles on average travel about 17 miles and its LLVs use the equivalent of about 2 gallons of gasoline per day. In addition, USPS officials told us that the limited availability of alternative fuels and the high costs of installing fueling infrastructure—such as on-site charging stations—have made it difficult to elect to invest in or operate these vehicles. Finally, they noted that USPS has experienced problems obtaining technological support and parts for its alternative fuel vehicles.

### USPS's Approach for Addressing Its Delivery Fleet Needs Has Financial and Environmental Trade-offs

USPS's current approach is to sustain operations of its delivery fleet—through continued maintenance—for the next several years, while planning how to address its longer term delivery fleet needs. Under this approach, USPS anticipates purchasing limited numbers of new, commercially available minivans. According to USPS officials, this approach was adopted in December 2005 after senior management and a Board of Governors subcommittee decided not to initiate a major fleet replacement or refurbishment. At that time, USPS estimated that it would cost \$5 billion to replace about 175,000 vehicles. Planning and executing a custom-built vehicle acquisition would take 5 to 6 years from initially identifying the vehicles' specifications and negotiating with manufacturers through testing and deployment, according to USPS officials. USPS also elected not to refurbish its fleet, another option considered. According to a USPS contractor, in 2005, the agency could have delayed purchasing new vehicles for at least 15 years if it had refurbished its LLVs and FFVs (i.e., replaced nearly all parts subject to the effects of wear and aging) over a 10-year period—at a cost in 2005 of about \$20,000 per vehicle—or a total of about \$3.5 billion, assuming that 175,000 vehicles were refurbished. USPS officials said the agency chose to maintain its current delivery fleet

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rather than make a major capital investment given pending operational and financial developments and uncertainty about evolving vehicle technologies.

We found that USPS's maintenance program and well-established parts supply network have enabled it to maintain its current delivery fleet while avoiding the capital costs of a major vehicle replacement or refurbishment. The USPS Office of Inspector General recently reported that this approach is operationally viable and generally cost-effective, given USPS's financial circumstances.<sup>14</sup> Our analysis of a custom query of USPS's vehicle database found that delivery vehicles' direct maintenance costs averaged about \$2,450 per vehicle in fiscal year 2007 and just under \$2,600 per vehicle in fiscal year 2010 (in constant 2010 dollars). However, these direct maintenance costs are understated, in part because, according to USPS data, about 6 percent of total maintenance costs—all due to maintenance performed by contractors—were not entered into its database.

USPS's approach has trade-offs, including relatively high costs to maintain some delivery vehicles. Our analysis showed that while about 77 percent of its delivery vehicles incurred less than \$3,500 in direct annual maintenance costs in fiscal year 2010,<sup>14</sup> about 3 percent (5,349) of these vehicles required more than \$7,000—and 662 vehicles required more than \$10,500—in direct annual maintenance costs,<sup>15</sup> or over one-third the \$31,000 per vehicle replacement cost USPS currently estimates. USPS officials stated that in most cases, they repair an LLV or FFV rather than replace it with a minivan because of the continuing need for right-hand-drive vehicles. One reason that some vehicles are incurring high direct maintenance costs is that USPS has replaced—at a minimum—about 4,500 LLV frames in fiscal years 2008 through 2010 because of severe corrosion, at a cost of about \$5,000 each. None of the fleet managers for Fed-Ex Express, United Parcel Service, or other companies we spoke with have

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<sup>14</sup>See United States Postal Service, Office of the Inspector General, *Audit Report—Delivery Vehicle Replacement Strategy*, DA-AR-10-006 (Washington, D.C.: June 16, 2010).

<sup>15</sup>USPS established \$3,500 as a one-time repair threshold for approving expenditures for LLV maintenance. We used this threshold to create maintenance ranges for the purposes of analyzing USPS's vehicle database.

<sup>16</sup>We calculated average vehicle maintenance costs for fiscal years 2006 through 2009 and found a similar pattern.

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replaced their vehicles' frames, and some suggested that the need to do so is a key indication that it is time to replace—not repair—a vehicle.

Another trade off of its current strategy is that USPS is increasingly incurring costs for unscheduled maintenance because of breakdowns. USPS's goal is to ensure that no more than 20 percent of its total annual maintenance costs are for unscheduled maintenance. However, in fiscal year 2010, at least 31 percent of its vehicle maintenance costs were for unscheduled maintenance, 11 percentage points over its 20 percent goal. Unscheduled maintenance can result in delays in mail delivery and operational costs, such as overtime expenses.

USPS employees at a majority of the eight vehicle maintenance facilities and some post offices we visited told us that they believe delivery vehicles can continue to deliver mail without major operational interruptions for at least several more years. At the same time, we identified some instances of maintenance problems during our site visits (our report being released today contains photographs and further discussion of these problems).<sup>18</sup> For example, officials at a Minnesota vehicle maintenance facility told us that they are not following USPS's requirements for replacing frames whose thickness in key spots indicates weakness because they do not have the resources to do so. Instead, they said, facility personnel replace frames only when the frames have one or more holes through the metal. In addition, when we visited a vehicle maintenance facility in New York state, technicians were replacing two severely corroded LLV frames with similar holes. The manager of this facility informed us that frames in this condition should have been replaced during a previous preventive maintenance inspection.

As discussed, USPS's financial condition has declined substantially, and although USPS issued a 10-year action plan in March 2010 for improving its financial viability, the plan did not address its fleet of delivery vehicles. USPS has not analyzed how operational changes proposed in its 10-year plan, including a potential shift in delivery from 6 to 5 days a week, would affect its delivery fleet needs, nor has it examined the consequences of its decision to delay the fleet's replacement or refurbishment. In addition, it has not developed a fleet financing strategy.

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<sup>18</sup>GAO-11-386.

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During our review, USPS officials told us that the agency is in the early stages of developing a proposal for addressing its delivery fleet needs. These officials stated that the proposal will likely explore alternatives, including maintaining the current fleet, refurbishing the LLVs and FFVs, or, possibly, undertaking a major acquisition of new vehicles. Furthermore, USPS officials stated that the proposal will discuss strategies for incorporating additional alternative fuel capabilities into its fleet. USPS expects to present its proposal to its Capital Investment Committee later this fiscal year.

USPS officials said that the agency intends to examine ways to comply with EPA's 1992's acquisition requirements in its next large-scale acquisition of delivery vehicles, but noted that life-cycle costs are significantly higher for nearly all currently available alternative fuel vehicles than for gasoline-powered vehicles.<sup>17</sup> Consequently, these officials told us a large-scale acquisition of alternative fuel vehicles (other than E85-capable vehicles) is not likely to be financially viable. USPS officials stated that, in their view, the best way to meet national sustainability requirements for reduced emissions without incurring significant costs may be to invest in highly fuel-efficient gasoline-powered vehicles. Such an outcome could be possible given increased legislative flexibility in the definition of what constitutes an alternative fuel vehicle. Specifically, as a result of the National Defense Authorization Act of 2008, any vehicle determined by the Environmental Protection Agency (EPA) to be a low-greenhouse-gas-emitting vehicle in locations that qualify for a DOE waiver would be considered an alternative fuel vehicle.<sup>18</sup> However, because EPA evaluates only commercially available vehicles, at present, there are no low-greenhouse-gas-emitting right-hand-drive vehicles available that have been determined to meet EPA's 1992's fleet acquisition requirements for light-duty vehicles. Consequently, if USPS decides to pursue such a vehicle

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<sup>17</sup>For example, a 2011 Ford Escape hybrid costs about \$9,000 more than the nonhybrid version of the same vehicle. The manufacturer's suggested retail price for a 2011 Ford Escape hybrid was \$30,045 compared with \$21,085 for the nonhybrid Ford Escape, as of February 15, 2011.

<sup>18</sup>Pub. L. 110-181, § 2862 (Jan. 28, 2008). This legislation permits federal agencies to meet EPA's 1992's requirements for light-duty alternative fuel vehicles by purchasing vehicles that EPA has demonstrated to DOE would achieve a significant reduction in petroleum consumption. Based on a demonstration EPA made to DOE, any low-greenhouse-gas-emitting vehicle in locations that qualify for a DOE waiver would be considered an alternative fuel vehicle.

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in its next acquisition of custom-built delivery vehicles, it would need to work with vehicle manufacturers, EPA, and DOE.

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**Without Significant Improvement in USPS's Financial Condition, There Are No Clear Options to Fund a Major Vehicle Replacement**

USPS's financial condition poses a significant barrier to its ability to fund a major acquisition of its delivery fleet.<sup>19</sup> Recently, USPS estimated that it would cost about \$5.8 billion to replace about 185,000 delivery vehicles with new gasoline-powered custom-built vehicles, at about \$31,000 per vehicle (in 2011 dollars).<sup>20</sup> Further, officials from USPS, DOE, and an environmental organization, and operators of private fleets see little potential to finance a fleet replacement through grants or partnerships. A primary barrier to a joint procurement is USPS's need for customized, right-hand-drive delivery vehicles (its competitors typically use larger vehicles that are not right-hand-drive). USPS and DOE officials also saw little likelihood that USPS could help finance a major delivery fleet acquisition through an energy savings performance contract, in which a federal agency enters into a long-term contract with a private energy company and shares energy-related cost savings. Given the low annual mileage of USPS's delivery fleet, USPS and DOE officials stated that it is unlikely that the fuel savings generated from a more efficient fleet (whether consisting of gasoline-only vehicles or alternative fuel vehicles) would be sufficient, compared with the acquisition cost of the vehicles, to interest a private investor.

If Congress and USPS reach agreement on a package of actions to move USPS toward financial viability, depending on the specific actions adopted, USPS's follow-up, and the results, such an agreement could enhance USPS's ability to invest in new delivery vehicles. While USPS's efforts to maintain its current delivery fleet have worked thus far, the time soon will come when the cost and operational consequences of this approach will not allow further delays. When that time comes, USPS will need to know how it can best comply with federal requirements for acquiring alternative fuel vehicles while also meeting its operational requirements. However, until USPS defines its strategy for a major capital

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<sup>19</sup>USPS's financial condition also poses a significant barrier to funding a major refurbishment of the delivery fleet. As discussed earlier, based on a USPS contractor's 2006 estimate of \$20,000 per vehicle, it would have cost about \$3.5 billion at that time to refurbish 175,000 delivery vehicles.

<sup>20</sup>According to a USPS official, this cost would cover the vehicle, shipping, quality control oversight, technician training, and the purchase of essential repair tools. The estimate did not include the costs to dispose of existing vehicles, including environmental costs.

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investment for its delivery vehicles, neither USPS nor Congress has sufficient information to fully consider its options. Consequently, USPS must develop a comprehensive strategy for dealing with this inevitability.

In the report that this testimony is based on, we recommend that USPS develop a strategy and timeline for addressing its delivery fleet needs. Specifically, we recommend that this strategy address such issues as the effects of USPS's proposed change from 6- to 5-day delivery and consolidation of its facilities, as well as the effects of continuing changes in its customers' use of the mail on future delivery fleet requirements, along with an analysis of how it can best meet federal fleet requirements, given its budget constraints. USPS agreed with our findings and recommendation. USPS stated that it is developing a strategy to address the immediate and long-term needs of its delivery fleet, and that it plans to complete the strategy and associated timeline by the end of December 2011.

Chairman Carper, Ranking Member Brown, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to answer any questions that you have.

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### **Contacts and Staff Acknowledgments**

For further information about this statement, please contact Phillip Herr at (202) 512-2834 or [herrp@gao.gov](mailto:herrp@gao.gov). Individuals who made key contributions to this statement include Kathleen Turner (Assistant Director), Teresa Anderson, Joshua Bartzen, Bess Eisenstadt, Laura Erion, Alexander Lawrence, Margaret McDavid, Joshua Ormond, Robert Owens, Matthew Rosenberg, Kelly Rubin, Karla Springer, Crystal Wesco, and Alwynne Wilbur.

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**Testimony of Chairman Ruth Y. Goldway  
Postal Regulatory Commission  
Before the U.S. Senate Homeland Security and Governmental Affairs Committee's Subcommittee  
on Federal Financial Management, Government Information, Federal Services, and International  
Security  
"Addressing the U.S. Postal Service's Financial Crisis"  
May 17, 2011**

Good morning. Chairman Carper, Ranking Member Brown, Members of the Subcommittee, I thank you for the opportunity to present the views of the Postal Regulatory Commission on Addressing the U. S. Postal Service's Financial Crisis.

In four months, the United States Postal Service will conclude its fiscal year and it will not have sufficient cash or borrowing authority to pay all of its bills. The Postmaster General has stated that in this circumstance the Postal Service will continue to pay its employees and its suppliers, but that it would be unable to make its scheduled annual installment of \$5.5 billion to fund its retiree health benefit fund (RHBF).

As I testified in December, Commission analysis during its review of the Postal Service's request for an exigent rate increase found that the Postal Service's cash flow problem and the primary cause of its liquidity crisis is related to an overly ambitious requirement for the Postal Service to prefund its future retiree health benefit premiums. Over the past four years, the Postal Service has paid \$21.9 billion to prefund these benefits. All other things being equal, the Postal Service would have achieved a small net profit over that time except for the prefunding requirement. Instead, over the last four years it has accumulated losses exceeding \$20 billion. This year it will exhaust its borrowing authority and anticipates an additional \$6.8 billion in losses that will leave it insolvent if Congress does not act to provide relief.

Therefore, Chairman Carper, I reiterate the Commission's continuing support for the fundamental approach outlined in your bill to address the financial crisis and long-standing issues related to Postal Service funding of its employee pensions, as well as its future retiree health benefit fund.

The approach is consistent with current best practices as identified by the Commission and documented in the actuarial report of the Segal Company, which was provided last June to this Subcommittee, Members of Congress, the Postal Service and OPM. As outlined in your proposed legislation, funds derived from a current calculation of the pension liability could be applied to defray the Postal Service's RHBF liabilities and begin to restore its financial viability.



In May 2009, members of the House Oversight Committee asked the Commission to look at OPM's computation of Postal Service liability for future retiree health benefits and the annual payments that result to fund RHBF. Based on a dynamic calculation of long-term medical inflation rates and the declining postal workforce, we found that a recalculation could lower the Postal Service's liability by nearly \$35 billion.

Both of these studies were conducted in accordance with specific provisions of the Postal Accountability and Enhancement Act (PAEA). As such, these findings provide a sound, objective basis for a legislative remedy to the Postal Service's financial crisis.

#### **Postal Service flexibility and performance**

I also want to express the appreciation of the Commission for the collaborative and inclusive manner in which you are developing this legislation. The bill provides for essential oversight by the Commission of non-postal products and services that may be proposed by the Postal Service under enhanced commercial flexibility it is granted. This is consistent with proven and tested principles in the PAEA that promote innovation and growth in a manner that is aligned with the public interest and does not create unfair competition.

Your bill would also provide the Postal Service with various additional flexibilities to control costs and to compete. In my opinion, under current and prior legislation, the Postal Service has made significant strides in both areas.

The Postal Service also has a long history of product innovation and experimentation, though with mixed results. In recent years, it has successfully introduced "Forever" stamps, Priority Mail flat rate boxes and pricing, Internet sales and carrier pick-up. Experiments with various hybrid and electronic services have so far not been as successful.

Under the flexibilities provided to the Postal Service by the PAEA, the Commission has approved a variety of Postal Service pricing initiatives, including seasonal pricing, designed to spur increased First-Class and Standard Mail volume, several experimental product tests, and hundreds of Negotiated Service Agreements. None of these business ventures, however, appear likely to have a material effect on Postal Service finances in the near term. For example, the Postal Service has signaled its intention to request that its first "market-test" product – collaborative logistics – be made a permanent product. However, total revenue received from this product during the two-year test is less than \$3 million.

#### **Service**

While undertaking major cost reductions, the Postal Service has maintained high service quality for Single Piece First-Class Mail, which is measured independently. The PAEA requires that service performance be measured and reported for all market dominant products. This is meant to ensure that the discipline of the CPI price cap system is not offset by deterioration in service.

The Commission agreed in 2007 to a Postal Service request to mitigate the costs of measurement by allowing bulk mail to be measured using internal service measurement systems based on the Intelligent Mail barcode (IMb) in lieu of an external measurement system. However, persistent data errors, insufficient customer IMb usage, and a lack of product specific documentation have resulted

in a lack of measurement for bulk First-Class Mail, Standard Mail, Packages and Periodicals. Only the external tracking system for Single-Piece First-Class Mail products meets the service performance tracking objectives of the PAEA. The Commission has encouraged the Postal Service to address these problems to comply with all service performance reporting requirements and we will continue to exhort the Postal Service to achieve full compliance.

The need for accurate service measurement will only increase as the Postal Service contemplates further budget tightening, reductions in staffing and facilities, significant changes to its network, and possible reductions in service levels.

#### **Post office closings**

The Commission understands the Postal Service's need to adjust its retail network to reflect changing customer needs and its own evolving capabilities. However, the PAEA requires that the Postal Service provide adequate service, especially to rural areas, and requires that the Postal Service must properly notify and involve affected postal customers when the Postal Service considers closing the retail offices they depend on.

The Postal Service appears to be rapidly moving ahead in closing large numbers of post offices nationwide, according to news reports and customer comments received by the Commission. The Postal Service has not provided details of these ongoing closures to the Commission. I am concerned that it should not be undertaking nationwide service changes without first requesting an Advisory Opinion.

The Postal Service has proposed revisions to its rules that will impact future closings and consolidations of retail facilities. The Commission has provided its comments to the Postal Service. They include recommendations to better ensure customers' ability to offer input, improve the evaluation of affected facilities, and coordinate discontinuances with the availability of replacement retail services. These comments directly reflect similar comments we issued as part of our Advisory Opinion on Station and Branch Closings.

The Postal Service has advised the Commission that it plans to request an Advisory Opinion in the near future involving the closure of a large number of post offices nationally. The timing of such a request may obfuscate the purpose and intent of Congress in requiring such Advisory Opinions.

#### **Five-day delivery**

In March, the Commission presented Congress and the Postal Service with its Advisory Opinion on the potential impact of the proposed elimination of Saturday mail delivery and related activities.

The Commission found that the Postal Service had overestimated potential savings and likely underestimated potential lost revenues. Although some of our analysis suggested that even lower estimates of savings and higher volume losses are possible, our final estimates reflect a more conservative, middle ground analysis of what could happen under a five-day scenario.

Overall, we estimate that net savings of \$1.7 billion annually will be achieved after about a three-year phase-in. If in the near term the Postal Service implements new system-wide network efficiencies, the savings attributable solely to eliminating Saturday delivery would be less.

The Postal Service did not evaluate the impact of its proposals on customers who reside or conduct business in remote areas. The Commission did, however, receive significant input from rural Americans, met with customers and civic leaders in South Dakota and Wyoming and considered testimony from Senators Murkowski and Akaka. We found that rural America will be disproportionately affected by the Postal Service's proposal.

Various witnesses and field hearing participants suggested that the Postal Service would lose potential for growth by giving up the competitive advantage of Saturday delivery. Others commented that there was value in the presence of letter carriers on the Nation's streets. We did not find any reliable method to quantify these concerns but recognized their intuitive merit.

The nature and level of demand for mail is shifting. The heavier burden that would be placed on remote and rural areas may be lessened as Internet broadband adoption increases over time. The Postal Service remains a vital and important institution facilitating economic growth, aiding small businesses, enhancing communications and unifying the nation. A decision to change the existing patterns of postal communications and delivery should be made with care.

#### **Advisory Opinion process**

In prior discussions with members of Congress on the Advisory Opinion process, two key issues have surfaced which are dealt with in your bill. First, the Commission is pleased by the addition of a requirement that the Postal Service provide the President and Congress with a formal response to the Advisory Opinion and recommendations it contains. If the Postal Service response is required to be submitted prior to implementation, we believe that this step will encourage timely action by the Postal Service and enhance the outcome of the process.

Second, the bill fundamentally alters the Advisory Opinion process to produce decisions within 90-days from the date of the Postal Service's request to the Commission. Under current law, the Commission evaluates national service changes in a formal hearing on the record that is subject to Administrative Procedure Act protections. This type of proceeding can be time consuming.

While some members of the Commission believe a 90-day timeframe is sufficient for an adequate Advisory Opinion of this type, others believe that the proposed legislation would eliminate the opportunity for concerned citizens, mailers, competitors and other interested parties to obtain information from the Postal Service and fully test Postal Service presumptions. While a 90-day time limit would allow the Commission to alter its current procedures and produce its Advisory Opinions more promptly, the Commission believes that full, public participation in a process of this kind has been extremely important in establishing a thorough, factual record for analyzing Postal Service proposals and accurately determining their impact. The detailed findings, painstaking analysis, and extensive input and outreach of the Commission's Five-Day Delivery Opinion would not have been possible in a 90-day case. I believe that some accommodation that sets a time limit but allows for greater public participation is possible.

#### **The vehicle fleet**

The GAO has assessed the condition and cost of the Postal Service's aging mail delivery vehicle fleet, anchored by the long-life vehicle (LLV). The cost to the Postal Service of operating this fleet is substantial. A large portion of that cost is for maintenance and fuel. These costs along with other

data are used by the Commission to fulfill its statutory mandate to ensure that each type of mail covers its attributable costs and that there are no cross-subsidies.

Although the Postal Service has taken good care of its vehicles, the fleet is reaching the end of its service lifespan. The Postal Service has taken steps to ensure the availability of replacement parts and to minimize the increased cost of maintaining older vehicles. However, deeper structural problems and maintenance challenges are beginning to surface.

Senator Carper, I was moved by a recent editorial you wrote promoting the "Triple Happiness" that our Nation can achieve by adopting wiser energy policies that protect our environment, lower costs, and create jobs for Americans while reducing the amount of oil we have to import from overseas. I have previously offered my personal view that large portions of the Postal Service delivery fleet are particularly well suited to existing electric vehicle technology. If it were possible to reduce maintenance and fuel costs by introducing more energy-efficient, less-polluting electric vehicles, that would help keep the Postal Service competitive and efficient. This would be consistent with the President's energy independence goals. I believe that the anticipated replacement of the Postal Service fleet presents a unique opportunity to evaluate the implementation of electric vehicle technology to further national objectives and to improve postal efficiency.

In any case, the current lack of capital resources presents a major impediment to any Postal Service modernization of its vehicle fleet. The need for sizeable, future capital investments to address its vehicle fleet underscores the importance of the initial part of my testimony and its support for broad financial relief from prepayment of the RHBF.

#### **Connecting a Nation**

A sizeable portion of the U.S. population depends on the mail to manage their lives and stay connected with their government. A Commerce Department study reports that as of 2009, 31 percent of U.S. households did not have Internet access at home, and nearly one-fourth of households did not even use the Internet. The mail remains the one universal service connecting the American people to commerce, government, news, and the social institutions they depend upon.

The Commission commends the Postal Service for its sustained effort over many years to increase productivity, improve processes and lower its costs. The Commission plays its role in assuring vital postal services by providing transparency, accountability, adequate service levels and citizen participation.

I believe timely Congressional action to address the pension and retiree health benefit issues remain the key element of any reform effort. Before a broader strategy for effectively managing its business and serving its customers can be realistically implemented, the Postal Service must have the capital to proceed.

That concludes my testimony. Thank you.

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**Testimony of Margaret Cigno  
Director, Office of Accountability and Compliance  
Postal Regulatory Commission  
Before the U.S. Senate Homeland Security and Governmental Affairs Committee's Subcommittee  
on Federal Financial Management, Government Information, Federal Services, and International  
Security  
"Addressing the U.S. Postal Service's Financial Crisis"  
May 17, 2011**

Good morning. Chairman Carper, Ranking Member Brown, Members of the Subcommittee, I thank you for the opportunity to present the views of the Postal Regulatory Commission on Addressing the U. S. Postal Service's Financial Crisis.

In four months, the United States Postal Service will conclude its fiscal year and it will not have sufficient cash or borrowing authority to pay all of its bills. The Postmaster General has stated that in this circumstance the Postal Service will continue to pay its employees and its suppliers, but that it would be unable to make its scheduled annual installment of \$5.5 billion to fund its retiree health benefit fund (RHBF).

As Chairman Ruth Goldway testified before this Subcommittee in December, Commission analysis during its review of the Postal Service's request for an exigent rate increase found that the Postal Service's cash flow problem and the primary cause of its liquidity crisis is related to an overly ambitious requirement for the Postal Service to prefund its future retiree health benefit premiums. Over the past four years, the Postal Service has paid \$21.9 billion to prefund these benefits. All other things being equal, the Postal Service would have achieved a small net profit over that time except for the prefunding requirement. Instead, over the last four years it has accumulated losses exceeding \$20 billion. This year it will exhaust its borrowing authority and anticipates an additional \$6.8 billion in losses.

The Postal Regulatory Commission supports the fundamental approach outlined in your bill to address the financial crisis and long-standing issues related to Postal Service funding of its employee pensions, as well as its future retiree health benefit fund.

The approach is consistent with current best practices as identified by the Commission and documented in the actuarial report of the Segal Company, which was provided last June to this Subcommittee, Members of Congress, the Postal Service and OPM. As outlined in your proposed legislation, funds derived from a current calculation of the pension liability could be applied to defray the Postal Service's RHBF liabilities and begin to restore its financial viability.

In May 2009, members of the House Oversight Committee asked the Commission to look at OPM's computation of Postal Service liability for future retiree health benefits and the annual payments that result to fund RHBFB. Based on a dynamic calculation of long-term medical inflation rates and the declining postal workforce, we found that a recalculation could lower the Postal Service's liability by nearly \$35 billion.

Both of these studies were conducted in accordance with specific provisions of the Postal Accountability and Enhancement Act (PAEA). As such, these findings provide a sound, objective basis for a legislative remedy to the Postal Service's financial crisis.

#### **Postal Service flexibility and performance**

I also want to express the appreciation of the Commission for the collaborative and inclusive manner in which you are developing this legislation. The bill provides for essential oversight by the Commission of non-postal products and services that may be proposed by the Postal Service under enhanced commercial flexibility it is granted. This is consistent with proven and tested principles in the PAEA that promote innovation and growth in a manner that is aligned with the public interest and does not create unfair competition.

The Postal Service has a long history of product innovation and experimentation, though with mixed results. In recent years, it has successfully introduced "Forever" stamps, Priority Mail flat rate boxes and pricing, Internet sales and carrier pick-up. Experiments with various hybrid and electronic services have so far not been as successful.

Under the flexibilities provided to the Postal Service by the PAEA, the Commission has approved a variety of Postal Service pricing initiatives, including seasonal pricing, designed to spur increased First-Class and Standard Mail volume, several experimental product tests, and hundreds of Negotiated Service Agreements. None of these business ventures, however, appear likely to have a material effect on Postal Service finances in the near term. For example, the Postal Service has signaled its intention to request that its first "market-test" product – collaborative logistics – be made a permanent product. However, total revenue received from this product during the two-year test is less than \$3 million.

#### **Service**

While undertaking major cost reductions, the Postal Service has maintained high service quality for Single Piece First-Class Mail, which is measured independently. The PAEA requires that service performance be measured and reported for all market dominant products. This ensures that the discipline of the CPI price cap system is not offset by deterioration in service.

The Commission agreed in 2007 to a Postal Service request to mitigate the costs of measurement by allowing bulk mail to be measured using internal service measurement systems based on the Intelligent Mail barcode (IMb) in lieu of an external measurement system. However, persistent data errors, insufficient customer IMb usage, and a lack of product specific documentation have resulted in a lack of measurement for bulk First-Class Mail, Standard Mail, Packages and Periodicals. Only the external tracking system for Single-Piece First-Class Mail products meets the service performance tracking objectives of the PAEA. The Commission has encouraged the Postal Service to address

these problems to comply with all service performance reporting requirements and we will continue to monitor their progress.

The need for accurate service measurement will only increase as the Postal Service contemplates further budget tightening, reductions in staffing and facilities, significant changes to its network, and possible reductions in service levels.

#### **Post office closings**

The Commission understands the Postal Service's need to adjust its retail network to reflect changing customer needs and its own evolving capabilities. However, the PAEA requires that affected postal customers should be properly notified and involved when the Postal Service considers closing the retail office they depend on. The Postal Service has proposed revisions to its rules for closing and consolidating retail facilities. The Commission has provided its comments to the Postal Service, including recommendations to better ensure customers' ability to offer input, improve the evaluation of affected facilities, and coordinate discontinuances with the availability of replacement retail services. Our comments parallel the concerns and suggested changes the Commission provided in greater detail in its Advisory Opinion on Station and Branch Closings.

The Postal Service has advised the Commission that it plans to request an Advisory Opinion in the near future involving the closure of a large number of post offices nationally. The Commission is currently handling seven post office closing appeals. The Postal Service continues to close some post offices while it considers implementing new regulations.

#### **Five-day delivery**

In March, the Commission presented Congress and the Postal Service with its Advisory Opinion on the potential impact of the proposed elimination of Saturday mail delivery and related activities.

The Commission found that the Postal Service had overestimated potential savings and likely underestimated potential lost revenues. Although some of our analysis suggested that even lower estimates of savings and higher volume losses are possible, our final estimates reflect a more conservative, middle ground analysis of what could happen under a five-day scenario.

Overall, we estimate that net savings of \$1.7 billion annually will be achieved after about a three-year phase-in. If in the near term the Postal Service implements new system-wide network efficiencies, the savings attributable solely to eliminating Saturday delivery would be less. The Postal Service did not evaluate the impact of its proposals on customers who reside or conduct business in remote areas. The Commission did, however, receive significant input from rural Americans, met with customers and civic leaders in South Dakota and Wyoming and considered testimony from Senators Murkowski and Akaka. We found that rural America will be disproportionately affected by the Postal Service's proposal.

Various witnesses and field hearing participants suggested that the Postal Service would lose potential for growth by giving up the competitive advantage of Saturday delivery. Others commented that there was value in the presence of letter carriers on the Nation's streets.

The nature and level of demand for mail is shifting. The heavier burden that would be placed on remote and rural areas may be lessened as Internet broadband adoption increases over time. However, the Postal Service remains a vital and important institution facilitating economic growth, aiding small businesses, enhancing communications and unifying the nation. A decision to change the existing patterns of postal communications and delivery should be made with care.

#### **Advisory Opinion process**

In prior discussions with members of Congress on the Advisory Opinion process, two key issues have surfaced which are dealt with in your bill. First, the Commission is pleased by the addition of a requirement that the Postal Service provide the President and Congress with a formal response to the Advisory Opinion and recommendations it contains. If the Postal Service response is required to be submitted prior to implementation, we believe that this step will encourage timely action by the Postal Service and enhance the outcome of the process.

Second, the bill fundamentally alters the Advisory Opinion process to produce decisions within 90-days from the date of the Postal Service's request to the Commission. Under current law, the Commission evaluates national service changes in a formal hearing on the record that is subject to Administrative Procedure Act protections. This type of proceeding can be time consuming.

The proposed legislation would diminish the opportunity for concerned citizens, mailers, competitors and other interested parties to obtain information for the Postal Service and fully test Postal Service presumptions. The Commission would be able to alter its procedures and produce its Opinions more promptly. The detailed findings, painstaking analysis, and extensive input and outreach of the Commission's Five-Day Delivery Opinion, for example, would not be possible in a 90-day case. The Commission has not yet concluded whether it supports the 90 day limit.

#### **Connecting a Nation**

A sizeable portion of the U.S. population depends on the mail to manage their lives and stay connected with their government. A Commerce Department study reports that as of 2009, 31 percent of U.S. households did not have Internet access at home, and nearly one-fourth of households did not even use the Internet. The mail remains the one universal service connecting the American people to commerce, government, news, and the social institutions they depend upon.

The Commission commends the Postal Service for its sustained effort over many years to increase productivity, improve processes and lower its costs. The Commission plays its role in assuring vital postal services by providing transparency, accountability, adequate service levels and citizen participation.

The Commission believes timely Congressional action to address the pension and retiree health benefit issues remain the key element of any reform effort. Before a broader strategy for effectively managing its business and serving its customers can be realistically implemented, the Postal Service must have the capital to proceed. That concludes my testimony. Thank you.

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



**Oral Statement  
On  
"Addressing the U.S. Postal Service's Financial Crisis"**

**May 17, 2011**

**David C. Williams  
Inspector General  
United States Postal Service**

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Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to discuss the serious financial condition of the Postal Service, whose leadership anticipates being unable to meet its financial obligations in the fall.

The Postal Accountability and Enhancement Act (PAEA) was crafted to incentivize the Postal Service to adopt a volume-driven infrastructure. PAEA also required prefunding of benefit plans, but the framers were unaware that the benefit funds had been subject to wrongful overcharges. Consequently, the resulting payments have caused almost 90 percent of the \$20 billion loss in the past 4 years. This causes inflated infrastructure costs and burdensome debt.

In the near term, cost containment and infrastructure optimization are underway. It will take time, unless numerous large scale actions are undertaken simultaneously, which could outstrip management's ability to control optimization and to avoid unintended consequences including service disruptions.

So what is needed?

In addition to benefit reform, Postal Service optimization of plants, post offices, and the administrative infrastructure; my office has recommended:

- Conversion to evaluated letter carrier routes for effective management;
- Flexible work rules matching the ebb and flow of mail;
- A comprehensive delivery point strategy maximizing curb side delivery and cluster boxes;

- Evaluating the number of area and district offices;
- Simplification of mail acceptance and pricing;
- Growing the value of mail; and
- Finding the Postal Service's role in the digital age.

The digital age is continuing to disrupt many communication industries. The technologies provide Americans low cost instant communications, sophisticated data organization, search engines, hyper links, and impressive mobility. However, Americans need stronger infrastructures to cope with serious collateral issues. I believe citizens would benefit if the Postal Service could:

- Support Americans in addressing the emerging confidentiality, security, dependability, and privacy problems of digital communications;
- Partner with federal, state, and local government agencies to provide e-government services and Post Office window services for more complex business; and
- Provide a safety net for those being left behind by the digital revolution.

Senator Carper's bill proposes allowing the Postal Service to provide nonpostal services utilizing postal physical and digital infrastructure in a manner consistent with public interest. This bill would provide the Postal Service an opportunity to find its digital role in America.

The Postal Service has set aside more than \$300 billion in cash to meet its future benefit fund obligations. Additional contributions of \$55 billion will result in a 100 percent prefunding level. The \$300 billion does not include the overcharges of \$82 billion documented by my office and others. If overcharges are returned, the prefunding levels will exceed 100 percent.

While benefit funds are reexamined and awaiting action, Congress and the Postal Service could explore the option of clarifying prefunding requirements to be inclusive of Postal Service assets. The purchase price of Postal Service real estate is \$27 billion, but the fair market value is far greater. The Postal Service owns real estate in premium locations. For example, the nearby National Postal Museum has a purchase price of \$47 million, but a tax assessed value of \$304 million. If this example is any indication of fair market value, taxpayers are well protected and a surplus of assets would likely be given over to the Treasury, if the Postal Service were suddenly shut down - a very unlikely event.

Alternatively, there are statutory provisions that may allow the Postal Service to work with OPM to fashion an appropriate arrangement to recognize the assets and meet the obligation.

Against this backdrop of over funding, the Postal Service continues to be billed \$11 billion every year for retiree obligations, instead of taking the annual costs out of the funds created for that purpose. As I have testified before, I agree with Senator Susan

Collins' call in September 2010 for OPM to change its calculation of Postal Service pension fund payments. Failing action by OPM, Senator Carper's bill to require an OPM recalculation to correct the mistakes and balance the accounts is desperately needed to stop the crippling payments.

As I outlined, there is an overwhelming need for a substantial and objective review of the benefit plans and payments. This will allow construction of a clear, fair, and accurate financial map for the Postal Service's future course. Otherwise, the Postal Service will be billed into insolvency while overfunding its benefit plans.

**Before The**  
**COMMITTEE ON HOMELAND SECURITY**  
**AND GOVERNMENTAL AFFAIRS**  
**UNITED STATES SENATE**  
**TESTIMONY OF CLIFF GUFFEY, PRESIDENT**  
**AMERICAN POSTAL WORKERS UNION, AFL-CIO**  
(May 17, 2011)

Mr. Chairman and members of the Committee; I am Cliff Guffey, President of the American Postal Workers Union, AFL-CIO – the APWU. Thank you for providing me this opportunity to testify on behalf of our more than 250,000 members.

As the Chairman and this Committee know, legislative relief is necessary to restore the financial stability of the Postal Service. The APWU very much appreciates the leadership shown by the Chairman in proposing legislation that will meet the Postal Service's critical need for immediate financial relief. We strongly support, and we believe the entire postal community will strongly support, the proposal to give the Postal Service more than \$5 billion in breathing room each year by permitting it to use its overpayments in the Civil Service and FERS retirement accounts to meet its obligations to pre-fund postal retiree health benefits and pay workers compensation obligations.

There is also a broad consensus in the postal community to support proposals to revise the prohibition on offering non-postal products, to permit the Postal Service to partner with States and Local Governments to offer additional governmental services in postal facilities, and to accept beer and wine for shipment. We also support efforts to help the Postal Service adapt to changes in communications while continuing to fulfill its essential mission. These measures will help bolster postal revenues and help maintain a postal network that can deliver postal services to every part of the country.

It bears emphasis that this is not a request for a subsidy or bailout of the Postal Service. The Postal Service is very capable of dealing with the challenges it is facing because of declining mail volumes and a shift to electronic transmissions. What it cannot sustain is the burden of the unique and unreasonable requirement that it pre-fund its retiree health benefits over a ten-year period without access to the billions of dollars by which it already has overfunded CSRS and FERS retirement benefits.

Exhibit A to this testimony is a chart that shows the Postal Service's net income for fiscal years 2007 through 2010. As this chart shows, during this period that included the most severe recession since the Great Depression, the Postal Service had a net income excluding retiree health benefits pre-funding payments of more than six hundred million dollars (\$600 million). During that four-year period, the statutorily-required payments to pre-fund retiree health benefits totaled nearly twenty-one billion dollars (\$21 billion). In FY 2010, the payment for retiree health benefits consumed 8.2 percent

EXHIBIT A  
TESTIMONY OF CLIFF GUFFEY  
ON BEHALF OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

	2007	2008	2009	2010	Cumulative
<b>Revenue</b>	74.973	74.968	68.116	67.077	285.134
<b>Net Income</b>	(5.142)	(2.806)	(3.794)	(8.505)	(20.247)
<b>Payments to Retiree Health Fund</b>	8.358	5.600	1.400	5.500	20.858
<b>Percent of Revenue</b>	11.15%	7.47%	2.06%	8.20%	7.32%
<b>Net Income excluding Retiree Health Fund Payments</b>	3.216	2.794	(2.394)	(3.005)	0.611

Future PSRHF Commitments as reported in 2010 10-K (does not include President's budget proposal)

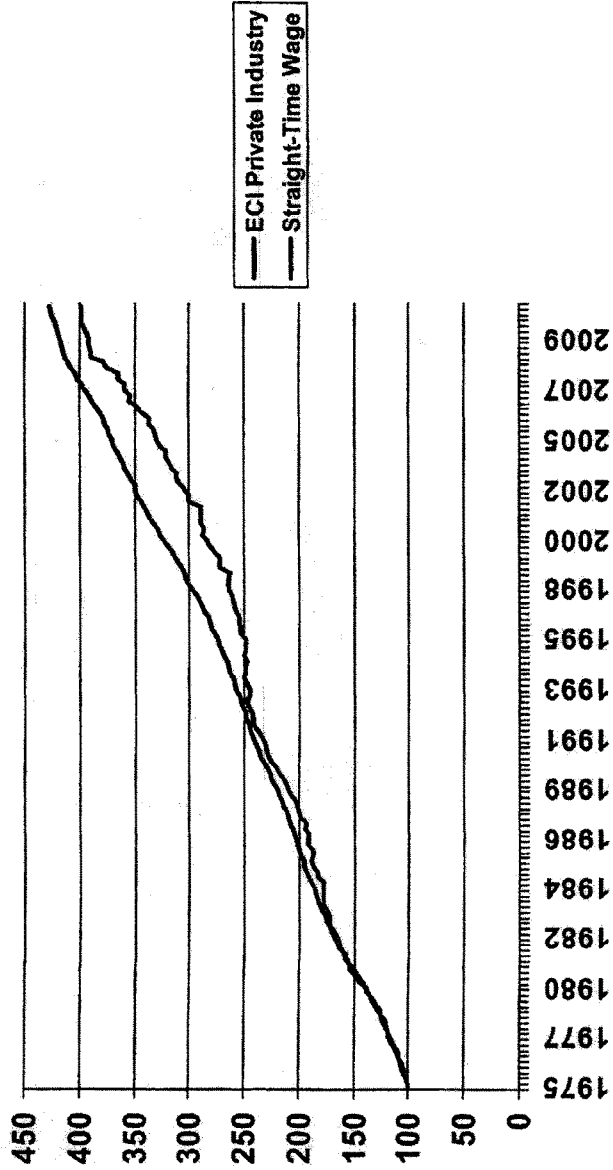
2011 5.5  
2012 5.6  
2013 5.6  
2014 5.7  
2015 5.7  
After 2015 5.8



of postal revenue. With the additional payment of \$2.247 billion to fund retiree health benefits for current employees, this meant that the Postal Service was required to pay 11.5 percent of its revenue for retiree health benefits. These payments deprived the Service of capital needed to improve and maintain its distribution networks, and to develop and launch new products; and they resulted in twelve billion dollars (\$12 billion) in debt.

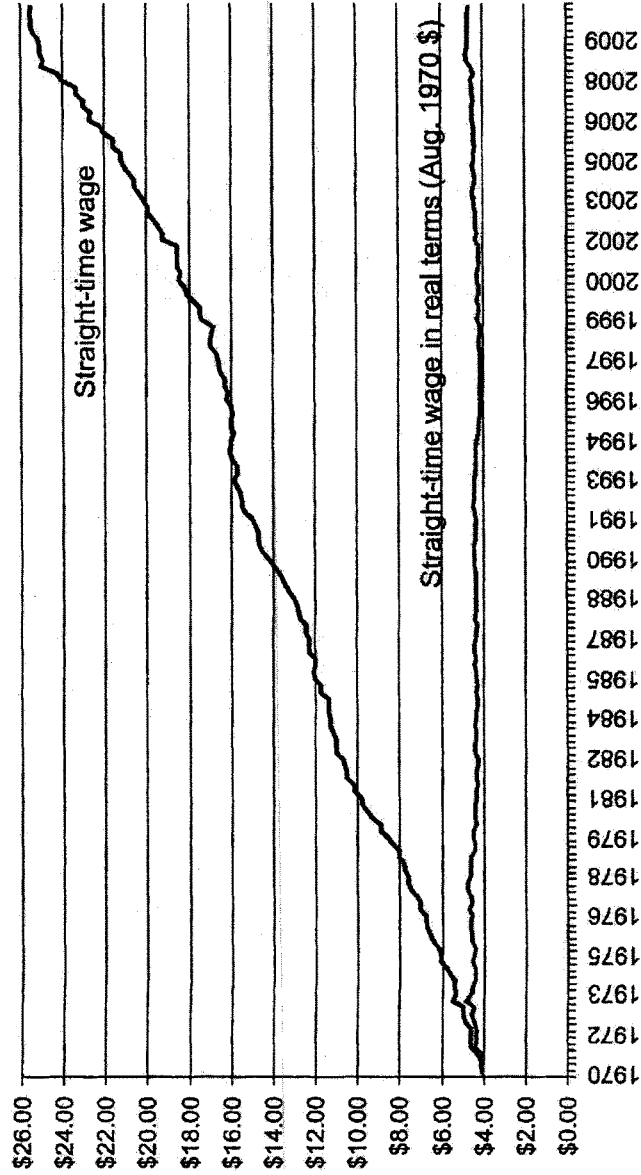
It also bears emphasis that real postal wages have closely tracked wages in the rest of the economy and the Consumer Price Index (CPI) for the entire history of the Postal Service. Exhibit B shows that the average straight-time wage for the APWU bargaining unit has increased less than wages and salaries of private sector workers as measured by the Employment Cost Index (ECI) since that measure of employment costs was first published in 1975. Exhibit C to this testimony graphs increases in nominal and real wages of postal workers from the effective date of the last legislated wage increase in 1970 through 2010. As you will see, real wages have increased slightly over that period of time. However, as Exhibit D shows, Postal Service Total Factor Productivity and Labor Productivity have grown far more over the same period of time. Thus, postal workers have shared the benefit of increased postal productivity in the form of slight increases in real wages since 1970. And the American public also has benefitted from the fact that postal wages have been constrained as postal productivity has increased. As Exhibit E shows, postage rates today are, in real terms, no higher than they were in 1972.

**Exhibit B: Increase in the Wages and Salaries of Private Industry Workers Compared to the Increase in the Average Straight-Time Wage for the APWU Bargaining Unit**  
 (Sept. 1975=100)



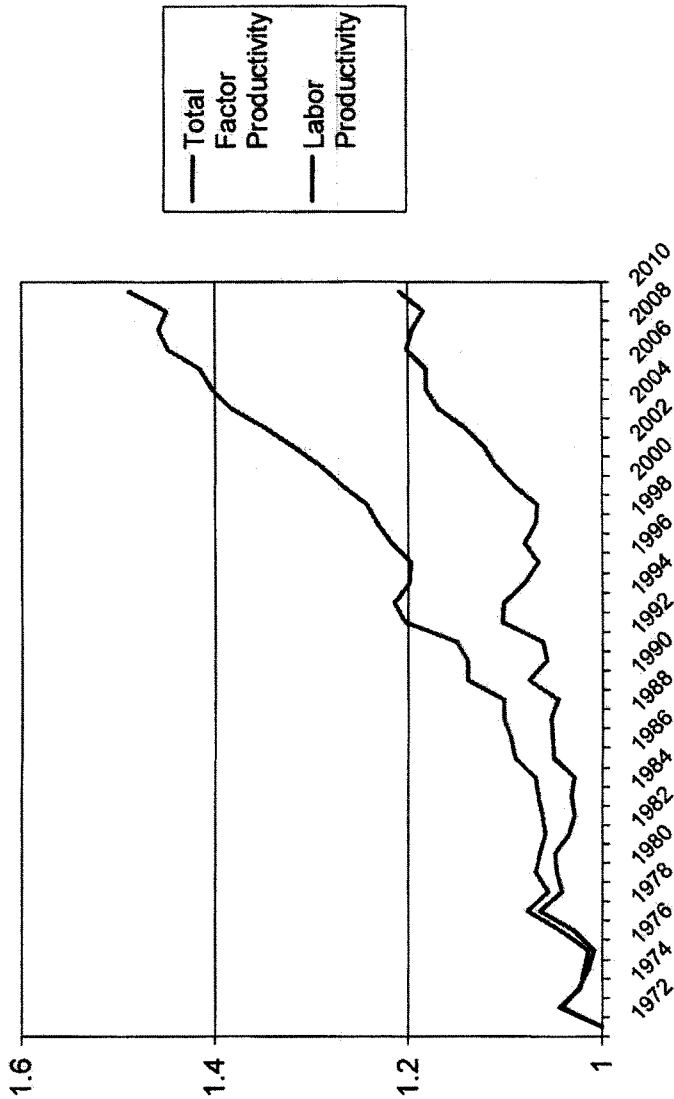
Source: Bureau of Labor Statistics, DOL and USPS-National Payroll Hours Summary

Exhibit C: Straight-time Hourly Wage of the APWU Bargaining Unit in Current Dollars and After Adjustment for Inflation



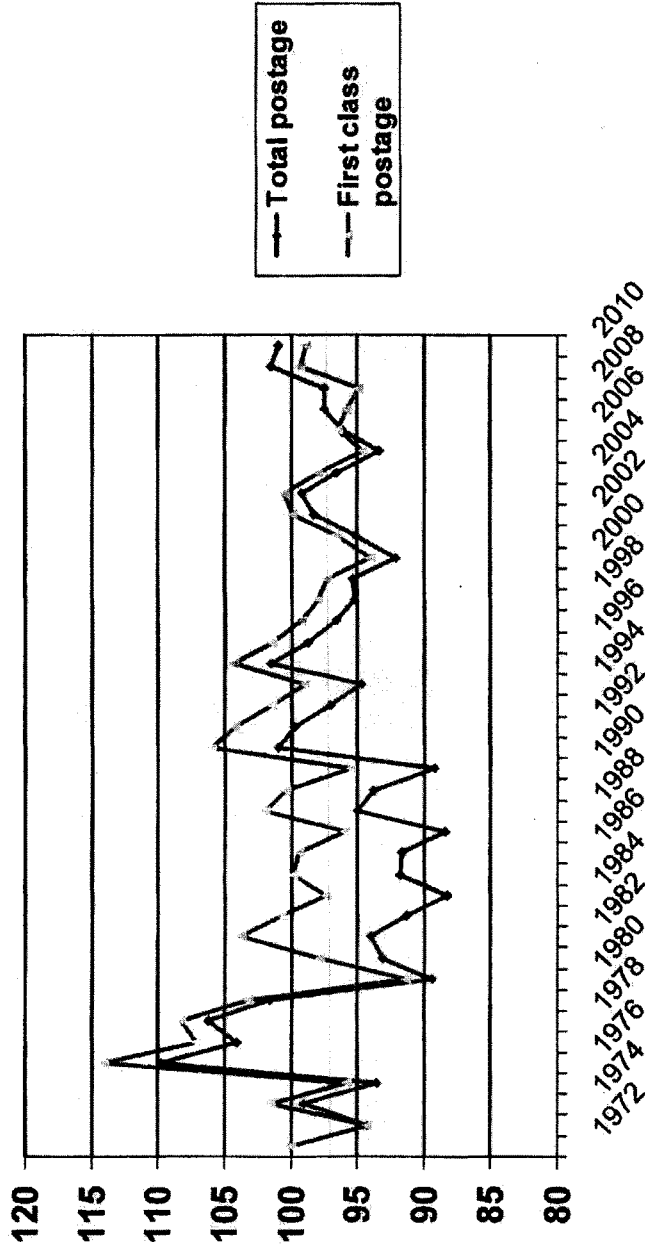
Source: Straight-time wage is calculated from USPS National Payroll Summary Hours Converted to real terms using the CPI-W from the Bureau of Labor Statistics

Exhibit D: Postal Service Productivity Growth—Total Factor and Labor Productivity  
1972-2010 (1972=1.0)



Source: USPS-Total Factor Productivity Tables

Exhibit E: In Real Terms (Adjusted for Inflation) Postage Costs are at 1972 Levels (1972=100)



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

Returning to the topic of possible legislative changes, 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.

For this reason, and for other reasons, I must tell you Mr. Chairman that we cannot support the provisions of your bill related to post office closings. Consideration must be given to the availability of postal services, and other services that may be offered through the post office.

We are sensitive to the issue of cost and the possibility of deficits in small postal offices. In our new National Agreement, we have agreed to flexible schedules and to the use of lower-wage and temporary workers in small facilities where such savings might increase the viability of small postal facilities.

This leads me to two other points I need to make concerning proposals to require the Postal Service to develop a plan for the expansion of alternate retail options, including contract postal units. First, while we appreciate and support the policy emphasis on providing services to all communities, the manner of providing

those services is not the sort of broad policy question that is suitable for legislation. The Postal Board of Governors is responsible for making this sort of strategic decision and for requiring management to develop means and methods for delivering postal services in accordance with an overall plan. The Congress should not attempt to become the strategic overseer of the Postal Service.

The second point is that this sort of legislative provision would diminish the flexibility of the parties in negotiating collective bargaining agreements. This is not the time to get into great detail on our new agreement; but I can tell you that it makes provision for the effective and less expensive delivery of retail postal services. Our emphasis throughout our new agreement is that professional postal workers should perform postal work whenever it is least costly or more efficient for them to do so. We are seeking to eliminate contract postal units that are redundant to or more expensive than post offices run by postal employees. Legislation in this area would interfere with the parties' agreement on these issues and limit the flexibility of the parties in their mutual efforts to make small postal facilities more viable.

We also urge reconsideration of the provisions that would invalidate legislation guaranteeing six-day delivery, and that would prevent the Postal Regulatory Commission from taking the time it may need to consider important

changes in postal services. It would be a mistake for the Congress to micro-manage the Commission. There are important reasons why Commission consideration of the proposal for five-day delivery took nine months. This is an issue that implicates the future, not just the present, level of service to be provided by the Postal Service. The importance and sensitivity of this issue explains why it has been the subject of regular legislative riders that preserve six-day delivery. Several Commissioners filed separate opinions on the Postal Service proposal. The Commission's thorough hearings and careful deliberations informed and improved the debate over this important issue.

Furthermore, this issue is not only important and sensitive, it is very complex. As evidence of the difficulty the Commission faced in dealing with it, consider the fact that postal reform legislation was introduced in every Congress for about ten years before it was enacted; and when it finally passed, it proved to be an imperfect piece of legislation. The Commission acted responsibly and well in its consideration of this question.

We have reservations about the suggestion that Negotiated Service Agreements should be permitted without a showing that they would increase net income or create other efficiencies that benefit the Postal Service. We recognize that these standards may not work in an era of declining mail volume; but NSAs



should still be subject to a requirement that they be justified by improving the net income that otherwise would have been achieved in a situation where it is necessary to negotiate an NSA to mitigate an otherwise more negative outcome.

Finally, Mr. Chairman, with all due respect, I must state our unalterable opposition to proposals to change the standard for interest arbitration necessary to resolve collective bargaining disputes. These proposals would substantially undo the enactment of free collective bargaining established by the Postal Reorganization Act of 1970. That legislation, which was precipitated by a nationwide postal strike, recognized that it is not practical to permit strikes by postal employees. It also recognized the necessity of a fair and impartial interest arbitration process to replace the right to strike.

Before my election as President of the APWU in November 2010, I served as Executive Vice President or as Clerk Division Director of the Union for 25 years, so I have bargained with the Postal Service in good financial times as well as bad. In our recently-concluded negotiations, we and the Postal Service were confronted by financial difficulties that required aggressive, creative and far-reaching solutions. I am proud to say that we were able to find such solutions.

The Postal Service has estimated that our new national agreement will save the Postal Service \$3.8 Billion over the term of the agreement, and more than that

in subsequent years. The agreement also provides a substantial measure of protection against the disruption of employees' personal lives due to changes in the Postal Service.

The new collective bargaining agreement was ratified by our members in a vote that was tabulated last Wednesday, May 11, 2011.

It has become fashionable in some circles to bash public employee unions and to blame them for financial problems they have not caused and cannot solve. In that regard, this proposal places postal unions in good company. The draft legislation we have seen would destroy the fairness of postal bargaining in several ways. It would put an arbitrary time limit on interest arbitration; it would make postal employees pay the price for congressionally-caused deficits employees have been powerless to prevent or alleviate; and it would place a de facto CPI cap on increases in postal wages. I hesitate to use such loaded language, Mr. Chairman, but these provisions would gut free collective bargaining by postal employees. The APWU is adamantly opposed to them.

I do not want to end this testimony on such a negative note. We very much appreciate the leadership of the Chairman in addressing the issue of CSRS and FERS overfunding and retiree health benefits pre-funding. We believe that there is a broad and strong consensus in the postal community to support these measures, and we will cooperate in any way we can to help achieve them.

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

**TESTIMONY OF  
MARK STRONG**

**PRESIDENT OF  
THE NATIONAL LEAGUE OF POSTMASTERS**

**BEFORE  
THE**

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

**May 17, 2011**

**Testimony of Mark Strong**  
**President, National League of Postmasters**  
**May 17, 2011**

Chairman Carper, members of the Subcommittee, thank you for inviting the National League of Postmasters (LEAGUE) to testify here before you today. It is a pleasure to be here.

My name is Mark Strong and I am the President of the LEAGUE. I am also the Postmaster of Sun City, Arizona, an unincorporated area in the northwest portion of the Phoenix, Arizona, metropolitan area. I have served in that capacity since 1992. In addition to Sun City, my post office includes Sun City West, and Surprise, Arizona. I am originally from Montana and have served in many small rural post offices.

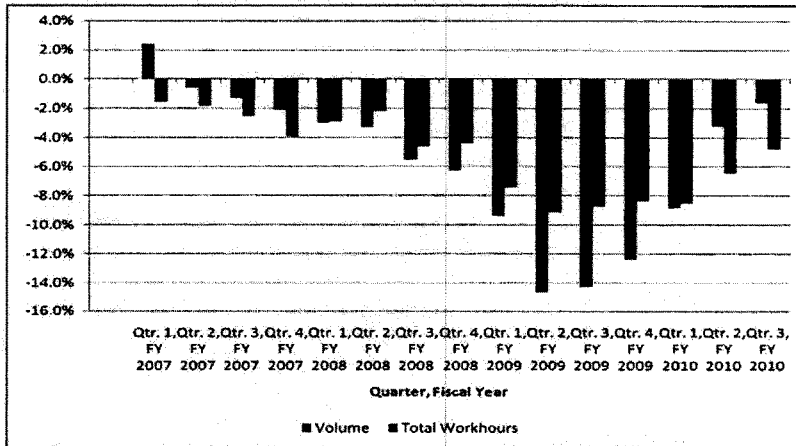
Founded in the late 19<sup>th</sup> Century, the LEAGUE is a national trade association representing postmasters throughout the United States. Postmasters are the field managers of the Postal Service. We manage not only the carriers who deliver the mail in every city town and village in the country, but also the clerks that operate the windows in every one of the offices owned by the Postal Service. Rural postmasters are a significant part of our membership.

At the outset, the LEAGUE would like to commend the Chairman, the Subcommittee members, and staff for undertaking this very important hearing on the Postal Service's financial crisis. The mailing industry is a very important entity, a \$1.139 trillion impact on the American economy, employing over 8.4 million Americans, according to an Envelope Manufacturing Association study.

**The Postal Service's Current Financial Crisis**

We believe that the current financial crisis of the Postal Service was caused by two factors.

The first factor was the serious recession of the last several years. Much of the Postal Service's revenue comes from advertising and marketing mail. Advertising and marketing budgets are always some of the elements of business that are hardest hit during a recession. Thus, predictably, postal revenues drop precipitously during recessions and in this decline, postal revenues dropped greatly. One can tie the fall in postal revenues directly to the fall of the nation's economy, as the following figure from a recent PRC decision illustrates. This chart tracks, quarter by quarter, the drop in postal revenues from the first quarter of FY 2007 to the third quarter of FY 2010.



Postal Regulatory Commission, Order 546 in Docket R 2010-4 at p. 83 (Source: USPS Form 10-K Quarterly Financial Statements, Quarter 1, FY 2007 – Quarter 3, FY 2010).

One can clearly see that the Postal Service's drop in volume bottomed out in the Second and Third Quarters in 2009. That is just about when the recession bottomed out, according to the *Wall Street Journal's* Market Watch. <http://www.marketwatch.com/story/leading-indicators-show-recession-bottoming-out-2009-09-21> . Further, as the chart shows, postal volumes have started to recover as the

economy has recovered. We have not yet fully recovered, but then again, neither has the economy.

The second factor leading to the current economic woes of the Postal Service is the overpayment that the Postal Service was forced to make into its pension funds, and the fact that this pension surplus cannot be used to pre-fund the Postal Service's retiree health benefit obligation, thus saving the Postal Service some \$5 plus billion per year. Forcing the Postal Service to pay billions per year into a retiree health benefit fund when it has already overfunded its pension plan is the epitome of irresponsibility, and truly a "stamp tax" of the worst sort.

This issue has been discussed at length in prior Congressional hearings by a variety of parties, including the LEAGUE, and we will not revisit that ground in great detail. Suffice it to say that this issue, more than anything, is responsible for the current financial condition of the Postal Service, as the PRC found in its exigency case last year.

The LEAGUE strongly supports efforts, such as those of Chairman Carper and of Senator Collins, to rectify this injustice by allowing the Postal Service to use its overpayments to prefund its retiree health benefits obligation. Without substantial relief in this area, the Postal Service cannot continue as a viable entity for the long term, *no matter what one does*. No business of any type, in any part of the country, could afford to pay a \$5+ billion supplemental annual income tax—which is what the Postal Service is doing—and remain viable.

In terms of electronic diversion, some suggest that this has been a major factor contributing to the Postal Service's woes in recent years. We simply disagree with that. Electronic diversion of bill payments and bill presentation has been with us for decades. It was a factor thirty years ago in the postal world, was a factor present during the recession, and will be a factor for years to come. The Postal Service planned for it, and executed those plans well. It is

and has been a fundamental factor of postal life. Those that stretch the strength of the immediate impact of electronic delivery for hyperbole's sake do so to the detriment of everyone.

The key to the future is increased operational flexibility, increased pricing flexibility for the Postal Service and its customers, decreased management bureaucracy, and a flattened management structure. The seven remaining Area offices of the Postal Service deliver no mail, sell no stamps, serve no customers and yet they cost \$1.5 billion a year, nearly three times the cost of the 10,000 smallest post offices. These changes would all add value to the mail and add value to the experience of the postal customer.

### **Closing of Small Post Offices**

There appears to be renewed interest in some sectors in closing small rural post offices, an interest that is too often simplistically tied to the notion of closing excess facilities to drive excess capacity out of the system. This interest has arisen despite the fact that small rural post offices are the keystone of many rural communities, and the fact that closing post offices saves the Postal Service very little money. According to PRC data the total net cost of the 10,000 smallest Post Offices—more than one-third of all Post Offices in the United States—is less than seven tenths of one percent (0.7%) of the total cost of the United States Postal Service. The League just recently re-verified that data with the Commission's staff.

Thus, closing post offices is not a cost savings measure of any serious import, no matter how anyone spins it. It is one of those "cost saving" measures that is popular with senior postal managers who wish to "look good" and give the impression that they are driving costs out of the

system, without really doing so. In order to drive costs out of the system, one needs to focus on increasing efficiency in the administration of the system (less reports, more hands-on work) and on driving out any excess capacity in the processing and transportation network. The breadth and scope of the delivery network turns more on the number of delivery points in an area, rather than on the number of pieces delivered. The number of pieces delivered goes to the number of routes that exist, and our members have worked with their carriers in very productive ways throughout the recession, in order to consolidate and increase productivity in that area.

Moreover, closing post offices to save money is not popular with the American public, and they would prefer any number of other cost-saving measures, as polls have consistently shown, the most recent of which was done by Gallup just about a year ago, in March 2011. The poll reported that 86% of Americans oppose closing post offices. This overwhelming nationwide endorsement of post offices was consistent with a 2009 Gallup Poll which showed that 88% of



the public opposed closing post offices. Its findings are reproduced below.

*As you may know, the U.S. Postal Service recently announced that it is anticipating billions of dollars in losses this year. Please tell me whether you would strongly favor, favor, oppose, or strongly oppose each of the following as a way to help the Postal Service solve its financial problems. How about ... ?*

	Favor %	Oppose %
Reduce the number of days your local post office is open from six days a week to five	71	28
Reduce the number of mail delivery days from six days a week to five	68	31
Have the federal government provide funding for the Postal Service	47	50
Raise stamp prices	39	60
Close your local post office branch	12	86

Gallup poll, March 16, 2010

GALLUP

The Gallup poll may be found at <http://www.gallup.com/poll/127013/americans-back-five-day-per-week-mail-delivery.aspx>.

Few other government services rank this high in importance in the public's mind, according to the Harris poll. Moreover, the few that do rank as high or higher—Medicare (90% support), Crime Fighting and Prevention (88% support), Social Security (86% support), Defense (83% support), and National Parks (83% support)<sup>1</sup>—cost 10 to 100 times more than small rural post offices, and are paid for by tax dollars.

That Gallup data concerning the support for small rural post offices is consistent with the findings of our postmasters when they visited hundreds of Congressional offices during the

<sup>1</sup> [http://www.harrisinteractive.com/vault/Harris\\_Interactive\\_Poll\\_Politics\\_Gov\\_Services\\_2010\\_01.pdf](http://www.harrisinteractive.com/vault/Harris_Interactive_Poll_Politics_Gov_Services_2010_01.pdf)

LEAGUE's Legislative Forum earlier this year. The support for small rural post offices was near universal, and expressed in no uncertain terms.

Not surprisingly, many in Congress reflect that sentiment, since they often reflect the sentiment of their constituents. Some cynics—usually urbanites—find this difficult to understand. They often suggest that rural communities really don't depend upon their post offices that much, and can do without them if they just receive good mail service. Those that hold this view suggest that Senators and Congressmen who oppose closing rural post offices are just trying to save the one or two local jobs that might be lost to the town if their post office was closed. Nothing could be further from the truth. One or two jobs in a community are not the issue here. Community service is.

Support for rural post offices stems from the role these institutions play in their community and the cohesive function they serve in their communities. The Congressional concern about closing rural post offices has always focused not so much on the quality of mail delivery, but on the Congressional concern with the impact that the closing or consolidating of post offices has on the affected rural communities, particularly in small towns and rural areas, including the nonpostal effects of those closings. Indeed, in the early 1970s, in reaction to the Postal Service going too far in closing small post offices and harming rural America, Congress—

specifically the Senate—pulled the Postal Service back out of concern for the nonpostal effects of small post office closings. That is why the post office closing statutes were added in 1976.

In adding those provisions, Congress wanted to force the Postal Service to give a community notice when it made a decision—not a decision to close a post office but a decision *to consider* closing a post office—so that the local citizenry could be informed and intelligently discuss with the Postal Service how their communities would be affected. This would allow the Postal Service, in its public interest role, to balance the effects to the community against its own interests. Thus, the Postal Service, with the data obtained from an informed citizenry, could make an informed decision that would do no harm to rural America. Where communities had truly disappeared and post offices were no longer needed, it could close them. Where communities were teetering on the brink of extinction, and the post office was desperately needed, it could be kept open. In this capacity, the Postal Service was to act in the public interest—not its sole interest—in these matters, taking into account *all the interests* of the community. See *In the matter of Bill, Wyoming*, Postal Rate Commission Docket No. A 79-22 (October 18, 1979) at 9.

When those laws passed in 1976, Senatorial concern with the nonpostal effects of closings and consolidations was broad and bipartisan. This concern was expressed during the 1976 floor debate about whether post office closing provisions should be added to the bill that

was before the Senate in order to rectify the problem that the Postal Service had created. These provisions were adopted and the bill passed the Senate, ultimately becoming the 1976 amendments to the Postal Reorganization Act of 1970.

The 1976 floor debate in support of the Randolph amendments was definitive, bipartisan, and broad. For instance, Senator Randolph (D-WV), the architect of the post office closing provisions said:

... I look on those offices ... as representative of the Federal Government from the standpoint of actual day-by-day service, not just for the patrons of the offices, but also for the people of those communities who are helped by the postmaster.

\* \* \*

These postmasters--men and women--are, in a sense, counselors to so many people. They help, in many ways with the filling out of forms and reports, and they represent what I believe is the human side of the Government ... They strive daily to help citizens generally across a broad front.

122 Cong. Rec. 27092 (August 23, 1976).

Likewise, Senator Ted Stevens (R-AK), who helped craft the 1970 Postal Reorganization Act, said:

We are aware that the U.S. Postal Service and its local post offices perform many functions which in reality have nothing to do with delivering the mail. No other Federal agency touches the lives of every American every day like the U.S. Postal Service does. For millions of Americans, the U.S. Postal Service is the only Federal agency with which they come in contact. The USPS to them is a government symbol and an important part of the Federal Government. In rural America there are hundreds and thousands, indeed GAO maintains there are 12,000, of post offices which in fact do not need to exist in order for the U.S. Postal Service to carry out its function of delivering the mail. On the other hand, they are needed for economic, social, and cultural benefits

of rural America . . . Post offices provide a public service which I do not feel should be eliminated. These examples point up the need to maintain post offices even when mail can be delivered through another method.

Id. at 27128.

Senator Ernest Hollings (D-SC) strongly supported Senator Randolph:

I say to the Senator from Alaska that you only have to see a State of that kind to appreciate what the Senator from West Virginia [Sen. Randolph] is trying to get to. They are all out there, little fishing villages hither and yon, and the central gathering point is our little post office. That jells them together into a community. I think that is valuable to America . . . .

Id. at 27107.

Senator Robert Packwood (R-OR) echoed that sentiment:

I believe that small post offices serve a necessary social function. They are a hub of small communities, and are often the only Federal agency in town to give needed information on taxes, social security, civil service, and other public service materials. These rural post offices are necessary services.

122 Cong. Rec. 27427 (August 24, 1976).

Congress determined back then that the post office closing laws protect a public interest much broader than the provision of postal services. It is a public interest of the most fundamental kind, and one that is difficult for urban residents to understand as it does not really exist in urban areas. The Postal Regulatory Commission has recognized this broader interest in its case law, which most clearly articulated and incorporated into its jurisprudence in the seminal *Lone Grove* case:

There is nothing inherent in the broad term "effect" which would limit its application to consequences directly connected with a change in postal Service patterns. . . If Congress had intended to limit the consideration of community effects to those caused by changes in mail service patterns, it could have omitted § 404(b)(2)(A) altogether and rested on the provision just quoted. . . We think that the structure of § 404(b) as a whole thus supports the view that § 404(b)(2)(A) was intended to encompass effects on the community other than those causally linked with the change in postal service patterns. . . In view of this legislative history, it seems to us incontestable that the Service was intended to consider community effects not connected with the rendering of postal Services.

*In the Matter of Lone Grove*, Docket A79-1, May 7, 1979 at 10, 13, 16.

See also *In the Matter of Woolsey, Georgia*:

In *Lone Grove* . . . the Commission concluded that the Postal Service is required, as a matter of law, to make an independent inquiry into nonpostal effects of closings or consolidations and its determination to effect such a closing or consolidation must demonstrate that such an inquiry was made. We specifically pointed to several examples involving business, economic and social effects which we believed were necessary areas for Postal Service inquiry.")

*In the Matter of Woolsey, Georgia*, Docket A82-1, May 14, 1982 at 7.

Finally, the point Senator Stevens made back in 1976 about the importance of post offices and postmasters being the visible face of the government and of government services, is still with us today, just as much as it was 35 years ago. The electronic revolution that has occurred since then has not affected this interest to any significant degree, as the testimony of the LEAGUE and its sister organization NAPUS have shown over the last several years. Indeed, there is a video made by the Postal Service a number of years ago that visually documents a current example of this very phenomena in Horatio, South Carolina. The video is entitled Post

Roads, and it may also be found at: <https://www.postmasters.org/legislation/rural%20post%20offices.wmv>.

We highly recommend that the Committee watch it. The rental for the Horatio post office, by the way, is \$125 per month, including electricity, and the Committee should note that the Horatio post office is co-located with a general store and has been since it was founded.

Closing post offices, like the closing of Borders Bookstores or Blockbuster outlets, can seem like a fast way to cut costs, but it carries significant hidden costs. First, unlike other stores, post offices are not just retail outlets; they are part of a nationwide receipt and delivery network. This receipt and delivery network depends upon the existence of these rural offices, and without them there will be gaps in coverage of delivery and postal services.

Second, any extensive closings of small rural post offices and the associated withdrawal from serving rural America fosters an image of an organization in retreat from its mission. It erodes confidence, reliance, investment, and support. In short, despite its "quick fix" appeal, it paves the path for both the Postal Service and the communities which lose their post offices to slowly dry up and fade away.

Finally, there is always a big political price to pay for closing a town's small post office. Not only does it deeply insult the local community by giving the impression that the federal government has abandoned them, but there is a certainly finality about it that often ends up killing that community. As Senator Hubert Humphrey put it on the floor of the Senate years ago,

"I cannot imagine that [the President] will want to deliberately go about the country insulting community after community by saying, "take down the American flag from in front of your post office and close up the post office.'" 122 Cong. Rec. 27424 (August 24, 1976).

Small post offices should not be closed, and indeed cannot be closed without doing serious damage to rural America and the image of the federal government in those areas.

Thank you for considering our views.



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

**"ADDRESSING THE U.S. POSTAL SERVICE'S FINANCIAL CRISIS"**

**MAY 17, 2011**

**TESTIMONY OF**

**JERRY CERASALE  
SENIOR VICE PRESIDENT, GOVERNMENT AFFAIRS  
DIRECT MARKETING ASSOCIATION, INC.**

**Jerry Cerasale  
Senior Vice President, Government Affairs  
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202/861-2423**

Good morning, Senator Carper and members of the Subcommittee, I am Jerry Cerasale, Senior Vice President for Government Affairs of the Direct Marketing Association, and I thank you for the opportunity to appear today on behalf of the Direct Marketing Association (DMA) concerning the financial crisis of the Postal Service.

DMA ([www.the-dma.org](http://www.the-dma.org)) is the leading global trade association of businesses and nonprofit organizations using and supporting multichannel direct marketing tools and techniques. DMA advocates standards for responsible marketing, promotes relevance as the key to reaching consumers with desirable offers, and provides cutting-edge research, education, and networking opportunities to improve results throughout the end-to-end direct marketing process. Founded in 1917, DMA today represents companies from dozens of vertical industries in the US and 48 other nations, including nearly half of the Fortune 100 companies, as well as nonprofit organizations.

In 2010, marketers—commercial and nonprofit—spent \$153.3 billion on direct marketing, which accounted for 54.2% of all advertising expenditures in the United States. Measured against total U.S. sales, these advertising expenditures generated approximately \$1.798 trillion in incremental sales. In 2010, direct marketing accounted for 8.3% of total U.S. gross domestic product. Also in 2010, the direct marketing industry employed 9.8 million Americans. For the mailing industry alone, the Envelope Manufacturers Association's Mailing Industry Job Study found the economic impact on the U.S. economy to be \$1.139 trillion employing over 8.4 million Americans.

DMA members account for approximately 70% to 80% of mail volume in all classes of mail and contribute over 85% of the revenue of the U.S. Postal Service. The U.S. Mail is an important channel of communications for our members to reach customers and potential customers with relevant offers, notices on transactions and delivery of products.

DMA thanks this Subcommittee, and particularly Senators Carper and Collins, for its past commitment to the Postal Service and its customers. We are pleased with your continued involvement and look forward to working with you to find solutions for the challenges facing the United States Postal Service.

DMA and its members are very concerned about the long-term fiscal viability of the Postal Service. It projects continued loss of mail volume, but it maintains a processing, transportation and delivery network that can handle almost twice the current mail volume. Postal Service customers, particularly business customers, cannot afford to pay for that excess capacity. The Postal Service must right size for its survival and must do it immediately.

Of course, DMA believes that mailers have over funded postal pension obligations by \$50 to \$75 billion, and that this overpayment coupled with the aggressive formula for the Postal Service to prefund postal retiree health benefits seriously threatens the ability of the Postal Service to right its financial situation.

#### Postal Pensions and Retiree Health Benefits

Through the postage we pay, postal customers have been funding Postal Service employee pensions since July 1, 1971. Recently, both the Postal Service Inspector General and the Postal Regulatory Commission determined that postal customers have overfunded pension obligations for postal retirees under the Civil Service Retirement System (CSRS) by between \$50 billion and \$75 billion. In fact, not only have the pension obligations for every hour worked for the Postal Service been fully funded by mailers, but also mailers since 1971 have paid for the pension obligations for hours of work performed before the Postal Service was created. Without this overpayment for obligations for pre Postal Service work, postage would have been lower, and there would have been much more that businesses could have done with mail to stimulate economic development and job growth. We could have employed more Americans than we currently employ. Excess CSRS payments have affected businesses and consumers in the same manner as any overpayment of taxes. This tax hits small businesses, the job creation engine in the American economy, particularly hard.

In addition to this \$50 billion to \$75 billion tax on postal customers, the Postal Accountability and Enhancement Act of 2006 (PAEA) has required postal customers to fund future postal retiree health benefits with a steep 10-year payment schedule averaging approximately \$5.5 billion per year. As with the CSRS tax, this payment schedule suppresses economic activity and job creation in the private sector. This schedule was

created prior to the discovery of the CSRS overpayment. We again commend Senators Carper and Collins efforts to account for this overpayment.

There is another postal pension issue that we urge the Subcommittee to include in any postal legislation. We understand that our payments to the Federal Employee Retirement System (FERS) are overfunded by approximately \$6.8 billion and growing. Moreover, the Postal Service's FERS contribution percentage is being increased, potentially creating an even greater overpayment. This simply does not make sense. Moreover, the repayment provisions included in the President's Budget--\$500 million per year—are inadequate to refund another new tax on mailers. We support the provisions concerning FERS in Senator Carper's discussion draft and S. 353, the Postal Service Improvement Act of 2011, introduced by Senator Collins.

DMA believes that the elimination of the CSRS and FERS taxes on postal customers is sound policy. We urge the Subcommittee to include in any postal legislation a requirement that the Board of Governors use any "refund" for prefunding postal retiree health benefits, then, if funds remain, to retire debt before any other use. This would improve the fiscal well-being of the nation's postal infrastructure and eliminate the subsidy of Federal Government retirees by postal customers.

#### Collective Bargaining

Since postal employees are barred from striking, postal law requires postal employees and postal management to submit to binding arbitration if there is a failure to reach a negotiated labor contract. Both Senators Carper and Collins provide that any arbitrator must consider the financial condition of the Postal Service in any arbitration award. Senator Carper would add two additional factors for the arbitrator to consider—that rates are inflation capped and that postal wages must be comparable with the private sector.

As customers, we are not at the bargaining table. It is important to note that employee compensation and benefits still comprise approximately 80% of Postal Service expenses after almost 40 years, billions of dollars of capital investment (particularly the billions spent on automation equipment), productivity gains, cost reduction programs, mailer worksharing, additional mail preparation requirements, and reductions in the

Postal Service employee complement. No private sector business could ever hope to avoid bankruptcy with that kind of track record. Something is not working properly. We cannot afford to pay higher and higher postage, which will suppress our businesses. For the Postal Service to survive, its customers must reap the benefits from our investment in capital improvements. It is time for Congress to examine every idea to improve the collective bargaining process.

#### Delivery Service

Business-related transactions provide 85% of all postal revenue. Businesses use the mail to reach their customers and potential customers with information, offers and product, much as political candidates use mail to communicate with voters. Mail is a valuable channel for business communication and commerce. That value, however, depends upon both price and service. Any change in delivery service must be based upon the needs of postal customers. This is imperative. We do not take a specific position on delivery days, but the financial viability of a Postal Service funded solely by customers requires service that meets the needs of those customers. Moreover, the Postal Service and Postal Regulatory Commission do not agree on the cost "savings" from elimination of a day of delivery. Congress should refrain from placing unfunded mandates on the Postal Service (and, thus, its customers) when that which is mandated is not necessary to meet customer needs.

#### Facilities

With a network of over 38,000 retail facilities, the Postal Service should attempt to co-locate those facilities in private sector retail outlets. It should look to co-locate other federal, state and local operations within existing postal facilities, and it should look to offer retail postal services through the Internet, self-service outlets and other non-postal retail outlets. Moreover, the Postal Service should immediately begin the right-sizing of its retail network, and Congress should allow it. Both Senator Carper and Senator Collins include provisions in their legislation on retail facilities that DMA supports. S. 353 includes a provision requiring a Postal Service plan to ensure that postal customers have ready access to postal retail facilities by collocating postal retail

operations within private retail locations within communities. Senator Carper's discussion draft would eliminate the prohibition on the Postal Service from closing a Post Office solely for economic reasons. It is important to understand that this prohibition does not apply to processing facilities or, in the view of the Postal Service, to stations and branches. Little progress has been made, sadly. The Postal Service should be actively consolidating its facilities while maintaining a commitment to service. The current mail processing, transporting and delivering network has a capacity of well over 200 billion pieces of mail per year. (It may be as high as 300 billion.) The Service projects mail volume to be 150 billion pieces by 2020. We cannot afford to maintain excess capacity. It is important for Congress to require the Postal Service to right-size its network.

#### New Products

In order to survive in the 21<sup>st</sup> century, the Postal Service must provide services that customers need at a price that customers are willing and able to pay. The Service should be aggressively seeking to offer new products that meet customer needs. For postal related products, the Service should continue to poll its customers to discern the demand for new postal products that will enhance the ability of customers to improve their businesses.

Where non-postal products are concerned, some caution is required. Postal Service employee expertise is in collecting, sorting, transporting and delivering physical mail. Non-postal products do not fall within their expertise, and efforts to gain that expertise will reduce focus on efforts to improve performance dealing with postal products.

There is one caveat that needs to be addressed for any new product offered by the Postal Service. As former Deputy Postmaster General Michael Coughlin earlier stated before this Congress, the financial difficulties facing the Postal Service are huge—the Service had an \$8.5 billion loss in 2010. To cover that loss with net proceeds from new products, the Service would need 85 new products producing \$100 million annual net revenue or 850 new products producing \$10 million net revenue. New products will help, but they will not bring the Postal Service out of its financial difficulties.

The Postal Service should focus on increasing mail volume and avoiding actions that force mail out of the system. To do this effectively, it should look first very aggressively at removing barriers for customers to use the mail. In the past few years the Postal Service has placed many new requirements on business customers that necessitated the reengineering of address placement on catalogs and magazines, new barcoding, new paper weight for lightweight flats and new demands on customers' IT systems in hopes of reducing costs of the Postal Service. Sadly, those Postal Service costs keep rising right along with the mailers' costs of compliance for the new requirements. All of those requirements should be reexamined by the Service in constant consultation with its customers. The cost of postage, coupled with a steady increase in costly and complex requirements to use the mail, has driven mail out of the system. This is not "good business." As the current experience has shown, these compliance costs remain whether or not mail volume is present to cover them. DMA believes that the Subcommittee should consider in any postal legislation a cost benefit analysis for any new requirement, such as included in S. 353, but, moreover, applying any added costs to market dominate mailers to the rate cap for the year in which the requirement is effective.

DMA applauds the Postal Service for its latest filing at the Postal Regulatory Commission to have a summer sale for mailers who include a QR code in their mail piece. This is an experimental product to merger print and mobile. A mobile phone app will be used to take a picture of the QR code, and the consumer will be sent to a web site for more information or purchase information. We do not know whether the product will be a success, but even if it is not, we implore the Postal Service to continue to strive to find products that directly complement electronic communication and commerce.

We agree with the provision in Senator Carper's discussion draft to allow the Postal Service to offer new services using its retail, delivery and transportation networks provided those offerings do not create unfair competition. As stated above, it is important that the Postal Service management partner with the private sector when possible to avoid the cost and time to develop new expertise that already exists in the private sector.

*Miscellaneous Provisions in the Discussion Draft*

DMA believes that the authority over changes in postal rates that resides with the Governors of the Postal Service should not be subject to delegation. Since the Postal Service has a monopoly on letter mail, the Presidential appointees (with the advice and consent of the Senate) should maintain and execute that authority.

DMA is also concerned with the 45-day decision requirement on the Postal Regulatory Commission for transfer of products from market dominant to competitive and *visa versa*. Transfers of products between categories can have significant postage consequences, and a 45-day decision deadline will not allow potentially harmed mailers adequate opportunity to present their views. Since a product would still be offered by the Postal Service when a decision on a transfer is pending, a longer than 45-day deadline would not harm unduly the Postal Service's panoply of products offered the American public and American businesses.

In conclusion, it is a priority for Congress to resolve the issue of the tax on postal customers for the overpayment of pension benefits and postal retiree health benefits. Failure will simply put the brakes on a slow and weak economic recovery, particularly job creation recovery.

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



**Post-Hearing Questions for the Record  
Submitted to Patrick Donahoe (USPS)  
From Senator Scott P. Brown**

**“Addressing the U.S. Postal Service’s Financial Future”  
May 17, 2011**

1. In testimony provided during last June’s bicameral hearing, the CEO of Hallmark Cards, Donald Hall described the dual strategy for reducing services and increasing prices as a “death spiral”, as both actions will lead to more volume losses. Do you disagree with this characterization? Why or why not?

**While a balanced, comprehensive approach must be taken to fully address the current revenue gap, five-day delivery is one of the Postal Service’s best options to significantly reduce its costs to partially offset unprecedented mail volume and revenue declines, with Saturday being the best day to eliminate carrier delivery.**

**Our analysis indicates that doing so will result in an estimated annual revenue loss of \$200 million, which will be more than offset by an initial annual savings of \$3.1 billion; reaching an estimated \$5.1 billion in annual savings by 2020. Moving to five-day mail delivery will not impact customer service at Post Offices, which will continue to provide six days of service, including service to Post Office Boxes.**

**A recent Rasmussen Reports poll showed that 75 percent of Americans would prefer to see the Postal Service cut back mail delivery, rather than force the government to cover those losses. This is up considerably from 2009, when just 50 percent favored cutting back mail delivery.**

**Currently, the Postal Service lacks the flexibility to adjust pricing to better reflect market dynamics and offset future volume and revenue declines.**

**Rather than capping each class of mail at the rate of inflation, we believe the Consumer Price Index should apply to the entire group of products, rather than each individual mail class. This would give the Postal Service greater pricing flexibility and a greater ability to respond to market demand for the products.**

**It is important to recognize that certain types of mail, such as nonprofit mail, Media Mail, Library Mail and Periodicals, do not presently cover costs. No business can survive selling products below costs.**

**In addition to flexibility in delivery frequency and pricing, we are adjusting our retail footprint to reflect customer preferences and the growth in available alternative locations and online solutions. We are also making plans to consolidate our network operations through comprehensive analysis to make more efficient use of available capacity to reduce costs.**

2. Considering the estimated decline in mail volume from around 170 Billion today to around 150 Billion by 2020, it seems that Postal Service priorities would reflect actions that aggressively seek to grow or maintain mail volumes.
- a. Are we just past the point of focusing on growth and are now just trying to keep capacity level with current and future declines?

**While our projections call for a continued decline in First-Class Mail volume, we are very much focused on slowing that decline and growing our other product lines, as well as introducing products that better reflect the needs of today's digital society. We expect a continued modest growth for advertising (standard) mail along with robust growth for package shipping volume. To slow the decline in First-Class Mail and build additional standard mail volume, we have implemented a number of initiatives in 2011 designed to add value to the mail.**

**Recent examples include pricing and promotional programs such as Every Door Direct Mail, which makes it easier for new customers to use advertising mail and helps small business owners build their customer base; , Reply Rides Free, which allows customers to mail two ounces for the price of one; and a market test for the Direct Mail Hub, which is an online platform designed to help small businesses develop, design and implement an advertising mail campaign. The ongoing Mobile Barcode promotional program implemented for July and August is providing a three percent discount on postage to mailers placing Quick Response (QR) codes on mailpieces that meet volume thresholds and other criteria. We are also planning a "Mail Works" integrated advertising campaign in September to build volume and reinforce support for mail.**

- b. Can you explain why the trade-off between potential volume declines and the need to reducing delivery days or increasing rates makes sense for the Postal Service in the long term?

**We do expect some marginal volume declines as a result of reducing the number of delivery days from six to five, resulting in a revenue loss of \$200 million. However, our analysis indicates that this decline would be more than offset by the immediate annual savings of \$3.1 billion dollars achievable via a five-day delivery environment.**

- c. Has the Postal Service ever done any studies to find out where the potential bottom is regarding future volume levels?

**Yes, the Postal Service has commissioned studies by outside firms to help determine how far and how fast mail volume will fall. The Postal Service is currently projecting that mail volume will fall to roughly 133 billion pieces in 2020.**

3. As GAO has pointed out in various reports and testimony, the Postal Service needs to do more to “right-size” its network and reduce capacity considering estimated declines in mail volume in the future. Total mail volume for 2010 was around 170 billion pieces.
- a. Has any assessment been done, however, to estimate the current total mail volume? capacity of the Postal Service in terms of the current processing, transport, and delivery networks?

**The Postal Service continually reviews the capacity within its mail processing and transportation networks. The capacity requirements within the networks is driven by the configuration of the network which is largely built based upon service standards. These service standards drive the operating windows within facilities. These operating windows combined with the amount of equipment, and the sort schemes established dictate the amount of equipment required. This in turn dictates the amount of floor space and facilities required. The Postal Service’s network was set up to handle the processing requirements of 5 years ago when the Postal Service had approximately 213 Billion pieces in the network.**

**Since that time, the Postal Service has experienced significant volume declines with an expectation of approximately 167 Billion pieces in the network forecasted for 2011. The Postal Service is well aware of the issues of excess capacity and has gone to great lengths to reduce the total capacity of its mail processing network. The Postal Service has significantly reduced its equipment inventory, centralizing processing throughout the country. The Postal Service has reduced 910 Carrier Sequence Barcode Sorters (CSBCS) since the beginning of FY2010, all 145 MultiLine Optical Character Reader (MLOCR) machines have been eliminated since the beginning of 2008, all 336 Mail Processing Barcode Sorter (MPBCS) machines have been eliminated since the beginning of FY2008, 77 Upgraded Flat Sorting Machines (UFSM 1000) have been eliminated since the beginning of FY2010.**

**Additionally, the Postal Service continuously evaluates all machine utilization to identify potential reduction opportunities. The Postal Service has also reduced its operational times within the facilities through tour compression, and other operational improvements. The Postal Service has also been actively engaged with facility consolidation to rightsize the network based on the reduced mail volumes. The Postal Service has completed 100 Area Mail Processing (AMP) studies since 2006, with 56 AMPs implemented since that time and 44 that are pending implementation. In addition, there are currently 53 AMPs in-study, with 33 of these full facility consolidations. Even with all of this consolidation activity, the Postal Service recognizes more dramatic steps are necessary to deal with declining mail volumes.**

- i. If not, how are you setting objectives for reductions tomorrow if you do not know how much your total capacity is today?

The Postal Service recognizes it has more capacity than it needs. In order to deal with this, the Postal Service continually assesses its mail processing infrastructure and looks at its utilization across equipment, as well as facilities. Opportunities for consolidation are continually reviewed and assessed.

ii. If so, what is the current total volume capacity of the USPS?

Based on current facility estimates, the Postal Service estimates there is approximately 25% excess capacity within the mail processing network based on the current service constraints of our products. The Postal Service utilizes different methodologies and modeling tools to identify, monitor and track excess capacity. These include, but are not limited to the following:

- Area Mail Processing (AMP) program. AMP is currently used to identify and evaluate operational cost savings opportunities. AMPS have been applied throughout the country and have been successful in removing excess capacity. The Postal Service additionally employs an annual review process which uses network modeling tools including network optimization and simulation to identify facility consolidation opportunities.
  - USPS has developed modeling tools to assist with identifying excess equipment, including the Delivery Point Sequence (DPS) Optimization tool which assists with determining optimal schemes on Delivery BarCode Sorter (DBCS) machines, as well as assists with eliminating outdated equipment. Another tool, the volume variable Automated Flat Sorting Machine (AFSM 100) mathematical model, assists with optimizing the number of AFSM 100's required within a facility, as well as assists with eliminating outdated Flat Sorting Machines (FSM 1000). Additionally, the Postal Service continuously evaluates all machine utilization to identify potential reduction opportunities.
  - Detailed facility analysis is essential to identifying excess capacity. This includes, but may not be limited to: reviewing required equipment moves, detailed facility characteristics analysis which includes analyzing column spacing, multi-floor layouts, arrival profiles, and customer entry profiles. In addition, performing detailed operational analysis for each process to determine the appropriate operating windows to meet service commitments. The Postal Service has developed a process to review each facility layout and is working cross-functionally on identifying the best use of that space, including potential sub-lease opportunities.
- b. Considering that mail volumes are estimated to drop to around 150 Billion by 2020, what kind of quantifiable goals have been established in preparation for this, such as for total workforce or number of retail locations?

The USPS will continue to adjust the needs and preferences of our customers. This will include looking for ways to give more convenient access where they conduct their business. Any adjustments to our retail locations will continue to follow the processes we have in place for reductions.

**We have also established aggressive goals to reduce its workforce based on the volume realities. As laid out in the Postal Service's plan that recently has been shared with Congress, the Postal Service is looking to reduce its workforce by 220,000 by 2015.**

- c. To reduce the network to 150 billion, what kind of workforce and facility reductions would that entail from where we are today?

**The Postal Service needs to significantly reduce its workforce and facility from where it is today. As laid out in the Postal Service's plan that recently has been shared with Congress, the Postal Service is looking to reduce its workforce by 220,000 by 2015. The Postal Service is currently studying over 3,650 retail facilities for closure. From a network perspective, the Postal Service has completed 100 AMP studies since 2006, with 56 AMPs implemented since that time and 44 that are pending implementation. In addition, there are currently 53 AMPs in-study, with 33 of these full facility consolidations. The Postal Service is also actively reviewing its mail processing network for more significant changes based on a change in its operating plan to fully utilize all processing capacity. This modification could bring the Postal Service's mail processing network down to less than 200 facilities total.**

- d. If all statutory barriers were removed per current proposals, how long would "right sizing" the Postal Service take?
- i. If more than 9 years (2020), what does this mean for the long-term viability of the Post Office in terms of remaining self sustaining?

**The Postal Service cannot afford delay with its rightsizing initiatives. As described by the Postmaster General, as well as through the proposals submitted to this Congress, the Postal Service is looking at every conceivable way to control its costs. Its current plan is to significantly reduce the workforce and network requirements by 2015. To do so, however, the Postal Service will require Congressional action.**

- e. To reduce the network capacity to 150 billion pieces, what do you envision will be the changes to postal services overall?
- i. What is the resulting impact to rural communities, specifically?

**If the processing network is changed, rural community service will be no different than the service provided to the rest of America. The Postal Service expects to reduce its mail processing infrastructure to support the volume realities of the future. The Postal Service is currently reviewing a plan to dramatically transform the mail processing infrastructure to take advantage of the mail processing assets. In addition, the Postal Service is looking to how it might realign its retail footprint to meet the demands of the American public.**

- f. Do you predict that in order for the Postal Service to maintain its current universal service obligations, at some point, the Service will have to preserve a certain level of volume capacity above actual volume levels no matter what?

**Based on its universal service obligation, as well as volume flows within the network, there will always be a level of capacity above actual volume levels. Machine infrastructure is fixed. As volumes fluctuate throughout the year, the Postal Service must ensure it has the appropriate capacity to process not only the average day, but also peak periods. The Postal Service's volumes fluctuate over 100% over the course of the year, and therefore, volume capacities must be sufficient to handle these changes.**

**The Postal Service expects to reduce its mail processing infrastructure to support the volume realities of the future. The Postal Service is currently reviewing a plan to dramatically transform the mail processing infrastructure to take advantage of the mail processing assets. In addition, the Postal Service is looking to how it might realign its retail footprint to meet the demands of the American public.**

4. In National League of Postmasters' testimony, Mr. Strong points out that the seven remaining Area offices "deliver no mail, sell no stamps, serve no customers, yet cost \$1.5 billion a year to run, nearly three times the cost to run the 10,000 smallest post offices."
- a. Is this an accurate assessment?

**The \$1.5 billion value is the 2009 combined cost of operating our area offices and district offices, as stated in the Office of Inspector General's 2010 audit report on Postal Service Area and District Office Field Structure. The 8 area offices accounted for approximately \$200 million and the 74 district offices totaled roughly \$1.3 billion. Since that time, we have reduced administrative staffing in the field by eliminating one area office, seven district offices, and streamlining the structure in the remaining offices. As for the smallest 10,000 post offices, they cost approximately \$860 million to operate annually, more than four times the cost to run the seven area offices.**

**We continue to review our field structure while recognizing that the area and district offices provide the support needed to ensure efficient operations and quality service to the American public.**

- b. In your testimony, you mentioned reductions of 7,500 in administrative staff. Can other parts of the postal management bureaucracy be reduced to save costs and streamline operations?

**We are continuously looking for opportunities to reduce costs, especially in administrative functions. Since 2009, we have closed two area offices and 13 district offices, eliminating nearly 10,000 administrative positions, as well as significant**

**reductions at postal headquarters. We continue to review our organization structure and are developing a comprehensive plan for future area and district structures.**

5. According to Postal Service press statements, under the new contract with the American Postal Workers Union (APWU), the Postal Service will save over \$3 billion in labor costs over the life of the contract. Considering that labor costs account for 80% of Postal expenses, why was this the best deal the Postal Service could get in light of the current fiscal health of the organization?

**The agreement between the Postal Service and the APWU included unprecedented changes to reduce labor costs -- a two-year wage freeze, a reduction in the entry and top step wage rates for new career employees, a substantial increase in the use of lower-cost non-career employees and a reduction in the employer's percentage contribution to health insurance premiums. Based on the information available when the deal was made, this agreement represents an important and viable step towards addressing the critical Postal Service need to lower its labor costs.**

6. In the Direct Marketing Association's testimony from the May 17<sup>th</sup> hearing, Mr. Ceresale notes that with 80% of costs still going towards employee compensation and benefits considering 40 years worth of capital investments in processing equipment, productivity gains, cost reductions, etc., that no private sector business could ever hope to avoid bankruptcy with that kind of track record.
- a. Why has the Postal Service been unable to reap the benefits of those 40 years worth of investment and efficiencies?

**The Postal Service has reaped substantial benefits from its automation and cost reduction programs. Just since 2000, the Postal Service has achieved over \$19 billion in savings through these efforts.**

**It is somewhat misleading to imply that the relatively constant ratio of personnel costs to total expenses represents of cost-reduction initiatives. Inflationary cost increases beyond management's control and new Congressional mandates must also be considered. Since 2000, the Postal Service has absorbed numerous personnel cost increases. Health benefits premium payments alone have increased by 50% for active employees and over 200% for retirees. This does not include the required retiree health benefit prefunding payments that have totaled almost \$38 billion since 2006. In 2010, the required retiree health benefits prepayment alone represented more than 7% of total Postal Service expenses.**

- b. What does this assessment say about the future of the Postal Service in terms of additional workforce reductions and the long-term financial outlook for the postal service in general?

The Postal Service has indeed reaped significant financial benefit over the past 40 years as a result of our investment in automation and other cost reduction programs. The substantial efficiency gains captured during this timeframe have allowed the Postal Service to greatly mitigate and absorb the cost impact of a continually growing delivery network. In 1971 the Postal Service delivered to 67.3 million addresses through 164 thousand city and rural delivery routes. Today we provide mail delivery to 128.3 million physical addresses. Over the past 40 years the delivery network has virtually doubled. Today there are 218 thousand city and rural delivery routes. Absent the efficiency gains from automation and other cost reduction initiatives that have occurred over the past 40 years we would need 329 thousand delivery routes and an additional 143 thousand employees to serve today's delivery network. The analogy above illustrates the positive cost impact within our delivery workforce alone. From a total organizational perspective the Postal Service today serves 61 million more physical addresses than we did 40 years ago and we do it with 500 thousand less employees. Obviously our capital investments in automation and the resulting significant efficiency gains have reaped substantial benefit to the Postal Service, the mailing industry and the public we serve.

It is somewhat misleading to imply that the relatively constant ratio of personnel costs to total expenses represents a failure of cost-reduction initiatives. While labor costs account for 80% of operating costs roughly 33% of those labor costs are directly attributable to fringe benefit expenses. Health benefits premium payments alone have increased by 50% for active employees and over 200% for retirees. This does not include the required retiree health benefit prefunding payments that have totaled almost \$38 billion since 2006. In 2010, the required retiree health benefits prepayment alone represented more than 7% of total Postal Service expenses. Additionally, inflationary cost increases beyond management's control and new Congressional mandates must also be considered.

7. In your testimony, you mentioned how the "constant negative discussions about the Postal Service's financial condition have a significant effect on our brand." Yet, it seems that Saturday service has always been a big part of that brand especially in comparison to major shippers such as UPS and FedEx. In the Postal Regulatory Commission's (PRC) testimony, they note the possible loss of potential growth by giving up the competitive advantage of Saturday delivery.
- a. What are your concerns to the impact of the Postal "brand" with losing Saturday service?

**Yes, the Postal Service considered all foreseeable factors, including potential revenue loss, when it evaluated the impact of 5-day delivery. We conducted market research, including surveys of our customers and determined that the revenue loss attributable to the reduction in delivery days would be only \$200 million annually.**

**Customers are ready to accept five-day delivery. Market research conducted by Opinion Research Corp. on behalf of the Postal Service between August and**



**October 2009 shows that most customers said they would accept five-day delivery to help the Postal Service overcome its financial difficulties. Most agreed that eliminating Saturday delivery to street addresses would have little impact on them, and said they would “adapt.” Independent research conducted by Gallup and Rasmussen confirm these findings.**

**Based on these findings the Postal Service decided that there would not be a negative impact on the Postal brand.**

- b. Did recognition of a possible “brand impact” figure into the Postal Service’s revenue loss projections for going to 5-day service?

**Customers’ responses in the quantitative research that was completed in 2009 reflected many factors including changes in the perception of the value of mail (a brand aspect) and perception of the Postal Service.**

8. In your testimony from May 17<sup>th</sup>, you talk about how “the old philosophy” – of a Post Office for every community, a Postmaster for every facility, etc. is fading. PRC’s testimony, however, referenced a 2009 Commerce Department study that showed that 31 percent of U.S. households still do not have internet access at home, and that nearly one quarter does not use the internet. In a country of 300 million people, there is still a significant amount of the population that has not fully tapped into the digital age. In a good third of the country, it seems the old assumptions may still hold true.
- a. How is the Postal Service strategy for the future adequately addressing the need to strike a balance between the traditional and modern means to provide universal service?
- b. How does this figure into the sensitivities needed for decisions made about closing postal facilities, that a “one-size fits all” approach may not work?

**Customers want flexible and convenient options from the Postal Service. About 65% of total retail revenue comes from traditional post offices. The other 35% is from sales via alternate channels (internet, contract postal units etc). The amount of retail revenue has decreased from \$14.6 billion in FY2007 to \$12.5 billion at the end of FY2010. This equates to a 14.4% revenue decline. The Postal Service will continue to find new ways to meet customer needs.**

**A November 2010 Commerce Department study found that seven out of ten American households used the Internet in 2009. The majority of these households used broadband to access the Internet at home. Almost one-fourth of all households did not have an Internet user. Between 2001 and 2009, broadband Internet use among households rose sevenfold, from 9% to 64% of American households utilizing broadband Internet. Some of the demographic groups that had lower-than-average adoption rates in 2001 have since exhibited impressive gains. As these**

**long-term trends in Internet use grow, the Postal Service will continue to find new ways to meet customer needs.**

- c. Will it be impossible to maintain this balance in the future as the Postal Service moves towards reducing capacity to meet demand?

**The plan includes reacting to market changes and predicting services needs and adjusting to meet customer demand.**

9. GAO points out that the 10-year action financial plan released last March did not address the postal vehicle fleet.
- a. Considering the potential \$5 billion dollar price tag and the near-term challenges posed to service by the aging fleet, is this just a secondary issue in regards to the Postal Service's current financial situation?

**While we would agree that the aging vehicle fleet is a secondary issue relative to the immediate liquidity crisis, it is by no means insignificant. In order to continue timely, reliable delivery to more than 150 million addresses daily a reliable vehicle fleet is a must. The 10 year capital plan released last March did include \$1.5 billion in annual capital investments; at that time it was uncertain what portion of those investments might be allocated to vehicles. It should also be noted that the size of the fleet and type of vehicles in the fleet are somewhat dependent on the number of delivery days and changes to the network. These issues need to be resolved before any substantial investment in vehicles is contemplated.**

- b. Why wasn't this issue considered in the 10-year plan?

**We are currently evaluating vehicle purchasing options to identify the most cost effective method to replace aged and high cost vehicles. Both short and long term strategies are being evaluated. The financial plan will be adjusted when decisions are made on the replacement process. We are confident we can maintain the majority of the fleet to meet operational requirements in a safe and reliable manner for the foreseeable future until the financial situation stabilizes enough to enter into a fleet replacement strategy.**

10. In the Postal Regulatory Commission's testimony, Ms. Cigno points out that the Postal Service's history of product innovation and experimentation has had mixed results and that most have no material effect on Postal finances in the near term. If the Postal Service's record has been mixed, why is additional authority to expand into non-postal products and services necessary for the Postal Service?

**The Postal Service has had a number of successes in the marketplace, with Priority Mail Flat Rate packaging being the most obvious. Since 2004, over one billion Priority Mail Flat Rate Boxes and Flat Rate Envelopes have been delivered by the Postal Service, resulting in a cumulative total of more than \$2.5 billion in revenue.**

Fueled by an excellent customer value proposition, along with lift from a highly advertising campaign, the “If It Fits It Ships” slogan continues to showcase the ability of the Postal Service to delivery results when given the opportunity to compete in the marketplace. In May, the Postal Service began offering Priority Mail Prepaid Forever packaging, allowing customers to “lock-in” the cost of Flat Rate shipping, further expanding the convenience of this popular option.

Over the past several years, the Postal Service has expanded its suite of shipping services to meet the growth in ecommerce, including Priority Mail Regional Rate Boxes and Parcel Select Regional Ground, which fill the demand for lower-cost ground-based shipping options.

We are actively engaged in efforts to add value to the mail by exploring digital alternatives and hybrid mail delivery services. We recently implemented a rigorous strategic management approach for all major revenue and cost reduction initiatives – including marketing initiatives. This new process is designed to rationalize and streamline executive-level decision-making in every area of our operations through a proven portfolio management process.

However, the current legal and regulatory framework continues to impose artificial constraints on the ability of the Postal Service to introduce new products, enhance current products, or adjust prices in a timely manner to compete more effectively and meet the evolving needs of the communications marketplace.

**Post-Hearing Questions for the Record  
Submitted to Patrick R. Donahoe  
From Senator Thomas R. Carper  
“Addressing the U.S. Postal Service’s Financial Crisis”  
May 17, 2011**

1. What is the uncertainty about the Postal Service’s ability to make it through the next 12-24 months doing to your ability to attract and retain business? Is the uncertainty in any way hastening some customers’ efforts to abandon the mail?

**The Postal Service’s financial challenges are of serious concern to our customers. To date, our research indicates that the primary causes of recent years’ volume declines are the weak economy and the accelerated migration of First-Class Mail to electronic alternatives. Over the past several years, the Postal Service has consistently reached out to various stakeholder groups to provide information, share current action plans, and seek feedback that has been incorporated into our strategic planning process. Residential customers, business mailers, trade industry groups, and employee organizations have been included in this ongoing dialog.**

**However, there are indications that the negative publicity surrounding the Postal Service’s financial position is raising concerns among some customers about our ability to continue providing these services. For example, the package business represents approximately \$10 billion in annual revenue to the Postal Service and there are two well-established competitors. If our package customers see any decline in our quality of service as a direct or indirect result of our pending insolvency, or believe that shipping with the Postal Service is “too risky”, then they might take their business elsewhere. This could result in a downward spiral of our finances. Additionally, advertisers, who account for \$17 billion in annual revenue often need day-certain delivery, or risk the conclusion of a sale before consumers receive the sale’s advertisement. They will consider other delivery methods or advertising if they see declines in service quality and reliability, or fear our financial condition jeopardizes future deliveries.**

**Much of the package business we win requires our customers to invest in infrastructure and, in the case of package consolidators, requires multi-year contracts with end shippers. These consolidators will be less likely to make investments in their infrastructure, and will be less able to convince their customers to sign long-term contracts due to the uncertainty surrounding our future.**

**We are convinced we can return to financial stability under the comprehensive proposals we have put forth without a subsidy from Government, however; a delay in necessary legislation that results in a downward spiral of our business may weaken the Postal Service to a point**

where our ability to return to stability is significantly impaired. Time is money.

**The consensus from this stakeholder feedback is that a strong, vibrant Postal Service is in the best interests of all Americans, is critical to the economic growth of our nation, and serves a vital role as the world's most trusted communications platform and delivery channel.**

2. Eliminating Saturday delivery appears to be a cornerstone of the Postal Service's recovery plan. That proposal, however, has been met with strong resistance. While polling has consistently showed that the public at large would prefer the elimination of Saturday deliver over other potential cost-cutting efforts, some have called your proposal short-sighted. They argue that the Postal Service should be looking to grow rather than cut its way out of deficit. Others, including GAO and the Postal Regulatory Commission, have questioned whether you'd save as much as you anticipate. How important, in your view, is the eventual elimination of Saturday delivery to the Postal Service's ability to stay afloat?

**It is critical. The Postal Service's networks are to a great extent fixed due to the current statutory delivery frequency mandate. There is significant cost associated with the delivery of mail to every house in the United States six days a week. Lower mail volume does not significantly lower the labor costs associated with the delivery of mail to a person's house, whether that is 2, 3 or 4 pieces. As mail volumes continue to decline, the Postal Service cannot afford the labor that is required to maintain a 6 day a week delivery network. The change in delivery frequency flexibility is essential for the Postal Service to reduce its cost structure to ensure revenues cover costs.**

**While there has been resistance by some, we have worked to develop an operating concept that reflects consideration of all stakeholder concerns, that is fair and reasonable, and that enjoys broad support. In the past several years, the Postal Service has aggressively cut costs across the board to match steep declines in mail volume and revenue due to changes in mailer behavior, primarily in the diversion of communications, bills, statements, and payments to electronic media. Five-day delivery operations will help the Postal Service bring costs in line with its reduced revenues, provide much-needed financial stability and support maintenance of nationwide universal delivery service.**

3. As you know, while my bill would restore the Postal Service's authority to change delivery frequency, I've not been a proponent of using that authority to eliminate Saturday delivery. Like others who oppose my language, I'd prefer that the Postal Service focus on making the most out of the advantages it has – including the fact that a postal employee visits every home and business in the country every Saturday. Can you take a minute or so to respond to those who argue that

eliminating Saturday delivery would represent the abandonment of an important commercial advantage that the Postal Service has today?

**In the five-day delivery case reviewed by the Postal Regulatory Commission, there was a dearth of evidence to support the belief that the elimination of Saturday delivery would disadvantage the Postal Service competitively. There was also no evidence to suggest that shippers and mail recipients currently structure transactions to result in Saturday deliveries. The evidence in the case showed that shippers and recipients, in the main, would adjust to the elimination of Saturday delivery to street addresses. Any hypothetical marginal increase in revenue that could be obtained by continuation of Saturday delivery must be weighed against the considerable cost of maintaining Saturday delivery operations.**

4. You and I have spoken in the past about working with postal employees to make Saturday delivery cheaper to offer rather than eliminating it. Is this a viable option? Would the savings you might generate from such an effort be enough, in your view?

**Even if we were able to negotiate a cheaper wage rate with our delivery employees for Saturday work, this option would not be viable. Our estimated delivery savings for elimination of Saturday delivery is \$3.1 billion per year. Any savings captured by reducing employee wage scales while still providing Saturday delivery service would be significantly less than this amount. Secondly, any savings captured by this action would diminish over time due to the compounding effect of salary and benefit increases over time.**

5. You speak in your testimony about the new products the Postal Service has offered in recent years with some degree of success. You also mentioned some new initiatives you have in the works. I have two questions on this subject:
- Is it possible for the Postal Service to grow out of its problems? How much of your long-term budget gap can you realistically hope to close by attracting new business?
  - To the extent that growth is possible, how would the language in my bill allowing the Postal Service to branch out again into some non-postal products help?

**Despite our efforts to increase revenue, it is not possible for the Postal Service to grow out of its current financial difficulties. Electronic communications have changed, and will continue to change, the landscape by amounts that we cannot cover with mail. This is especially true for First-Class Mail, our most profitable product. The Postal Service is facing a \$16 billion gap between revenues and expenses in FY2015. Filling that gap with additional revenue is not possible, and to illustrate the**

reasoning, consider the following example. American companies would be very satisfied with a profit margin before income taxes of 20% of revenue. While the stock market's current star, Apple Inc., achieved an average pre-tax profit of 27% in its last three fiscal years, Walmart and FedEx achieved approximately 5%. To fill a \$16 billion Postal loss in 2015 with margin from new revenue, assuming a 20% profit margin, would require \$80B of new revenue.

However, it is realistic to believe that the Postal Service can continue to innovate by introducing new products and services that will be attractive to our customers. The language currently in the your bill regarding flexibility to offer a wider set of products and services would provide the Postal Service with the ability to mitigate the losses we currently project. For example, An opportunity exists to expand our Electronic Postmark product, enter into Digital to Digital communications, and expanding into Authentication services that would allow for the certification of senders and receivers.

We continue to explore the opportunity to expand our Enrollment Services currently performed for DOS Passport program. Expanding our ability to use our resources to serve state and local government will allow the Postal Service to provide enrollment and in-person proofing for both public and commercial entities.

As we explore new products and services, we intend to concentrate our efforts on opportunities that are consistent with our current mission to collect, process, and deliver mail; and also lie beyond physical communications.

6. I understand that the Postal Service will have exhausted its \$15 billion line of credit with the Treasury by the end of the fiscal year. I've heard discussion in the past about maybe just giving you more borrowing authority to get by as you wait for the economy to fully recover and for your cost-cutting efforts to bear more fruit. What are your thoughts on this kind of approach?

We believe an increase to the debt limit only defers the fundamental problems of the USPS business model and that it would only promote further deficit spending. Even when the economy fully recovers, volumes of First-Class Mail, our most profitable product, will continue to fall. A piecemeal, reactive strategy to the systemic change in the way Americans use the mail is destined to fail.

We continue to strongly endorse the fundamental changes that have been recommended since our March 2010 Action Plan was released, including the following:

- **Resolve Retiree Health Benefits pre-funding with the CSRS pension overpayment of \$50 to \$75 billion or via a Postal Health Care Plan;**
  - **Refund of our \$7 billion FERS pension over-funding; and,**
  - **Allow the Postal Service to begin implementing five-day delivery now so that we can begin to benefit from the \$3 billion annual cost savings.**
  - **Enact legislation to allow the Postal Service to apply the same statutory and regulatory Reduction-In-Force (RIF) provisions that are applicable to federal competitive service employees**
7. Over the years – including at times when the Postal Service has been in much better shape – there have been questions about why there has not been a more aggressive effort to realign and consolidate the postal retail, processing, and administrative facilities. While the process may not be ideal and may be susceptible to political interference, you and your predecessors have had the authority to close unneeded post offices, for example, or to reap the benefits of improved automation by eliminating excess processing capacity. Has the Postal Service done all it can do in this area? Why are new authorities necessary?

**The Postal Service has significantly downsized its operations in response to the challenge posed by the diversion of mail to electronic means of communication. Unfortunately, the Postal Service's ability to implement facility closures—whether on the retail or the mail processing side—has always been affected by political and legal constraints.**

**Although the present Postal Service network surpasses other retail networks in terms of size, it contains far fewer Post Offices than it did in earlier periods in history. The current Postal Service retail network has fewer than half the number of Post Offices than it had a century ago. The Postal Service decreased the number of Post Offices despite the increases in population and mail volume that occurred over the same period. More than 5,000 post office closures occurred between 1970 and 2010.**

**Our recently announced Retail Access Optimization Initiative consists of a Headquarters-initiated review of Post Office and subordinate stations and branches through examination of factors evaluated in a centralized and coordinated manner. As part of the newly announced process, approximately 3,650 candidate facilities will be examined to determine if the current operation can be discontinued. No facility will be closed without a thorough review which includes input from the public.**

**The Postal Service has continued to dramatically cut costs in light of our financial situation. The Postal Service has set out on a course to identify every opportunity from a savings perspective, including legislative relief and delivery frequency flexibility. Facility consolidation is not a new activity. The Postal Service has been engaged in facility consolidation and rightsizing throughout its history. Since the 1970s, the Postal Service has consolidated**



its primary outgoing distribution from over 2000 locations, to less than 300 today. In addition, the Postal Service has been very active in Area Mail Processing (AMP) studies recently. The Postal Service has completed 100 AMP studies since 2006, with 56 AMPs implemented since that time and 44 that are pending implementation. In addition, there are currently 53 AMPs in-study, with 33 of these full facility consolidations. The Postal Service has recognized that even with all of this cost cutting, it is still not enough in light of its financial situation combined with the forecasted declines in volume in the future.

But, while the Postal Service has not been complacent in its efforts, it is clear that more aggressive streamlining of infrastructure costs needs to be done in order to match costs with significantly declining revenues. The economic slowdown turned what was a stable volume environment, characterized by a gradual decline in First-Class Mail offset to some extent by growth in Standard Mail, into an environment subject to precipitous declines in both First-Class Mail and Standard Mail. First-Class Mail continues to decline rapidly, and, while Standard Mail volumes have stabilized, we project their growth to be flat going forward.

In many cases, of course, changes in these areas are subject to legal or procedural constraints that slow the course of our activities. For instance, on the retail side, the Postal Service is precluded from closing post offices solely for economic reasons; in order to provide greater legal clarity as to the Postal Service's authority in this area, an amendment to this provision is necessary. On the mail processing side, the Postal Service is not requesting new legal authority, but simply seeks the ability to take those actions that are necessary to right-size the network, free from political or other constraints that can undermine the development of an efficient and economic network. In addition, to fully capture the necessary cost savings from these efforts, the Postal Service must be given the authority to reduce its workforce more quickly than is allowed by the current collective bargaining agreements.

8. In the report it released at the hearing, GAO highlighted instances in which maintenance on at least some postal vehicles has been deferred due to the Postal Service's financial difficulties. How widespread is this problem? Does it have the potential to create safety concerns? What steps can you pledge to take to make certain that safety does not become a concern as we wait for the Postal Service's plan to replace its aging vehicle fleet?

**The Postal Service has not made policy changes to the vehicle maintenance program as a result of its financial situation. Additionally, the GAO audit stated "USPS's well-established maintenance program has allowed it to continue to meet its delivery mission with its current fleet of delivery vehicles". Our maintenance program guidelines ensure all safety related items are adequately inspected and repaired to provide safe reliable**

operation of the vehicles regardless of age. A survey of postal employees at field locations indicated this is not a systemic issue. The GAO audit stated *“Vehicle maintenance facility managers, technicians, and letter carriers routinely stressed that they had no safety concerns about the vehicles despite their advanced age.”* A review of the facilities referenced in the GAO audit indicated maintenance was safely deferred due to logistic issues and not as a result of financial concerns.

**Post Hearing Questions for the Record  
Senator Tom Coburn  
May 17, 2011**

**Questions for Pat Donahoe (PMG)**

1. In March, you announced your plan to restructure the regional and district offices of the Postal Service. How long will the restructuring take to complete and what will be the size of the postal footprint at completion?

**The initial phase of restructuring will be completed on September 9, 2011. About 5,400 positions, including administrative, supervisory and other positions were eliminated across the organization. This included closing 7 district offices and one area office. As a result of the restructure, the USPS footprint now consists of 67 districts and 7 area offices. We expect to reach our goal of taking out approximately 7,500 positions in the spring of 2012, when we anticipate another approximately 2,100 positions will be eliminated.**

2. How will you ensure that the restructuring and consolidation will actually save postal funds (basically, who is minding the store on what requirements are being allowed for refurbishing postal space to be occupied in the restructuring).

**The key to the success of our restructuring and consolidation plans is aligning the number of employees with our reduced workload and what we can afford. We have been successful to date; however, the challenge in moving forward is that our labor agreements greatly restrict our ability to reduce employee complement. Even with incentives, projected attrition will fall far short of our complement reduction goals over the next four years. We will require additional tools, such as the ability to conduct reductions-in-force of our unionized employees, to reduce complement to required levels. Additionally, as we optimize facilities, we will generally consolidate smaller facilities into larger ones that have available capacity as a result of declines in mail volume. These moves should require minimal refurbishment.**

**With respect to the refurbishment or disposal of postal space, we have contracted with a national real estate firm to dispose of unneeded facilities. We will only refurbish facilities to the extent necessary to make a profitable sale. However, the vast majority of savings will come from eliminating excess employees as facilities are consolidated.**

3. Have any of the recently completed relocations and consolidation resulted in a negative funding position for postal Service? If yes, please explain why?

**The organizational redesign that was announced in January 2011 will, as of mid-September 2011, eliminate around 5,400 administrative, supervisory,**

and Postmaster positions. We are already saving hundreds of millions of dollars (on an annualized basis) and beginning in 2012, we expect to capture annualized savings of approximately \$750 million. These additional savings will occur as a result of eliminating another 2,100 positions by the spring of 2012. As with any restructuring, there are costs that must be incurred in the short-term in order to achieve long-term savings. In our third quarter we accrued \$37 million for incentives that will be paid to approximately 1,850 employees who chose to retire or resign from the Postal Service. The redesign also entailed some relocation of employees; however, for the first seven months of calendar year 2011 the number of relocations initiated has actually decreased, compared to the same period last year. The short-term costs of the restructuring, including relocations, will be dwarfed by the savings achieved.

**Post-Hearing Questions for the Record  
Submitted to Phillip Herr (GAO)  
From Senator Thomas R. Carper**

**“Finding Solutions to the Challenges Facing the U.S. Postal Service”  
May 17, 2011**

1. What does the state of the Postal Service’s vehicle fleet and its lack of a viable plan for modernizing it tell you about how dire the Postal Service’s financial situation is?

*As we reported in May 2011, the United States Postal Service (USPS) faces severe financial challenges that pose a significant barrier to its ability to fund a major acquisition or refurbishment of its aging fleet. Its financial situation heavily influenced its 2005 decision to sustain operations of its aging delivery fleet—through continued maintenance—for the next several years, while planning how to address its longer term delivery fleet needs. Specifically, USPS officials said the agency chose to maintain its current delivery fleet rather than make a major capital investment given pending operational and financial developments and uncertainty about evolving vehicle technologies. Since that time, USPS’s financial situation has become increasingly dire, and its financial challenges limit options to fund a major delivery vehicle replacement or refurbishment, estimated to cost \$5.8 billion and (in 2005) \$3.5 billion, respectively. If Congress and USPS reach agreement on a package of actions to move USPS toward financial viability, such an agreement could potentially enhance USPS’s ability to invest in new delivery vehicles.*

2. Based on your previous work on postal issues, are there other areas similar to the situation you’ve found with its vehicle fleet where the Postal Service is similarly prevented from improving operations and maybe even from taking steps to bring in new business based on the state of its finances?

*Yes, in at least two areas: capital investment and facility maintenance.*

- *We reported in December 2010, continuing losses from operations have constrained funds for USPS capital investment. Overall, USPS’s purchases of capital property, and equipment and building improvements, have declined in recent years, from \$1.8 billion in fiscal year 2009 to \$1.4 billion in fiscal year 2010.*
- *In December 2007 we reported that, due to funding constraints, USPS was focusing exclusively on reactive (emergency) facility repairs. According to postal officials, USPS has historically underfunded its maintenance needs, resulting in the deterioration of its facilities and a large backlog of facility maintenance. According to an assessment conducted at the behest of the USPS in 2005, two-thirds of 651 randomly selected owned and leased postal facilities were in less than “acceptable” condition, including 22 percent that were in “poor” condition. The reactive maintenance approach that USPS has taken is ultimately more expensive than a preventive maintenance approach, partly because it shortens the useful life of equipment and facilities and necessitates, among other things, more costly future repairs. To that point, a 2004 National Research Council study cited an estimate that each dollar in deferred maintenance results in a long-term*

*liability of \$4 to \$5 for future repair costs. Deferral of maintenance also could impede modernization and efficiency gains from optimizing mail processing, retail, and delivery networks.*

*Regarding the matter of bringing in new business, in March 2010, USPS reported that even if it could enter nonpostal areas, such as banking or selling consumer goods, its opportunities would be limited by its high operating costs and the relatively light customer traffic of post offices compared with commercial retailers. USPS also stated that the possibility of building a sizable presence in logistics, banking, integrated marketing, and document management is currently not viable because of its net losses, high wage and benefit costs, and limited access to cash to support necessary investment. USPS concluded that building a sizable business in any of these areas would require "time, resources, new capabilities (often with the support of acquisitions or partnerships) and profound alterations to the postal business model."*

3. You note in your testimony that GAO has found instances in which maintenance on at least some postal vehicles has been deferred due to the Postal Service's financial difficulties. How widespread is this problem? Does it have the potential to create safety concerns?

*We do not know whether the instances of maintenance problems we found during our site visits are indicative of any widespread issues; however, we did find that USPS is increasingly incurring costs for unscheduled maintenance because of breakdowns, which can disrupt operations and increase costs. Vehicle maintenance facility managers, technicians, and letter carriers we spoke with routinely stressed that they had no safety concerns about the vehicles despite their advanced age. Related to this, our analysis of USPS's database of accidents determined that at least 95.5 percent of the reported vehicle accidents did not involve defective parts. Some portion of the remaining 4.5 percent of vehicle accidents could have involved defective equipment, but we could not reliably determine whether they did because of limitations related to information contained on the form used to populate the database. Finally, while we found no evidence of an immediate crisis, as we reported in May 2011, the time will soon come when the cost and operational consequences of USPS's current approach—sustaining delivery fleet operations through continued maintenance—will not allow further delays in developing a comprehensive strategy for dealing with this inevitability.*

4. The Postal Service has experimented with alternative fuel and electric vehicles over the years. Does it make sense based upon your work for the Postal Service to continue down this road?

*Yes, we believe it makes sense for USPS to experiment with alternative vehicle technologies, in limited quantities, particularly when USPS can acquire these vehicles at little cost to itself. Such an approach is consistent with USPS's past approach and national goals to improve energy efficiency. As discussed in our May 2011 report, USPS has a variety of limited experiences with alternative fuel delivery vehicles, including electric vehicles. Excluding vehicles capable of running on gasoline or 85-percent ethanol (E85), alternative vehicles accounted for about 2 percent (3,490 vehicles) of USPS's delivery fleet as of September 30, 2010. In some cases, USPS was able to acquire or convert these vehicles through partnerships with manufacturers or the Department of Energy at little or no cost to itself.*

*However, a variety of factors have constrained USPS from investing more heavily in alternative vehicle technologies, including its operational requirement for right-hand-drive vehicles and the higher cost of acquiring alternative vehicles. For example, while purchasing some types of alternative fuel vehicles could reduce USPS's fuel costs, according to USPS officials, currently, the fuel savings would be unlikely to offset the higher acquisition costs of the vehicles over their operating lives because, on average, USPS's delivery vehicles travel only about 17 miles a day. However, this may not always be the case. For example, the cost-effectiveness of plug-in electric vehicles will be determined by the cost of batteries and trends in the price of gasoline relative to the price of electricity to charge the vehicles.*

**Post-Hearing Questions for the Record  
Submitted to Phil Herr (GAO)  
From Senator Scott P. Brown**

**“Addressing the U.S. Postal Service’s Financial Future”  
May 17, 2011**

- 1) In previous testimony, you have pointed out that the Postal Service “expects revenue to stagnate in the next decade as continued declines in mail volume are offset by rate increases.” In the GAO review completed last April, what was GAO’s perspective on understanding the trade-offs between service changes and rate increases with impact to future mail volume?

*Our perspective is that Congress, the United States Postal Service (USPS), and other stakeholders will need to reach agreement on many questions concerning trade-offs between service changes and rate increases with impact to future mail volume. USPS expects a continuing decline in mail volume with projected financial shortfalls if no additional efficiency or revenue initiatives are undertaken. Among the questions pertaining to service changes and rate increases that will require resolution:*

- *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?*
  - *On the revenue side, does USPS have sufficient pricing flexibility to generate revenue and has it taken full advantage of this flexibility?*
  - *At what point are rate increases self-defeating, potentially triggering large, permanent declines in mail volume?*
  - *How does USPS balance increasing rates to generate revenues with the impact on mailers and the long-term effects on volume, revenues, and the broader mailing industry?*
- 2) In prior opinions to postal legislation, the Congressional Budget Office (CBO) raised concerns about how aggressive the Postal Service’s cost-cutting measures would be if prefunding payments for retiree health care were reduced. At this point, it looks as if Congress needs to take action on this particular issue just to keep the Postal Service solvent. It does bring up a good point, however, about the extent of financial relief that some of the legislative proposals provide, to include added flexibility on delivery frequency, closing post offices, etc. You noted the CBO concerns in prior testimony before this subcommittee. Do you have any concerns that pressure will be off the Postal Service to continue with cost reductions should Congress give the Postal Service everything they ask for?



*As we testified in December 2010, Congress should consider providing financial relief to USPS, including modifying its retiree health benefit cost structure in a fiscally responsible manner. However, it is equally important to address constraints and legal restrictions, such as those related to closing facilities, so that USPS can take more aggressive action to reduce its costs. As USPS's core product—First-Class Mail—continues to decline, USPS must modernize and restructure to become more efficient, control costs, keep rates affordable, and meet changing customer needs. To do so, USPS will need to become much leaner and more flexible. Currently, USPS has costly excess capacity and inadequate flexibility to quickly reduce costs in its processing and retail networks. In addition, USPS' actions to close and consolidate its facilities have faced formidable resistance. Consequently, congressional action is also needed to speed USPS's progress in rightsizing its networks and workforce. For example, we have suggested that Congress consider establishing a panel similar to the military Base Realignment and Closure Commission, as such panels have successfully informed prior difficult restructuring decisions.*

- 3) It has now been over a year since GAO released its report on evaluating the financial viability of the Postal Service. In the report, you recommended that the Postal Service make necessary changes to reduce compensation and benefit costs, reduce operating and network costs, and generate revenues through product pricing flexibility. We now seem to be at a point where the Postal Service is saying it is doing just about everything it can absent further assistance from Congress.
- a. In light of your recommendations from last year's report and the Postal Service's progress in implementing them thus far, how true is this statement?

*We do not believe that USPS has done everything it can to improve its financial viability. Specifically, while USPS established a \$2 billion cost reduction goal for fiscal year 2011, neither this goal nor its actions to reduce costs have been sufficient to address its dire financial outlook. As we testified in June 2011, USPS expects that by the end of this fiscal year, it will incur a \$8.3 billion loss, 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. Potential actions USPS could take are described below.*

- b. Where is more attention by the Postal Service needed?

*Additional USPS action is needed in a variety of areas, including retail, mail processing, delivery and employee compensation and benefits. First, although USPS has expanded*

*its use of retail alternatives, it has been slow to modernize its retail network. Specifically, as customer visits to, and revenue generated at, post offices have declined, USPS has not made commensurate reductions in its number of retail facilities. Second, while USPS has improved mail processing efficiencies and reduced employee work hours, its excess capacity remains large given continuing declines in its mail volume. Third, USPS has adjusted its delivery routes and deployed new sorting equipment to make delivery—its most expensive activity—more efficient, but additional action is needed to reduce these costs. Finally, USPS needs to take action to reduce its costs for employee compensation and benefits which, collectively, represent 80 percent of its costs. As we reported in April 2010, USPS has options to reduce its compensation and benefits costs in four key areas: workforce size, to be aligned with reduced workload; wages, which continue to be a key component of costs; benefits, which in some cases are more generous than those provided by other federal agencies; and workforce flexibility, including the mix of full- and part-time employees and work rules that govern the tasks that employees can perform.*

- 4) In your testimony, you state “Congress should consider modifying the funding requirements for [the Postal Service’s] retiree health benefits in a fiscally responsible manner.” Considering some of the legislative proposals currently under consideration, what does this mean to you?

*We believe that Congress should consider modifying USPS’s retiree health benefit cost structure in a fiscally responsible manner. Several legislative proposals have been made to defer costs by revising statutory requirements, including extending and revising prefunding payments to the Retiree Health Benefits Fund, with smaller payment amounts in the short term followed by larger amounts later. While deferring some prefunding of these benefits would provide USPS with short-term fiscal relief, deferrals also increase the risk that USPS will not be able to make future benefit payments as its core business continues to decline. Therefore, we believe that it is important that USPS fund its retiree health benefit obligations—including prefunding these obligations—to the maximum extent that its finances permit. In addition to considering what is affordable and a fair balance of payments between current and future ratepayers, Congress would also have to address the impact of these proposals on the federal budget.*

- 5) Total mail volume for 2010 was around 170 billion pieces and is expected to decline to around 150 billion by 2020. Some estimates, however, put the Postal Service’s current total mail volume capacity (in terms of processing, transport, and delivery networks) at well over 200 billion pieces. What are your concerns in regards to the Postal Service’s ability to get capacity “right-sized” to current volume levels, the time it will take to get there, and the

Postal Service's long-term financial viability, *regardless* of statutory changes to the pension and retiree health benefit obligations?

*USPS faces formidable challenges, regardless of whether statutory changes are made to its pension and retiree health benefit obligations. In December 2010, we testified that Congressional action is needed to speed USPS's progress in rightsizing its networks and workforce. Such progress has been limited by both stakeholder resistance and statutory requirements. USPS also has costly excess capacity and inadequate flexibility to quickly reduce costs in its processing and retail networks. USPS has faced formidable resistance to facility closures and consolidations because of concerns about possible effects on service, employees, and communities, particularly in small towns or rural areas. Other concerns include continuing losses from operations that have constrained funds for USPS's capital investment. USPS's purchases of capital property and equipment and building improvements have declined in recent years, from \$1.8 billion in fiscal year 2009 to \$1.4 billion in fiscal year 2010. The deferral of maintenance could impede modernization and efficiency gains from optimizing mail processing, retail, and delivery networks. Finally, USPS's unfunded obligations and liabilities were roughly \$100 billion at the end of fiscal year 2010. Looking forward, USPS's long-term viability will continue to be challenged by its financial obligations and liabilities, together with expected large financial losses and long-term declines in First-Class Mail volume. USPS's challenges developed over a number of years, and 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 financial viable and self-sustaining.*

- 6) In the Direct Marketing Association's testimony, Mr. Ceresale notes that with 80% of costs still going towards employee compensation and benefits considering 40 years worth of capital investments in processing equipment, productivity gains, cost reductions, etc., that no private sector business could ever hope to avoid bankruptcy with that kind of track record. Does Mr. Ceresale's assessment emphasize any particular concerns on the Postal Service's ability to make the necessary changes needed to right size the Service with anticipated volume reductions in the future?

*Yes. USPS faces a variety of challenges in trying to reduce its 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 and other reasons, in 2009, we placed USPS's financial condition and outlook on our list of*

*high-risk programs and agencies. Regarding compensation and benefits, in April 2010 we reported that one of the most difficult challenges USPS faces is making changes to its compensation system. The structure for collective bargaining was developed 40 years ago. Since that time, the competitive environment has changed dramatically and rising personnel costs are contributing to USPS's escalating losses. We recommended that Congress consider all options available to reduce USPS costs, including revising the statutory framework for collective bargaining to ensure that binding arbitration takes USPS's financial condition into account.*

- 7) In National League of Postmasters' testimony, Mr. Strong points out that the seven remaining Area offices "deliver no mail, sell no stamps, serve no customers, yet cost \$1.5 billion a year to run, nearly three times the cost to run the 10,000 smallest post offices." In your opinion, is the Postal Service setting the right priorities when it comes to its focus on which facilities to close and whether excess capacity in administrative functions is being adequately addressed?

*When we added USPS's financial condition to our list of high-risk areas in 2009, we said that USPS needed to take actions to consolidate its networks, including its field office structure and administrative offices. We are currently reviewing the agency's plans and recent actions to consolidate its administrative operations and offices.*

- 8) In Mr. Donahoe's testimony, he comments on how "the old philosophy" – of a Post Office for every community, a Postmaster for every facility, etc. is fading. The Postal Regulatory Commission's testimony, however, referenced a 2009 Commerce Department study that showed that 31 percent of U.S. households still do not have internet access at home, and that nearly one quarter does not use the internet. In a country of 300 million people, there is still a significant amount of the population that has not fully tapped into the digital age. In a good third of the country, it seems the old assumptions may still hold true. What do you see as the biggest challenges for the Postal Service as it tries to maintain this balance in the future?

*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 and processing facilities. In order for USPS to be self-sustaining, it needs to significantly reduce its costs to match its revenues. Within this context, one of the biggest challenges USPS faces is in properly aligning its retail services with customer needs. As we reported in 2007, while USPS had expanded alternative access in underserved areas,*

*it had done less to address overserved areas in part because it did not consider factors such as the facilities' importance and utilization in aligning its facilities to meet customer needs. Thus, our analysis showed wide variation in the number of postal retail facilities among comparable U.S. counties, and a number of facilities we visited appeared to merit consideration for closure based on factors such as the facilities' condition, importance, utilization, and cost to operate. We are currently reviewing USPS's plans and recent actions to consolidate its retail facilities.*

- 9) In the GAO report on the status of the Postal Service's vehicle fleet, it states that employees at a majority of vehicle maintenance facilities believe that vehicles can continue to deliver mail without major operational interruptions for at least several more years. Considering that GAO points out that there is no fully developed strategy in place for addressing the aging Postal vehicle fleet and a new acquisition would take 5-6 years, isn't the clock ticking on when the aging vehicle fleet will begin to impact service?

*We agree that the clock is ticking. On the one hand, USPS's approach of continued maintenance has been reasonable given its pressing need to defer an estimated \$5.8 billion capital outlay for a major vehicle replacement or a major refurbishment, estimated at \$3.5 billion in 2005. However, the time soon will come when the cost and operational consequences of this approach will not allow further delays. When we completed our review in May 2011, USPS expected to present a proposal for addressing the agency's delivery fleet needs to its Capital Investment Committee later this fiscal year. According to agency officials, the proposal would likely explore several alternatives, including continuing to maintain the current fleet, refurbishing its aging long-life vehicles (LLV) and flex-fuel vehicles (FFV), or, possibly, undertaking a major acquisition of new vehicles. Since, as you note, planning and executing a custom-built vehicle acquisition would take 5 to 6 years, USPS needs to develop a strategy and timeline for addressing its delivery fleet needs as soon as possible.*

- 10) In the National League of Postmaster's testimony, Mr. Strong seem to be the lone voice of dissent on the impact of electronic diversion to mail volumes over the last ten years. Noting that: "In terms of electronic diversion, some suggest that this has been a major factor contributing to the Postal Service's woes in recent years. We simply disagree with that. Electronic diversion of bill payments and bill presentation has been with us for decades. It was a factor thirty years ago in the postal world, was a factor present during the recession, and will be a factor for years to come. The Postal Service planned for it, and executed those plans well. It is and has been a fundamental factor of postal life. Those that stretch the strength of the immediate impact of electronic delivery for hyperbole's sake do so to the detriment of everyone." Not only has the Postal Service, GAO, PRC, and others cited this as

a relevant factor, it seems intuitive considering the impact of the digital age on our daily lives, whether it be paying bills or simple correspondence through email.

- a. Would you agree with Mr. Strong's assessment of the impact of electronic diversion?

*No, the impact of electronic diversion is more significant today than it was in the past. Further, the use of electronic alternatives for communications and payments, including broadband and mobile technology, is expected to continue to grow. Nearly two-thirds of American households had broadband service in fiscal year 2008, up from 4.4 percent in less than a decade. Demographic changes also play a factor because younger households both send and receive fewer pieces of correspondence mail and because they tend to be early adopters of new and faster communication media, such as emails, social networking, and smart phones.*

- b. How relevant a factor is electronic diversion to current and future mail volume declines?

*Electronic diversion is a critical factor in understanding current and future mail volume declines. USPS's Household Diary Study for 2010 which tracks, among other things, household mail trends, found that automatic deductions and online bill payments account for a growing share of household bill payments. Over the previous 8 years, the percentage of bills paid by electronic methods increased from 17 percent in 2002 to 48 percent in 2010. In contrast, bills paid by mail decreased from 75 percent to 47 percent of total payments over the same period. Similarly, the Internet has contributed to a decline in the share of bills and statements households received through the mail. According to USPS, bills and statements received online continue to grow rapidly, albeit from a small base.*

**Post-Hearing Questions for the Record  
Submitted to Margaret Cigno  
From Senator Thomas R. Carper  
“Finding Solutions to the Challenges Facing the U.S. Postal Service”  
May 17, 2011**

1. The Postal Service has attempted a number of revenue-generating initiatives that the Commission has considered and approved. Some of these initiatives, naturally, have been more successful than others. Based on your experience, what does the Postal Service do right and what does it do wrong in this area? What can it do to improve its batting average, so to speak, when it comes to launching new products and new efforts to attract more business?

The two most successful Postal Service initiatives have been the Priority Flat Rate box and the Forever Stamp. Common to both of these initiatives is their ease of use for consumers. In fact, both were designed to simplify the process of using the mail. Initiatives that require extensive record keeping and administrative costs for users have been less successful.

In addition, in designing new initiatives the Postal Service has not developed a reliable method for tracking use and calculating additional revenue and resulting contribution to institutional costs. This makes it difficult for the Postal Service and the Commission to gauge the success of these initiatives. Accurate and reliable data on how well various initiatives work would help the Postal Service design more successful products in the future.

In addition, the Postal Service has not fully utilized the flexibility given it under the PAEA. Since passage of the PAEA the Postal Service has only requested two market dominant negotiated service agreements and six special classifications. The Postal Service also has flexibility to offer experimental products, subject to statutory limits, but to date has only proposed six of these. The PRC has approved all of the Market Tests of experimental products.

The Postal Service has done a better job of exercising its flexibility for competitive products. For competitive products the Postal Service has proposed, and the Commission has approved, 265 negotiated service agreements. The Postal Service has also used its flexibility to transfer Market Dominant products to the Competitive Product list where it has more pricing flexibility. For example, on April 6, 2011, the Commission issued Order No. 710 – permitting the transfer of small, lightweight parcels from the Market Dominant to the Competitive Product list. This enabled the Postal Service to increase revenue for a product which was not contributing to institutional costs.

The Commission encourages the Postal Service to exercise its pricing flexibility wherever prudent and to develop a reliable means of monitoring its new initiatives.

2. As you know, some of the Postal Service's past non-postal initiatives – including some involving e-commerce – have failed. My bill, however, would give the Postal Service the authority to wade into these waters again so that it can take full advantage of its vast retail, processing, and delivery network. What safeguards have been put into place in recent years that make failure less likely this time around? How do you think the Commission would approach new non-postal initiatives this time around?

Prior to passage of the PAEA non-postal initiatives were not subject to regulations or review. Unsuccessful initiatives were allowed to incur losses for many years and the costs of such initiatives were not adequately monitored.

In the current environment, with proper regulatory oversight, the Postal Service may be able to capitalize on opportunities to generate revenue through non-postal initiatives. Any such initiatives would need an appropriate level of regulatory review to ensure that there is a public need for the service and that the private sector cannot adequately meet that need. These offerings should also be required to cover their costs and contribute to the institutional costs of the Postal Service.

To ensure the appropriate level of oversight the Commission would promulgate rules, subject to stakeholder input, that address the policy issues related to competition and the necessary showing of additional contribution.

3. You note in your testimony that the Postal Regulatory Commission may have done more work than the Postal Service did to examine the impact the elimination of Saturday delivery would have on rural communities. What did the Commission learn about that impact? Is further analysis necessary? How might the Postal Service modify its proposal to address the concerns raised during its hearings?

Through several field hearings and many written comments the Commission learned that the implementation of this Postal Service proposal across the United States in a uniform fashion would appear to have a disproportionate effect on customers in rural, remote, and non-contiguous areas. These customers appear to rely more heavily on mail service than other areas. Furthermore, many of these customers reside in areas that are currently underserved by affordable broadband communications. Customers in these areas were particularly concerned with how the Postal Service's proposal would impact the receipt of mail order medicine, the delivery of small town newspapers, and the operations of small businesses.



The PRC found that the Postal Service contention that broadband internet would effectively fill the gap in serving these populations is unrealistic at this time. However, we also found that greater access to, and adoption of, new and emerging technologies should help bridge this gap over time.

The Postal Service stated in its proposal that one of the ways it was addressing service in remote areas was by keeping post offices open on Saturday. Offices in rural areas are often already closed on Saturdays or have very limited opening hours. In addition, the Postal Service recently announced plans to optimize its retail network by closing and consolidating offices. Many of the offices under consideration for closure are located in rural areas and do not have Automated Postal Centers. The Postal Service should coordinate its optimization efforts and any proposal for eliminating Saturday delivery to ensure that customers in rural, remote and non-contiguous areas receive adequate service.

In the development of its proposal for the elimination of Saturday delivery, the Postal Service demonstrated a willingness and capability to adapt its plan to address key business concerns. The Postal Service could modify its proposal to ensure that rural, remote and non-contiguous customers receive similar considerations. Further analysis may prove useful in determining how to address these concerns.

4. How would you advise the Postal Service to approach its efforts to alter its retail network, which may include replacing some post offices with alternate retail options?

The Postal Service should consider the demand for postal services, include proper public input, and make sure that alternative access arrangements adequately accommodate the Universal Service Obligation. The Commission is currently evaluating a Postal Service proposal related to realigning its retail network in Docket N2011-1 and expects to issue its Advisory Opinion later in the year.

5. As you may know, I've had concerns about the length of time it can sometimes take the Commission to issue advisory opinions on proposed service changes. For example, the most recent opinion on the potential elimination of Saturday delivery took nine months for the Commission to complete. This kind of delay could, in some cases, create uncertainty among customers about what is happening and when a proposed change might occur. I understand, however, that the Commission might be concerned about limiting the process as my bill would do. How can we make sure that we don't have an unacceptably long wait for an opinion again? Isn't it possible for the Commission to complete it work on these matters in less than nine months?

The Advisory Opinion on 5-day delivery was highly complex, involving complicated technical issues and important policy considerations. Because the proposal impacted service for the majority of the American public, the Commission deemed it important to ensure the public's concerns were heard and addressed.

The Commission is committed to completing the development and delivery of Advisory Opinions as quickly as proper due process will allow. For example, the Commission has set out an expedited schedule for the current Advisory Opinion on the Retail Access Optimization Initiative and expects to offer its decision in significantly less time than was required for the previous opinion.

**Post-Hearing Questions for the Record  
Submitted to Margaret Cigno (PRC)  
From Senator Scott P. Brown**

**“Addressing the U.S. Postal Service’s Financial Future”  
May 17, 2011**

- 1) In your testimony from May 17th, you point out that the Postal Service’s history of product innovation and experimentation has had mixed results and that most have no material effect on Postal finances in the near term.

1. What are the Commission’s concerns with expansion into non-postal products and services?

Current law does not allow the Postal Service to offer new non-postal products. The Postal Service should not unfairly compete with private sector business, but should instead focus on products that maintain and enhance its core mission. The primary concern would be any unlawful or inequitable distortions caused by the Postal Service, a government monopoly, entering a competitive marketplace.

2. If the Postal Service’s record has been mixed, why should the Postal Service be provided with additional flexibility in this area?

The Postal Service faces fiscal challenges resulting from volume declines that, in some cases, appear to be permanent. For instance, the rapid adoption of electronic transfers and communication has resulted in the volume of Standard Mail exceeding First-Class Mail volume. Standard Mail provides lower contribution to institutional costs than First-Class Mail. While the Postal Service has done a good job of cutting costs over the past decade, increased revenue would help it to remain viable. With proper regulatory oversight, the Postal Service may be able to leverage the existing network to capitalize on opportunities to generate revenue through non-postal initiatives.

3. How will the Commission ensure that these proposals are adequately reviewed?

Any such initiatives would need regulatory review to ensure that there is a public need for the service and that the private sector cannot adequately meet that need. These products should also be required to cover their costs and contribute to the institutional costs of the Postal Service.

- 2) Per the Commission's recent advisory opinion on 5-day delivery, it determined that the Postal Service overestimated potential savings by eliminating Saturday service by around \$1.4 billion and probably underestimated potential lost revenue.

1. Can you explain why the Commission's assumptions regarding potential cost savings were so different than the Postal Service's estimates?

The Commission was unable to corroborate the Postal Service's method of estimating the cost savings and instead used the method established in the Commission's USO Report and its Annual Compliance Determinations. The Commission's cost savings estimate differed most substantially in the area of city delivery. For city delivery, the Postal Service estimated savings of \$2.3 billion and the Commission estimated savings of \$1.5 billion. The Postal Service's estimate was based on its assumption that it would save most of the carrier workhours used on Saturday by increasing productivity on Monday. The Commission's review of the Postal Service's data showed that increased volume of a given day tends to be dealt with by deferring the delivery of difficult to handle pieces. Overall weekly productivity does not increase significantly when volume on one day surges. Thus, the Commission adjusted some of the savings projections offered by the Postal Service. The Commission also found that the Postal Service's estimate of revenue loss from decreased volume was likely understated due to its use of a "likelihood" factor in an untested manner.

2. How heavily should this discrepancy weigh on Congress when it is looking to make a decision on removing statutory restrictions on 5-day delivery service?

The Commission found that the estimated annual net savings would be \$1.7 billion dollars, which is still a substantial amount of savings. As Congress addresses this matter, it is important to consider both the estimated savings and the impact on service.

- 3) In PRC's testimony, they described the possible loss of "potential growth by giving up the competitive advantage of Saturday delivery."

1. What would be the potential impact to the Postal "brand" by eliminating Saturday service?

The Commission heard from several commenters who suggested that eliminating Saturday service would impact the value of the brand, reduce the competitive advantage, and hasten volume loss. One of the competitive advantages that the Postal Service currently enjoys is its delivery of packages on Saturdays, without a special surcharge,

when many people are at home rather than at work. This advantage would be lost if the Postal Service eliminated Saturday delivery.

2. Would there be any way to quantify this potential loss?

The Postal Service provided an estimate of volume loss based on survey responses that did not specifically address this issue. Customer surveys designed to elicit information on the importance of Saturday package delivery may help quantify the impact.

- 4) In the National League of Postmaster's testimony, Mr. Strong seem to be the lone voice of dissention on the impact of electronic diversion to mail volumes over the last ten years. Noting that: *"In terms of electronic diversion, some suggest that this has been a major factor contributing to the Postal Service's woes in recent years. We simply disagree with that. Electronic diversion of bill payments and bill presentation has been with us for decades. It was a factor thirty years ago in the postal world, was a factor present during the recession, and will be a factor for years to come. The Postal Service planned for it, and executed those plans well. It is and has been a fundamental factor of postal life. Those that stretch the strength of the immediate impact of electronic delivery for hyperbole's sake do so to the detriment of everyone."* Not only has the Postal Service, GAO, PRC, and others cited this as a relevant factor, it seems intuitive considering the impact of the digital age on our daily lives, whether it be paying bills or simple correspondence through email.

1. Would you agree with Mr. Strong's assessment of the impact of electronic diversion?

While electronic diversion of First-Class mail has existed for some time, for many years its effects were offset by growth in commercial First-Class Mail. In recent years, however, the pace of electronic diversion has increased more rapidly and commercial First-Class mail volume has not been able to offset the loss.

This has impacted the Postal Service's finances. However, electronic diversion is not the only factor affecting the Postal Service's financial health. The economic recession has contributed toward dramatically lower levels of business for standard mail and this has contributed significantly to the Postal Service's drop in revenue. The overly ambitious funding schedule for Retiree Health Benefits has also been a major contributor to the financial problems experienced by the Postal Service.

2. How relevant a factor is electronic diversion to current and future mail volume declines?

Rapid technological advances are fundamentally changing the way people communicate. These changes will have repercussions for the Postal Service in both the short-term and the long-term.

**Post-Hearing Questions for the Record  
Submitted to David C. Williams  
From Senator Thomas R. Carper  
“Finding Solutions to the Challenges Facing the U.S. Postal Service”  
May 17, 2011**

1. I asked Postmaster General Donahoe at the beginning of the hearing if the pension and retiree health provisions in my bill and others are enough to get the Postal Service beyond its current financial difficulties. Do you think they are? Does the Postal Service need additional authority to make meaningful progress towards the budgetary problems it has beyond those related to pensions and retiree health?

Mr. Williams responded:

The burdensome and flawed benefit payments have contributed to almost 90 percent of the \$20 billion loss in the past 4 years. This has raised the cost of the infrastructure, postage rates, and forced the Postal Service to incur debt. Halting these payments and allowing the Postal Service to use the surplus to fund benefit payments is a first step in restoring the Postal Service’s cash flow and relieving the near term financial pressure.

Also leveraging Postal Service property, at the fair market value, to achieve 100 percent funding for its retirement benefit programs could be another option. This option is discussed in question number four.

Others actions will be needed to make the Postal Service economically viable for the future. These actions include:

- Optimization of the network of post offices and plants;
- Conversion to an evaluated letter carrier compensation system to allow effective management;
- Flexible work rules to match the ebb and flow of mail;
- A comprehensive delivery point strategy that maximizes curb side delivery and cluster boxes;
- Simplification of mail acceptance and pricing;
- Evaluating the number of Area and District offices; and
- Finding its role in the digital age.

Additional legislative action such as the taking the Postal Service off-budget as originally designed would be helpful as well as recognizing the Postal Service’s role as part of the nation’s communication infrastructure. This would allow it to serve as a digital bridge to the 21<sup>st</sup> century ensuring no one is left behind.

2. Opponents of my bill have in the past characterized the pension and retiree health reforms it contains as a bailout. You’ve done a lot of work over the years examining how much the Postal Service has paid and is paying the federal government for its pension and retiree health, and other workforce-related

obligations. Based on what you know, would you say that my bill is a bailout or is it fair to argue that the Postal Service has paid the federal government more than it owes in at least some cases?

Mr. Williams responded:

The Postal Service's benefit funds are funded entirely by postal employees and postage from American citizens and businesses. Postal Service contributions should not supplement federal employee contributions and federal employee contributions should not supplement Postal Service contributions. The Postal Service was overcharged and subsequently overpaid into benefit funds. In the United States there is the rule of law and the accounts must be settled. This issue is fundamentally about righting an inequity. If this inequity is not corrected, it could cause a future taxpayer bailout.

3. In your testimony, you mention the need for the Postal Service to simplify its pricing. Why does this need to happen? Does the simplification you're recommending have the potential to attract new business?

Mr. Williams responded:

In this time of shrinking mail volumes, any barriers to entry for Postal Service customers and new entrants should be reduced or removed to encourage mail usage. Major mailers use software packages to determine the postage for their mailings because of the complexity of Postal Service pricing. We believe customers should not have to use software to calculate their own postage. Also, there are over 10,000 prices for the three primary product lines contained in a continually growing customer manual of over 1,900 pages. Customers and potential customers must use this do business with the Postal Service. It is also difficult for Postal Service employees to transact business with customers because of this complexity. With so many prices and rules, clerks are challenged to ensure prices paid are accurate and this often results in customers who know more about their prices than the clerk who is responsible to postage is correct. This does not make it easy to do business with the Postal Service and the experience should be substantially more customer-centric to attract more and new business. Instead, customers are discouraged from doing business with the Postal Service.

4. I'm intrigued by the discussion in your testimony about the value of the Postal Service's assets and the security it should provide to those who might be concerned about the Postal Service not meeting its pension and retiree health obligations. Is there anything you would recommend Congress do to ensure that the Postal Service's total assets are accounted for in the discussion of how much it owes the federal government for retirement and other obligations?

Mr. Williams responded:

Although current legislation provides the Postal Service the authority to use its real property in any manner it deems necessary or convenient, we do not believe this

option has been fully explored. We believe the Postal Service should coordinate with applicable parties, such as Congress, U.S. Department of Treasury and Office of Personnel Management to leverage Postal Service property, at the fair market value, to achieve 100 percent funding for its retirement benefit programs. The Postal Service should identify specific properties that it plans to hold (and, in the case of default, convert to cash), and that group of properties would need to be individually appraised to identify the fair market value of the property.

The Postal Service would retain title to the leveraged properties unless or until it is no longer able to fund its retirement programs at an operational level. If the Postal Service becomes insolvent, Treasury could liquidate the leveraged real property and return the programs to an operational level.

We believe if Postal Service real property were appraised at its fair market value, the value of assets would likely exceed the current \$55 billion needed to fully fund the retirement programs. This would protect taxpayers, and a surplus of assets would likely be given to the Treasury if the Postal Service were suddenly shut down – a very unlikely event. Further, leveraging the substantial wealth the Postal Service holds in real property assets would assist it in meeting current operational needs without increasing debt.

On July 12, 2011, we issued a report titled **Leveraging Assets to Address Financial Obligations (Report Number FF-MA-11-118)** which fully discusses this issue and our specific recommendations.



**Post-Hearing Questions for the Record  
Submitted to David Williams (USPS OIG)  
From Senator Scott P. Brown**

**“Addressing the U.S. Postal Service’s Financial Future”  
May 17, 2011**

- 1) The Office of Personnel Management’s Inspector General (OPM IG) recently released a report in February that provided OPM’s opinion on changes to funding Postal retiree benefits proposed by the Postal IG and essentially endorsed by the Postal Regulatory Commission (PRC) and the Postal Service. Although the OPM IG seems to agree with the Federal Employee Retirement System (FERS) overpayment issues, they offer significant opposition to the remaining proposals, including the proposal to address the Civil Service Retirement System (CSRS) overpayment. Specifically the OPM IG comments that the Postal IG proposals “do not actually remedy any alleged inequities in the Federal retirement program. Instead, they serve only to provide the operating capital, which would potentially shift costs from USPS ratepayers to the taxpayers.”

- a. Is OPM correct in their assertion? Why or why not?

Mr. Williams responded:

The OPM is not correct in the assertion. The Postal Service benefit funds are funded entirely by postal employees and postage from American citizens and businesses. Postal Service contributions should not supplement federal employee contributions and federal employee contributions should not supplement Postal Service contributions. If benefit fund overpayments were returned, the money would not be used for Postal Service operations. The proposal is to use the surplus to make annual benefit payments. Using employee money for postal operations would be as wrong as putting it in the federal employee benefit fund; both are improper.

- b. As it is explained by the OPM IG, a reduction in the proportion of CSRS pension expenses allocated to the Postal Service would therefore increase the liability of the federal government and therefore, technically, the taxpayers. In your opinion, how best can it be explained to ordinary Americans how these changes may or may not impact them as taxpayers?

Mr. Williams responded:

This is not about the financial condition of the Postal Service or tax dollars, but that the Postal Service was overcharged and subsequently overpaid into benefit funds. These benefit funds are paid entirely by postal employees and postage from American citizens

and businesses. In the United States there is the rule of law and the accounts must be settled. This issue is fundamentally about righting an inequity.

- c. Do you have any other comments or concerns regarding the rest of OPM IG's positions and recommendations from their report?

Mr. Williams responded:

I believe, like Senator Collins, that OPM could correct this funding issue using their authority. OPM has responsibility for accurately and fairly administering these funds. Also OPM recommended 100 percent funding levels for both the Postal Service's retirement and healthcare funds. However, their report is silent on the adequacy of OPM's government prefunding level of 40 percent for retirement and 0 percent for healthcare.

- 2) It has been highlighted in previous hearings before this Subcommittee, the Postal Service is statutorily required to pay wages and benefits comparable to the private sector, yet it does not have the workforce flexibility of the private sector. In your testimony, you note several recommendations your office has made to the Postal Service including ensuring that "flexible work rules match the ebb and flow of mail." With the new contract with APWU approved, does it include the necessary flexibility you envisioned?

- a. If so, how?

Mr. Williams responded:

The Postal Service has taken action to address some of these issues in the recent collective bargaining process with the American Postal Workers Union (APWU). For example, the recently ratified contract<sup>1</sup> provides for increased flexibility by redefining the full-time schedule to be between 30 and 48 hours per week. It also allows for the creation of a new non-career position for Postal Support Employees (PSE). These employees will be paid lower wages than career employees.

- b. If not, in what areas do you feel the Postal Service needs added flexibility that need to be addressed in future contract negotiations?

Mr. Williams responded:

The emphasis on full-time employment and the 40-hour workweek guarantee still make it difficult to efficiently manage resources. Generally, contract provisions regarding assigning employees across crafts require that work performed by employees in one craft not be performed by an employee in another.

<sup>1</sup> Collective Bargaining Agreement Between APWU, AFL\_CIO and U.S. Postal Service; November 21, 2010 to May 20, 2015, Ratified May 11, 2011.

Relaxing contract provisions for assigning employees across crafts would provide managers with greater flexibility to move employees between crafts during periods of down time. Management acknowledged that the existing assignment process is cumbersome, impedes flexibility when managing employees, and results in grievances. The Postal Service spent approximately \$29 million in grievance costs from FY 2007 through August of 2010 directly related to assigning employees across crafts, workhours, and reassignment issues; and could potentially reduce those costs if related contract provisions were relaxed.

- 3) The Postal Regulatory Commission's testimony referenced a 2009 Commerce Department study that showed that 31 percent of U.S. households still do not have internet access at home, and that nearly one quarter does not use the internet. In the rush to bring the Postal Service into the 21st century, what are your biggest concerns with ensuring that the Postal Service continues to "provide a safety net for those left behind by the digital revolution", as you stated in your testimony?

Mr. Williams responded:

Technological advances have given America low cost instant communications, sophisticated data organization, search engines, hyperlinks, impressive mobility, and more. However, the twin forces of the digital age and globalization grew at an unbridled pace and as they leave their infancy we see:

- Insecure platforms for financial transactions,
- A lengthening trail of American digital refugees,
- Lack of confidentiality for communication content,
- Predatory practices in the conversion of digital cash to currency,
- Patterns of invasive digital profiling by infrastructure operators,
- Emerging issues associated with net neutrality; and
- A shocking loss of privacy.

The digital revolution is just starting, and we are only starting to see its effects. As it progresses, there will be a lengthening tail of those left behind. There is a need for the Postal Service to reconfigure its mission for the digital age to ensure that all citizens have access to our changing communications and transportation infrastructures. The Postal Service could build a bridge between the digital and physical worlds by creating a digital platform that facilitates communications and commerce. Hybrid digital-to-physical and physical-to-digital services could help ensure that those who do not use the internet are not completely disconnected from the digital mainstream.

The current financial crisis also places the Postal Service's ability to finance universal service at risk. As mail volume and revenue fall, operating a safety net of unprofitable Post Offices in rural and underserved areas becomes more difficult. The Postal Service is planning to rationalize its retail network by replacing some Postal Service-operated Post Offices with Village Post Offices run by local businesses. Postal customers keep their access to retail services, while local businesses benefit from the additional income. Another option is for the Postal Service to sell non-postal products to generate additional sources of revenue to sustain unprofitable Post Offices. These products could target the underserved segments of society that the private sector may not be interested in serving. For example, the Postal Service already offers money orders as a safe and dependable alternative for the unbanked and those who cannot qualify for a credit card. The Postal Service could also sell digital currency instruments to assist the rapidly expanding number of people who use cash cards.

- 4) In PRC's testimony, they described the possible loss of "potential growth by giving up the competitive advantage of Saturday delivery." From your perspective, are you concerned that dropping Saturday service would have any impact on, what you call in your testimony, efforts to "[grow] the value of mail?"

Mr. Williams responded:

My office has not undertaken any work in this area because statutorily it is the responsibility of the PRC. However, I believe to give up any competitive advantage the Postal Service has in any area may not be in its best interest.

**Post-Hearing Questions for the Record  
Submitted to Mark Strong  
From Senator Thomas R. Carper  
“Finding Solutions to the Challenges Facing the U.S. Postal Service”  
May 17, 2011**

**QUESTION 1.** You discuss polling information in your testimony showing that the public overwhelmingly opposes closing post offices. While I’m certain that most postal customers would prefer that their local post office remain open, I have concerns about these kinds of polls because they don’t account for alternative retail options that the Postal Service says it plans to expand access to in the coming years. My bill, recognizing that the Postal Service would like to close some money-losing facilities, requires that access to alternate retail increase with a goal of actually giving customers more access to postal retail options than they do today. Do you think that access to quality alternate retail might change the numbers in the poll?

**ANSWER 1.**

When answering questions such as this, one must make a sharp distinction between urban and suburban post offices on the one hand, and small rural post offices on the other hand. I will respond to this question in two parts, with this dichotomy in mind.

**A. Small Rural Post Offices.** The answer to this question for small rural post offices is no, for two reasons.

First, the rural post office plays a far different role in rural America than it does in urban America. In rural America, the post office acts as a center for the rural community that literally ties and binds it together. This function cannot be replaced by any alternate retail measure, and thus the poll numbers would not change if sufficient alternate retail measures were available.

Second, in rural America there often is not much in the town except the Postal Service and several other establishments. The businesses of the town may be scattered around the outlying areas, and the Post Office is their lifeline. Broadband service is not necessarily available and reliable, and in as more broadband is introduced in the future, there will likely be a growing gap between the broadband speeds available to rural America and the broadband speeds necessary to access new services. As the Rural Policy Research Institute has said:

Differences among data transfer speeds and latency issues have the potential to mask another disparity in broadband service across the country. The latest video-conferencing and video-sharing products require much higher two-way speeds than the FCC currently requires under its 768 kbps “high-speed” definition. While the market in metropolitan areas continues to ramp up speeds and quality, less densely populated areas are struggling to obtain basic services, and the divide between urban and rural services continues to widen on this second front. Rural investment programs need to focus not on current minimum requirements, but on building for the next generation of technologies and capacities.

Thus, it appears that the need for small rural post offices in the future will not decrease, and may even increase, as this digital divide between rural America and urban America continues, and perhaps widens.

**B. Urban and Suburban Post Offices.** In terms of urban and suburban residents, the answer to your question is probably no. One reason for this is that the services provided by post offices are not necessarily the services provided by alternate retail access. Alternate retail access tends to provide two or (in some cases) three basic postal services (stamp sales, if-it-fits-it ships boxes, and in some cases post office boxes). Urban and suburban residents often go to post offices for services other than stamps and if-it-fit-it ships boxes. Thus, the services offered by post offices are still required and will be for the foreseeable future.

An interesting facet of the drive to close post offices is that one of the key arguments upon which the Postal Service fashioned its arguments for moving from six to five day delivery, was that all the post offices will be open on Saturday for citizens to obtain their mail, and that transportation down to the Post Offices would continue on Saturday. This would citizens who needed Saturday delivery to make arrangements to pick up their mail locally on Saturday at their convenient local post offices. If thousands of post offices are closed, and people are forced to drive miles and miles to get their mail, then the strength of that argument evaporates.

**QUESTION 2.** In your testimony, you discuss legislative history from the 1970s in defense of what I believe to be an argument against closing small, rural post offices. Is it your contention that nothing in rural communities has changed over the past 30-40 years that would necessitate a change by the Postal Service and in way in which it provides the products and services all communities rely upon?

**ANSWER 2.** Obviously things have changed considerably in rural communities over the past 30 years, but none of those changes in any way reduce or eliminate the importance of rural post offices. This has been consistently expressed by rural residents throughout the country, and generally it tends to be only urbanites that raise this argument. That is why the reaction among rural America to the Postal Service's plan to close thousands of post office is growing stronger and stronger by the day, as people find out about the Postal Service intentions, and why several governors have called for a moratorium on closing post offices.

See for example, <http://statehousenewsonline.com/2011/08/01/branstad-calls-for-moratorium-on-post-office-closures-says-ia-and-w-va-hardest-hit/> .

**QUESTION 3.** GAO released a report in February (GAO-11-282) that details, among other things, steps foreign posts have taken to expand access to retail options outside of post offices. Do you believe that American postal customers are not as capable of adapting to these kinds of alternatives as postal customers in countries like Canada, Australia, or Finland?

**ANSWER 3.** Two points need to be made. First, my understanding is that to the degree that closing rural post offices in foreign countries has occurred, the rural areas in those countries have been severely damaged. Resistance to closing rural post offices is very strong in those rural communities. Second, many other countries do not have the type of vast rural areas, and the density that goes with those rural areas, that are typical of much of the rural United States.

Moreover, in Canada, there has been a 15 year moratorium on closing post offices since 1994, in recognition of the unique role these small post offices play. As a March 26, 2010 letter from the

Honorable Rob Merrifield, the Canadian Minister of State Transport to Denis Lemelin, the President of Canadian Union of Postal Workers said:

With respect to the applicability of the rural moratorium, the Charter recognizes that the provision of postal services to rural communities is an integral part of Canada Post's universal service. The moratorium on the closure of rural post offices has therefore been maintained as is.” [http://www.publicpostoffice.ca/multimedia/website/publication/English/PDF/2010/26\\_03\\_2010\\_merrifield\\_to\\_lemelin\\_en.pdf](http://www.publicpostoffice.ca/multimedia/website/publication/English/PDF/2010/26_03_2010_merrifield_to_lemelin_en.pdf)

**QUESTION 4.** The bill I've introduced would require that the Postal Service guarantee its customers a minimum level of retail access. It also preserves the universal service requirements in current law that protect the interests of small towns, rural areas, and communities where providing mail service isn't profitable. What more, in your view, needs to be done to protect the communities you're concerned would be abandoned by the Postal Service?

You seem to imply in your testimony that the electronic diversion of the mail is not a serious concern. Is it your belief that mail volume will return once the economy is fully recovered from the recent recession? If so, on what evidence or data do you base this belief?

You say in your testimony that electronic diversion of the mail is something that the Postal Service has been dealing with for decades. Do you not believe that the growth in the use of e-mail, social networking sites, electronic bill pay, and other innovations has the potential to have a much more significant impact on the use of the mail than previous communications innovations?

**ANSWER 4.** Mr. Chairman, I do appreciate these questions and I thank you for them. They do get to the heart of the matter.

**A. Service to Rural America.** First, you point out that that your bill would require that the Postal Service guarantee its customers a “minimum” level of retail access. Current law requires a “maximum” degree of service. That is the key to the problem. We have attached a chart that we have prepared that shows the difference between the services provided in a independent post office and the services that would be provided by a contracted out village post office.

**How Does a Village Post Office Lineup Against a Real Post Office? USPS Wants to Save Money By Shortchanging You**

Postal Products/Services	Real P/O	Village P/O
Forever Stamps	✓ 4	✓
Denominated Stamps	✓	
First Class Mail	✓	
First Class Mail International	✓	

Priority Mail (weight based)	✓	
Priority Flat Rate Boxes/Envelopes	✓	✓
Express Mail	✓	
Certified Mail	✓	
Return Receipt	✓	
Insured Mail	✓	
Return Receipt for Merchandise	✓	
Certificate of Mailing	✓	
Restricted Delivery	✓	
Collect on Delivery (COD)	✓	
Special Handling	✓	
Adult Signature Required	✓	
Media Mail	✓	
Parcel Post	✓	
Money Orders	✓	
Signature Confirmation	✓	
Delivery Confirmation	✓	
Registered Mail	✓	
Bulk Mail Acceptance	✓	
Zip Code Information	✓	
International Mail	✓	
First Class Int Mail Parcels	✓	
Customs forms	✓	
File a Change of Address	✓	✓
Apply for a Passport	✓	
Stamped Envelopes	✓	
Stamped Postcards	✓	
Ready Post Products and Supplies	✓	
Zip Code Information	✓	
Sure Money (Dineroi Seguro)	✓	
Mailing Requirements	✓	
File an Insurance Claim	✓	

We believe that rural Americans are not second class citizens and that they deserve the same quality of service as enjoyed by urban American citizens. That applies not only to "retail access" but also to quality of delivery. Indeed, there is even an argument that rural America deserves better quality postal services than urban America because postal services are more important to rural America than they are to urban America, because rural America may be more dependent



upon postal services than urban America. But that is a question for another day. What we believe is going on here is the Postal Service, but we hope not Congress, is willing to reduce the quality of service that rural America will receive, without acknowledging the fundamental harm to rural society and the rural economy that this reduction of Service will precipitate. It is telling that almost every time we go to visit staff on the hill, the reaction from staff with urban backgrounds is much different than the reaction of staff with small town rural backgrounds. Staff with urban backgrounds have trouble understanding why rural post offices are so important to rural America while staff with rural backgrounds frequently cut us off half way through our presentations, usually saying something like "That's ok, I got it, I'm from a small rural town. I understand. You need explain no further."

As noted above, in rural areas, post office functions go far beyond access functions, and go well into the social, cultural, and political spheres. Moreover, in rural, suburban and urban areas, post offices functions are not just access functions but also delivery functions. Moving or eliminating some post offices fundamentally changes the delivery dynamic of the system since the post office is the local node of the delivery system and moving nodes in a fine-tuned system can often distort the harmonics and result in distortions and disruption in the system. So, one must protect not only retail access but also delivery efficiency and productivity in urban and suburban areas, and even more in rural areas. Suggesting that somehow the Postal Regulatory Commission, through some sort of process, could prevent any deterioration in service to a rural community misses the point that the vast majority of these communities don't have the resources to take advantage of such an "inside-the-beltway" remedy.

Finally, your bill addresses reducing fossil fuel decency in Postal Service vehicles. By changing the mode of delivery from a Post Office Box to a Rural Carrier Delivery, as your bill would do for many homes, you have added miles to the mix, and more dependency on fossil fuels. You have also removed the most efficient mode of delivery, the Post Office Box, and take delivery to the street. This cost, I believe, is not fully incorporated into the potential savings, and it would be practically impossible to do so until the closing process starts.

**B. Electronic Diversion.** I do not mean to imply in my testimony that electronic diversion mail is not a serious concern. If my testimony gives that impression, I will correct it for the record right here. Electronic diversion is a serious problem for the Postal Service. It is the most serious problem it has faced over the last thirty years and it is the most serious problem it will face over the next twenty years.

But it is a problem that the Postal Service has been dealing with for decades, and those decades of experience suggest that one has to look at the sub components of the Postal Service's products to make any analysis that is viable.

If one looks at the parcel area, and the priority mail area, the news is not bad at all. As Internet purchasing grows, the delivery of internet purchases grows, and the Postal Service has a very profitable and growing place in that market. If one looks at advertising mail, both in Standard Mail and in First Class mail, the outlook is positive. While volumes are down now because of the economy, studies have repeatedly shown that ad mail has lost none of its impact and in direct head-to-head tests with electronic advertising mail and other electronic delivery, ad mail comes

out just fine. In discussing the results of the recently released 2010 Household Diary Study, Postcom said:

With the vast majority of Standard Mail consisting of advertising material," the [Household Diary] study reported, "volume is particularly sensitive to the health of the economy." "Thus," it concluded, "as the recovery gained steam, the pace of spending on direct mail advertising increased."

Postcom bulletin, July 15, 2011 at 2.

As Postcom also pointed out:

**Direct Mail Remains One of Leading Media Choices; Market Share Gains Continue**

The HDS reported that advertising mail represented more than half of all mail received by households in FY 2010, with 84 percent of all advertising mail received by households being Standard Mail and the remainder consisting mostly of First-Class Mail advertising sent as stand-alone pieces (6.2 billion pieces) or sent along with other matter (6.7 billion pieces). The HDS reported that "[d]espite many changes to the U.S. economy over the past few years, direct mail continues to be one of the most popular advertising choices." It reported that direct mail's share of total advertising spending has remained relatively constant at 12 percent for most of the past 20 years. "Direct mail has maintained its strong ad share," it said, "even with the introduction of new and fast-growing ad markets such as the Internet." . . . In 2010, the HDS reported, First-Class advertising fell 11 percent from 2009, "mostly due to a lingering weak economic recovery." . . . "About 85 percent (70.6 billion pieces) of all advertising mail received by households in 2010 was sent via Standard Mail, which, after declining sharply in the first half of 2010, made an equally sharp comeback in the second half, leaving the total annual volume virtually unchanged from 2009," the HDS reported.

\* \* \*

According to Magna Advertising Group, the study reported, American businesses spent about \$171 billion in 2010 advertising their products and services, an increase of 4.3 percent from 2009. "Of this total advertising spending," it said, "12 percent was spent on direct mail (note that Magna's spending estimates for direct mail include only postage costs)." "As in prior years, direct mail was one of the leading media choices of advertisers in 2010," it said, "However, the weak economic recovery that followed the 2008-2009 recession stimulated only a 2.1 percent increase in direct mail advertising spending over 2009," it said.

\* \* \*

"While intended responses do not always lead to actual responses," the HDS said, it noted that the data presented in the study "help explain why direct mail is such a popular choice of advertisers in America." "Although there is no completely equivalent measure for intended response to Internet ads," it said, "the click-through rate (the percentage of online visitors who viewed an ad and also clicked on it) is widely used as an indicator of consumers' interest in online ads." "As such, it is somewhat comparable to mail ads' read rates," it noted. "Based on recently published reports, the average click-through rate for Internet advertising is about 0.1 percent," the study said, noting that "[o]verall read rates for mail ads, on the other hand, have averaged about 50 percent."

Id. at 4-5.

Since then, as the economy has faltered, so too has mail volume. But the 2010 Household Diary findings strongly suggest that the ebb and tide of advertising mail relates directly to the economy, and that direct mail has not lost any of its effectiveness. This fact is buttressed by the average click through rate of 0.1% for internet advertising, as compared to the average read rate of 50% for ad mail.

Finally, we would be remiss if we did not point out that some of the electronic diversion that is going on has to be because of the instability of the Post Office brought on by two years of bad press and the failure to get a bill passed that rectifies the pre-funding situation.

**C. Other Electronic Measures.** In terms of your last question, "Do you not believe that the growth in the use of e-mail, social networking sites, electronic bill pay, and other innovations has the potential to have a much more significant impact on the use of the mail than previous communications innovations? My response would be that bill pay has been eroding postal volumes for three decades, and my understanding is that much of what is to go, at least half, has gone. I have seen no credible studies that suggest that email and texting has eroded physical mail by any significant degree. Most of the communications that email and texting have replaced are telephone or fax communications, both of which eroded physical mail decades ago. As for new communications innovations, we will just have to see. I see none on even the far term horizon that could replace ad mail. This is partly because electronic communications are so easy to filter out while the mail must be delivered.

Let me clarify one final point. My remarks are largely directed at acquisition mail, which is mail going to develop new business with new customers. In terms of mail directed at existing customers, if customers are willing to consent to it, electronic innovations can offer viable alternatives to physical mail. The effectiveness of those communications depends on the medium, the offer, the person, and the subject matter of the offer. But in a sophisticated marketing program, there are always room for multiple channels.

**CERASALE**

**Responses of Jerry Cerasale  
To Post-Hearing Questions  
From Senator Scott P. Brown**

1. *In the Postal Regulatory Commission's testimony, they described the possible loss of "potential growth by giving up the competitive advantage of Saturday delivery."*
  - a. *From the perspective of the mailing industry, what impact on the Postal brand do you think this would have on business?*
  - b. *What would be the reaction of the mailing industry and potential impact on the Postal "brand" of eliminating Saturday service compared to a rate increase?*
- A. In the best of all worlds, the mailing industry would prefer to keep six-day delivery. A change in delivery days would require almost all marketers and most other business postal customers to adjust their mailing schedules to ensure their mail pieces reach recipients on the desired day. Some mailers will be able to adjust more readily than others. For those businesses whose business operations require Saturday delivery, elimination of that day would require a revamped business model.

Elimination of Saturday delivery will eliminate the competitive advantage the Postal Service has over its major competitors, particularly with parcel delivery. Parcel delivery on Saturday at a premium price would not "bring back" that competitive advantage since its competitors provide Saturday delivery at a premium price.

The Postal brand likely will suffer with the elimination of a day of delivery. However, I have not seen any specific study determining "how much" it would suffer. Moreover, the brand issue is intertwined with postage. If the Postal Service eliminated Saturday delivery and raised postage above the rate of inflation, the brand would suffer significantly. The Postal Service would be charging significantly more for less service. That would be the new image of the Postal Service to the general public. The Chief Financial Officers of business mailers would press hard for alternative channels of communication to their customers and potential customers. The exodus from the mail channel would accelerate.

Given the "choice" between six-day delivery and above inflation postage increases, most business mailers would prefer to avoid the above inflation postage increases. Postage affects mail delivery every day not just on Saturday.

The worst case scenario for the Postal Service would be to reduce service and raise prices above inflation!

2. *Senator Carper's legislation provides some additional flexibility for the Postal Service to offer "non-postal" products and services not related to mail. As the witness representing the private sector, what are your concerns regarding ensuring that any expansion of Postal services does not create unfair competition?*

Although mailers support efforts of the Postal Service to find new sources of revenue, those efforts should be focused on areas where the private sector is not adequately serving. The Postal Service should not enter a product or service field as a competitor to American companies that are adequately meeting consumer needs. In addition, since postal management expertise is in collecting, transporting, processing and delivering mail, it is ill-equipped to venture outside the logistics of handling mail. If the Postal Service finds a customer need that is not met by the private sector, it is important that the Postal Service management partner with the private sector when possible to avoid the cost and time to develop new expertise that already exists in the private sector.

3. *In the National League of Postmasters' testimony, Mr. Strong seemed to be the lone voice of dissent on the impact of electronic diversion to mail volumes over the last ten years. Noting that: "In terms of electronic diversion, some suggest that this has been a major factor contributing to the Postal Service's woes in recent years. We simply disagree with that. Electronic diversion of bill payments and bill presentation has been with us for decades. It was a factor thirty years ago in the postal world, was a factor present during the recession, and will be a factor for years to come. The Postal Service planned for it, and executed those plans well. It is and has been a fundamental factor of postal life. Those that stretch the strength of the immediate impact of electronic delivery for hyperbole's sake do so to the detriment of everyone." Not only has the Postal Service, GAO, PRC, and others cited this as a relevant factor, it seems intuitive considering the impact of the digital age on our daily lives, whether it be paying bills or simple correspondence through mail.*
  - a. *Would you agree with Mr. Strong's assessment of the impact of electronic diversion?*
  - b. *From the mailing industry perspective, how relevant a factor is electronic diversion to current and future mail volume declines?*
- A. Although I agree with Mr. Strong that the Postal Service was aware of electronic diversion of mail, I disagree with his assessment and conclusion. Although the Postal Service did reduce the size of its workforce through attrition, it did not do enough to down-size in light of electronic communication alternatives. The recent announced plan of the Postal Service to reduce mail processing plants from 508 to 175, let alone the reduction in retail facilities, belies Mr. Strong's statement that the Service reacted to electronic diversion "well."

Electronic diversion of mail is not confined to financial transaction and personal correspondence. Every marketer in the Direct Marketing Association is a multichannel merchant. Electronic communications as well as mail are vital channels for marketers to reach customers and potential customers. Smart phones and tablets are just the new edge for electronic communications. New innovations will soon be available that will make smart phones and tablets obsolete. How I interact with the electronic information age pales to how my children use the online world. It is difficult to imagine how my grandchildren will interact. The Postal Service, marketers and nonprofits must react and adapt to the changing communication environment in order to survive. Of course, ecommerce sales require delivery of product, unless the product is digitized. So the

parcel delivery network of the Postal Service is very important to ecommerce consumers, particularly since both FedEx and United Parcel Service use Postal Service delivery to many residential addresses.

Although the mail will be one of many communications channels, for the foreseeable future it will remain an important communications and commerce channel for businesses provided it does not price itself out of the market. If postage is too high, mailers will divert even more communications to alternative channels. It is now the time, in fact well past the time, for the Postal Service to right-size itself and shed its excess capacity.



NATIONAL ASSOCIATION OF POSTMASTERS  
OF THE UNITED STATES

TESTIMONY OF

ROBERT RAPOZA

NATIONAL PRESIDENT

HEARING

SENATE SUBCOMMITTEE ON FEDERAL FINANCIAL  
MANAGEMENT, FEDERAL SERVICES, AND  
INTERNATIONAL SECURITY  
WASHINGTON, DC

MAY 17, 2011

The National Association of Postmasters of the United States (NAPUS) once again appreciates the opportunity to share with this Subcommittee the views of our 38,000 members regarding the future of the Postal Service. The most recent Postal Service quarterly fiscal report illustrates a \$2.2 billion loss for the past quarter, and provides sobering news on mail volume. Taken together, the data is a warning sign for the rest of the economy. In addition to intensifying the budget pressures on the Postal Service, the continued mail volume decline may represent the leading edge of the next recession. Consequently, NAPUS urges the Committee to pursue a two-track strategy to ensure the continued viability of the Postal Service. First, address pension overpayment and pre-funding retiree health benefits; and, second, tackle broader operational issues.

When NAPUS appeared before this panel in December, I explained that our primary goal should be to recognize the massive Postal Service overpayments into the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). In addition, legislation is essential to permit the agency to use its surplus contributions to meet its legal, albeit unique, obligation to pre-fund future retiree health benefits. Indeed, recognition of the estimated \$55-75 billion in overpayments would go a long way to help address the immediate fiscal crisis confronting the federal agency.

Last week, a representative group of mailers testified before the House Postal Subcommittee and proclaimed their endorsement of H.R. 1351. The bill, which was introduced by Rep. Stephen Lynch, directs the Office of Personnel Management to accurately and fairly calculate the Postal Service's past retirement obligations, and provide the agency with immediate financial relief by permitting the overpayment. NAPUS is pleased that two bills that are or will be pending before the Subcommittee, Sen. Collins' legislation (S. 353), and the bill that the Chairman just introduced (POST Act) also seek to address the over-funding and pre-funding issue. Consequently, NAPUS strongly supports Title I of the Chairman's legislation and section 101 of S. 353. NAPUS continues to believe that pension liability and retiree health pre-funding is at the center the Postal Service's current crisis and the issue should be segregated from other controversial proposals, and be enacted prior to the end of this fiscal year.

It is important to note that the Postal Service has shed over 100,000 jobs over the past two years, including Postmaster positions, and there has been virtually no investment in capital. The postal infrastructure and vehicle fleet is deteriorating. Before the Postal Service begins to cut deeper into the bone of its services, the agency needs to prune further its bureaucracy and eliminate its still-bloated administrative overhead, which includes an oversized Area and District Office structure. Therefore, NAPUS supports section 104 of S. 353.

In this constantly transitioning digital age, the Postal Service has not done enough to design and implement a comprehensive and compelling strategy to improve relevancy, and exploit its consistently high trust level and ubiquity. NAPUS has persistently urged the Postal Service to maximize the use of its footprint and become the universal government portal, enabling citizens and businesses to access federal, state and municipal



services through their local Post Office. Consequently, NAPUS supports section 301 of the POST Act and commends Chairman Carper for encouraging the Postal Service to establish partnerships with other federal agencies, as state and local governments to provide services. This type of universal governmental access compliments the Postal Service's universal obligation, and would be especially beneficial to Americans who live or work in small towns and rural areas

However, we are deeply concerned about statements, policies and regulations that would take the Postal Service in a completely different direction, to irrevocably contract its universal mission. Such misguided policies do irreparable harm to confidence in our postal system, and the economies of communities, large and small. For this reason, NAPUS is troubled by sections 201 and 202 of the POST Act, and urges the Chairman to revisit these provisions. Sections 201 and 202 could unfairly target rural areas and small towns for reduced postal services. Under the provisions, the Postal Service would no longer be required to provide "a maximum degree of" services to thousands of communities. In addition, the sections would eliminate the prohibition against closing a post office solely for having expenses that exceed revenue. Post offices are not simply revenue generators; they are service providers. Sections 201 and 202 cast in harm's way more than 10,000 post offices. It is important to remind the Subcommittee that closing all rural and small post offices would only save the Postal Service about 0.7% of its operating revenue. Moreover, two successive Gallup Polls, one in 2009 and the other in 2010 record overwhelming citizen opposition to Post Office closing (88% and 86%), identifying post office shuttering as the most objectionable postal cost-cutting tactic. Post Offices remain the undisputed most valued governmental institutions in the nation.

Nevertheless, NAPUS has consistently testified that it does not believe that all post offices are sacrosanct. In fact, we do not oppose seeking expanded postal access points to generate increased revenue. Co-location of postal services with commercial enterprises should be explored in attracting more business. However, alternative postal access cannot be abused to indiscriminately close Post Offices, or exploited to deny communities full postal services. The Postal Service cannot advance such dishonest monikers as a "Village Post Offices", when such a non-public entity is not a Post Office, nor can it offer the full array of services that a Post Office provides. In addition, while the increased availability of postal kiosks may be appropriate in some locations, it is not a viable option in most.

NAPUS notes that section 203(b) of the POST Act outlines specific standards with regard to expanding retail alternative to Post Offices, including community impact and input, and revenue growth. This language is constructive, and NAPUS believes the section should be a prerequisite to Post Office discontinuances. Additionally, it would be premature to manufacture an environment conducive to closing Post Offices, absent Postal Regulatory Commission review of the plan and the establishment of clear retail service standards. Post Office discontinuance should not to be taken lightly, because such actions have a lasting effect on communities and neighborhoods. The criteria for Post Office discontinuance and the process must be transparent, and the impacted community must be informed of the process, as well as having constructive input in the decision. Regrettably, Post Office discontinuance regulations, filed by the Postal Service on March

31, failed to hit the mark. The proposed regulations violate both the letter and the spirit of existing law. Furthermore, weakening the existing statute, by enacting section 201 and 202, may have the unintended consequence of providing license for wholesale Post Office closures.

Finally, NAPUS would like to bring to the Subcommittee's attention another proposed Postal regulation that, if implemented, would violate existing law – a law that the Chairman championed. The Postal Services seeks to redefine "Postmaster", contrary to the 2003 Postmasters Equity Act, which was jointly introduced by Senators Akaka and Collins. Among the early Senate cosponsors were Chairman Lieberman and Chairman Carper. Early this month, the authors of the legislation, Senators Akaka and Collins, submitted comments to the Postal Service contesting the legality of the regulations. The Committee report that accompanied the legislation lays out the importance Postmasters and their essential role in postal operations.

The next few months and years will be pivotal for the future of the Postal Service; and NAPUS looks forward to working with the Committee as it helps assure an effective and essential Postal Service.

Thank you.

