

**NOMINATIONS OF HON. JAMES C. MILLER III  
AND HON. KATHERINE C. TOBIN**

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**HEARING**

BEFORE THE

COMMITTEE ON  
HOMELAND SECURITY AND  
GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

NOMINATIONS OF HON. JAMES C. MILLER III AND HON. KATHERINE C.  
TOBIN TO BE GOVERNORS, U.S. POSTAL SERVICE

June 21, 2012

Available via the World Wide Web: <http://www.fdsys.gov/>

Printed for the use of the  
Committee on Homeland Security and Governmental Affairs



U.S. GOVERNMENT PRINTING OFFICE

75-218 PDF

WASHINGTON : 2012

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**NOMINATIONS OF HON. JAMES C. MILLER III  
AND HON. KATHERINE C. TOBIN**

THURSDAY, JUNE 21, 2012

U.S. SENATE,  
COMMITTEE ON HOMELAND SECURITY  
AND GOVERNMENTAL AFFAIRS,  
*Washington, DC.*

The Committee met, pursuant to notice, at 10:03 a.m., in room SD-342, Dirksen Senate Office Building, Senator Thomas R. Carper, presiding.

Present: Senators Carper, Begich, and Collins.

**OPENING STATEMENT OF SENATOR CARPER**

Senator CARPER. Welcome. Senator Reid, even though you have a lot on your plate today and every day, I think it is great that you could come by and introduce Ms. Tobin.

**TESTIMONY OF THE HON. HARRY REID, A U.S. SENATOR FROM  
THE STATE OF NEVADA**

Senator REID. Thank you very much. I am here to talk about Ms. Tobin, but, of course, Mr. Miller has an outstanding resume, and I think that is the caliber of people that we are going to see going to the Postal Board of Governors. If there was ever a time we needed people with good qualifications, this is it.

The Postal Service, as we know, is going through a lot of turmoil and problems. Ms. Tobin has served there before. I am here totally prejudiced, understand that. Ms. Tobin's husband and I have been friends for 30 years. He was on the Court of International Trade for a long time. He is now in the Federal Circuit as a judge.

They have been friends of my wife, Landra, and mine. We have traveled together. So I am totally prejudiced. But she is a wonderful woman. Her educational background—she has a Ph.D. from Stanford University—and she is such a determined person, and we all know these are not full-time jobs, but they are important jobs.

The things that we have to deal with here with the Postal Service are going to be more complex all the time, and even though I have a close personal relationship with her husband and her, no one could ever question her qualifications and her experience. So I appreciate very much your letting me introduce Katherine Tobin to this Committee and also say a nice word about Jim Miller.

Senator CARPER. Thank you so much, Senator Reid. And I know you have a lot to do today. When do you think we will start voting, 11 or so?

Senator REID. We are going to come in at 10:30. We should start voting around 11. We should be finished by 2 o'clock. We have a cloture vote that we have received permission to move up on flood insurance. We do not have that worked out yet, but we are going to finish it next week, one way or the other.

Senator CARPER. Great.

Senator REID. I hope that we can do it sooner rather than later because it is important legislation, and I think we have a path forward to do the student loans. I think that is 95 percent worked out. It should be.

Senator CARPER. Great.

Senator REID. We just have to figure out a way to do it. We have to have some vehicle to do it. And also I am telling you a lot more than your question.

Senator CARPER. Oh, this is good.

Senator REID. But I had a really good meeting with the Speaker on Tuesday, with Chairman John Mica, Chairman Barbara Boxer, and Senator James Inhofe. It was a wonderful meeting. If someone had asked me on Tuesday morning about the chance of the highway bill, I would have said pretty negligible. But I think we have at least a 50-50 chance of passing that bill.

Senator CARPER. Good.

Senator REID. Last night, the House overwhelmingly voted to instruct the conferees to report back with a completed bill by tomorrow, and that was 385 votes, and you can only get there if you have a lot of bipartisanship. So maybe things are turning a little bit. Maybe we can start doing some things. I think the farm bill, together with the highway bill and what we did with postal reform, as difficult as it has been, I think it has been good for the Senate to be able to vote. We voted on those three things, on over 200 measures, but we survived, and I think it has been good for the country and the Senate.

Senator CARPER. There was a good spirit on the floor yesterday, I thought. All right, Senator Reid, thanks so much. Thanks for coming.

Today, we will be considering the nominations of James Miller and Katherine Tobin to be members of the Postal Service Board of Governors. We are delighted that their families could be with us here today as we celebrate an anniversary, an important birthday, and a couple of important nominations as well.

Both of our nominees know as well as anyone that the Postal Service has been in dire financial trouble for some time. This trouble will come to a head in the coming months. The Postal Service is reporting record losses each quarter and hemorrhages, I am told, about \$25 million a day. By the end of this fiscal year, it may not have enough money to meet its health and workers' compensation obligations. By some time in 2013, it may not have enough money to continue operations at all.

The Postal Service operates, as we know, at the center of a \$1 trillion mailing industry that puts as many 8 million men and women to work each day. It is a key cog in our economy. Its continued vitality is an important part of our efforts to get our economy moving again. And at a time of so much economic uncertainty, we

cannot afford to let the Postal Service collapse or to let this uncertainty prevail.

The Senate, as you know, passed legislation in April that attempts to address the Postal Service's near-term financial crisis and to give it some of the tools it will need to address its long-term challenges.

Our bill, for example, would clean up the Postal Service's books by refunding the more than \$10 billion it has over-paid into the Federal Employees Retirement System and setting up a less aggressive schedule for funding postal retiree health obligations. A portion of the pension refund should be used to encourage about 100,000 eligible postal employees to retire, an effort that could save as much as, we are told, \$8 billion per year.

Our bill would also push the Postal Service to streamline its processing, delivery, and retail networks, albeit at a more gradual pace than postal management would have liked. These provisions would allow the Postal Service to achieve billions of dollars in savings while preserving levels of service that many customers rely upon.

If these cost-cutting efforts do not prove sufficient in the coming years, the Postal Service would be permitted to move forward with more aggressive efforts. But our bill does not just focus on cuts. It also attempts to free the Postal Service to be more entrepreneurial and pushes it to find innovative ways to bring in more mail volume and make the best use of the valuable system that it maintains in order to deliver the mail to every home and business 6 days a week.

Our legislation is not perfect. It does not solve all the Postal Service's problems. But it gets us most of the way there, and depending on how serious the Postmaster General and his team are about continuing to cut costs in a smart way and to make effective use of the tools that we seek to give them, it has the potential to get us to our goal of a financial stable, even thriving, Postal Service.

I know that the current members of the Board of Governors disagree with this assessment. They put out a statement after the Senate passage of our bill stating that it was not enough, and I agree it was not enough. I am told that both of our nominees have stated in policy questionnaires filled out in preparation for today's hearing that they agree with the Board's statement.

If that is the case, I would hope to learn some more today about what they would suggest to postal management and to Congress as we work to get the Postal Service back on track.

I also look forward to hearing from Mr. Miller and Ms. Tobin about what they have learned from their previous work, both inside and outside of government, including their previous service on the Board, that will help them, if confirmed, to tackle the Postal Service's real and mounting financial challenges.

The last thing I would say before turning it over to Senator Collins is how much I appreciated the opportunity to work with her and her staff again this year, and with Senator Lieberman, Senator Brown, and their staffs as well, to fashion a bipartisan bill.

It is hard, as you know, to get much of anything done around here, and to be able to get a bipartisan bill introduced, through

Committee, on the floor with all kinds of bipartisan amendments, and actually off the floor into conference, if we could have a conference, is no small undertaking.

And we need for the House to act. We need the House to pass a bill. It is not enough for them just to carp about our legislation. They need to pass it so it can go to conference, take input from a lot of folks including you, and pass the kind of legislation that will really help set the stage for the Postal Service to do the work that it needs to do and to not be a burden on the taxpayers. Senator Collins.

#### **OPENING STATEMENT OF SENATOR COLLINS**

Senator COLLINS. Thank you very much, Mr. Chairman. It has been a pleasure to join you in this effort. You and I have worked together on postal issues for many years now. We keep thinking we are finished with postal issues and then they keep popping up.

But the fact is that throughout our history, the U.S. Postal Service has served as a vital part of our national communications network and of our economy. As the Chairman has mentioned, I do not think most Americans appreciate just how critical the Postal Service is to our economy.

It is the lynchpin of a trillion-dollar mailing industry that employs more than 8 million people in fields as diverse as direct mail printing, catalog companies, paper manufacturing, and financial services. The list goes on and on.

Unfortunately, the Postal Service's financial status is abysmal and this great American institution is teetering on the brink of collapse. It lost \$3.2 billion in the first quarter of this fiscal year alone. I believe that we have begun to right the ship with the passage of the 21st Century Postal Service Act of 2012 that Senator Carper and I, along with Chairman Lieberman and Senator Scott Brown, authored.

But there is still much more work to be done, including, as Senator Carper indicated, working with our colleagues on the House side. We have implored them to act sooner rather than later. It is important that we get into conference and work out the differences and send legislation to the President.

Good legislation, however, while absolutely necessary, is not sufficient to solve the Postal Service's problems. Good management is also essential. And today, we are here to discuss the qualifications of the two nominees to the Postal Board of Governors, James Miller and Katherine Tobin, neither of whom are strangers to this Committee or to these issues.

An effective Postal Board of Governors is essential to provide direction to the management of the second largest non-governmental employer in the country. With more than half a million employees and more retail sites than Wal-Mart and Starbucks combined, the job of governing the Postal Service is not for the faint of heart.

This was true in 2006 when Senator Carper and I authored the Postal Accountability and Enhancement Act, which established specific qualifications to ensure that future governors had suitable business and management experience, and it is even more true today.

In the 2006 law, we required that governors be selected based solely on their experience in management, accounting, or other relevant fields. Meeting these basic qualifications has never been more important as the Postal Service faces the perfect storm of rising labor costs, shrinking volume, and declining revenue.

The 2006 law required that within 9 years of enactment, a date that we obviously have not yet reached, at least four members of the Board must be selected solely for having managed a large organization of 50,000 or more employees. Now, looking back at that number, I personally have concluded that it is too high. It would, for example, preclude the extremely capable chief executive officers of the very largest companies in my State—Bath Iron Works, Cianbro Corporation, L.L. Bean, and others—from serving on the Board.

But even if we set the number too high, the principle is a sound one and it is time for the Administration to start taking active steps to meet this requirement. I am concerned that we have yet to receive a single nominee who even comes close to having that kind of extensive managerial experience.

The nominees before us today are grandfathered, in many senses. They have served previously on the Board, and they were nominated originally before the 2006 law was even enacted. They both possess valuable experience, and I do welcome the opportunity to consider their nominations.

I also respect the current Board as well as these nominees for their public service and their willingness to take on an enormous and often thankless job. But I do want to mention that as a concern. Let me also briefly turn to two other concerns that I have. The first is whether the Postal Board of Governors truly is serving as a check on the decisions made by postal management.

I am concerned that the Postal Board of Governors may not be aggressive enough in questioning decisions that are being made, whether it is signing labor contracts that seem unwise given the need to reduce the workforce in a compassionate way through buy-outs and other incentives that we have included in our bill, or whether it is asking tough questions about whether service cuts are going to lead to revenue declines that cause a spiral of the Postal Service losing more and more customers. Are those questions being asked by the Board? They are certainly being asked by Members of this Committee and the Congress at large.

And second, I am extremely disappointed in the intemperate and unhelpful reaction of the Board to our legislation. The fact is, this was a bipartisan bill that passed with overwhelming support, 62 votes. Hardly anything gets 62 votes in the Senate.

It is not the bill that I would have written. I dare say, it is not the bill that Senator Carper would have written on his own. But it reflects a carefully balanced compromise and attention to all the stakeholders' concerns, and it is a bill that passed and that would make a big difference, as is evident by the fact that it had been scored by the Postal Service to save some \$19 billion, not an insignificant amount.

Now, some of those provisions adopted on the floor lower those savings, but they still are significant. And the Board's intemperate and unhelpful comments do not help to advance it. Therefore, I am

very disappointed that our two nominees, I am told, have expressed agreement with the Board's comments, if not in tone, at least in substance, and that gives me great concern about whether they are truly willing to work with this Committee to accomplish the goal of getting postal reform legislation that is absolutely vital to the survival of the Postal Service passed and signed into law this year.

The Postmaster General has told us over and over again that the Postal Service is in danger of not being able to meet its obligations, and whether that occurs in the fall or at the end of the year or early next year, in some ways, is irrelevant. If they cannot meet its obligations, we must act.

And it is not helpful to have nominees criticizing the one postal bill that has made it through the Senate. So Mr. Chairman, I wanted to put that on the record, and I look forward to hearing the responses of our witnesses. Thank you.

Senator CARPER. And I would say, Senator Collins really spoke for both of us when she said that. I am reminded of the old saying, Who are editorial writers? They have been described as people who come onto the battlefield when the shooting is over and shoot the wounded. That is probably an exaggeration here, but I think that captures the way that some of us felt a little bit.

Now, I will have some questions, and I am going to have a chance to drill down on some particular provisions that we thought we were being asked to include in legislation, we thought we were told would be helpful, and we will go through each of those provisions and give you all a chance to say which ones you agreed with and maybe did not agree with.

Both Mr. Miller and Ms. Tobin have filed responses to biographical and financial questionnaires, answered pre-hearing questions submitted by the Committee, and had their financial statements reviewed by the Office of Government Ethics. Without objection, the information will be made part of the hearing record, with the exception of the financial data, which are on file and available for public inspection in the Committee's offices.

Our Committee rules require that all witnesses at a nomination hearing give their testimony under oath, so I am going to ask you to stand and raise your right hand, if you would, please. You have done this before.

Do you swear the testimony you will give before this Committee will be the truth, the whole truth, and nothing but the truth, so help you, God?

Ms. TOBIN. I do.

Mr. MILLER. I do.

Senator CARPER. Please be seated. Mr. Miller, welcome. It is nice to see you again, and it was very nice to see your patient wife of 50 years, and your family, including your 8-year-old grandson. You may now proceed with your opening statement. And feel free to introduce anyone in your family individually. Thank you.

**TESTIMONY OF HON. JAMES C. MILLER III<sup>1</sup> TO BE A  
GOVERNOR, U.S. POSTAL SERVICE**

Mr. MILLER. Mr. Chairman, Senator Collins, and Members of the Committee, thank you for holding this hearing and inviting me to appear. I want to thank President Obama for nominating me for this post, Senator Mitch McConnell for recommending me, Senator Reid for his kind remarks, and others who have supported me over the years.

Today I am joined by my wife, Dr. Demaris Miller, our son-in-law, Fernando Pagkalinawan, our daughter, Sabrina, and our grandsons, Tristan and Rommel.

Now, I know your time is quite valuable so my statement will be short. I have provided the Committee, as you noted, with answers to the questionnaires, and you have put these in the record. I am particularly honored today to appear with Governor Katherine Tobin.

I served on the Board of Governors with Ms. Tobin for several years, and I found her a person of great integrity, an independent and innovative thinker, and a person of remarkable talent and industry. She commanded the respect not only of her fellow governors, but of U.S. Postal Service employees generally. Accordingly, I urge you to confirm her as soon as possible.

The U.S. Postal Service, as both of you have noted, faces a crisis unlike any in history. It has weathered great storms in the past, such as during the Great Depression, but this storm is different. There is no recovery in sight. Restoration of our economy will not resurrect the U.S. Postal Service.

The old business model, where profits on monopoly letter mail are used to cross-subsidize other losing classes of mail and an inefficiently large network, simply does not work anymore. The reason is that the profits on monopoly mail have all but disappeared. The reason is partly the economy, but mostly it is the steady erosion of first-class mail to electronic communications. There is every reason to believe this erosion will continue.

To survive, the U.S. Postal Service must be given freedom to restructure itself and become a truly competitive business enterprise. This means freedom to move quickly to take advantage of changing customer demands, freedom to adjust to changing cost levels and structure, and most especially, freedom to rationalize its logistical system and deal with its current employment situation.

I will not go into that in any detail here, as I have responded to the questionnaires and have addressed those and other matters in materials I have provided to the Committee.

In particular, I want to draw your attention to an invited lecture I gave in November 2010 at a session of the Southern Economic Association that was given in honor of the late Professor Roger Sherman, my dissertation advisor. I have appended a copy of that paper to my statement, and I ask, Mr. Chairman, that it be included in the record.<sup>2</sup>

Senator CARPER. Without objection.

<sup>1</sup>The prepared statement of Mr. Miller appears in the Appendix on page 32.

<sup>2</sup>The lecture referenced by Mr. Miller appears in the Appendix on page 33.

Mr. MILLER. Mr. Chairman, Senator Collins, and Members of the Committee, that concludes my opening statement. I will be happy to address any questions you may have, including the issues raised by Senator Collins.

Senator CARPER. I thank you so much, Mr. Miller. Ms. Tobin, please proceed.

**TESTIMONY OF HON. KATHERINE C. TOBIN<sup>1</sup> TO BE A  
GOVERNOR, U.S. POSTAL SERVICE**

Ms. TOBIN. Chairman Carper and Senator Collins, it is an honor and a pleasure to be here today as a nominee for the position of Governor of the U.S. Postal Service. I am delighted to be paired in this confirmation hearing with my colleague and friend, Jim Miller.

Thank you, Senators, for your consideration of our interest in continuing our service. I am joined by my husband, Judge Evan Wallach, my sister, Alice Zaff, and several dear friends.

I am here today for one reason, which is the U.S. Postal Service is an outstanding American institution. It is neither, as we all know, a business nor a classic government agency, and yet, we expect it to be both at the same time. We can do better to help it transform. It needs to transform, but its mission has not changed. It is still of vital importance for this country to have this amazing network and infrastructure that ties people, products, and services together.

The U.S. Postal Service provides national communications. It is a catalyst for commerce. It plays key roles in terms of security and law enforcement. As was noted in your opening remarks, it is a large national employer, providing jobs to more veterans than any other institution.

I look forward to answering your questions and to working again with this wonderful, essential, and evolving organization, the U.S. Postal Service. Thank you.

Senator CARPER. Thank you, Ms. Tobin. As you may recall, we are required to open with several questions. We ask these questions of all nominees, and I ask you to respond individually. Is there anything you are aware of in your background that might present a conflict of interest with the duties of the office to which you have been nominated?

Ms. TOBIN. No.

Mr. MILLER. No.

Senator CARPER. Do you know of anything personal or otherwise that would in any way prevent you from fully and honorably discharging the responsibilities of the office to which you have been nominated?

Ms. TOBIN. No.

Mr. MILLER. No.

Senator CARPER. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of Congress if you are confirmed?

Ms. TOBIN. Yes.

Mr. MILLER. Yes.

<sup>1</sup>The prepared statement of Ms. Tobin appears in the Appendix on page 71.

Senator CARPER. Ms. Tobin, my last question is, what do you think the secret is to being married 20 years to the same guy? The anniversary you celebrate today, what is the key there?

Ms. TOBIN. Having fun.

Senator CARPER. That is good. Mr. Miller has been married for 50 years to his wife, sitting right behind him. She said the key was patience. What do you think the secret is for being married 50 years?

Mr. MILLER. To roll out of the bed every morning excited about the day with your spouse.

Senator CARPER. As Senator Collins knows, I love to ask questions of people who have been married a long time. Two weeks ago, I talked to a couple who have been married 57 years, and I asked the wife, "What is the secret to being married 57 years?" And she said, "Just give and take." And I turned to the husband, and I said, "What do you think, sir?" He said, "Just give." [Laughter.]

Let us get into the questions. Senator Collins and I worked on a number of provisions with Senators Lieberman and Brown, in concert with postal management and the Postmaster General, provisions that we thought made sense to be able to rein in the growth of costs and to increase the likelihood of generating some additional revenues.

And the first major issue dealt with the over-payment of the Postal Service to the Federal Employees Retirement System. Everybody agrees it is about \$11 billion, and it should be refunded, and we provided for that in our legislation.

May we presume that you are OK with that?

Ms. TOBIN. I am.

Mr. MILLER. Yes.

Senator CARPER. Second, we authorized the use of some of that money to pay retirement bonuses to incentivize some of the 125,000 eligible postal employees to retire. Are you OK with that?

Ms. TOBIN. Yes.

Mr. MILLER. Yes, as a practical expedient, I think.

Senator CARPER. Third, we added language with respect to arbitration. When there are contract negotiations between the bargaining units and the Postal Service, there is no requirement for the arbitrators to consider the financial condition of the Postal Service. We require that it has to be considered. Is that something that you are supportive of?

Ms. TOBIN. It is absolutely essential, and I strongly support that.

Mr. MILLER. In the short run, it is important. The problem has arisen that, in determining comparable pay, the arbitrators have typically chosen a subset of people who are really not representative of the pool to which the Postal Service goes for its employees. And consequently, by econometric studies, there is a delta, there is some over-payment.

For the arbitrator to be given the direction you have included in the bill will be very helpful. I am hopeful that at some time the Postal Service will be much better off and that provision could come back and hurt the Postal Service.

Senator CARPER. Thank you. Senator Collins has worked for many years on the issue of workers' compensation, principally for postal employees, but more broadly for Federal employees.

Mr. MILLER. Right.

Senator CARPER. And we included in the legislation a version, I think a good version, of her recommendations with respect to workers' compensation. So we do not end up with people 60, 70, 80, or 90 years old still drawing workers' compensation. Are you comfortable with those changes?

Mr. MILLER. Absolutely. Good point.

Senator CARPER. Most employers in the country pay into Medicare. My wife is retired from DuPont. When folks who work for DuPont retire and then reach the age of 65, their primary source of health care is Medicare. The company provides a Medigap or wrap-around plan to supplement that. A lot of companies, large companies especially, do that.

And what we tried to do in our legislation is to allow the Postal Service to do that. Is that something that you are comfortable with?

Ms. TOBIN. I am not fully familiar with it, but it sounds very smart.

Senator CARPER. Mr. Miller.

Mr. MILLER. Yes.

Senator CARPER. Another provision in our bill is, we leave the door open if the Postal Service wants to try to negotiate, much as the United Auto Workers (UAW) did with the big three auto companies, an arrangement where the UAW basically runs a single employer system for health care for their employees.

They think they get better accounting rules, better financial treatment, and the postal management asked us to allow in our bill for the Postal Service to explore doing a similar kind of system with the unions that represent your employees. Is that something you are comfortable with?

Mr. MILLER. Yes. Whether it works out depends on the outcome of negotiations, but I think having that authority is valuable.

Senator CARPER. Good.

Ms. TOBIN. Yes, but with careful study to make certain that the level of health care remains top.

Senator CARPER. Good. The issue of post office closings, as Senator Collins well knows, was a difficult issue to wrestle with. Out of 33,000 post offices around the country, there are, I do not know, maybe 3,000 or 4,000 that were really under close scrutiny to determine whether or not some of them should be closed.

What we ended up with, and there was a projected savings of maybe \$300 million a year, was a different idea espoused by, I think, the Postmaster General that said, rather than just looking at 3,000–4,000 post offices, why do we not look more broadly at as many as 13,000 post offices and offer the communities where we are paying a postmaster \$50,000–\$70,000 a year to run a post office that generates \$15,000–\$20,000 worth of business a menu of options.

One, keep your post office. It is not going to be run by a postmaster earning that kind of money and it may not be open 8 hours a day, but it will remain open, 2 hours a day, 4 hours a day, or 6 hours a day. That postmaster may come back as a retiree, as a contract employee, retain his pension, retain his benefits, and make \$15 an hour and run the post office.

Or maybe they would like to have rural delivery so people would not have to come to the post office to pick up their mail. They will have rural delivery. Maybe the community would say, we would like to co-locate our post office in a supermarket or a convenience store or some of the local government offices there.

But given that menu of options, and to offer that for as many as 13,000 post offices, over a third of the post offices in the country, and instead of saving \$300 million a year, maybe saving as much as a half-billion dollars a year, is that an approach that you are comfortable with?

Ms. TOBIN. I am.

Senator CARPER. Mr. Miller.

Mr. MILLER. I think it definitely should be explored. We are in a situation where we need to explore every margin for cost savings. Senator Collins has articulated her concerns about deterioration of quality of service might drive away customers, and we need to be very cognizant of that, very careful about that.

But any large enterprise, whether it is a Wal-Mart or a Home Depot or some place like that, has had to make decisions on closing retail establishments from time to time. There is just no way of keeping them going. And so, I think it is important for the Postal Service to have that kind of freedom.

I think it is the Board's responsibility to make the policy within the four corners of the established law, and I think it is important for the Postal Service to oversee the carrying out of those policies.

But I think each area needs to be addressed, each opportunity for saving money without losing revenue, putting together options to closing post offices so that people can get their mail or, just as you were describing, have it delivered at their home, rural delivery, etc. All those need to be explored.

Senator CARPER. Those are just some of the provisions that we included in the legislation that the Board was highly critical of. There are others, 40-year amortization for the prepayment of health benefits for retirees, any number of others. But I need to yield to Senator Collins, so I will just ask you to hold your comment for now.

But those are just some of the provisions that we included in the legislation that are designed to help on the cost side. There are also a number of provisions on the revenue side because it is not enough just to cut, cut, cut. The Postal Service has to find ways to grow some revenues.

And in the second round of questions, what I would like to do is to come back and ask you to help us on the revenue side with the ideas that you are aware of and would be supportive of. Thank you very much. Senator Collins.

Senator COLLINS. Thank you, Mr. Chairman. The Postal Service is about to reach its \$15 billion credit limit on how much it can borrow from the Treasury. It is part of the Federal employees health programs, life insurance programs, workers' compensation programs. On the workers' compensation program, it pays \$1 billion a year into that program.

It has lost billions of dollars during the past 2 years. In fact, the losses go beyond that. And those losses would have been billions more had we not waived a required payment of \$5.5 billion into the

fund that is set aside for future retirees' health benefits, very real liabilities.

In view of all of that, Ms. Tobin, how can you say that the Postal Service has "too much oversight," which was your statement in a staff briefing, and you particularly pointed to the oversight by Congress, among others?

Ms. TOBIN. I come, Senator, from the business world, Hewlett-Packard, and I worked with the IBM executive team for a good number of years. I think oversight and accountability is absolutely essential, but the speed with which we can make decisions, the bureaucracy that has to be faced, slows down the Postal Service.

So you spoke in the first part of your question about the tremendous losses that the Postal Service has had in recent years. One thing that I remind people is, this was never a profit-making entity. So it tried to match revenue and expenses, and as it was growing and as expenses were also growing, it did well. I mean, it could meet it.

But in 2006 and 2007, we had major constraints coming from three different angles, which I believe very strongly the Postal Service has tried to face with tremendous responsibility. Those forces, you know them well. We have the prepayment of the retirees' health care benefit. We have changing mail patterns—the degree, as Mr. Miller mentioned in his opening remarks, about first-class mail. And we have a dramatic change in our country's financial system.

So I see us, Senator, as having been an expanding institution that is constraining. I think it has worked hard to try to stay. It is constrained within its revenue. It has not met it.

In terms of oversight, we have an Inspector General who does an outstanding job, I think, of overseeing. We have Ernst & Young doing auditing. We have the Postal Regulatory Commission. I think there are many overlaps to those oversights that might be useful. I will just lay that out. It could be useful to look at streamlining.

Senator COLLINS. The Postal Service has a \$15 billion line of credit to the U.S. Treasury and is a participant in the Federal employee programs—and Senator Carper and I are totally open to the idea of a new health program for the Postal Service that takes them out of the Federal employee program.

I would suggest to you that as long as those links are there and as long as the Postal Service is as critical to the economy as I hope it always will be, you are going to be subject to oversight, and I think appropriately so.

Ms. TOBIN. I do believe in oversight. I chaired the Audit and Finance Committee, and I saw us, through oversight, become smarter. So it is not that I want to get rid of oversight. We cannot; you are right.

And by the way, I am not happy with the debt ceiling. We are up against that debt ceiling. There was not a time when I was on the Board—I am certain it continued—that any one of the governors was comfortable in taking out more debt.

Mr. MILLER. Senator, could I add that the question of oversight, to me, will come up anytime. You are the stockholders or represent the stockholders of the Postal Service, of which we would sit on the Board. That is not a problem.

The problem is the degree to which the Postal Service can meet the requirement that Congress has identified for it, and that is to cover its costs with the market that we face and the constraints that Congress has placed on our ability to get out there and compete, and that is the concern that I had, and I may have had similar answers in my responses to the questionnaire.

With regard to the question you raised about your concerns, and also the Chairman's concerns, about the tone of the Board of Governors' response to the legislation, my reading of their statement is that all they say is, it is not sufficient. And I am here to tell you right now that my best business judgment is that it is not sufficient. Senator Carper has said that, and I think you have said that, too.

Senator COLLINS. Well, I would suggest to you, Mr. Miller, that it is not helpful, and the tone of that statement was not helpful at all when we are trying to encourage the House to move on a bill, which may be more to your liking based on what I have read in your responses. But it was not helpful in trying to advance legislation, which everybody agrees is necessary.

It is not sufficient and you may not like the bill, but to have the bill blasted is not helpful. My time has virtually expired, so I want to ask you two more quick questions, if I may, before I have to leave.

Mr. Miller, at one point several years ago, you advocated privatization of the Postal Service. Is that still your position?

Mr. MILLER. I think it would be best for the world, for the economy, and for the American people if the Postal Service was demopolized and privatized, which is a position that I held when I worked for President Reagan and that is based on years of experience at the Postal Service that enlightened me to various things and problems, etc. It would not be easy to transition. In fact, right now, it would be impossible to transition.

But having said that, I detect no interest whatsoever on the Hill to make such a move, and I have expended no personal resources trying to persuade people of that view. Senator, I am going to be honest and straightforward with you and all the other Members of Congress about what I see, and that is what I see.

Senator COLLINS. So if I can just paraphrase what you have said, it remains your personal view that privatization ultimately would be your goal, but it is not a view that you are currently advocating because you do not see political support for it. Is that a fair assessment of what you said?

Mr. MILLER. That is fair, and the corollary of that view is that my goal has been to restore the Postal Service to financial health and to make it operate as an efficient business enterprise.

Senator COLLINS. Well, I would just comment that I appreciate your candor. I believe that privatization would result in rural America being left behind. I have no doubt that urban areas would do fine. There would be lots of competition for delivery, but I think rural America would be completely left behind. And thus, that troubles me.

Finally, and I know my time is gone, so let me just make a comment. I know that several of our colleagues are very concerned about the remaining \$800,000 in the deferred compensation pack-

age that was approved for the previous Postmaster General. I believe you were both on the Board at the time, so I think we should have a question for the record on that.

My final question has to do with looking at the impact of service reductions on revenue and the loss of customers. And if you have not already done so, I would encourage you to look at a study that the Postal Service itself filed with the Postal Regulatory Commission that indicated that if it proceeded with all the service reductions that you both seem to be very favorably inclined toward, it would lead to a dramatic decline in revenue and in mail volume, and that is the last thing that the Postal Service needs.

Now, to be fair, the Postal Service has been trying to walk back from that study, but that is, in fact, what their independent study showed and it is, in fact, what they filed. So I would just ask, for my final question, are you familiar with this study?

Ms. TOBIN. No.

Mr. MILLER. No. I would just ask that you identify it for us, please.

Ms. TOBIN. And I recall that they were about to begin that when I was leaving.

Senator COLLINS. Well, we will follow-up with questions for the record on that as well. Thank you, Mr. Chairman, and you are very generous with your time.

Ms. TOBIN. Thank you.

Senator CARPER. I mentioned in my first round of questions that I wanted to come back and revisit the notion that it is not enough just to cut, cut, cut, we have to find ways to raise some revenues as well. And our legislation attempts to open more doors than we close with that in mind.

As you may know, our friends at UPS and FedEx are allowed to deliver wine and beer; the Postal Service is not. And we change that. We give the Postal Service that flexibility as long as States are OK with that. If they are not, then the Postal Service could not do that.

I am told by the Postmaster General that the Postal Service believes that there are some opportunities for making money for the Postal Service in something called electronic mailboxes. If you have anything you would like to share with us on that front, that would be good.

We believe that particularly in a number of smaller towns, but maybe not so small towns, there is the opportunity for the Postal Service to say to State and local government entities, come on in. We have the space, come and share it with us, and that could have the potential of generating some revenues for the Postal Service.

The Postmaster General mentioned to me last month that there is value added, we will say, to L.L. Bean or to Macy's if they know the actual date that a catalog is hitting a customer's mailbox. There is value added to that. And we would welcome hearing from you on that.

I understand from the Postmaster General that as people do more of their shopping online instead of going to traditional brick-and-mortar shopping centers and stores, obviously, the orders have to be delivered by somebody. It could be FedEx, could be UPS,

could be the Postal Service, and there appears to be a fair amount of upside potential there. Those are just some of the ideas.

One thing that I have mentioned before and I will mention it again today is that I think by the end of this decade, we will see windmill farms off the east coast of the United States. There is a lot of that in Europe and there is interest from Maryland all the way up to Maine to deploy offshore wind.

Senator Collins, her colleague from Maine, and I know that the wind does not always blow, the sun does not always shine, but when it does, sometimes it generates more electricity than can be used and it has to be stored somehow. And one of the ways to store that is being explored by a number of entities, including the University of Delaware's College of Marine Studies.

One idea would be the ability to use large fleets of vehicles to store electricity as it is generated and then put it back onto the grid when the market needs it. Those are just some ideas that I would welcome your comments on, and frankly, I would welcome some other ideas, better ideas than those.

Ms. Tobin, do you want to go first, and then Mr. Miller?

Ms. TOBIN. Sure. I want to add that as one looks at the recent financial statements, if you look closely, you see some good news in there, which I was pleased to see, and I think part of it has come about through what you have created in the Postal Act of 2006. The shipping and package industry has gained by double digit growth, and we all saw the marvelous marketing programs for "if it fits, it ships."

Thank you for the tool of that piece of the legislation. We have just begun to deal with the packaging and service opportunity. That is not a new idea, but it really has been taking hold in recent years.

The Postal Service has a new marketing executive brought aboard whom I have not yet met, but she comes from the consumer industry. I think she will help us think more from a business, imaginative viewpoint. I have, in my career, just seen so much work being done, not only in small communities, but in IBM years, Hewlett-Packard years, by people working from their homes, and you cannot do that without having the structure of good service from the post office for receipt of packages and the like.

I was reminded by someone in recent months, and I think it was Chairman Thurgood Marshall, that when Vice President Al Gore was leading the Re-Inventing Government Act, one of the ideas that was put forth then, many years ago, was to use post offices as centers for what you were just saying, Senator, various government activities.

He did not mention State and local governments, but we have seen passport services come in, but is there more that could be done through these Federal Government centers of village post offices throughout our country? I do not have a list of silver bullet ideas at all, but I think it is wonderful that your staff, with whom I have talked, Congress, all of us have to be looking at that revenue side.

I have to underline, I am hopeful, but we have to get through this legislative process now, and I think you will see the Postmaster General and the Board, and the staff and the business

mailers, so relieved that we can unleash some creative energy. I really look forward to that.

Senator CARPER. Thank you. Mr. Miller, I laid out a couple of options for raising revenues. If you want to react to any of them, I especially would ask you to react to the idea of electronic mailboxes if you have any thoughts there, plus other ideas that maybe I did not mention.

Mr. MILLER. Mr. Chairman, the Postal Service does the sorting and distribution of mail well. That is what its people are trained for. It can pick up some ancillary kinds of activities that I think, at very low training cost, would be very useful. Carrying beer and wine is a no-brainer. That would be one.

On the other hand, I have heard some people say, "Well, what the Postal Service should do is to get in the banking business like the postal offices of many of the European countries." I think that would be a disaster. The notion that somehow the Postal Service is going to become competitive with banks overnight is just to me pretty far-fetched.

But I think there are some other things we can do. On the information technology (IT) matter—I have been gone 6 months, as you know—the Postal Service has brought on board a new IT person, and they are going to be looking at the sort of things that you have suggested.

And there are other ideas. I mean, from selling Postal Service buttons to stamps to whatever. By the way, just as an aside, I think the notion of having the Postal Service issue stamps with live people's pictures on them—other than doing it privately, with stamps.com, or something like that—would be a very bad idea. I can imagine the demands from every direction for that. For every friend you make, you would make thousands of enemies.

The real problem here, and I cannot stress it enough, is the restraints under which the Postal Service operates whenever it wants to take an initiative in the business. Ordinary businesses will think of things that they want to do, new products or services, and they will launch them. They do not tell everybody about them in advance, in part because they do not want their competitors to know about it.

The Postal Service cannot do that. It has to go to the Postal Regulatory Commission, wait for a long time, and so forth—the list of steps that the Postal Service has to take in order to launch a new product deadens the nerves. It deadens the brain. And so, do not be surprised if the Postal Service has not taken a number of these kinds of initiatives.

So if you were to give the Postal Service more freedom, I think it would be possible for the Postal Service to move in these many new directions.

Senator CARPER. Before I recognize Senator Begich—I do not know why a Senator from Alaska would be interested in a hearing of this nature, but he is here, so I will give him the opportunity to say his piece and ask some questions.

But before he does, let me just say that there is a real interest on the part of a number of us in this body, Democrats and Republicans, to try to promote a nurturing environment for more of an entrepreneurial spirit—

Mr. MILLER. Right.

Senator CARPER [continuing]. To grow in the Postal Service. I am encouraged by the filling of the two positions you have each mentioned. And we expect to try to do our part and maybe have a summit where we invite smart people, younger people who might just think of some very clever ways to use a distribution network that goes to every home and every business in the country six times a week.

What else could we do with that, and how do we unleash that entrepreneurial spirit?

Mr. MILLER. Can I just say for the record, you mentioned vehicles. Because I serve on the Board of Clean Energy Fuels, the nation's largest distributor of natural gas for vehicles, I recuse myself from anything having to do with vehicles. I just want to put that on the record.

Senator CARPER. Thank you. Senator Begich, welcome. Good to see you.

#### OPENING STATEMENT OF SENATOR BEGICH

Senator BEGICH. Thank you very much, Mr. Chairman. Alaska cares about their post offices. They are a critical lifeline to many of our communities. You know it probably well. First, I want to say thank you for your willingness to serve. I have a couple questions and then I will leave it at that. I know we have votes coming up pretty quickly here, so let me first give you a couple examples.

Skagway, Alaska, is a small community of about 1,000 year-round residents, but on any single day in the summer, it can swell to 12,000 people because of the tourist season and the activities of the cruise ship industry and so forth.

We have at times three seasonal positions, but they are hard to fill and keep them filled in a timely manner for the season. And what happens is, as you can imagine, the small store owners cannot get their product because it comes in through the mail, so it is piling up. I mean, not just a few boxes. It is literally piling up, and they cannot get products to their stores because they do not have enough people in the facility.

We have some temporary employees who have been sent from Juneau in order to help with this situation, but Juneau also has cruise ships that come in. So it is like dominoes falling very rapidly. And I do not know if you have any comments, not specifically on that, but on customizing the hiring practices and the ability to staff based on these unique community needs.

Not just for us. There are other States that have similar spikes. But we anticipate, just in the southeast region this year alone, 50,000 more visitors in a 90-day period. So you can imagine the flow that happens. And it is huge. So again, 1,000-person facility goes to 12,000 in one day, and it will be like that daily for 90 days or so. So any comments you would like to give, either one?

Ms. TOBIN. This speaks not directly to your concern, but I think close to it. One of the things I mentioned in my answer to the policy questions was that I would like to see much more flexibility—and I would hope the unions would begin to work more on this in terms of moving people from one “craft” to another, such that if you

had people in one part of Alaska, you would have more flexibility on "work rules."

Senator BEGICH. Cross training.

Ms. TOBIN. Yes. So I think that it would help if we did get those labor rule flexibilities for the Postal Service. As Mr. Miller has said earlier, they are so good with delivery. I mean, this is an organization that executes well. It just needs to have that second area of flexibility.

I know Alaska well. I think we need to figure out how we can get that delivery working more efficiently.

Senator BEGICH. Very good.

Mr. MILLER. Senator, you have identified a very important peaking problem. We have those kinds of problems in the Postal Service. The Board of Governors went out to visit the UPS center in Kentucky and the FedEx center in Memphis.

And what we observed is remarkable. Basically, the planes come in about midnight.

Senator BEGICH. Yes, I have been there. I have seen it.

Mr. MILLER. You have seen the same thing.

Senator BEGICH. Absolutely. We are the international hub for FedEx and UPS.

Mr. MILLER. Well, those companies hire people to work 4-hour shifts.

Senator BEGICH. Right.

Mr. MILLER. And they deal with the peak. They have another smaller peak in the morning, so they hire a lot of college students, but we do not have the flexibility to do that under our craft contracts.

Ms. TOBIN. We used to years ago. Thirty years ago or so, I understand, for Christmas mail.

Mr. MILLER. Yes. But we need to have the flexibility to address those peaks. And from the standpoint of a company, it makes no sense to have mail piled up that we cannot process.

Senator BEGICH. Right.

Mr. MILLER. I mean, we drive away revenue when we do that.

Senator BEGICH. Right. So you recognize that is an important piece of the equation?

Mr. MILLER. Yes.

Senator BEGICH. Well, first I want to say thank you, and also, I will mention, as I said, for UPS, FedEx, Anchorage International Airport, to which you also have a 24-hour, 7-days-a-week operation right next door, Anchorage is the international hub. Anything west of the Mississippi that is going international is coming through Anchorage.

Mr. MILLER. Right. Over the top.

Senator BEGICH. Over the top. So it is big business. We have 700 wide-body cargo planes come in there every week from 26 different countries, serving the global economy. So we think it is important. So I am glad you are willing to do that.

I have been in Memphis at 10:30 or 11 o'clock at night when the planes start rolling in. It is an unbelievable sight. I think people who have not seen that should see it because it gives you an understanding of the uniqueness.

We have a unique situation also in Alaska. There is a certain period of time when they come in and they move. And so, I would first thank you for your recognition of the flexibility there. That is necessary.

If I can go to another comment, and I will do one quick comment after that. We do have a growing problem and that is drug trafficking that is starting to occur through Postal Service product moving through. We have only one inspection office in the State. It is based in Anchorage.

Now, you have to put in perspective the size of the State.

Mr. MILLER. Bigger than Texas.

Senator BEGICH. That is right. We would acknowledge that. I have a Texas joke, but I will not say it, but I will just say that you are correct. And it is important because what happens when drug trafficking occurs and gets into a rural village, it is like a plague, and it happens very quickly because these are roadless villages. In other words, 80 percent of our communities are not accessible, other than by boat or plane.

So once the trafficker figures out that the access point is the postal system and they can get it in there, then it is a very quick plague that starts to occur in those villages. So I would ask you, if you could, to think about that as you are looking at Postal Service reform, which we are big supporters of here. We think it is important.

I would also ask you to think about the inspection component of drug trafficking that is starting to occur in the system. It is a hard one because you cannot look at every package. But maybe there are some best practices from UPS, FedEx, and others. Maybe there is something we can do on a unified basis because, as you all know, the postal system is also the last mile for some of those guys.

And so the more we can figure this out together, the more we can grab this drug trafficking and squeeze it hard because it is an economic issue, and if it is hard for them to move the product, then they will not move it.

Ms. TOBIN. Are there connections that you know of with Homeland Security?

Senator BEGICH. There are. We have actually talked to the Drug Enforcement Administration, the Federal Bureau of Investigation, and others, and we would be happy to share this with you. We think it is really devastating to our rural communities because once it is in, it is in, and it does not take a lot of product to move through a system. And the problem is we have one inspection office in Anchorage, and that is it.

And that is great, that is where a lot of volume goes, but they have figured out the systems and the routes. And so, I just want to bring that to your attention if I could.

I have one last comment, and then I will end on this. I thank the Chairman for allowing me to make a few comments. Obviously, I would love to invite you all up to Alaska. I know some of you have probably been there, but I always like to have folks come up and see how this system works from not only the hub, Anchorage, but the rural hub, and then the village itself.

The other thing is, we are waiting. I know the Postal Service released a plan to protect rural post offices, which was great. Unfor-

unately, it did not talk about postal branches. And so, I want to put on the record that we would like to get the Postal Service to release that plan with regard to the future of postal branches. They did it with postal offices, which was great, and I think we all appreciated that effort, but what has happened is that some communities are kind of wondering how they fit in this mix.

We did not realize that when the report came out until we started getting calls, and then we realized the branches were a piece that was missing in the equation. I will leave it at that.

Thank you, Mr. Chairman.

Senator CARPER. You are welcome. Thanks for joining us today, and I would note that the language in arbitration, which I mentioned earlier to our witnesses, Senator Begich, was language that you spent a lot of time working on, and we are very grateful for that.

I have maybe one other question. We just started voting, I think.

In the coming months, if the Congress and the Administration are not able to come to agreement on postal reform—and let me just say, we are going to work very hard, but we need the House to act so we can go to conference—the Postal Service is going to need to make some more tough decisions about how to preserve operations with a dwindling amount of cash.

If you are confirmed, how would you direct postal management as it seeks to keep the business running through that kind of crisis that it would face?

Mr. MILLER. Well, what you have to do is, I think, first talk with the lawyers about what is legally required. Then you have to look at the priorities, and you have to pay what keeps the organization running and going. That would probably be our employees rather than some of our vendors. We may have to postpone payment to some of our vendors. It really would not be a pretty sight.

But what you will have to do is try to preserve the integrity of the enterprise until some solution is worked out.

Senator CARPER. All right.

Mr. MILLER. But I am hopeful that you will do that. Could I just say one final thing, Mr. Chairman?

Senator CARPER. Sure.

Mr. MILLER. The Board of Governors worked very hard on this restructuring. The Board of Governors drove the restructuring, not management. It was the Board of Governors. And in talking with some staff a couple of days ago, I had the impression that you were disappointed that the Board of Governors did not play a more important role in drafting the legislation.

I think if that is the case, and I have no reason to doubt that, this is something you ought to communicate to the Board of Governors because the Board of Governors was under the impression that you really preferred dealing with the Postmaster General.

Senator CARPER. Actually, I am pleased to know several of you, and I respect you and welcome the opportunity to talk to you. You all are free to call me any time, certainly the Chairman, but also the other Members.

A former Chairman of the Board of Governors from Delaware just passed away last month, whom you served with.

Mr. MILLER. Yes, I know, Rob Rider.

Senator CARPER. We remember him in gratitude for his service today.

Ms. TOBIN. Two things that I want to say to your point, Senator. Senator CARPER. Please.

Ms. TOBIN. First of all, I am aware, because we are being increasingly briefed on the current situation at the post office, that the Board of Governors is actively, in getting their Monday through Friday news, looking at the upcoming deadlines and discussing among each other how they are going to handle August, September, and October. And frankly, I suspect they have been doing that for the last year—kind of scenario planning.

The second thing I want to say—and I understand the frustration Senator Collins voiced, and I know how hard this staff worked on the Senate legislation—I think that letter comes from the highest priority of the Board of Governors, being that fiduciary responsibility, and I believe that they could not, in good conscience, not speak because the legislation was not yet done.

So I hope that there is some sense of trust or faith that the Board is very active, earnest, and bipartisan and takes its role very seriously.

Senator CARPER. Senator Begich, do you want to say anything else?

Senator BEGICH. No, thank you.

Senator CARPER. Members have until noon tomorrow to provide any additional questions that they might have for you. We appreciate your previous service on the Board of Governors and look forward to having the opportunity to vote on the nominations to serve again.

I would just conclude on this note. The situation that the Postal Service faces is dire. It is not hopeless. This is something we can fix.

Ms. TOBIN. Yes.

Senator CARPER. And we need the best ideas from the Board of Governors. We need the best ideas from postal management, from the unions that represent the postal employees, from our colleagues, and from your customers across the country. And all of us need to focus on how to be more entrepreneurial and to figure out how to grow the pie again as first-class mail revenues have dropped. We look forward to working with you in that regard.

The other thing is that we need the House to act. It is all well and good that we work hard. And I will say personally that I very much enjoyed working with your Postmaster General and your Deputy Postmaster General. They work hard.

Mr. MILLER. They are both good people.

Senator CARPER. Yes. They work hard for the money, and they work hard for the postal employees, for the customers, and I think for the taxpayers as well. And so, we commend them in absentia. All right. With that having been said, this hearing is adjourned.

Mr. MILLER. Thank you, Mr. Chairman.

Ms. TOBIN. Thank you.

Senator CARPER. Happy Anniversary, Happy Birthday.

Ms. TOBIN. Thank you.

[Whereupon, at 11:17 a.m., the hearing was adjourned.]



## A P P E N D I X

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U.S. SENATE COMMITTEE ON HOMELAND SECURITY &  
GOVERNMENTAL AFFAIRS

**HEARING: "Nominations of Hon. James C. Miller III and Hon. Katherine C. Tobin  
to be Governors, U.S. Postal Service."**

**Opening Statement of Senator Tom Carper**

**Opening Statement**

The committee will come to order. Today, we'll be considering the nominations of Jim Miller and Katherine Tobin to be member of the Postal Service's Board of Governors. Before I begin my statement, I'd like to welcome Senator Reid to the committee. He has joined us today to introduce Ms. Tobin. I'll turn to him now for his statement.

*(Senator Reid's statement)*

Both of our nominees today know as well as anyone, that the Postal Service has been in dire financial trouble for some time. This trouble will come to a head in the coming months. The Postal Service is reporting record losses each quarter and hemorrhages about \$25 million a day. By the end of this fiscal year, it won't have enough money to meet its health and workers' compensation obligations. By sometime in 2013, it won't have enough money to continue operations at all.

The Postal Service operates at the center of a \$1 trillion mailing industry that puts as many as 8 million men and women to work each day. It's a key cog in our economy. Its continued vitality is an important part of our efforts to get our economy going again. At a time of so much economic uncertainty, we can't afford to let the Postal Service collapse. The Senate has passed legislation that attempts to address the Postal Service's near-term financial crisis and give it some of the tools it will need to address its long-term challenges.

Our bill would clean up the Postal Service's books by refunding the more than \$10 billion it has overpaid into the Federal Employees Retirement System and setting up a less-aggressive schedule for funding postal retiree health obligations.

A portion of the pension refund would be used to encourage about 100,000 postal employees to retire, an effort that could save as much as \$8 billion per year.

Our bill would also push the Postal Service to streamline its processing, delivery, and retail networks, albeit it at a more gradual pace than postal management would have liked. These provisions would allow the Postal Service to achieve billions of dollars in savings while preserving levels of service that many customers rely on. If these cost-cutting efforts don't prove sufficient in the coming years, the Postal Service would be permitted to move forward with more aggressive efforts.

But our bill doesn't just focus on cuts. It also frees the Postal Service to be more entrepreneurial and pushes them to find innovative ways to bring in more mail volume and make the best use of the valuable system it maintains in order to deliver the mail to every home and business six days a week.

Our bill is not perfect. It does not solve all of the Postal Service's problems. But it gets us most of the way there. And depending on how serious the Postmaster General and his team are about continuing to cut costs in a smart way and to make effective use of the tools we give them, it has the potential get us to our goal of financial stable – even thriving – Postal Service.

I know that the current members of the Board of Governors disagree with this assessment. They put out a statement after the Senate passage of our bill stating that it wasn't enough. I'm told that both of our nominees have stated in policy questionnaires filled out in preparation for today's hearing that they agree with the Board's statement. If that is the case, I hope to learn some more today about what they would suggest to postal management and to Congress as we work to get the Postal Service back on track.

I also look forward to hearing from Mr. Miller and Ms. Tobin about what they've learned from their previous work both inside and outside of government – including their previous service on the Board – that will help them, if confirmed, to tackle the Postal Service's real and mounting financial challenges. Thank you both for being here today.

Statement of  
Senator Susan M. Collins

"Nomination Hearing of James C. Miller III and Katherine C. Tobin to be  
Governors of the United States Postal Service"

Committee on Homeland Security and Governmental Affairs

June 21, 2012

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The fact is that throughout our history, the U.S. Postal Service has served as a vital part of our national communications network and of our economy. As the chairman has mentioned, I don't think most Americans appreciate just how critical the postal service is to our economy. It is the linchpin of a trillion dollar mailing industry that employs more than 8 million people in fields as diverse as direct mail, printing, catalog companies, paper manufacturing, financial services, and the list goes on and on.

Unfortunately, the Postal Service's financial status is abysmal, and this great American institution is teetering on the brink of collapse. It lost \$3.2 billion in the first quarter of this fiscal year alone.

I believe that we have begun to right the ship with the passage of the "21<sup>st</sup> Century Postal Service Act of 2012" that Senator Carper and I, along with Chairman Lieberman and Senator Scott Brown authored. But there is still much more work to be done; including as Senator Carper indicated, working with our colleagues on the House side. We've implored them to act sooner rather than later, it's important that we get into conference and work out the differences and send legislation to the President.

Good legislation however, while absolutely necessary, is not sufficient to solve the Postal Service's problems. Good management is also essential. Today, we are here to discuss the qualifications of the two nominees to the Postal Board of Governors - James Miller and Dr. Katherine Tobin. Neither of whom are strangers to this committee or to these issues.

An effective Postal Board of Governors is essential to provide direction to the management of the second largest non-governmental employer in the country. With more than half a million employees and more retail sites than Wal-Mart and Starbucks combined, the job of governing the Postal Service is not for the faint of heart. This was true in 2006 when Senator Carper and I authored the Postal Accountability and Enhancement Act, which established specific qualifications to ensure that future governors had suitable business and management experience, and it is even more true today.

In the 2006 law, we required that governors be selected based solely on their experience in management, accounting, or other relevant fields. Meeting these basic qualifications has never been more important, as the Postal Service faces the perfect storm of rising labor costs, shrinking volume and declining revenue. The 2006 law required that, within nine years of enactment, a date that we obviously have not yet reached, at least four members of the Board must be selected *solely* for having managed a large organization of 50,000 or more employees.

Now looking back at that number, I personally have concluded that it's too high. It would for example, preclude the extremely capable CEOs of the very largest companies in my state: Bath Iron Works, Cianbro Corporation, L.L. Bean, and others from serving on the board. But, even if we set the number too high, the principle is a sound one. And it's time for the administration to start taking active steps to meet this requirement.

I am concerned that we have yet to receive a single nominee who even comes close to having that kind of extensive managerial experience. The nominees before us today are grandfathered in many senses. They've served previously on the Board and they were nominated originally before the 2006 law was even enacted. They both possess valuable experience, and I do welcome the opportunity to consider their nominations. I also respect the current board, as well as these nominees for their public service and their willingness to take on an enormous and often thankless job. But I do want to mention that as a concern.

Let me also briefly turn to two other concerns that I have. The first is whether the postal board of governors truly is serving as a check on the decisions made by postal management. I am concerned that the postal board of governors may not be aggressive enough in questioning decisions that are being made, whether it's signing labor contracts that seem unwise given the need to reduce the workforce in a compassionate way through buyouts and other incentives that we have included in our bill, or whether it's asking tough questions about whether service cuts are going to lead to revenue declines that cause a spiral of the postal service losing more and more customers. Are those questions being asked by the board? They're certainly being asked by members of this committee and the congress at large.

And third, I am extremely disappointed in the intemperate and unhelpful reaction of the board to our legislation. This was a bipartisan bill that passed with overwhelming support - 62 votes. Hardly anything gets 62 votes in the Senate. It isn't the bill that I would have written, I dare say it isn't the bill that Senator Carper would have written on his own, but it reflects a carefully balanced compromise, and attention to all the stakeholders concerns, and it's a bill that passed and that would make a big difference, as is evident by the fact

that it had been scored by the postal service to save some 19 billion dollars, not an insignificant amount. Now some of those provisions adopted on the floor lowered those savings, but they still are significant. And the board's intemperate and unhelpful comments do not help to advance it.

Therefore, I am very disappointed that our two nominees, I am told, have expressed agreement with the board's comments, if not in tone at least in substance and that gives me great concern about whether they are truly willing to work with this committee to accomplish the goal of getting postal reform legislation that is absolutely vital to the survival of the postal service, passed and signed into law this year. The postmaster general has told us over and over again that the postal service is in danger of not being able to meet its obligations. And whether that occurs in the fall, or the end of the year, or early next year, in some ways is irrelevant. If it cannot meet its obligations, we must act. And it is not helpful to have nominees criticizing the one bill, the one postal bill, that has made it through the senate. So Mr. Chairman, I wanted to put that on the record, and I look forward to hearing the responses of our witnesses.

STATEMENT OF SENATOR SCOTT BROWN  
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS  
**Nominations for Postal Board of Governors**

June 21, 2012

The Postal Service today is clearly at a crossroads. Every day that passes is another day that pushes the Postal Service closer to the brink of insolvency. Many have argued that this is simply a result of burdensome statutory obligations placed on the Postal Service at a time when the economic situation was much different than today. Others have pointed out that the Postal Service is simply being forced to face a new reality brought on by new technology and accelerated by the recession. Regardless which reason you favor, all can agree that some hard choices must be made to allow the Postal Service to continue to serve this country successfully in the future.

The fact remains that first class mail volume, the largest contributor to postal revenue, is on the decline and there is no rebound in sight. This has forced the Postal Service to find ways to right-size its delivery network and reduce capacity to meet current volume levels. This process must move forward in a responsible way that is sensitive to the needs of communities and small businesses and recognizes the valuable service of postal employees.

That said, the Postal Service can only do so much without some help from Congress. Lifting some of these legislative restrictions will give the Postal Service a substantial financial boost in the near term. That is why I, along with Senators Collins, Carper, and Lieberman worked hard to develop a comprehensive bipartisan reform bill and get it passed through the Senate this spring.

During the development of the bill, we talked to many different stakeholders and received valuable input from a number of important organizations with a long history of postal oversight, advocacy, and expertise. This included the Postal Service itself, the Postal Regulatory Commission, the Government Accountability Office, and all of the postal employee unions. Yet, from my recollection, we heard little from the Postal Board of Governors directly on most of the important issues being deliberated and discussed as part of the reform legislation.

This is concerning because of the important role that the Board of Governors plays in setting policy for the Postal Service and the oversight responsibilities it has in ensuring that those policies are implemented successfully.

It is clear from nominee interviews and questionnaires that there are many different viewpoints on the path forward for the Postal Service and the areas where statutory changes would help or hinder that process. Yet, the member's of this committee and our staffs heard very little from the board over the last year that would have indicated those divergent views or how they might inform the proposals in the final bill.

Considering that both of the nominees being considered today are being reconfirmed in their position on the board, these are legitimate issues to raise. Speaking as the Ranking Member of the Subcommittee of jurisdiction over the Postal Service, I expected that the Board of Governors would have a larger role to play in helping to develop legislative policy that will have a far reaching affect on how the Postal Service will operate and find its financial footing in the future.

We are obviously waiting on the House of Representatives to consider their own postal reform bill in the very near future. There is universal agreement that the time for action is now. It is imperative that Congress pass a bill this year in order to get the Postal Service on a path to financial solvency and future long-term success. This is obviously no easy task. When the Senate considered our bill on the floor, there was plenty of debate on the right combination of solutions. The Postal Service impacts many important stakeholders and thoughtful consideration is required across many viewpoints. I am confident, however, that our bill included a set of proposals that will finally put the Postal Service on a sustainable fiscal path that will support employees, communities, and businesses alike.

There is no doubt that declining mail volumes will continue to place significant fiscal strain on the Postal Service in the future. The Postal Service must continue to adapt its business model to ensure both its financial survival and maintain the level of service so many Americans and businesses rely on. The Board of Governors has an important role in that process and I hope our nominees will continue to take that responsibility seriously and work with Congress in a more meaningful way in the future, should their nominations proceed.

Regardless, I want to thank our nominees and their friends and family for their service and for being here today. Thank you Mr. Chairman.

**SENATE MAJORITY LEADER HARRY REID  
REMARKS AT NOMINATION HEARING FOR KATHERINE TOBIN  
THURSDAY, JUNE 21, 2012**

Chairman Lieberman, Ranking Member Collins, and members of the committee, it is a pleasure to be here today to introduce my friend, Dr. Katherine Tobin.

With the current state of the US Postal Service, the Postal Board of Governors needs candidates that can hit the ground running.

With billions in losses mounting at the Postal Service, there is no margin for error – and no time for on-the-job training.

That's why Katherine Tobin is uniquely qualified to serve on the Board of Governors of the United States Postal Service.

Dr. Tobin is already familiar with the post office's operations and finances from her previous service on the board.

I recommended Katherine to serve on the Board of Governors under President Bush.

She was confirmed unanimously by the Senate in 2006, and served as Chairwoman of the Board's Audit and Finance Committee.

The committee oversaw the Postal Service's financial controls, internal accounting and financial statements.

In this role she dealt with complex, financial issues, including pension liabilities and compliance with the Sarbanes-Oxley Act.

She left in 2009 to pursue an opportunity with the Department of Education. But I am pleased that she is once again willing to serve the Postal Service during time of great need.

Dr. Tobin also has a broad business background, and more than a decade of private-sector experience.

She worked as a manager and consultant to Hewlett-Packard and IBM, among other Fortune 500 companies.

And she has served as a faculty member and administrator at the University of Nevada, Las Vegas, and Manhattanville and Skidmore colleges.

Dr. Tobin earned a Bachelor of Arts degree from Skidmore College, a Masters degree from the University of Massachusetts' School of Education and both a Masters degree and a Ph.D. from Stanford University's School of Education.

Katherine is qualified, competent and dedicated. And I am pleased to recommend her confirmation.

**Prepared Statement of James C. Miller III  
Committee on Homeland Security and Governmental Affairs  
United States Senate  
June 21, 2012**

Mister Chairman, Madam Ranking Member, and Members of the Committee: thank you for holding this hearing and inviting me to appear. I want to thank President Obama for nominating me for this post, Leader McConnell for recommending me, and others who have supported me over the years.

I know your time is quite valuable, so my statement will be short. I have provided the Committee with answers to two comprehensive questionnaires and have undergone interviews with staff. But if there is additional information you desire, please do not hesitate to ask.

I am particularly honored to appear today with Governor Katherine Tobin. I served on the Board of Governors with Dr. Tobin for several years, and I found her a person of great integrity, an independent and innovative thinker, and a person of remarkable talent and industry. She commanded the respect not only of her fellow Governors but of USPS employees as well. Accordingly, I urge you to confirm her as soon as possible.

The U.S. Postal Service faces a crisis unlike no other in its history. It has weathered great storms in the past, such as during the Great Depression. But this storm is different. There is no recovery in sight. Restoration of our economy will not resurrect the U.S. Postal Service. The old business model, where profits on monopoly letter mail are used to cross-subsidize other, losing, classes of mail and an inefficiently large network simply doesn't work anymore. The reason is that the profits on monopoly mail have all but disappeared. The reason is partly the economy, but mostly it is the steady erosion of first-class mail to electronic communications. There is every reason to believe this erosion will continue.

To survive, the U.S. Postal Service must be given freedom to restructure itself and become a truly competitive business enterprise. This means freedom to move quickly to take advantage of changing customer demands, freedom to adjust to changing cost levels and structure, and, most especially, freedom to rationalize its logistical system and deal with its current employment situation.

I won't go into that in any detail here, as I have responded to the questionnaires and have addressed those and other matters in materials I have provided the Committee. In particular, I want to draw your attention to an invited lecture I gave in November 2010 at a session of the Southern Economic Association in honor of the late Professor Roger Sherman. I have appended a copy of that paper to this statement and ask that it be included in the record.

Mister Chairman, Madam Ranking Member, and Members of the Committee: that concludes my opening statement. I shall be happy to address any questions you might have.

THE U.S. POSTAL SERVICE: DEVOLUTION OF A MONOPOLIST<sup>1</sup>

by

James C. Miller III<sup>2</sup>

Roger Sherman had many research/policy interests, one of which was the U.S. Postal Service. As you may know, Roger wrote several articles on postal issues, edited an American Enterprise Institute book on the subject, and even took a sabbatical as economic advisor to the Postal Rate Commission's Administrative Law Judge. Roger would be the first to tell you, however, that "It's no longer your father's Post Office." Over the past two decades, the organization's market environment has undergone rapid evolution, and its business model no longer works.

The Old Postal Service

The U.S. Constitution authorizes – but does not require – Congress "To establish Post Offices and post Roads."<sup>3</sup> Nevertheless, clearly the Founders envisioned a nexus between the federal government and the delivery of mail. Indeed, one of the key Founders – Benjamin Franklin – became the first Postmaster General under the Continental Congress. To protect the Post Office, in 1792 Congress passed, and the President signed, the first of a series of private express statutes reserving for the Post Office a monopoly on the delivery of letter mail. Nevertheless, over the years, private-sector competitors emerged, proliferated, and were responsible for much innovation – including the Pony Express.<sup>4</sup> Price competition and "cream-skimming" threatened the financial viability of the Post Office, and so private carriers were forced out of business. In 1970, to eliminate both real and perceived political cronyism and to increase efficiency, Congress and the President transformed the Post Office into a new government-sponsored enterprise (GSE) called the U.S. Postal Service and established a Postal Rate Commission to regulate its rate levels and rate structure.

<sup>1</sup> Paper given at a session in honor of (recently-deceased) Professor Roger Sherman; Southern Economic Association Convention; Atlanta, GA; November 20, 2010.

<sup>2</sup> Center for Study of Public Choice, George Mason University, and Hoover Institution, Stanford University. Jim@jimiller.org. The views expressed need not be those of Postal Service management nor of any of my colleagues on the Postal Service's Board of Governors. Comments by James Campbell and Julie Moore on an earlier draft are gratefully acknowledged, though neither bears any responsibility for errors and other deficiencies.

<sup>3</sup> Article I; Section 8.

<sup>4</sup> The Pony Express was short-lived (1860-1861). As some will recall, a post rider on horseback with saddlebags carrying the mail was the official seal of the U.S. Post Office from 1837 until 1970.

Over the period between its founding as a government department and through its reconfiguration as a GSE and beyond, the operating model of the Postal Service could be summed up as follows: use rents from the delivery of first-class (letter) mail to offset losses on other classes of mail and other non-remunerative services. This model worked for over two centuries. Sure, some of the Postal Service's infrastructure (e.g., real estate) was provided by taxpayers, and the organization received other advantages, including a public subsidy that covered 10 to 15 percent of total expenses. As with any monopoly, there were criticisms of poor customer service, deficiencies in quality control, slowness of delivery ("snail mail"), and lack of innovation. But the model worked.

Not only did the model work, but given that the Postal Service was a price-regulated, multi-product monopolist, with a lot of common costs and some joint costs, the inverse-elasticity pricing structure that emerged after 1960 or so approximated allocative efficiency. The evidence is pretty powerful that the demand for letter mail is much less price elastic than the demand for most other types of mail. Many a proceeding before the Postal Rate Commission centered on whether the Postal Service's rate structure was, or was not, Ramsey-efficient. Moreover, the rate structure was arguably equitable, for all the reasons that "value of service" pricing held such sway in regulatory circles for so many years.

#### The New Postal Service

But what does the Postal Service do when first-class mail volume declines? That, in fact, is what has happened: gradually at first, then more rapidly. As shown in Table 1, after expanding every year for decades, first-class mail volume started to decline in fiscal year 2002 and has fallen virtually each year since.<sup>5</sup> Moreover, there is reason to believe that the demand for first-class mail has become progressively more elastic (at relevant prices), although estimates of partial price elasticity are volatile and do not show a particular trend.

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<sup>5</sup> Unless it is clear to the contrary, references are made to fiscal years, which commence on October 1st of the previous calendar year, and the sources of data are various U.S. Postal Service publications. Total mail volume peaked in 2006.

**Table 1: First-Class Mail Volume,  
in Millions of Pieces, by Fiscal Year**

2000	103,526
2001	103,656
2002	102,379
2003	99,059
2004	97,926
2005	98,071
2006	97,617
2007	95,898
2008	91,280
2009	83,314

Some argue that the volume decline is due entirely to the recession. No doubt, some of the decline is for that reason. Mail tends to be income-elastic -- rising by more than GDP increases (in percentage terms), and falling by more in cases of contraction. But the decline in first-class mail began before the current recession. Rather, it is clear to almost every observer that what is happening is that electronic communication constitutes both an actual and potential substitute for mail. Already, the volume of e-mail swamps the volume of letter mail. More and more frequently, utilities are persuading customers to pay their bills over the Internet. Even standard mail -- those ubiquitous invitations to apply for credit cards, special offers at Wal-Mart, and cable vs. satellite TV -- has been affected by e-messaging.

So, you have a business model that operates by generating rents on products with relatively inelastic demands and using these rents to offset losses on non-remunerative products -- and the rents are disappearing! It's fairly more complicated than that, but that's the basic idea. In any event, in each of the past two years, the Postal Service has lost over \$7 billion -- a dime for every dollar it spent.<sup>6</sup>

#### Complications

Here are some of the complications. The first relates to rate structure. Cost considerations aside, you might think the Postal Service could simply raise rates on letter mail even more (it's pretty certain that current rates on letter mail are lower than profit-maximizing levels) and/or raise rates on non-remunerative services. But in 2006 Congress passed and the President signed the Postal Accountability and Enhancement Act (PAEA) -- which, among other

<sup>6</sup> Not counting the deferral in payments to retirees' health-care-plan fund passed by Congress the last day of 2009 but not signed into law until after the year was ended. The deferral brought the 2009 loss down to \$3.88 billion. The Postal Service posted a loss of \$8.5 billion in 2010.

things, limits rate increases for each class of mail to no more than the most recent 12-month increase in the CPI. This obviously limits rate increases on letter mail, but also limits the Postal Service's ability to convert non-remunerative services into remunerative services. In fact, there is a little-known Catch-22 at play here. According to another provision of the PAEA, each class of mail must cover its attributable costs. As shown in Table 2, however, the rates on several categories of mail -- most notably publications -- are well below attributable costs, and even raising them the maximum allowed (CPI) would not put them above attributable costs. That's a dilemma that keeps Postal Service attorneys scratching their heads and Governors -- sworn to uphold the law -- in a state of anxiety.

**Table 2: Examples of Mail Categories  
That Do Not Cover Attributable Costs, 2009**

Category	Percent Cost Coverage
Periodicals	76.0
Standard Mail Flats	82.2
Media/Library Mail	84.1
Inbound International Letters	60.5

There is, in PAEA, a provision for an "exigent rate increase" which would allow the Postal Service to increase rates by more than the increase in the CPI. But the circumstances that qualify are very narrow -- developments that are truly unusual, unanticipated, unavoidable, *et cetera*.<sup>7</sup> Recently the Postal Service applied to the renamed Postal Regulatory Commission (PRC) for an exigent rate increase averaging about 5 percent, citing the recession as justification. The Commission refused the request, basically saying that the Postal Service's problems are systemic and were not caused by the recession.<sup>8</sup>

The second complication relates to the speed at which the Postal Service can change rates and introduce new products. The PAEA divides Postal Service products into two classes: market-dominant, which accounts for 88 percent of revenue, and competitive, which accounts for 12 percent. Rate changes on market-dominant products -- basically all letters and publications -- and new products in this category must be approved by the Board of Governors and then submitted to the PRC at least 45 days before implementation. If the PRC believes the new rates are not in compliance with the law (primarily, that they are too high), the Postal

<sup>7</sup> The qualifying PAEA language reads: "due to either extraordinary or exceptional circumstances." 39 U.S.C. section (36(d)(1)(E).

<sup>8</sup> U.S. Postal Regulatory Commission, "Order Denying Request for Exigent Rate Adjustments," Docket No. R2010-4, September 30, 2010.

Service can then resubmit new rates, restarting the 45-day clock. Rates on products in the competitive category – such as packages and express mail – can be approved by the Board of Governors, announced, and put into effect immediately. However, all such rates and services are then reviewed by the PRC to make sure they conform to legal standards (primarily, that they are above attributable costs and thus are not predatory), and in the event the Commission concludes that they don't conform, can order rescission and/or rebates. Obviously, this procedure disadvantages the U.S. Postal Service, especially when pricing or introducing new market-dominant products (risking delay and revision) or when pricing or introducing new competitive products (running the risk of having services withdrawn and/or having to give rebates).

On the cost side, the complications are even more vexing. The business of mail is really the business of logistics. When patterns of demand change, or when new technologies emerge, the optimal logistical pattern is likely to change as well. But the U.S. Postal Service has been thwarted in making basic changes to its logistical network by numerous "Not In My Backyard" (NIMBY) amendments to Congressional appropriations and other essential legislation. The costs to Postal Service consumers are quite large.

NIMBY is even more prevalent in efforts to close individual post offices. The net costs of such constraints are considerable. Consider: of the Postal Service's 30-thousand-plus post offices, only 6 thousand produce more revenue than costs.

A related issue is the current mandate that the Postal Service provide delivery six days per week. In some cases, of course, it makes sense to have delivery six days per week. But in other cases, delivery no more than five, or even three, or two days per week is all that is justified. Yet, each year, the relevant appropriations law mandates six-day-per-week service. Moreover, the Postal Service is required to deliver mail in every area of the country, regardless of cost. Thus, the Postal Service's "universal service obligation" (USO) is a key feature of its operations.

By far the greatest cost complication relates to the fact that over 80 percent of the Postal Service's costs are salaries and benefits, including retirement. No doubt certain savings could be made by streamlining Postal management. But the largest opportunities for savings lie in further downsizing and reform of the pay and benefits granted members of the Postal Service's four craft unions – primarily the American Postal Workers Union (210 thousand employees) and the National Association of Letter Carriers (205 thousand employees). Under the 1970 Postal Act, employees have a right to organize, but no right to strike. Management has no right to lock out. Management and labor are required to negotiate "in good faith," but if there is an impasse, the matter goes to a three-person arbitration panel. The union gets to pick

one member of the panel; the Postmaster General picks one member; and the third member is chosen from a neutral source.

Over time, on those occasions when a labor dispute has gone to arbitration, the arbitration panels have granted labor generous concessions, and this history is a factor in each negotiation. Econometric work, some of which was sponsored by the Postal Service, has found that postal workers typically receive some 25 percent to 30 percent more than those doing comparable work in the private sector.<sup>9</sup> Moreover, Postal Service employees' benefits are even more generous than those of other government employees. As an example, the federal government pays 72 percent of the cost of most employees' health insurance, but the Postal Service pays 79 percent for its employees.

Of concern also are the work rules imbedded in the Postal Service's labor contracts. They contain no-lay-off provisions for career employees and limits on the number of non-career employees. Obviously, when mail volume is contracting, this poses a problem that becomes more acute (and costly) every year. Moreover, for full-time employees, all shifts must be for a full eight hours. The processing of mail is characterized by peaks and valleys. Both FedEx (non-union) and UPS (union) make great use of four-hour shifts and utilize a lot of part-time employees (primarily college students) to accommodate their mail flows at considerable savings.

Still another cost consideration is the fact that the Postal Service is required, by law, to grant free or (otherwise) reduced rates to certain classes of customers. Although the 1970 Act envisions Congress's defraying some of the shortfalls in revenue, Congress has since decided to let other mailers pay for most of these reduced-rate privileges.

A final cost complication is that the Postal Service is required to contribute each year to a fund that will be sufficient to pay retirees' health benefits. However, independent actuaries as well as the Postal Service's Inspector General have concluded that the amount far exceeds what is warranted, especially given that total employment is contracting.<sup>10</sup> PAEA mandates a payment schedule ranging from \$5.4 billion to \$5.8 billion for fiscal years 2007 through 2016.

<sup>9</sup> See, for example, Michael L. Wachter, "On the Issue of Wages and Benefits in the Postal Service and How They Compare to the Private Sector," Testimony before the Senate Committee on Governmental Affairs, February 4, 2004.

<sup>10</sup> See Office of Inspector General, U.S. Postal Service, "Estimates of Postal Service Liability for Retiree Health Care Benefits," July 22, 2009. The Inspector General has also opined that Postal Service contributions into the Federal Employees Retirement System -- to fund the pensions of Postal employees -- have been excessive as well, by nearly \$7 billion. See Office of the Inspector General, U.S. Postal Service, "Federal Employees Retirements System Overfunding," August 16, 2010.

By contrast, the U.S. Postal Service Inspector General has concluded that the fund's needs over the next few years would be met by payments averaging some \$4 billion less each year.<sup>11</sup>

#### What Has Been Done

In response to the changing mail environment and to increase productivity, the Postal Service has not been standing still. Within the four corners of the master agreements with the unions, the Postal Service has reduced the total number of employees from 902 thousand in 2000 to 672 thousand in 2010 -- see Table 3. It has done this with respect to career employees through attrition, by providing incentives for early retirements, and (indirectly) by reassigning employees to more central work stations. Also, it has laid off or discharged a slightly larger portion of its non-career employees.<sup>12</sup>

**Table 3: Number of U.S. Postal Service  
Career, Non-Career, and Total Employees, 2000-2010**

Year	Career	Non-Career	Total
2000	788	114	902
2001	776	115	891
2002	753	101	854
2003	729	98	827
2004	707	100	807
2005	705	98	803
2006	696	100	796
2007	685	101	786
2008	663	102	765
2009	623	89	712
2010 (pre.)	584	88	672

Because non-career employees are less well paid than career employees, however, the savings have been less than the reduction in the number of employees would imply. And, opportunities of this sort are running out.

Despite the existence of numerous NIMBY legal restraints and, at least equally important, threats of NIMBY amendments, the Postal Service has been able to reduce the scope of, and streamline, its logistical system to some extent. For example, since 2000, the number of Post Offices has declined from 34,645 to 32,292 in 2010, and the number of plants has fallen

<sup>11</sup> Ibid. The fund already has a considerable surplus, according to the Inspector General.

<sup>12</sup> Non-career employees do not have no-layoff rights.

from 675 in 2004 to 565 in 2010. Moreover, while total mail volume fell 14.6 percent between 2000 and 2009, total inflation-adjusted expenses fell 10.7 percent. Even though the latter figure is smaller than the former, this represents remarkable success, given the constraints under which the GSE operates.

Nevertheless, the latest Postal Service forecast envisions another \$7 billion or so in losses for 2011, and without an unanticipated resurgence of mail, substantial regulatory relief, and/or legislative liberalization the Postal Service will not be able to pay its bills at the end of the year.<sup>13</sup>

#### What More Could Be Done

The Postal Service can continue to downsize, even though that is getting more and more difficult. It can also take more aggressive steps in consolidating operations, both to eliminate duplication of facilities (as mail volume falls) and to take advantage of obvious scale economies. Success, however, will depend on the forbearance of Congress.

A major step forward would be adoption of some or all of the restructuring plan Postmaster General Potter unveiled last March.<sup>14</sup> This proposal, which had been developed by Postal management and the Board of Governors over a several-month period, contains the following key elements:

1. Retiree health benefits prefunding. Enact legislation to reduce the mandated annual payments to levels that are really required.
2. Delivery frequency. Enact legislation to permit the Postal Service to adjust delivery frequency -- specifically change from six-days-per-week service to five-days-per-week service.
3. Expand access. Enact legislation to enable (or at least promise not to block) the Postal Service's providing services more responsive to consumers -- locations, hours, and partnerships with other service providers.
4. Workforce. Obtain union agreement to allow the Postal Service to increase workforce flexibility to adapt to customer demands and take advantage of the increasing number of retirements over the next few years to "right-size" total employment.

<sup>13</sup> This forecast assumes borrowing from the U.S. Treasury in the amount of \$3 billion -- the legal maximum borrowing in any year -- but also reaching the \$15 billion legal limit on borrowing.

<sup>14</sup> See, for example, U.S. Postal Service, "Ensuring a Viable Postal Service for America: An Action Plan for the Future," March, 2010.

5. Pricing. Enact legislation and obtain PRC cooperation to allow the Postal Service more flexibility to price market-dominant products in line with costs and market conditions.

6. Expand products and services. Enact legislation and obtain PRC cooperation to give the Postal Service additional flexibility to introduce services ancillary to its basic mission to deliver the mail.

7. Oversight. Reinforce these changes with more clearly-defined, appropriate, and agile oversight roles and more streamlined processes.

More steps could be considered, with the goal of not just restoring the Postal Service's financial viability, but increasing the efficiency of the broader postal market.

The most obvious proposal is to demonopolize and privatize the Postal Service -- simultaneously freeing the Postal Service from rate/product supervision by the PRC, putting additional distance between the Postal Service and the complications associated with political management (see above),<sup>15</sup> and subjecting the Postal Service to the additional pressure of having to answer to stockholders with a keen interest in the "bottom line." A request to repeal the private express statutes as well as privatize the Postal Service was contained in President Reagan's 1987 budget proposal to Congress. The initiative got absolutely no support -- none. Moreover, despite more recent proposals by Rep. Dana Rohrabacher and a few other Members of Congress to transfer Postal Service ownership to its employees in exchange for demonopolization, they have garnered little support or even interest. In today's political environment, demonopolization/privatization is simply a non-starter.

That leaves trying to make the Postal Service function as an efficient business enterprise and allowing it more competitive freedom as the market continues to evolve. That would both increase the organization's operating effectiveness and increase the efficiency of the broader postal market.

Additional steps might be considered. For example, the current contract negotiations with the American Postal Workers Union and the next year's negotiations with the National Association of Letter Carriers are viewed by many as a test of whether the current special labor law can work in a fashion that approximates what would obtain in an industry facing a similar market environment. If the outcome of the negotiations, possibly with arbitration, are not viewed positively, Congress and the President might consider directing the arbitrators more

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<sup>15</sup> The two issues are separate. Of the two, from the standpoint of efficiency, the more important is demonopolization, as even with government ownership an enterprise will fail if it is not "competitive."

explicitly about what constitutes truly comparable pay. Or, they might even consider giving the unions the right to strike and management the right to lock out -- and in either of those cases, of course, trigger an automatic suspension of the private express statutes.

Relaxing the Postal Service's USO might also be considered. The typical response is that the result would be a widespread curtailing of service. But adaptation of service in special circumstances is the more likely outcome, and the vast majority of Postal patrons would see little or no diminution in the services they receive. Consider that the same argument was made in opposition to airline and trucking deregulation in the 1970s. Yet, following deregulation service flourished in most areas of the country, and curtailments were few and far between. Also consider that neither FedEx nor UPS has a USO, yet their service is truly ubiquitous.

Perhaps relaxing the Postal Service's USO might be accomplished in exchange for repeal of the private express statutes. Consider, for example, that the PRC, in response to a mandate contained in the PAEA, performed a two-year study which concluded that the USO costs the Postal Service some \$4.4 billion annually, whereas the value to the Postal Service of its monopoly on letter mail (including the mailbox) is \$3.5 billion annually.<sup>16</sup>

In a similar vein, responding to another requirement of the PAEA, the Federal Trade Commission (FTC) made an extensive study of the advantages and disadvantages of the Postal Service's special GSE status relative to its competitors in the competitive category of service.<sup>17</sup> The FTC concluded that the USPS's "unique legal status likely provides it with a net disadvantage versus private carriers" and that both the burdens imposed on the Postal Service and the implicit subsidy likely to exist in the Postal Service's provision of competitive services are "two distortions that compound each other and negatively affect the provision of competitive mail products." The FTC went on to recommend, among other things, that Congress consider reducing constraints on the Postal Service's competitive operations, that the PRC be vigilant in making sure pricing in the competitive area does, indeed, cover attributable costs, and that Congress consider narrowing the Postal Service's monopoly to allow for greater competition. The point, of course, is that while there are special preferences that help the Postal Service, the myriad of constraints are more than offsetting.

Another way to give the Postal Service more "running room" would be for the PRC to exercise its authority under PAEA to put more classes of mail in the "competitive" category --

<sup>16</sup> U.S. Postal Regulatory Commission, "Report on Universal Postal Service and Postal Monopoly," December 19, 2008.

<sup>17</sup> U.S. Federal Trade Commission, "Accounting for Laws That Apply Differently to the United States Postal Service and Its Private Competitors," December, 2007. The rest of the paragraph is based on pp. 8-11, *infra*.

such as publications, which are not covered by the private express statutes. That would allow the Postal Service to respond more quickly to market conditions.

Surely too, Congress might wish to revisit its policy of expecting Postal Service rate-payers to subsidize certain types of Postal customers. If that is a truly favored social policy, then there is strong argument that the subsidy should come out of the U.S. Treasury rather than out of rate-payers' pockets. In short, this would mean that Congress would appropriate to the U.S. Postal Service the justifiable shortfalls in providing losing services such as publications and media/library mail, and defray the costs of meeting the USO.<sup>18</sup>

Finally, the Postal Service might consider increasing its use of contract employees. Besides being lower in cost than full-time employees, the work rules for contract employees are not nearly so confining – and thus pose an opportunity to increase productivity as well. The major reason the Postal Service has not moved more decisively in this direction is the likelihood of Congressional action to forbid all contracting out or to limit it severely. Thus, utilization of this means to increase Postal Service efficiency depends very much on Congressional forbearance.<sup>19</sup>

#### Concluding Remark

The U.S. Postal Service is one of the world's largest business enterprises. On the basis of revenue, it ranks among the top 30 in America. Right now it is facing a fiscal crisis of the sort it has not seen since the Great Depression. It is important to understand that the problem is systemic. Solving it requires a new approach, not fine-tuning. No doubt, the current economic recession has exacerbated the problem. So has recent legislation, which established a more burdensome regulatory regime and requires excessive payments to the U.S. Treasury. But the main contributor is an old business model which no longer works. Return of a robust economy, some regulatory acquiescence, and temporary relief from payments will not solve the long-term problem. The U.S. Postal Service faces a very different business environment than just a few decades ago. Continued use of the old business model is a formula for failure. A new approach, such as outlined here, is essential if the U.S. Postal Service is to survive and meet its mandated responsibility of providing high-quality postal services to all Americans.

<sup>18</sup> Pursuant to the 1970 Act, the U.S. Postal Service is reimbursed, generally, for free mail to the blind and other such mandates.

<sup>19</sup> Numerous proposals along the lines just described have been advanced in the literature and by government agencies. The reason for citing agency reports here is that they are the ones most likely to come to the attention of government policymakers and are typically based, in part, on the academic literature. For more such proposals, see U.S. General Accountability Office, "U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability," April, 2010.

**BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEES****A. BIOGRAPHICAL INFORMATION**

1. **Name: (Include any former names used.)**  
**Answer:**  
James Clifford Miller III
2. **Position to which nominated:**  
**Answer:**  
Governor, United States Postal Service
3. **Date of nomination:**  
**Answer:**  
March 28, 2012
4. **Address: (List current place of residence and office addresses.)**  
**Answer:**  
Home REDACTED  
  
Office – 750 17th Street, N.W.  
Washington, DC 20006
5. **Date and place of birth:**  
**Answer:**  
June 25, 1942; Atlanta, Georgia
6. **Marital status: (Include maiden name of wife or husband's name.)**  
**Answer:**  
Married Demaris Guest Humphries on December 22, 1961
7. **Names and ages of children:**  
**Answer:**  
Katrina Demaris Miller, 42  
John Felix Miller, 41  
Sabrina Louise Miller, 39
8. **Education: List secondary and higher education institutions, dates attended, degree received and date degree granted.**  
**Answer:**  
Rockdale County High School; 1956-1960; H.S. Diploma; 1960  
University of Georgia; 1960-1965; B.B.A. Economics; 1965  
University of Virginia; 1965-1968; Ph.D. Economics; 1969

9. **Employment record:** List all jobs held since college, and any relevant or significant jobs held prior to that time, including the title or description of job, name of employer, location of work, and dates of employment. (Please use separate attachment, if necessary.)

**Answer:**

See Attachment A, pages 1-4.

10. **Government experience:** List any advisory, consultative, honorary or other part-time service or positions with federal, State, or local governments, other than those listed above.

**Answer:**

See Attachment A, pages 1-4.

11. **Business relationships:** List all positions currently or formerly held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution.

**Answer:**

See Attachment A, pages 1-4

12. **Memberships:** List all memberships, affiliations, or and offices currently or formerly held in professional, business, fraternal, scholarly, civic, public, charitable or other organizations.

**Answer:**

See Attachment A, pages 1-4.

13. **Political affiliations and activities:**

- (a) List all offices with a political party which you have held or any public office for which you have been a candidate.

**Answer:**

None; candidate for Republican nomination to U.S. Senate from Virginia, 1994 and 1996.

- (b) List all memberships and offices held in and services rendered to any political party or election committee during the last 10 years.

**Answer:**

Consultant or Finance Chairman for spouse's (Republican) candidacy for U.S. Congress in 8th District of Virginia, 1998 and 2000. Also, member of Rappahannock County (Virginia) Republican Committee, 2001- present.

- (c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more during the past 5 years.

**Answer:**

To the best of my knowledge and recollection –

\$4,000 to McCain for President, 2008  
 \$1,000 to Bob McDonnell for Governor, 2009  
 \$500 to Bill Boling for Lt. Governor, 2009  
 \$300 to Ken Cuccinelli for Attorney General, 2009  
 \$1,000 to Sutton for Congress, 2009  
 \$100 to Blount for Senate, 2009  
 \$100 to Texans for Ted Crux, 2009  
 \$100 to Campbell for Governor, 2009

14. **Honors and awards:** List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements.

**Answer:**

Thomas Jefferson Fellowship, University of Virginia, 1965-1967  
 Ford Foundation Fellowship, University of Virginia, 1967-1968  
 Honorary Doctorate, Georgia State University, 1984  
 Honorary Doctorate, University of the Pacific, 1987  
 Honorary Doctorate, Kennesaw College, 1988

15. **Published writings:** Provide the Committee with a list and two copies of any books, articles, reports, or other published materials which you have written. These items can be provided electronically via e-mail or other digital format.

**Answer:**

My wife and I have just moved into a new home, which was under construction for over two years. During most of this time, we lived in a small cottage, and our belongings were stored away and inaccessible. We have begun to unpack, but the location of many of my various publications is uncertain at this time.

However, two copies of everything of relevance was delivered to the committee when I was nominated for this position in 2003, and I presume the committee still retains this material, as I do not recollect it's being returned to me.

Since 2003, I have published relatively little. The exceptions are the first few academic articles listed on page 5 of Attachment A. I have located, and am providing separately, copies of all but two of these. In addition, I gave an invited paper on the Postal Service to an academic audience over a year ago, and this too is being provided separately, along with a few other papers. Finally, during my searches I was able to locate several op-eds, which I am also providing.

16. **Speeches:**

- (a) Provide the Committee with a list and two copies of any formal speeches you have delivered during the last 5 years which you have copies of and are on topics relevant to the position for which you have been nominated. Provide a list and copies of any testimony to Congress, or to any other legislative or administrative

body. These items can be provided electronically via e-mail or other digital format.

**Answer:**

See response to #15 above. I have given numerous speeches over the past 7 years, almost all from notes. The principal prepared remarks were delivered in Postal Service stamp dedication ceremonies or in Congressional testimony. I am providing (separately) two copies of each of these to the Committee. In addition, I am providing separately copies of non-Postal Congressional testimony I was able to locate.

- (b) Provide a list of all speeches and testimony you have delivered in the past 10 years, except for those the text of which you are providing to the Committee. Please provide a short description of the speech or testimony, its date of delivery, and the audience to whom you delivered it.

**Answer:**

See response to #15 and (a) above.

17. **Selection:**

- (b) Do you know why you were chosen for this nomination by the President?

**Answer:**

I have no knowledge of the specific reason(s).

- (b) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

**Answer:**

Knowledge of, and experience in, government and business, especially experience as a Governor of the U.S. Postal Service (2003-2011), including three years as elected chairman; and formal education.

**B. EMPLOYMENT RELATIONSHIPS**

18. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?

**Answer:**

No, because none pose any conflict and because this is a part-time appointment.

19. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.

**Answer:**

No specific plans, commitments, or agreements, but I expect to continue to be employed in the private sector during my time of service with the government.

20. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization, or to start employment with any other entity?

**Answer:**

No plans, commitments or agreements, but see answer to #18 and #19 above.

21. Has anybody made a commitment to employ your services in any capacity after you leave government service?

**Answer:**

No, other what is implied by answer to #18 above.

22. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?

**Answer:**

Yes.

23. Have you ever been asked by an employer to leave a job or otherwise left a job on a non-voluntary basis? If so, please explain.

**Answer:**

No.

#### C. POTENTIAL CONFLICTS OF INTEREST

24. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

**Answer:**

During the past 10 years, I have served in academic posts, with 501(c)(3) and 501(c)(4) organizations, with law firms, as a member of the boards of several companies, and as an independent consultant (see Attachment A, pages 1-4). None, to my knowledge, pose, or posed, a conflict with the position of Governor of the U.S. Postal Service. Indeed, pursuant to federal law, each year, while serving as a Governor, my affiliations, sources of income, etc. were all examined by the Postal Service's ethics officer to assure there would be no conflicts, and before committing to any employment relationship I checked with the Postal Service's ethics office to clear such a relationship.

25. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration or execution of law or public policy, other than while in a federal government capacity.

**Answer:**

a. In approximately 2004, while serving as chairman of the CapAnalysis Group, a subsidiary of Howrey, LLP, I contacted the General Counsel of the U.S.

Department of Agriculture in hopes of establishing negotiations leading to a settlement of a lawsuit on behalf of American Indians who were represented by Howrey and who claimed discrimination in program grants over the years. I filed a report with Congress as a result.

b. In approximately 2004 to 2009, I served as a consultant to the National Association of Broadcasters, where I prepared studies of issues of concern to the association. On occasion, I accompanied a member of the NAB staff to the offices of Congressmen and Senators to explain my analysis and discuss its implications.

c. In 2008, I contacted both the Office of Information and Regulatory Affairs and the U.S. Department of Transportation on behalf of a client of Husch Blackwell, LLP, the law firm where I serve as Senior Advisor, in order to determine the time frame of a regulation to be promulgated by DOT and to explain why the matter was timely. Because of the de minimis nature of this activity, I did not file with Congress.

d. In 2009, as a member of the board of directors of Clean Energy Fuels, Corp., I joined a group of other directors and officers in visiting various Congressional offices to explain the advantages of using natural gas for vehicles, sometimes known as the "Pickens Plan." Again, because of the de minimis nature of this activity, I did not file with Congress.

26. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

**Answer:**

Yes.

#### **D. LEGAL MATTERS**

27. Have you ever been disciplined or cited for a breach of ethics or unprofessional conduct by, or been the subject of a complaint, to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

**Answer:**

No.

28. Have you ever been investigated, arrested, charged or convicted (including pleas of guilty or nolo contendere) by any federal, State, or other law enforcement authority for violation of any federal, State, county or municipal law, other than a minor traffic offense? If so, provide details.

**Answer:**

When I ran for the Republican nomination for U.S. Senate from Virginia in 1966, just before the primary my opponent's campaign manager filed a

complaint with the Federal Elections Commission. After investigation, the FEC chose not to pursue the matter.

- 29. Have you or any business of which you are or were an officer, director or owner ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

**Answer:**

As a member of the board of directors of Atlantic Coast Airlines (d.b.a. United Express, Delta Connection, and Independence Air), I was aware of several routine actions by the Federal Aviation Administration.

One or more of the mutual funds on whose board I serve were the subject of a lawsuit by the Attorney General of California, alleging excessive fees. It is my understanding that all of these have been dismissed, with prejudice.

- 30. For responses to question 29, please identify and provide details for any proceedings or civil litigation that involve actions taken or omitted by you, or alleged to have been taken or omitted by you, while serving in your official capacity.

**Answer:**

None of these actions listed me personally.

- 31. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

**Answer:**

Nothing more to add.

**E. FINANCIAL DATA - REDACTED**

All information requested under this heading must be provided for yourself, your spouse, and your dependents. (This information will not be published in the record of the hearing on your nomination, but it will be retained in the Committee's files and will be available for public inspection.)

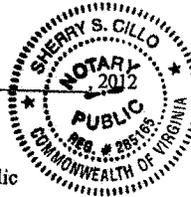
**AFFIDAVIT**

James C. Miller III being duly sworn, hereby states that he/she has read and signed the foregoing Statement on Biographical and Financial Information and that the information provided therein is, to the best of his/her knowledge, current, accurate, and complete.

Subscribed and sworn before me this 6th day of April

Commission expires 4/30/12

Notary Public



**U.S. Senate Committee on Homeland Security and Governmental Affairs  
Pre-hearing Questionnaire  
For the Nomination of James C. Miller III to be  
Governor of the United States Postal Service**

**I. Nomination Process and Conflicts of Interest**

1. Why do you believe the President nominated you to serve as a Governor of the United States Postal Service (“USPS” or “Postal Service”)?

Answer: I do not know specifically, inasmuch as I did not talk directly with the President. I do know that Senate Minority Leader Mitch McConnell recommended me for the post and that I underwent extensive vetting by the White House Office of Personnel and other government entities.

2. Were any conditions, express or implied, attached to your nomination? If so, please explain.

Answer: None, with the exception that I agreed not to be a lobbyist while serving on the Board of Governors.

3. What would be your priorities as a Governor?

Answer: To restore the fiscal integrity of the Postal Service while maintaining high-quality service – all within the four corners of the enabling statutes.

4. What specific background and experience affirmatively qualifies you to be a Governor of the Postal Service?

Answer: My education (B.B.A. and Ph.D. in economics), my experience in government (incl. Chairman of the Federal Trade Commission and Director of the Office of Management and Budget), my experience in the private sector (incl. membership on the boards of several companies and chairmanship of the audit committees of some of them), and, specifically, my experience as a member of the USPS Board of Governors, including three terms as chairman and several years as chairman of the Audit and Finance Committee.

5. Have you made any commitments with respect to the policies and principles you will attempt to implement as Governor? If so, what are they, and to whom were the commitments made?

Answer: I have made no such commitments other than those made or implied in my responses to the committee.

6. If confirmed, are there any issues from which you may have to recuse or disqualify yourself because of a conflict of interest or the appearance of a conflict of interest? If so, please explain what procedures and/or criteria that you will use to carry out such a recusal or disqualification.

Answer: Because I serve on the board of directors of Clean Energy Fuels, Inc. and have stock in the company, I will recuse myself from all Board decision making over USPS vehicles. I will also report to the USPS Ethics Officer any changes in my relationships that might pose a conflict or appearance of a conflict – in order to remedy same. Finally, I will participate in the Board's annual ethics training and will provide the required financial report.

## **II. Role and Responsibilities of a Governor of the United States Postal Service**

7. Why do you wish to serve a second term as a Governor of the Postal Service?

Answer: Because the USPS faces unprecedented challenges, and I think I can help.

8. What do you consider to be your most significant accomplishments and achievements during your first term as a Postal Service Governor?

Answer: Working to achieve bipartisanship in all Board undertakings; leading the Board while serving as chairman; leading the Audit and Finance Committee while serving as chairman of that committee and helping to bring about a very successful Sarbanes-Oxley process; participation in the recruitment, approval, and/or retention of several outstanding USPS officers; helping the Postal Service implement the terms of the 2006 Postal legislation; staying in contact with, and occasionally speaking before, groups of USPS constituents, including mailers, shippers, and employees; testifying before committees of Congress on several occasions; arranging meetings with White House officials concerning Postal issues; increasing the scope of information on Postal activities received by the Board; initiating the "Forever Stamp" series; and, finally, assisting with the issuance of the Reagan 39-cent (as well as 37-cent) and Centennial stamps.

9. What specific contributions do you plan to make during your second term on the Board of Governors? How would your previous experience as a Governor help to inform and guide your decisions as a Postal Service Governor?

Answer: First, if confirmed, I will continue to work with my colleagues and with management to address the financial challenges USPS faces -- just how depends on circumstances. Second, I will continue to communicate with USPS constituents. Third, I

will respond to Congressional inquiries that may materialize. During my first term on the Board I gained experience in each of these areas.

10. The Postal Board of Governors (the Board) is responsible for directing the powers of the Postal Service, including its financial, accounting, and operational functions. How have your professional experiences provided you with the necessary business skills to effectively govern the Postal Service?

Answer: First, my education – B.B.A. and Ph.D. in economics (Universities of Georgia and Virginia, respectively). Second, my experience in business – I presently serve as chairman of the audit committees and financial expert of Washington Mutual Investors, the Tax-Exempt Fund of Maryland, the Tax-Exempt Fund of Virginia, the J.P. Morgan Value Opportunities Fund, and Clean Energy Fuels, Inc. Finally, my experience in government, which gives me an appreciation for the opportunities and limits of business applications to government enterprises such as USPS.

11. What do you see as the principal mission of the Board? What do you see as its principal responsibilities?

Answer: The Board of Governors is like a board of directors of a commercial enterprise - serving shareholders, which in this case are Members of Congress and the President. Of course, as opposed to the ordinary commercial enterprise, USPS faces (additional) specific requirements with respect to pricing, services, human resources, and other matters specified in legislation and/or promulgated by its regulator, the U.S. Postal Regulatory Commission.

12. What do you see as the main challenges facing the Postal Service? What do you believe should be the Board's top priorities in meeting those challenges? How should the Board of Governors work with postal management to address these challenges?

Answer: The main challenge is to restore USPS to financial viability while maintaining acceptable service standards. To meet this challenge the Board should insist on further cost-cutting (within applicable law) and revenue-enhancement, primarily by price adjustments (again within applicable law) and better marketing of its products. Also, it should work with the Administration and Congress to secure appropriate legislative reforms.

13. What do you believe are the functions and responsibilities of an individual Governor? What in your training and experience demonstrates your qualifications to fulfill these functions and responsibilities?

Answer: Board members are like board members of ordinary commercial corporations – directing policy, but not its implementation. As for the other, please see my answer to #10 above.

14. What do you believe should be the respective roles and functions of the Postal Service Board of Governors and the Postal Service management? How do you believe the Board and management can best work together to meet the challenges facing the Postal Service?

Answer: The Board should establish policies and leave implementation to management. Of course, oversight of management's efficacy in implementing Board-set policies is also a responsibility of the Board.

15. The Governors are chosen to represent the public interest generally. How do you plan to interact with various stakeholders interested in postal issues and how do you think as a Governor you can effectively represent their interests?

Answer: As before, I will speak often, but listen even more. In my experience, Board members are not shy about voicing their views, often punctuated with examples from constituents. That was true of my participation on the Board.

### **III. Policy Questions**

#### *Postal Reform and Financial Issues*

16. The U.S. Postal Service continues to experience volume and revenue losses. The Postal Service ended Fiscal Year (FY) 2011 with a net loss of \$5.1 billion. USPS would have lost an additional \$5.5 billion if it had made the annual retiree health benefits payment required under the Postal Accountability and Enhancement Act of 2006 (PAEA) (P.L. 109-435). Congress delayed the Postal Service's statutorily required FY2011 deadline until August 1, 2012. (H.Rept. 112-331). Further, the Postal Service reported a loss of \$3.3 billion for the first quarter of FY2012 and \$3.2 billion for the second quarter.
- a. In your view, what is the Board of Governor's role in overseeing USPS's efforts to improve its financial condition and exercising its flexibility to increase postal revenue and cut costs, while also meeting its universal service obligations and other statutory requirements?

Answer: The ultimate responsibility is the Board's.

- b. How does this differ from the role of the Postal Regulatory Commission (PRC) or the role of Congress?

Answer: The PRC's role is mandated by applicable law. In my view, to the extent possible the PRC should be passive – restraining the USPS only when it (PRC) is convinced the USPS is violating (or about to violate) applicable law. I do not believe it in the public's interest for the PRC to impose its policy views on USPS. That's the Board's job.

17. Mail volumes and revenues are continuing to decline and First-Class Mail is projected to significantly decline over the next decade.

a. How can the Postal Service remain viable in a market where e-commerce and electronic communication and payments are increasing?

Answer: Only if it is given more freedom to operate like a business. That means freedom to price, to change its menu of services, and to rationalize its logistical network. Also, it will need reform of its labor law in order to make its employees more productive and lower their costs. Restoration to fiscal stability is simply not feasible without structural reform. The old model of using the profits on first-class mail to subsidize other classes of mail and support an inefficiently broad offering of mail services and employment security simply doesn't work anymore.

b. How can the Postal Service work with the technology sector in order to utilize and improve its existing network?

Answer: Increasingly USPS has taken advantage of the Internet to communicate its services, facilitate transactions for mailers (incl. the public), and to increase sales, especially package mailing. It should do more in this vein. There is a need for greater IT-type technological expertise at the Postal Service, but attracting such personnel is limited by USPS pay scales.

c. What new actions should the Postal Service take to maintain its viability and competitiveness?

Answer: Without structural reform enabled by Congress and the President, USPS is limited in what it can do to restore viability and maintain competitiveness. But there are some things USPS could and should do to enhance those objectives. First, continue to reduce costs (within the existing legislative framework), making use of personnel attrition and reassignments as well as revisions in its logistical framework as far and as fast as allowed. Second, USPS can further market its services by tailoring them better to the marketplace, by training its employees to be even better service providers, and by improving its marketing not only to key customers but potential customers as well.

18. The Postal Service continues to experience significant declines in mail volumes and revenues.

a. How proactive should the Board be in identifying areas for the Postal Service to cut costs quickly so that it can cover its operating expenses?

Answer: The Board has been intricately involved in identifying areas for cost-cutting, and appropriately so. It should continue that policy.

b. What is the Board's role and responsibilities in identifying opportunities for USPS to increase volume, including any public-private partnerships with the Postal Service's current mailers?

Answer: In this area as well, the Board has been intricately involved. The prospect of public-private partnerships has been explored, and certain opportunities have been seized. But more work in this area is warranted.

19. The Government Accountability Office (GAO) included the Postal Service on its high-risk list in 2011, because of its financial condition. GAO added the Postal Service's financial condition on its high-risk list in 2009 after removing USPS in 2007. In your view, what should be the Postal Service's strategy for improving its financial condition and restructuring its business model to ensure its long-term viability, in addition to any factors that the Postal Service has announced as part of its new business model?

Answer: It should undertake the agenda I described in my answer to question #17. In addition, it should work with Congress to secure more flexibility to operate as an efficient business enterprise.

20. On April 25, 2012, the Senate passed the 21<sup>st</sup> Century Postal Service Act of 2012 (S. 1789). This legislation includes major reforms to help USPS cut costs and generate revenue. The Board of Governors issued a statement in response to the Senate's action, and stated that "the Senate's bill would not enable the Postal Service to return to financial viability." Do you agree with the Board of Governors' statement? Please explain.

Answer: I agree with the sentiments expressed in the Board's statement. My reading of the USPS financial statements, together with a reasonable forecast of the business and the marketplace, forces me to conclude that the changes incorporated in S. 1789 would be insufficient to return USPS to financial viability. While some provisions are helpful in that direction, others are harmful – delay of delivery flexibility and caps on compensation among them.

21. In response to the Senate's action on S. 1789, the Board of Governors stated that it is "inappropriate to delay the implementation of 5-day delivery."

Page 6 of 13

- a. What is your opinion of USPS's plan to move to five-day delivery?

Answer: I think we made a mistake in calling it "six-day to five-day (per week) delivery." We should have called it delivery flexibility. Some markets merit six-day delivery; some five-, and perhaps others only one- or two-. I realize that estimates of savings from suspension of the six-day requirement vary. But the savings would be substantial – and in this time of financial crisis, USPS needs to explore every avenue for such cost savings.

- b. How do you believe reducing mail delivery to five days per week would impact mail volume and revenue generation opportunities?

Answer: It would reduce mail volume and opportunities marginally, but manageably. People would still be able to obtain needed mail at their local post offices on Saturdays, and exceptions could be made for emergencies, such as medicines. But numerous polls have found that people are not particularly concerned about six-day vs. five-day delivery.

22. S. 1789 permits the Postal Service to provide non-postal products and services, provided that the PRC determines that the provision of such product or service meets the following criteria: (1) it utilizes the Postal Service's processing, transportation, delivery, or retail network or technology; (2) it is consistent with the public interest and a demonstrated demand for the Postal Service to provide the services; (3) it would not create unfair competition with the private sector; (4) it will be undertaken in accordance with federal laws applicable to the provision of such product or service; and (5) it has the potential to improve the net financial position of the Postal Service.

- a. What non-postal products do you believe USPS should be allowed to offer? Why?

Answer: I remain to be convinced of the need for USPS to sell non-postal products. As I testified years ago at my first confirmation hearing for this post, as long as USPS retains a monopoly on letter mail, it should not be given authority to move into non-postal business. Specifically, I oppose USPS's getting into the banking business. The notion that, overnight, USPS could become competitive with banks and make money on such an activity seems pretty far-fetched to me.

- b. Do you believe the standards under S. 1789 are sufficient?

Answer: Respectfully: if I were inclined to approve the provision of non-postal services, I would certainly not want to have to meet this list of requirements, as they would greatly restrain the ability of USPS to seize opportunities for service expansion and revenue growth. Imagine being the CEO of a competitive business enterprise and

being required to prove to a third party (and wait months, if not years, for that third party's decision) that a proposed new product or service utilizes your current manufacturing/marketing facilities, that there is a demonstrable demand for the new offering, that it would not constitute unfair competition, that it would be consistent with applicable federal laws, and that it holds the potential for earning a profit. You'd just not try. It reminds me of how truckers had to prove to the ICC and airlines to the CAB that they would be meeting a similar set of requirements -- matters on which I published academic work years ago. Only when truckers and airlines were released from such regulation did these markets become truly competitive.

*Postal Rates*

23. One of the core principles of the PAEA is to provide the mailers with predictability and stability, which allows mailers to better plan their mailing and could allow them to increase the amount of business they do with the Postal Service. What steps do you believe the Postal Service should take to provide mailers with this desired predictability and stability?

Answer: In my judgment, current policies and regulations are more than sufficient in this regard. Keep in mind that even without any regulations, it is in USPS's interest to give its customers a reasonable degree of notice about any price change and/or schedule change -- and to keep prices stable as long as reasonably possible.

*Facility Closings and Relocations*

24. How do you believe the Board should be involved in decisions to realign postal retail and mail processing networks, including decisions to close specific facilities?

Answer: The Board should determine whether realignment of postal installations is appropriate and if so should approve the principles and general framework for accomplishing this task. But, as a general rule, the Board should not be involved in the execution of such a plan (though oversight of its implementation would be an on-going responsibility).

25. What role should the Board play in ensuring that the Postal Service communicates with its customers and employees so that they are aware of updated information on the consolidation process, as it becomes available?

Answer: Board members should insist there be a program of thorough, two-way communication with customers and employees about any and all contemplated changes in USPS infrastructure. As appropriate, they should personally participate in the process and in any event should receive timely reports on challenges and results from USPS management.

26. According to GAO, approximately 30 percent of postal revenue comes from alternate retail channels such as the USPS website, automated postal centers, and contract postal units. Do you believe the Postal Service should increase the use of alternate retail channels, and if so, how should this be accomplished?

Answer: Yes, it should. With changing technology and work habits, it is only natural that the demand for Postal services will continue to move in that direction. USPS should take every opportunity to stay “ahead of the curve” in providing even more accessible Internet transactions and utilization of commercial enterprises to accomplish its mission.

*Workforce-Related Issues*

27. The Postal Service has been reducing its workforce through hiring freezes, early retirements, and incentive payments for some targeted attrition, but still had excess employees in some areas. Does the Postal Service have sufficient flexibility to adjust its workforce to changes in mail volume? If not, what additional flexibility is needed?

Answer: USPS has some latitude with respect to adjustments in its labor force, but is restricted by the natural attrition of its employees, by the “no-layoffs” provisions of its labor agreements, and by various Congressional restrictions on its restructuring. It is important that the latter two matters be addressed.

28. Approximately 80 percent of USPS’s costs are labor-related, which includes employee compensation and benefits. What is the appropriate approach for the Board to take with respect to USPS’ labor-related costs?

Answer: USPS should continue to shrink (“rationalize”) the workforce for both management and labor. With respect to compensation, under current applicable law it negotiates with its craft unions very hard, but is constrained by knowledge that arbitration is likely to give organized labor very favorable outcomes. Consequently, USPS is prone to settle on terms that most empirical evidence suggests incorporate levels of compensation (pay plus benefits) substantially exceeding those for comparable work in the private sector. As I stressed in my testimony before the House Oversight Committee last year, for USPS to obtain more favorable (i.e., less costly) outcomes, Congress needs to change the applicable labor law.

29. In 2008, GAO reported that the Postal Service’s Postal Career Executive Service (PCES) was comprised of 29 percent women and 25.5 percent minorities. The PAEA requires the Board of Governors to report on the representation of women and minorities in supervisory and management positions. In addition to this requirement, how do you

...

believe the Board should work with the Postal Service to fully assess and evaluate diversity issues within USPS and make improvements in this area?

Answer: This is an on-going concern for the Board and for me personally. We should acquire the most qualified person for the position. But we should look at what the hiring or promotion would accomplish in the longer run. Accordingly, we should engage in “affirmative recruitment” of women and minorities and recognize that someone who might not have had the chance in the past will perform better than indicated by usual metrics – and, accordingly, for the benefit of the USPS and because it is the right thing to do, make a determination on that basis.

30. As an increasing number of postal executives, managers, and supervisors are eligible to retire, how can the Board work with postal management to address these challenging succession, continuity and associated cost issues?

Answer: The Board realizes the substantial turnover in management personnel that is right around the corner and is particularly concerned about USPS’s ability to replace them. USPS is not an attractive place to work right now, what with its dire financial outlook, not to mention its shrinking market. The Board should continue its work overseeing the retirement of career managers and thanking them for their contributions, but also working with management to design policies to recruit the best and the brightest.

31. Performance-based compensation systems have recently been implemented for postal executives, as well as managers and supervisors. The success of these systems depends on the credibility of the performance measures. How can the Board ensure the credibility of the Service’s performance-based compensation systems? Do you have an opinion about performance-based compensation?

Answer: Performance-based compensation is wonderful in theory. The challenge is making it work in practice, and you identify the problem: metrics. The Board should learn from its experience with the system, using feedback from participants to guide appropriate adjustments. Also, the Board should investigate more what metrics other enterprises have concluded make the most sense.

32. The Postal Service is subject to Occupational Safety and Health Act workplace safety laws in the same manner as private-sector employers. How can the Board help ensure compliance with this law and encourage efforts to improve the safety of the workplace?

Answer: The Audit and Finance Committee receives reports on workplace safety on a regular basis, and the full Board does as well, although not as frequently. At both levels, the Board has stressed the importance of increased safety – not only as a financial matter, but one of compassion for its employees and their families. USPS’s program in this

regard has realized some improvement, as incidents per employee have been on a downward trend.

33. Please describe the kind of labor-management relationship you believe is most desirable at the Postal Service, and what is your opinion about the current state of labor-management relations within the Postal Service?

Answer: USPS should have a new labor law that gets away from the sword of compulsory arbitration. Both labor and management should have more freedom to maneuver. Evidence of this need is that while USPS signed an agreement with the American Postal Workers Union and its membership approved it, the result was critical Congressional hearings. Also, I understand that at least one union is still outstanding, and the matter is now in compulsory arbitration. Increasingly, USPS is in a competitive environment, and its labor law needs to reflect that.

34. What do you believe should be done to facilitate effective cooperation between postal management and Postal Service labor unions, and what should the Board do in this regard?

Answer: The Board should insist on more communication between USPS management and members of the craft unions, as well as with their leaders. Those on each side should be led to understand the others' perspectives, and the goal should be for all involved to become more aware that "we're all in the same boat, and it's sinking."

*Mail Safety and Security*

35. What is your opinion of the Postal Service's current programs to manage risks posed by suspicious mail to enhance the safety and security of the mail?

Answer: They are very good, but it would be worthwhile to explore how they might be made better without unduly delaying the mail.

36. What are the tradeoffs that should be considered to determine what actions the Postal Service should take to enhance the safety and security of the mail – for example, in terms of potential impacts on postal operations and service delivery?

Answer: It is, as you imply, a trade-off. There is always the danger of a calamity, but to lower that prospect to zero would bring mail processing and distribution to a halt. Perhaps the best that can be said is that USPS should tirelessly review its procedures to see where they could be improved. A formal presentation to the Board and discussion would be of help in this endeavor.

37. To what extent should any additional costs of enhancing mail security be funded by ratepayers, and to what extent by taxpayers?

Answer: Arguably, that's a joint responsibility. Without the mail, there would be no need for "mail security," but were it not for international (and some domestic) tensions there would also be no need for "mail security." But I would shy away from public funding to defray such costs inasmuch as the same principle ("joint responsibility") could be said to apply to many other businesses that face increased costs of security, some of which are USPS competitors – FedEx and UPS, for example.

38. What steps should the Postal Service take to maintain trust and credibility with its employees and customers that the mail is safe? How can the Postal Service improve its response to hazardous incidents to ensure that appropriate safety procedures are understood and followed by all employees?

Answer: USPS should work on several fronts: educate its employees and the mailing public about risks, how to detect hazards, and how to avoid and/or eliminate them. Also, USPS should reinforce its safety message to employees (internal communications) and to consumers (e.g., notices in post offices and direct mailings on occasion).

#### **IV. Relations with Congress**

39. Do you agree, without reservation, to respond to any reasonable summons to appear and testify before any duly constituted committee of the Congress if you are confirmed?

Answer: Yes.

40. Do you agree, without reservation, to reply to any reasonable request for information from any duly constituted committee of the Congress if you are confirmed?

Answer: Yes.

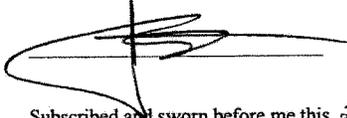
#### **V. Assistance**

41. Are these answers your own? Have you consulted with the Postal Board of Governors or any interested parties? If so, please indicate which entities.

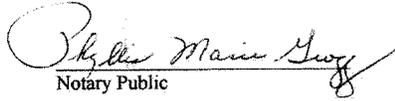
Answer: These answers are my own. I have consulted with no one about them.

AFFIDAVIT

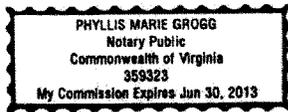
I, James C. Miller III, being duly sworn, hereby state that I have read and signed the foregoing Statement on Pre-hearing Questions and that the information provided therein is, to the best of my knowledge, current, accurate, and complete.



Subscribed and sworn before me this 29 day of May, 2012.



Notary Public





United States  
**Office of Government Ethics**  
1201 New York Avenue, NW., Suite 500  
Washington, DC 20005-3917

MAR 28 2012

The Honorable Joseph I. Lieberman  
Chairman  
Committee on Homeland Security  
and Governmental Affairs  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman:

Under the Ethics in Government Act of 1978, Presidential nominees requiring Senate confirmation who are not expected to serve in their Government positions for more than 60 days in a calendar year are not required to file public financial disclosure reports. The Act, as amended, however, contains a provision in section 101(b) that allows the committee with jurisdiction to request any financial information it deems appropriate from the nominee.

We understand that your committee desires to receive a financial disclosure report (OGE Form 278 or SF 278) from any Presidential nominee for a position as Governor of the United States Postal Service, along with a written opinion from this Office regarding any possible conflicts of interest.

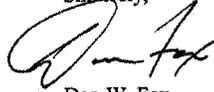
Therefore, I am forwarding a copy of the financial disclosure report of James C. Miller, III, who has been nominated by President Obama for the position of Governor of the United States Postal Service. Because the nominee is not expected to serve more than 60 days in any calendar year, the enclosed report and this letter are submitted to you in accordance with your committee's confirmation procedures and will be available for public inspection only to the extent provided by your practices. There is no authority under the Act for public release of this material by the executive branch.

We have reviewed the report and have obtained advice from the agency concerning any possible conflict in light of its functions and the nominee's proposed duties. Also enclosed is an ethics agreement outlining the actions that the nominee will undertake to avoid conflicts of interest. Unless a date for compliance is indicated in the ethics agreement, the nominee must fully comply within three months of confirmation with any action specified in the ethics agreement.

The Honorable Joseph I. Lieberman  
Page 2

Based thereon, we believe that this nominee is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,



Don W. Fox  
Principal Deputy Director

Enclosures - REDACTED  
(Financial Disclosure Report)

**Senator Jon Tester**  
**Additional Questions for the Record**  
**Nomination of James J. Miller to be a Governor, U.S. Postal Service**  
**June 21, 2012**

1. Did you authorize Postmaster General Potter's salary and compensation at \$800,000 when you were on the Board of Governors? Do you stand by this decision today? Why or why not?

Answer: I was on the Board of Governors, though not on the compensation committee, when this decision was made. At the recommendation of the committee, the Board approved a package of compensation for the Postmaster General that included bonuses based on meeting specific performance measures as well as deferred compensation. The \$800,000 figure was the last year's compensation, which included the deferred income. The annual income figure for the previous years was much lower. And, yes, I stand by that decision – as necessary to retain the services of the PMG, who had other employment opportunities and the option to start receiving USPS retirement income.

2. Do you see the future of the Postal Service as a private enterprise like FedEx or do you think the unique situation of the Postal Service and the promise for universal service is worth preserving?

Answer: In today's modern, highly competitive market for the communication of messages and goods, I see little reason for the U.S. Postal Service to be held out as a unique, public provider of such services. Moreover, if a universal service obligation is continued, then a case can be made that it should be supported financially by taxpayers rather than ratepayers. That said, I see little interest in converting the USPS into a private company nor any interest in ending the universal service obligation. Consequently, I have not in the past while serving on the Board nor would I anticipate while serving on the Board in the future spent(d) any personal capital in trying to secure those changes.

3. How would you like to see the role of the Board of Governors improve?

Answer: The Board should be given greater authority to run the Postal Service as an efficient business enterprise. A major reason you see so little innovation from USPS is that, like Gulliver, it is bound by endless regulations, prohibitions, and threats of intervention. Quite frankly, the Board is doing about as well as anyone might expect under the circumstances. Give it freedom to operate, and you will notice a big difference.

4. How could the Senate-passed S. 1789 have been improved?

Answer: First, let me reiterate my support of certain provisions of the bill raised in the hearing by Chairman Carper and Senior Ranking Member Collins – return of the FERS overpayment, restructuring of RHB, authority to negotiate a lower-cost alternative to FEHBP, language requiring the arbitrator to consider the financial condition of the U.S.

Postal Service, permission to ship beer, wine, and distilled spirits, time limits on certain PRC advisory opinions, and so forth. But improvements could be made, so that the Postal Service would be capable of achieving financial solvency in the long run. Starting with the bill itself, I would recommend (a) deleting the new limit on executive compensation (which would make it very difficult to retain, much less attract, people at this level, especially in a time of financial stress for the organization), (b) deleting the new language on delivery standards (flexibility could save a lot without diminishing overall service quality), (c) delete the new restraints on the consolidation of processing facilities (USPS has considerable overhead from excess capacity), (d) eliminate the moratorium on closing post offices (alternatives exist to serve customers well without the drain of so many locations which serve no essential purpose), and (e) delete the two-year prohibition on rationalizing delivery frequency and the new requirements for doing so thereafter. In addition, I would encourage you to consider: (a) providing further guidance to arbitrators with respect to the pool of private-sector employees to which Postal employees are entitled to comparable pay and benefits, (b) liberalize the definition of "competitive" services, so that more of the Postal Service's "market-dominant" offerings will fall into that (less regulated) category, (c) reduce generally the regulatory hurdles to the introduction of new Postal services, (d) encourage USPS to increase its use of contract services, and (e) other suggestions contained in my answers to the policy questions submitted to the Committee and the attachment to my prepared statement at the hearing.

**Senator Mark Begich**  
**Additional Questions for the Record**  
**Nomination of James J. Miller to be a Governor, U.S. Postal Service**  
**June 21, 2012**

1. What role do you see for the Bypass Mail program in providing rural Alaskans with universal service?

Answer: For some time I have been aware that Postal services within Alaska have special characteristics. Over a year ago, I asked USPS staff for a report on the Alaska program. Apparently my request fell through the cracks, a report was drafted, then sent back for redrafting, and so forth. Anyway, by the time I left the Board (early December of last year), I had not received the report. A few days ago I received two short summary documents that were convoluted – one implied that the Bypass Mail program saves U.S. Postal ratepayers money, while the other says the program costs ratepayers \$70 million per year. If confirmed, I will demand a full analysis of the program.

2. Are you supportive of the Bypass Mail program?

Answer: Until I have requisite information about the program, I will not be able to say.

3. What if any changes do you think should be made to the Bypass Mail program?

Answer: Until I have evaluated the program, I will not be able to provide any meaningful response.

**Senator Susan M. Collins**  
**Additional Questions for the Record**  
**Nomination Hearing of James C. Miller III, to be a Governor, U.S. Postal Service**  
**June 21, 2012**

1. In April, the Committee learned that the Postal Service's own preliminary analysis of its Five-Year Plan, which includes changes in delivery standards and facility closures, determined that it would result in more than a nine percent decrease in first-class mail and a 7.7 percent reduction in all classes of mail. It estimated that the first-year losses alone would be \$5.2 billion.

- a. Given this analysis, how would you justify the Postal Service proceeding with the implementation of its Five-Year Plan?

Answer: I am not familiar with the analysis to which you refer. (My term ended early December of last year.) I look forward to securing and reviewing that study, once confirmed.

- b. What would you propose as possible alternatives to the plans many components?

Answer: I would want to review the study before making specific recommendations concerning alternatives.

2. You were on the Board of Governors when the Board approved a deferred compensation package in excess of \$800,000 for then-Postmaster General Potter, which is still being paid out.

- a. Please elaborate on your reasons for approving this compensation package?

Answer: The Board was quite aware that PMG Potter had more lucrative employment alternatives, that he had needs for cash (children about to enter college, etc.), and that the U.S.G. retirement system made it attractive for him to resign. Given the stress the Postal Service was under, we wished to retain his services, and so we negotiated a multi-year compensation package that was sufficient to retain him and to provide incentives for improved performance. The cost of that package was a small fraction of the compensation earned by CEOs of enterprises of a similar size and complexity.

- b. Do you continue support your decision? Please elaborate.

Answer: Yes, I do. PMG Potter led the USPS through an extremely stressful time and consistently met or beat his performance standards, as judged by the Board.

3. What are your views on the "universal service standard" and the various delivery methods currently employed to carry out this mandate (e.g. Alaska Bypass Mail, six day delivery, the overnight delivery standards)?

Answer: I do not know as much about the Alaska Bypass Mail program as I should. At my request, various versions of a report on the program were prepared by USPS staff, revised, resubmitted, and further revised. What I have seen is convoluted: one report says on balance it costs Postal Service ratepayers nothing. Another report says it costs ratepayers \$70 million per year. If confirmed I will endeavor to obtain more complete information. On six-day delivery, I think the "universal service standard" could be met by five-day delivery in most parts of the country and three- or even two- in other parts. On overnight delivery, this is useful, but not essential to the universal delivery standard. It's a matter of balancing costs and benefits to Postal ratepayers; moreover, there is always the availability of Express Mail for deliveries that must be expedited.

4. As you are aware the Postal Accountability and Enhancement Act of 2006 requires that by the end 2015 at least four members of the Board of Governors have experience managing an organization of 50,000 employees or more. You indicated that this requirement would be difficult to reach as 50,000 employees it is an extremely high bar. Where would you set the management requirement and why?

Answer: The goal of including on the Board several members with executive experience at high levels is a very good one. (Example from the current Board: Lou Giuliano.) But it is not often that a person such as this is willing to undergo the personal (financial and emotional) costs associated with the nomination and confirmation processes and then be faced with the responsibility of governing an enterprise whose financial outlook is bleak and which has few degrees of freedom to make it better. As you suggested at the hearing, the 50,000 figure is too high, as it would rule out chief executives from outstanding companies in your state. It would also rule out chief executives from practically all of Silicon Valley, for example. I would be inclined to drop the number-of-employees test in favor of a requirement that the Postal Service Board include a substantial number of persons with proven business leadership, preferably running large companies, with a preference given to (former) executives of enterprises which run large logistical networks and who have experience in marketing such services.

Prepared Statement  
The Honorable Katherine C. Tobin  
June 21, 2012

Chairman Carper, Ranking Member Collins, and Members of the Committee:

It is an honor and a pleasure to be here today as a nominee for the position of Governor on the Board of the United States Postal Service. I am delighted to be paired in this confirmation hearing with my colleague and friend Jim Miller. Thank you, Senators, for your consideration of our interest in continuing our service.

I am joined by my husband Judge Evan Wallach, my sister Alice Zaff and several dear friends.

I am here today for one reason, which is the United States Postal Service is an outstanding American institution. It is neither a business, nor a classic government agency and yet we expect it to be both at the same time. We can do better to help it transform. It needs to transform, but its mission has not changed; it is still of vital importance for this country to have this amazing network and infrastructure that ties people, products and services together. The United States Postal Service provides national communications, it is a catalyst for commerce; it plays key roles in terms of security and law enforcement, and it is a large national employer, providing jobs to more veterans than any other institution.

I look forward to answering your questions and to working again with this wonderful, essential and evolving organization; the United States Postal Service.

Thank you.

**BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEES****A. BIOGRAPHICAL INFORMATION**

1. **Name:** (Include any former names used.)  
Katherine Colleen Tobin
2. **Position to which nominated:**  
Member of the Board of Governors of the U.S. Postal Service
3. **Date of nomination:**  
March 9<sup>th</sup>, 2012
4. **Address:** (List current place of residence and office addresses.)  
REDACTED
5. **Date and place of birth:**  
October 27, 1950 in Norfolk, Virginia
6. **Marital status:** (Include maiden name of wife or husband's name.)  
Married to Evan J. Wallach
7. **Names and ages of children:**  
N/A
8. **Education:** List secondary and higher education institutions, dates attended, degree received and date degree granted.
 

Stanford University, Stanford, CA Ph.D. and M.A., Administration & Policy Analysis, School of Education Doctoral Discipline: Anthropology	1979 - 1984
University of Massachusetts, Amherst, MA Master of Arts in Teaching, School of Education Concentration: English	1972 - 1974
Skidmore College, Saratoga Springs, NY Bachelor of Arts in English with honors Junior Year Abroad: Florence, Italy	1968 - 1972
Watsonville High School, Watsonville, California	1964 - 1968
9. **Employment record:** List all jobs held since college, and any relevant or significant jobs held prior to that time, including the title or description of job, name of employer, location of work, and dates of employment. (Please use separate attachment, if necessary.)  
  
U.S. Department of Education; Washington, DC

**Deputy Assistant Secretary – Performance Improvement** 2009- 2011

Responsible for strengthening the Department's organizational culture and building its capacity to work with its political and educational partners. Along with other senior Agency leaders, responsible for change initiatives in three areas:

- Fostering accountability in terms of performance management through regular program office reviews,
- Building the capabilities of current and future managers; and
- Creating an environment of trust through transparency and commitment.

Represent the President's educational reform agenda at public forums. Prepare and deliver speeches to inform stakeholders and citizens about the educational problems our country faces at all levels, from pre-K to collegiate and career education. Articulate the Federal government's education role and the ways we work with and through the state and local educational authorities, and with unions, to strengthen the quality of our schools, to recognize and reward effective teachers, and to prepare all students to be college and career-ready.

Designed and facilitated regular workforce reviews of 18 principal offices to provide new Assistant Secretaries with data concerning their managers, supervisors, and employees. Fostered rigorous dialogue on human capital issues ranging from the Offices' responses to employee survey findings, to the development of the next generation of leaders, and defining the skill sets required to run competitive grant making programs.

Co-led the Office of Management staff of 200. This administrative team delivers a broad range of services to the entire Department - human resources, regulatory management, security, EEO and facilities services. Effectively dealt with and resolved problems with difficult employees.

Spoke by invitation of the White House about the Department of Education's response to the President's Executive Order on sustainability at the first GreenGov Symposium.

**United States Postal Service; Washington, DC****Governor, Board of Governors**

2006- 2009

**Chairman of the Board's Audit and Finance Committee and  
Member of the Compensation and Management Resources Committee**

As the governing body of the Postal Service, the 11-member Board has responsibilities comparable to a board of directors of a publicly-held corporation. The Board directs and controls its expenditures, reviews its business practices, conducts long-range planning, and sets policies on all postal matters. The Board takes up matters such as service standards, capital investments and facilities projects exceeding \$25 million. It also approves officer compensation.

The USPS delivers to more than 300 million people at 146 million homes, businesses and PO boxes in every state, city and town. Additionally, it serves more than 9 million customers daily at nearly 37,000 post offices. In 2007, the USPS generated \$74 billion in revenue.

The Audit & Finance Committee fulfills the Board of Governors' oversight responsibility relating to the integrity of the Postal Service's financial statements and other financial reporting processes. These include systems of internal accounting and financial controls, the Inspector General's audit function, compliance with legal and regulatory requirements and the annual independent audit of the Postal Service's financial statements. The Postal Act of 2006 had a significant impact on the work of the Committee, requiring USPS compliance with SEC reporting requirements and with section 404 of the Sarbanes-Oxley Act of 2002.

**LIFE preservers, LLC**

2005 - 2008

Member and Founder; New York, New York. Created a business that recorded people's life stories.

**TNS; White Plains, NY****Senior Market Research Manager**

2003 – 2005

TNS is one of the world's leading market information groups with over 14,000 employees in 70 countries. TNS is also the core supplier of market research to IBM.

In two years of service working exclusively for IBM's corporate executives, conducted research and consulting services on a broad range of topics, from branding, to distribution channels management and corporate identity. The

common thread was getting a better understanding of how diverse stakeholder groups (employees, customers, communities) experience IBM.

Projects included an international study of client and partner needs for IBM's Global Financing business; a global, Web-based study of Employee Values; a strategic assessment of ibm.com; the creation of an IBM Community Index; and research that led to an update of IBM's Brand Strategy.

**Catalyst, New York, NY**

Senior Director, Research

2000 – 2003

Director, Research

1998 – 2000

Catalyst is the leading nonprofit research and advisory organization that works to advance women in business. Its dual mission is to enable women to achieve their full professional potential and to help employers capitalize fully on women's talents and abilities. The Senior Director of Research formulates, conducts, and reports on cutting-edge studies and creates practical guides for the retention, development, and advancement of women.

- Completed a study of the career paths of men and women leaders in high technology. Actively communicated study findings to corporate audiences, such as at Microsoft's Women's Conference, and to professional associations including the Society for Women Engineers, the Institute for Women in Technology, the American Electronics Association, and the Information Technology Association of America.
- Led team of eight researchers responsible for Catalyst's bi-annual census of women serving on boards of Fortune 1000 companies and its census of women serving as CEOs, top earners, and corporate officers in Fortune 500 companies.
- Conducted studies for corporations and professional associations in the foodservice, oil and gas and manufacturing industries.

**Manhattanville College, Purchase, NY**

1996 -1998

Assistant Dean, School of Graduate and Professional Studies

Developed, implemented, administered and evaluated educational programs for working adults. Responsible for a new Master of Science degree in Leadership & Strategic Management. Identified and marketed educational programs to target populations. Worked with corporate advisory board and the press to publicize business-related curricula. Devised and monitored program budgets; hired and evaluated faculty; advised graduate and undergraduate students.

**The Leadership Institute, LLC; Las Vegas, NV**

1994 -1995

Owner and Founder

Designed and delivered professional development training for California and Nevada businesses and government. Advised corporations on market research, new product development and customer satisfaction issues. Co-chaired Nevada's quality award program.

**University of Nevada, Las Vegas**

1993 – 1994

Lecturer, William F. Harrah College of Hotel Administration

Counseled both graduate and undergraduate students. Received outstanding teaching evaluations. Also responsible for the College's development and fundraising program.

**Hewlett-Packard Company, Cupertino, CA**

1988 -1992

Manager, "Voice of the Customer" Program

Systems Technology Division

- Directed staff that provided management with quantitative and qualitative market research on customer requirements for minicomputer systems. Created programs to assess customer needs by market (business, scientific, medical and engineering) and application (online transaction processing, industrial automation and software development).
- Worked closely with R&D and planning teams early in the product development life cycle to insure that customer needs were clearly understood and translated into engineering and market specifications. HP's multi-

user computing business accounted for over \$4 billion in revenue per year.

- Worked with the Corporate Education office to design a "Voice of the Customer" seminar as a means to share, and thereby institutionalize, a Company best practice. The two-day seminar was subsequently taught to hundreds of managers in Hewlett-Packard's U.S., European, and Pacific Rim offices.
- Worked with the Corporate Quality office to design and implement a study that determined the Company-wide quality goals for the 1990's. Interviewed key instrument and computer system customers at their business to identify their expectations about the HP's products and services.

Manager, Quality Department  
Computer Systems Division

1984 - 1988

- Developed and directed a staff responsible for quantitative and qualitative market research studies. Conducted in-person interviews with commercial computer customers around the world; analyzed interview data and identified system quality issues that required attention. Managed customer satisfaction surveys and a choice modeling study for HP's minicomputer business. This product line generated over \$2 billion per year.

Stanford University, Stanford, California

1979 - 1984

The following Research Assistant and Teaching Assistant positions at Stanford University were positions I held during my years of earning a Ph.D. degree.

Research Assistant, Center for Research on Women

1983 - 1984

Designed questionnaire and supervised collection and coding of data for a study of women and men in graduate science, engineering and medical programs. The study's results provided industry and academe with data on the recruitment, career paths and aspirations of students in these fields.

Consultant, Office of Development

1981 - 1984

Assessed training needs of Office personnel (200 persons) and developed programs for orienting all new employees to the University and for on-going training of fundraisers and support staff.

Teaching Assistant, Anthropology Department

1982 - 1983

Taught "American Culture" and "Cultural Transmission" to graduate and undergraduate students.

Research Assistant, Institute for Research in Educational Finance and Governance

1980 - 1981

Organized a Tuition Tax Credit Seminar and Debate held in Washington, D.C. to educate national policy makers on the advantages and disadvantages of proposed Reagan administration legislation. The forum was co-sponsored by the National Institute of Education and Stanford University.

Skidmore College, Saratoga Springs, NY

1976 - 1979

Director of Career Planning and Field Experience Programs

- Led a staff that developed and delivered innovative career planning services for liberal arts students and alumni.
- Designed and taught a January term course, "Conducting Interviews," for college juniors and seniors. Received funding from the Mobil Oil Corporation for the creation of innovative, audio-visual career advising resources.

Elmira College, Elmira, NY

1975 - 1976

Carnegie Corporation Administrative Intern

- One of sixteen women chosen nationally to participate in the Carnegie Corporation's Administrative Intern Program whose purpose was to encourage young women to pursue careers in higher education administration.
- Developed a course on decision-making that became a College requirement for Elmira's freshmen and sophomores. The goal was to develop students' understanding of their skills and values to aid them in the choice of courses, their major field of study and career plans.

Holyoke Community College, Holyoke, MA

1974 - 1975

Instructor, English Department

Hampshire College, Amherst, MA 1973-1975  
 Executive Secretary to the Treasurer and Instructor in School of Humanities & Arts  
 Worked full-time to support myself while a graduate student at the University of Massachusetts.

10. **Government experience:** List any advisory, consultative, honorary or other part-time service or positions with federal, State, or local governments, other than those listed above.

Co-Chair of the U.S. Senate Productivity Awards for Nevada in 1994-1995. Worked on the U.S. Senate Productivity Awards program team for two years before that, from 1993 – 1995. This program was one of the state programs modeled on the national Malcolm Baldrige Quality Awards program.

11. **Business relationships:** List all positions currently or formerly held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution.

- Member of LIFEpreservers LLC (2005 – 2008)
- Member of the Board of Trustees, Preston High School (2005 – 2007)
- Member of the Board of Directors of the Clark County Chapter of the American Red Cross (1992 – 1995)
- President, Vice President and Director of the Euphrat Museum of Art at DeAnza College in Cupertino, California (1987 – 1992)
- Director of the Association for the Study of Higher Education, Washington, DC (1981 – 1983)

12. **Memberships:** List all memberships, affiliations, or and offices currently or formerly held in professional, business, fraternal, scholarly, civic, public, charitable or other organizations.

- Member of the Metropolitan Museum of Art (1995 – present), the new York City Public Library (approximately 1996 – present), and the Oregon Shakespeare Festival (approximately 1990 – present).
- Member of the Advisory Board of MentorNet ([www.mentornet.net](http://www.mentornet.net)) (2003 – present)
- Member of the BEST (Building Engineering and Science Talent) Initiative's Blue Ribbon Workforce Panel, [www.bestinitiative.org](http://www.bestinitiative.org) (2002-2004)

13. **Political affiliations and activities:**

- (a) List all offices with a political party which you have held or any public office for which you have been a candidate.  
None
- (b) List all memberships and offices held in and services rendered to any political party or election committee during the last 10 years.  
None
- (c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more during the past 5 years.

- Made a financial contribution to Senator Harry Reid (\$250) during his 2010 election campaign.
  - Made financial contributions to Presidential candidates John Edwards (\$425) and Barack Obama (\$4570) for the primary and general elections) during the 2008 election year.
  - Made financial contributions to Presidential candidates Wes Clark (\$1,000) and John Kerry (\$500) during the 2004 election campaign.
14. **Honors and awards:** List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements.
- Inducted into the Watsonville High School Alumni Hall of Fame (2011)
  - Board Member of the Year, Clark County Chapter of the American Red Cross (1994)
  - Civic Service Award Recipient presented by the City of Cupertino (1991)
  - Stanford University Fellowship (1979)
  - Daughters of the Cincinnati Scholarship (1968 – 1969)
  - Life Member in the California Honor Society (1968)
  - Bank of America – Achievement Award in Liberal Arts (1968)
15. **Published writings:** Provide the Committee with a list and two copies of any books, articles, reports, or other published materials which you have written. These items can be provided electronically via e-mail or other digital format.

A substantial body of research designed and conducted between 1984 and 2005 was unpublished proprietary material. This was business research for corporate executives to enable them take competitive action in terms of product development, brand management, or employee recruitment and development.

Designed and directed “Bit by Bit: Catalyst’s Guide to Advancing Women in High Tech Companies” in 2003

Designed, directed and communicated to national and industry audiences Catalyst research studies:

“Leadership Careers in High Tech – Wired for Success	2001
“Catalyst Census of Women Board Directors of the Fortune 1000”	2001
“Catalyst Census of Women Corporate Officers & Top Earners”	2000
“Catalyst Census of Women Board Directors”	1999
“Catalyst Census of Women Corporate Officers & Top Earners”	1999

Dissertation: *The Language of Request: Annual Giftgiving to the University.* 1984

Designed and conducted an anthropological study that examined how members of a university communicate academic purpose and fundraising needs to alumni, corporations and foundation leaders.

Co-edited a book and special journal issue of *Education and Urban Society*, 1981

both of which focus on the finance of adult education in the Americas and Europe, (Sage Publications, Los Angeles).

Co-edited two issues of the *Journal of Economic and Industrial Democracy*, 1981  
(Sage Publications, London).

**16. Speeches:**

- (a) Provide the Committee with a list and two copies of any formal speeches you have delivered during the last 5 years which you have copies of and are on topics relevant to the position for which you have been nominated. Provide a list and copies of any testimony to Congress, or to any other legislative or administrative body. These items can be provided electronically via e-mail or other digital format.

During my tenure as Deputy Assistant Secretary in the Department of Education, I was asked to speak at a range of public forums. Presented the President's educational reform agenda and took questions from audience members concerning initiatives pre-K through high school, higher education, vocational education, financial aid, and sustainability initiatives.

During the summer of 2006, I prepared and delivered formal opening remarks at my Senate confirmation hearing for the position of Governor of the USPS. Those words would be memorialized in the Congressional Record.

- (b) Provide a list of all speeches and testimony you have delivered in the past 10 years, except for those the text of which you are providing to the Committee. Please provide a short description of the speech or testimony, its date of delivery, and the audience to whom you delivered it.

I have no copies of speeches available.

**17. Selection:**

- (a) Do you know why you were chosen for this nomination by the President?

Majority Leader Harry Reid, whom I came to know when I lived in Nevada, recommended me to the White House for consideration for this Board of Governors position.

- (b) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

As Deputy Assistant Secretary for Performance Improvement in the Department of Education, from 2009 – 2011, I worked closely with a host of other Federal government agencies. This tenure enabled me to see clearly and analytically – from a perspective other than the USPS - how the White House interfaces with Congress and its Cabinet agencies, and how a Cabinet agency

such as the Department of Education works continuously with OMB, OPM, GAO and GSA, all in efforts that promote accountability and insure regulatory compliance.

From 2006 until 2009, I served as a member of the Board of Governors of the U.S. Postal Service. Additionally, I was asked by fellow Governors to chair the Board's Audit and Finance Committee. This was a position of particular importance at the time, given the fact the PAEA legislation of Congress in 2006 required USPS to become compliant with the Sarbanes Oxley Act of 2006.

I worked as a manager, researcher and consultant within Corporate America, at institutions such as Hewlett-Packard Corporation and IBM. While at Catalyst, I conducted research studies for the oil and gas industry, the foodservice industry, and the high technology and diversified manufacturing companies. My eighteen years of experience within the business world enabled me to learn how to effectively manage people, systems, products and services within large, complex corporate structures.

My years working at Hewlett-Packard Corporation were particularly valuable. As many know, HP was one of the best companies to work for and a place of innovation and commitment to the community and country. I tell people that "I cut my professional teeth" there, learning with a strong, positive and values-based culture how to hire, motivate and build teams. I believe this experience is directly relevant to the role I would play as a Board of Governor for the U.S. Postal Service.

Additionally, I earned a Ph.D. in Administration and Policy Analysis from Stanford University's School of Education. This entailed graduate-level course work in policy-making and analyzing the effectiveness of various policy enactments. Considered policy alternatives from various viewpoints, i.e. through the analytical lenses of economics, political science and sociology. Took four courses in statistics and studied financial and cost accounting, decision analysis and cost/benefit analysis. This knowledge base will also be directly helpful to me and the Board as we look at difficult decisions which have far-ranging impact and then consider what the best alternatives are moving forward.

#### B. EMPLOYMENT RELATIONSHIPS

18. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?

Currently our family is in the process of moving from New York to the DC area. I am not currently employed by any organization with whom I would have to sever relations. And even if I were, as I understand the matter, it would not be necessary to sever employment unless the organization for which I work would constitute a conflict of interest.

19. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.

Yes. My family is in the process of moving from New York to the Washington, DC area and I have begun looking for a challenging and fulfilling position. I would only accept employment that would not be in conflict with the responsibilities of a Governor of USPS.

20. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization, or to start employment with any other entity?

No, I have no such plans.

21. Has anybody made a commitment to employ your services in any capacity after you leave government service?

No

22. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?

Yes, I expect to serve out my full term.

23. Have you ever been asked by an employer to leave a job or otherwise left a job on a non-voluntary basis? If so, please explain.

No.

#### C. POTENTIAL CONFLICTS OF INTEREST

24. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

I have no such financial or other dealings to report.

25. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration or execution of law or public policy, other than while in a federal government capacity.

I have no relevant activity to report.

26. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of

Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

Yes

**D. LEGAL MATTERS**

27. Have you ever been disciplined or cited for a breach of ethics or unprofessional conduct by, or been the subject of a complaint, to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No

28. Have you ever been investigated, arrested, charged or convicted (including pleas of guilty or nolo contendere) by any federal, State, or other law enforcement authority for violation of any federal, State, county or municipal law, other than a minor traffic offense? If so, provide details.

No

29. Have you or any business of which you are or were an officer, director or owner ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

No

30. For responses to question 29, please identify and provide details for any proceedings or civil litigation that involve actions taken or omitted by you, or alleged to have been taken or omitted by you, while serving in your official capacity.

I have nothing to report.

31. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

I have no further additional information which I believe should be considered concerning this nomination.

**E. FINANCIAL DATA - REDACTED**

All information requested under this heading must be provided for yourself, your spouse, and your dependents. (This information will not be published in the record of the hearing on your nomination, but it will be retained in the Committee's files and will be available for public inspection.)

AFFIDAVIT

Katharine C. Tobin being duly sworn, hereby states that he/she has read and signed the foregoing Statement on Biographical and Financial Information and that the information provided therein is, to the best of his/her knowledge, current, accurate, and complete.

Katharine C. Tobin  
Subscribed and sworn before me this 30<sup>th</sup> day of March, 2011 <sup>2012</sup>

Andrew M. Sabogal

Notary Public

ANDREW M. SABOGAL  
Notary Public, State of New York  
No. 01SA6121206  
Qualified in Westchester County  
Commission Expires January 10, 2013

**U.S. Senate Committee on Homeland Security and Governmental Affairs  
Pre-hearing Questionnaire  
For the Nomination of Katherine C. Tobin to be  
Governor of the United States Postal Service**

**I. Nomination Process and Conflicts of Interest**

1. Why do you believe the President nominated you to serve as a Governor of the United States Postal Service (“USPS” or “Postal Service”)?  
  
I believe he nominated me because I have relevant business and government experience, and I understand the mailing industry and the regulatory requirements of this independent government agency.
2. Were any conditions, express or implied, attached to your nomination? If so, please explain.  
  
No conditions, express or implied, were attached to my nomination.
3. What would be your priorities as a Governor?  
  
As a member of the Board of Governors, I would work with my colleagues and the executives of the U.S. Postal Service to best meet changing American postal needs. Accordingly, my highest priority would be to obtain greater and necessary decision-making authority for the U.S. Postal Service. It should have freedom to move forward, thrive and compete.
4. What specific background and experience affirmatively qualifies you to be a Governor of the Postal Service?  
  
I served as a Governor of the U.S. Postal Service at a time when the Board and executive team were responsible for implementing the PAEA 2006 legislation. I was appointed by then Board Chair Jim Miller to chair the Board’s Audit and Finance Committee from 2007 – 2009. I was a member of the Board’s Compensation and Management Committee. Prior to service as a Governor, I was a manager at Hewlett-Packard. I also worked with the executive team at IBM and was a senior director of a consulting organization that advised Fortune 500 companies on gender and diversity issues. From 2009 – 2011, I served as a Deputy Assistant Secretary for Performance Improvement in the U.S. Department of Education.

5. Have you made any commitments with respect to the policies and principles you will attempt to implement as Governor? If so, what are they, and to whom were the commitments made?

No, I have made no commitments with respect to the policies and principles that I would attempt to implement as a Governor.

6. If confirmed, are there any issues from which you may have to recuse or disqualify yourself because of a conflict of interest or the appearance of a conflict of interest? If so, please explain what procedures and/or criteria that you will use to carry out such a recusal or disqualification.

I am unaware of any issues from which I would recuse or disqualify myself.

**II. Role and Responsibilities of a Governor of the United States Postal Service**

7. Why do you wish to serve a second term as a Governor of the Postal Service?

I believe the United States Postal Service has been and continues to be critical to the country's economic and political security. Having seen how this very large communication and transportation structure works and the significant constrictions it faces day by day as its employees strive to fulfill their mission, I want to do everything I can to help communicate the value of the U.S. Postal Service and to support, strengthen and enable the institution to operate successfully for decades to come.

8. What do you consider to be your most significant accomplishments and achievements during your first term as a Postal Service Governor?

I chaired the Audit and Finance Committee during a time when its responsibilities significantly expanded. I worked closely with the talented and hardworking financial executives, the Inspector General's team, and the institution's external auditor, Ernst & Young. Collectively, the Board, the Postmaster General, the CFO, IG, and Ernst & Young, went to work to change the institution's culture so that we could – across the entire postal network – create tighter financial linkages. We strengthened our financial infrastructure, our financial reporting system, and our corporate communications in compliance with the Sarbanes-Oxley Act of 2002 – Section 404.

I am proud too of the work the Compensation and Management Committee did to strengthen our performance management and succession planning systems.

I am grateful for the opportunity during my three-year tenure as Governor to have met an amazing team of people – from the USPS executive team, to the Inspector General and

team, to leaders in the mailing industry and unions, to postmasters and craftspeople across the country.

9. What specific contributions do you plan to make during your second term on the Board of Governors? How would your previous experience as a Governor help to inform and guide your decisions as a Postal Service Governor?

As I did in 2006, if confirmed, I plan to talk with the Chairman and Vice Chairman of the Board and with the Postmaster General to hear their perspective on how I might best serve the Board and help it address its current leadership challenges. The Board has active committees; my first order of business would be to determine on which would I make the most valuable contribution.

My previous experience as a Governor helps me understand the complexities of the economic, political and business situation faced by the U.S. Postal Service in 2012.

10. The Postal Board of Governors (the Board) is responsible for directing the powers of the Postal Service, including its financial, accounting, and operational functions. How have your professional experiences provided you with the necessary business skills to effectively govern the Postal Service?

I served successfully for three years as Chairman of the U.S. Postal Service's Audit and Finance Committee.

I worked as a manager fostering quality work and improved customer relations at Hewlett Packard Corporation. I served the executive team of IBM by designing custom research studies that helped address their marketing, customer service and employee issues. From 2009 until 2011, I worked as a Deputy Assistant Secretary for Performance Improvement in the Department of Education. In that role I worked with other key Federal entities, ones that also affect the day by day business of the USPS. They include OMB, OPM, GAO and GSA.

I believe the USPS management team is responsible for directing the powers of the Postal Service. The Board's role is to provide oversight and guidance to executives as they work to fulfill the USPS's mission and its responsibilities to all citizens and stakeholders.

11. What do you see as the principal mission of the Board? What do you see as its principal responsibilities?

As the governing body of the Postal Service, the 11-member Board has responsibilities comparable to a corporate board of directors. The Board directs and controls expenditures, reviews business practices, conducts long-range planning, and sets policies

on all postal matters. The Board decides matters such as service standards and the overall finance, capital investments and revenue plan. It also approves officer compensation.

In sum, the Board provides oversight and guidance to the executive team as it fulfills its mission and operational plans; the Board has a constant eye on how the entire national operation can strengthen its delivery system and best respond to its customers and stakeholders.

12. What do you see as the main challenges facing the Postal Service? What do you believe should be the Board's top priorities in meeting those challenges? How should the Board of Governors work with postal management to address these challenges?

The main challenge is that for some years now the Postal Service management team has not had a viable business platform through which it can execute, adjust and deliver its services. The institution is large; it has extensive oversight bodies whose decision-making powers take time and where competing influences can play an inhibiting role. Speed and nimbleness as goals are made extremely difficult due to multiple and overlapping layers of authority. The operational framework should change if the Postal Service is to succeed, and significant legislative action is required.

I think the Board's top priority is to continue to work with the executive team, helping them strengthen their communications with Congress. In normal times, this part-time Board would be focused on how the organization might best perform as a businesslike entity fulfilling its governmental responsibilities. Currently, the Postal Service doesn't have the freedom to manage its operations. Therefore, the Board has shifted its efforts to helping the executive team and Congress find ways to remedy structural problems. Consideration of what is in the best long-term interest of the United States Postal Service nationally is necessary.

I believe the Board works well with postal management – through its committee structure and through its regular communication channels and decision-making procedures.

13. What do you believe are the functions and responsibilities of an individual Governor? What in your training and experience demonstrates your qualifications to fulfill these functions and responsibilities?

Each Governor is responsible for supporting the United States Postal Service in the fulfillment of its mission. Individual Governors are responsible for heeding all ethical guidelines and regulations. Above all, by statute, they have a duty to serve the public interest in fulfilling its universal service obligation.

I have worked successfully as a business woman, have served as a Governor and provided leadership to the finance team as they worked to change its culture and

operations in order to be compliant with the Sarbanes Oxley Act of 2002 – Section 404. I understand the breadth and depth of the postal industry. See question #4 for additional information if desired.

14. What do you believe should be the respective roles and functions of the Postal Service Board of Governors and the Postal Service management? How do you believe the Board and management can best work together to meet the challenges facing the Postal Service?

I believe there is always a fine balance to be struck between the management team and its Board. There needs to be mutual trust. The executive team should see the Board as savvy counsel on a host of business, legal and political issues. The Board needs to study, listen and learn about the industry and then it must prepare with critical questions and provide strategic ideas for consideration. The Board needs to respect, but also must actively question plans and decisions brought to its attention by the executive team. In order for this relationship to work, there needs to be give and take.

15. The Governors are chosen to represent the public interest generally. How do you plan to interact with various stakeholders interested in postal issues and how do you think as a Governor you can effectively represent their interests?

I look forward to reconnecting with Postal stakeholders, from union leaders to mailers, to postal employees, postmasters, and to American citizens. Cost-permitting, when geographically available, I would attend conferences and meetings as a means to listen and learn. The Board also hosted information-sharing sessions on a regular basis with key players. This was a proactive means to better understand others' perspectives and elicit their ideas. I imagine that practice is still in place.

Beyond that, I would continue to make it a practice of asking people – citizens and other stakeholders – for their opinions, to hear about their current experience and future wishes for the U.S. Postal Service. To be effective as a Governor, even in this part-time role, one must be actively engaged in the task. In all my work I have been a hands-on leader. I invest time and thought; I take the job very seriously.

### **III. Policy Questions**

#### *Postal Reform and Financial Issues*

16. The U.S. Postal Service continues to experience volume and revenue losses. The Postal Service ended Fiscal Year (FY) 2011 with a net loss of \$5.1 billion. USPS would have lost an additional \$5.5 billion if it had made the annual retiree health benefits payment required under the Postal Accountability and Enhancement Act of 2006 (PAEA) (P.L. 109-435). Congress delayed the Postal Service's statutorily required FY2011 deadline

until August 1, 2012. (H.Rept. 112-331). Further, the Postal Service reported a loss of \$3.3 billion for the first quarter of FY2012 and \$3.2 billion for the second quarter.

- a. In your view, what is the Board of Governor's role in overseeing USPS's efforts to improve its financial condition and exercising its flexibility to increase postal revenue and cut costs, while also meeting its universal service obligations and other statutory requirements?

The Board's Audit and Finance Committee is responsible for extensive oversight on all financial matters – financial reporting, capital investment, auditing reports, etc. Thus, financial controls are studied and recommendations made through this committee's deliberations. Simultaneously, the Board's Governance, Regulatory and Strategic Planning Committee is charged with focusing on issues such as how the Postal Service generates revenue, how new products are introduced and marketed, and how the Service handles its regulatory responsibilities. The full Board receives reports from each committee at its full Board meetings, allowing for greater discussion when voting is required.

- b. How does this differ from the role of the Postal Regulatory Commission (PRC) or the role of Congress?

The PRC is an independent agency that has regulatory oversight over the Postal Service since the passage of the Postal Service Reorganization Act of 1970 and the PAEA enacted in 2006. It focuses on conducting public, on the record hearings concerning proposed rate, mail classification and major service changes. It develops and maintains regulations for a modern system of rate regulation and consults with the Postal Service on delivery service standards. The PRC also reviews the obligation of USPS to provide universal service.

There are several areas of overlapping responsibility between the Board and the PRC. Murray Comarow noted in his writings that the USPS is indeed the only Federal agency that has one presidentially appointed body overseeing the decisions of another presidentially appointed body. This duplication of roles slows the speed of execution on new market strategies. They may or may not provide the organizational platform for execution of its mission.

Congress is responsible less for direct financial oversight and regulatory compliance and more for policy guidance and legal standards to continue to serve Postal Service customers.

17. Mail volumes and revenues are continuing to decline and First-Class Mail is projected to significantly decline over the next decade.

- a. How can the Postal Service remain viable in a market where e-commerce and electronic communication and payments are increasing?

To remain viable, the USPS needs the freedom to and support for implementing its 5-Year Business Plan. The Service must restructure its network, aligning its labor force to match changing volumes. Action of this kind will reduce costs. At the same time the Service must be encouraged to innovate. This can be done in two ways – first by enabling it to compete more freely with other businesses, and second by doing as all businesses do; investing a significant portion of the revenue earned each year into the development of new products or services. Some of those new services may well be government services; others may be ways to work with retailers in delivery of their products. In any case, Congress should welcome new thinking, encouraging the USPS to develop and test new products. This will be a cultural shift for the USPS.

USPS can become a channel or arm of government in ways that we've not yet thought about. The provision of passport application services, the Forever stamp, flat rate shipping options are all evidence of innovations in customer service brought to bear in the last decade. Greater innovation is within reach.

- b. How can the Postal Service work with the technology sector in order to utilize and improve its existing network?

I need to be briefed to hear about what the Service has been doing most recently, but I can say that in the three years during which I was Governor, the Service worked closely with all the key technology leaders – from IBM, to HP, Siemens, Lockheed, and Northrop Grumman.

I understand that the Postal Service is now actively exploring whether and how to create hybrid and digital services.

- c. What new actions should the Postal Service take to maintain its viability and competitiveness?

See response to 17 (a.). I also suggest referring to the 5-Year Business Plan which outlines four core strategies to connect Senders and Receivers, through the Postal Service delivery system.

18. The Postal Service continues to experience significant declines in mail volumes and revenues.

- a. How proactive should the Board be in identifying areas for the Postal Service to cut costs quickly so that it can cover its operating expenses?

I believe it is the job of management and executives at all levels to identify areas for the Postal Service to cut expenses and it is the job of the Board to consistently ask for briefings and reports that show the direction of change they propose. Then, the Board can ask critical questions and provide guidance if there are other strategic organizational paths they see might be taken.

- b. What is the Board's role and responsibilities in identifying opportunities for USPS to increase volume, including any public-private partnerships with the Postal Service's current mailers?

Again, I believe that Board members, be they the Board of the Postal Service or of a Fortune 500 company, are not responsible for identifying specific opportunities for the organization. That is the full-time job of the executives. The Board can – based on their business knowledge - suggest ways to think about outside partnering. They can review and decide upon particular proposals brought to the Board by the management team. They can suggest people whom the executives might talk with to hear about others' best practices. They can question the executive team on what the value delivery chain is for customers. Thus, a Board of Governors or Directors helps by framing discussions, asking for greater study or exploration, and if appropriate ultimately decides for or against new strategic initiatives.

This is a welcome question. I hope that Congress might actively encourage such discussion and thinking as the Service works to increase revenue while also cutting costs. As I said during my tenure as Chairman of the Audit & Finance Committee, we cannot cut our way to prosperity. We need to implement the new business plan and consider very carefully this idea of how public-private partnerships between the Postal Service and current mailers could work.

19. The Government Accountability Office (GAO) included the Postal Service on its high-risk list in 2011, because of its financial condition. GAO added the Postal Service's financial condition on its high-risk list in 2009 after removing USPS in 2007. In your view, what should be the Postal Service's strategy for improving its financial condition and restructuring its business model to ensure its long-term viability, in addition to any factors that the Postal Service has announced as part of its new business model?

I believe that the 5-Year Plan to Profitability if fully allowed will ensure the long-term viability of the U.S. Postal Service. Specifically, it needs to achieve requisite legislative changes and re-structure the USPS network.

20. On April 25, 2012, the Senate passed the 21<sup>st</sup> Century Postal Service Act of 2012 (S. 1789). This legislation includes major reforms to help USPS cut costs and generate revenue. The Board of Governors issued a statement in response to the Senate's action,

and stated that “the Senate’s bill would not enable the Postal Service to return to financial viability.” Do you agree with the Board of Governors’ statement? Please explain.

Yes, I agree with the Board of Governors’ statement. I believe USPS needs to be able to reduce the cost of post offices and eliminate unneeded processing capacity in a rational, businesslike fashion. I do not think we can afford to delay Saturday delivery cuts. I was pleased, though, to see that the Act would allow the Postal Service to have access to the \$11 billion it overpaid into one of its pension funds.

21. In response to the Senate’s action on S. 1789, the Board of Governors stated that it is “inappropriate to delay the implementation of 5-day delivery.”

- a. What is your opinion of USPS’s plan to move to five-day delivery?

Four years ago, in response to the difficult financial situation and with recognition that the Service’s expenses could no longer be paid for given changing mail volume, the executive team presented analyses over many months on how to reduce costs by reducing a day of delivery. In the beginning many of the Governors resisted the idea. But in time all of us recognized the sober reality, that mail volume was significantly less and a robust five-day, universal service delivery model, along with seven-day Express Mail delivery, would provide dramatic savings. Market research studies and our own feedback from citizens told us that the public was ready for such a change. So, three years ago when I served as Governor, the then-Board, every single one of us, after study, became convinced that we had to move forward as soon as possible to a five-day universal delivery obligation. Nothing has changed to make me think differently; indeed I believe the continuing delay has cost the Service unnecessarily. I encourage Congress to look at this issue from a market need and economic viewpoint. There are ways to satisfy customers or entities that need 7-day delivery, but in terms of universal service, six day delivery basis is no longer viable.

- b. How do you believe reducing mail delivery to five days per week would impact mail volume and revenue generation opportunities?

I do not have access to the dollar values, but it would reduce labor and fuel costs dramatically if one is not sending a fleet of well over 100,000 trucks out to hundreds of millions of mailstops for one day a week. In terms of revenue generation, if marketed well, for those who wish to pay for additional service, there would be new income.

This is an excellent opportunity for the USPS executive team to think about creating alternative, incremental services to meet customer needs. Also, perhaps if the Postal Service is allowed to move to a five-day delivery requirement, some percentage of the savings could be invested in the creation of new services. I’m speaking in broad brush terms, but I like very much the idea that a cut in 6-day delivery might be allowed with a

requirement that some of the savings be invested in the development of new revenue-generating products.

22. S. 1789 permits the Postal Service to provide non-postal products and services, provided that the PRC determines that the provision of such product or service meets the following criteria: (1) it utilizes the Postal Service's processing, transportation, delivery, or retail network or technology; (2) it is consistent with the public interest and a demonstrated demand for the Postal Service to provide the services; (3) it would not create unfair competition with the private sector; (4) it will be undertaken in accordance with federal laws applicable to the provision of such product or service; and (5) it has the potential to improve the net financial position of the Postal Service.

- a. What non-postal products do you believe USPS should be allowed to offer? Why?

I have no opinion on this at this point in time. If I become Governor, I would certainly be able to examine the possibilities for non-postal products and services and how the Postal Service could implement and benefit from them.

- b. Do you believe the standards under S. 1789 are sufficient?

I believe the standards are sufficient.

*Postal Rates*

23. One of the core principles of the PAEA is to provide the mailers with predictability and stability, which allows mailers to better plan their mailing and could allow them to increase the amount of business they do with the Postal Service. What steps do you believe the Postal Service should take to provide mailers with this desired predictability and stability?

PAEA laid out a path that provided mailers with greater predictability and stability. As I recall there was a schedule of time that they could count on and a process that was to be followed. That new process was working well.

I am not aware, though, whether matters have changed in the last three years, nor have I been briefed on any problems.

*Facility Closings and Relocations*

24. How do you believe the Board should be involved in decisions to realign postal retail and mail processing networks, including decisions to close specific facilities?

As in other matters for any organization, I believe that the executive team is responsible for developing the strategy and operational plans to fulfill its mission. I believe the Board should review the organization's strategic plans continuously and raise questions, pose alternatives, and support action as deemed fit. In broad terms, the Board can be involved. It would be appropriate for a Board to ask for what the standards or decision rules would be and to consider whether they make viable business and political sense.

25. What role should the Board play in ensuring that the Postal Service communicates with its customers and employees so that they are aware of updated information on the consolidation process, as it becomes available?

Again, and this is very important, I believe the executives need to be responsible and accountable for informing both the Board and customers and employees on significant changes, be they consolidation or otherwise.

I am not aware that this is a problem. During my years on the Board, then Postmaster General Potter and Deputy Postmaster Donahoe were true leaders of their team and the Service's key stakeholders. I've worked with top leadership in several major U.S. corporations and I can say that these two Postal leaders were exemplary. If I return to the Board and find that communication is currently a problem I would certainly speak up and push for change.

26. According to GAO, approximately 30 percent of postal revenue comes from alternate retail channels such as the USPS website, automated postal centers, and contract postal units. Do you believe the Postal Service should increase the use of alternate retail channels, and if so, how should this be accomplished?

Yes, I think alternate channels should be pursued vigorously. I urged that when I was Chairman of the Audit and Finance Committee. Indeed I encouraged greater sharing between employees of the Inspector General who had developed thoughts on revenue generation and the executive finance team.

I also visited with businesses that were operating in the postal space and came away with a sense that there might indeed be ways of working with others in the industry.

Earlier in this questionnaire, I mention the idea of having an internal research and development lab. I think a team could be assembled and charged with exploring revenue generation through alternative channels.

*Workforce-Related Issues*

27. The Postal Service has been reducing its workforce through hiring freezes, early retirements, and incentive payments for some targeted attrition, but still had excess

employees in some areas. Does the Postal Service have sufficient flexibility to adjust its workforce to changes in mail volume? If not, what additional flexibility is needed?

No, the Postal Service does not have sufficient flexibility. There are a number of things that prevent it from being as flexible as it needs to. For example, there was little ability for moving employees from one kind of postal job to another kind of postal job. It would help the Postal Service if it could move staff efficiently in response to changing workload needs.

28. Approximately 80 percent of USPS's costs are labor-related, which includes employee compensation and benefits. What is the appropriate approach for the Board to take with respect to USPS' labor-related costs?

First of all, the USPS's mandate is such that it must deliver across this country, to all personal and home delivery points 6 days a week. The only way that can be done at this point is through a large labor force. So in contrast to many other businesses, there will always be a high percentage of labor costs. Given this, one still must ask how can the Postal Service control its labor costs most fairly and effectively?

The executive team and the Board should continuously ask if there are sizeable labor costs that can be reduced. For example, could the Postal Service negotiate the same amount of health care coverage for a lower cost in an independent, postal health care program? This question has been raised recently as a means to deal with the high and escalating cost of health care for its employees. I am confident that careful study on the advantages and disadvantages of action along these lines occurred.

Also, USPS has significant contingent liability costs and worker compensation costs. Are the models for these costs well-grounded? Do the models used to project costs fit with current expenses? This is an area where the Board in general and the Audit and Finance Committee in specific are active. Various consultants and the IG have provided the Board with independent thinking to insure that we are accurately accounting for the USPS's current and future financial, labor-related commitments.

29. In 2008, GAO reported that the Postal Service's Postal Career Executive Service (PCES) was comprised of 29 percent women and 25.5 percent minorities. The PAEA requires the Board of Governors to report on the representation of women and minorities in supervisory and management positions. In addition to this requirement, how do you believe the Board should work with the Postal Service to fully assess and evaluate diversity issues within USPS and make improvements in this area?

The Board has established a standing committee, the Compensation and Management Resources Committee whose job it is to insure that the Postal Service has an effective total compensation plan and implementation process. It works to insure that the Postal

Service has an effective process for recruitment, leadership development and performance appraisal. When I served as Governor and participated on this committee, we reviewed, at least semiannually, the leadership development work and succession planning with the Postmaster General. We focused on current and prospective officers. While doing this, we saw the data and discussed the diversity of the leadership team. When new executives were hired, we asked that recruitment activities seek women and people of color.

30. As an increasing number of postal executives, managers, and supervisors are eligible to retire, how can the Board work with postal management to address these challenging succession, continuity and associated cost issues?

Again, the Compensation and Management Resources Committee reviews the charts that are created as tools for the executive and management team to discuss leadership development. The USPS has a robust, multi-layered succession planning process. I found the detailed conversations we had with the Postmaster General and the Executive Vice President for Human Resources to be most productive. It enabled us as Board members to have a window into the people who were being groomed and to do extensive questioning. We made sure many of the new executives had opportunities to present to the Board on strategic topics as a means to see their thinking and capabilities. I would expect that this process has continued.

31. Performance-based compensation systems have recently been implemented for postal executives, as well as managers and supervisors. The success of these systems depends on the credibility of the performance measures. How can the Board ensure the credibility of the Service's performance-based compensation systems? Do you have an opinion about performance-based compensation?

Again, the Board's Compensation and Management Resources Committee is responsible for providing oversight to the compensation systems. All officers are paid based on performance goals and achievement. I strongly support administering a performance-based compensation system for the leadership team. This Committee annually considered and made recommendations to the Board on management's proposals with respect to salaries, incentive plans, and other compensation to be paid to officers of the Postal Service at the PCES-II level and they reviewed and where appropriate made recommendations on the same regarding the PCES-I level employees.

32. The Postal Service is subject to Occupational Safety and Health Act workplace safety laws in the same manner as private-sector employers. How can the Board help ensure compliance with this law and encourage efforts to improve the safety of the workplace?

I recall that the Board and/or the Compensation and Management Resources Committee reviewed data regarding Occupational Safety and Health Act workplace safety. On

occasion we also discussed this on the Audit and Finance Committee. Greater workforce safety obviously provides for a much improved work environment, and it also significantly reduces costs when medical or compensation costs are lower.

The Board should continue to receive status reports regularly from the Executive Vice President for Human Resources. Looking at the data can suggest changes and trends and asking questions about what is being done on the top-level problems is always in order.

33. Please describe the kind of labor-management relationship you believe is most desirable at the Postal Service, and what is your opinion about the current state of labor-management relations within the Postal Service?

I believe that the executive team has worked hard over many years to communicate in a timely and clear fashion with labor leaders. As the Postal Service's financial situation worsened, management and labor leaders' communication has become increasingly important.

I do not have current information on the status of the labor-management relationship.

There is an opportunity for greater collaboration in this area. Over time, the Postal Service will have to hire new members of the team. Its workforce is aging and the next generation of postal employees needs to come onboard. How can we finance and structure the workforce going forward? My local Postmaster informed me about an arrangement that gives her an ability to try out, essentially a Seed program, which gives her and several area post offices a young employee to staff the retail desk one day a week. It provides the postmaster with needed flexibility and coverage and enables a young person to prove her abilities. In time, the young employee might become a new, permanent employee.

34. What do you believe should be done to facilitate effective cooperation between postal management and Postal Service labor unions, and what should the Board do in this regard?

I have no specific recommendations to make at this time. At a minimum, I would think it productive for the Board to regularly meet labor union leaders, to hear their issues, just as they would any other key stakeholder group. Postal Service labor union leaders are always welcome to attend the Board's Open Session Meetings. It is the responsibility of the Executive team, though, to be handle labor relations and communications.

If confirmed as a Governor, I would be delighted to meet the new labor leaders and hear their concerns.

*Mail Safety and Security*

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35. What is your opinion of the Postal Service's current programs to manage risks posed by suspicious mail to enhance the safety and security of the mail?

I do not have current information on this topic and therefore cannot offer an opinion.

36. What are the tradeoffs that should be considered to determine what actions the Postal Service should take to enhance the safety and security of the mail – for example, in terms of potential impacts on postal operations and service delivery?

I am not currently informed on this issue.

37. To what extent should any additional costs of enhancing mail security be funded by ratepayers and to what extent by taxpayers?

There is an obvious public interest in safety of the mail which includes both the ratepayers and all citizens. The balance of those interests should determine the amounts paid by taxpayers and ratepayers. However, in my opinion, public health and safety is such an overriding concern that all reasonable safety steps must be taken and payment determined using the balance discussed above.

38. What steps should the Postal Service take to maintain trust and credibility with its employees and customers that the mail is safe? How can the Postal Service improve its response to hazardous incidents to ensure that appropriate safety procedures are understood and followed by all employees?

In order to maintain its current high trust and credibility, the Postal Service should continue its current safety practices, remain pro-active in determining new threats and responses to those threats, and perform root cause analysis on any problems which arise. Communication to the public about safety remains a key factor.

#### **IV. Relations with Congress**

39. Do you agree, without reservation, to respond to any reasonable summons to appear and testify before any duly constituted committee of the Congress if you are confirmed?

Yes.

40. Do you agree, without reservation, to reply to any reasonable request for information from any duly constituted committee of the Congress if you are confirmed?

Yes.

41. Are these answers your own? Have you consulted with the Postal Board of Governors or any interested parties? If so, please indicate which entities.

Yes. No.

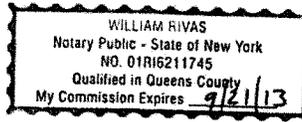
AFFIDAVIT

I, Katherine C. Tobin, being duly sworn, hereby state that I have read and signed the foregoing Statement on Pre-hearing Questions and that the information provided therein is, to the best of my knowledge, current, accurate, and complete.

Katherine C. Tobin

Subscribed and sworn before me this 01 day of June, 2012.

William Rivas  
Notary Public





United States  
**Office of Government Ethics**  
 1201 New York Avenue, NW, Suite 500  
 Washington, DC 20005-3917

MAR 21 2012

The Honorable Joseph I. Lieberman  
 Chairman  
 Committee on Homeland Security  
 and Governmental Affairs  
 United States Senate  
 Washington, DC 20510

Dear Mr. Chairman:

Under the Ethics in Government Act of 1978, Presidential nominees requiring Senate confirmation who are not expected to serve in their Government positions for more than 60 days in a calendar year are not required to file public financial disclosure reports. The Act, as amended, however, contains a provision in section 101(b) that allows the committee with jurisdiction to request any financial information it deems appropriate from the nominee.

We understand that your committee desires to receive a financial disclosure report (OGE Form 278 or SF 278) from any Presidential nominee for a position on the Board of Governors of the United States Postal Service, along with a written opinion from this Office regarding any possible conflicts of interest.

Therefore, I am forwarding a copy of the financial disclosure report of Katherine C. Tobin, who has been nominated by President Obama for the position of Member of the Board of Governors, United States Postal Service. Because the nominee is not expected to serve more than 60 days in any calendar year, the enclosed report and this letter are submitted to you in accordance with your committee's confirmation procedures and will be available for public inspection only to the extent provided by your practices. There is no authority under the Act for public release of this material by the executive branch.

We have reviewed the report and have obtained advice from the agency concerning any possible conflict in light of its functions and the nominee's proposed duties. Also enclosed is an ethics agreement outlining the actions that the nominee will undertake to avoid conflicts of interest. Unless a date for compliance is indicated in the ethics agreement, the nominee must fully comply within three months of confirmation with any action specified in the ethics agreement.

Based thereon, we believe that this nominee is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

A handwritten signature in black ink, appearing to read "Don Fox".

Don W. Fox  
 Principal Deputy Director

Enclosures - REDACTED  
 (Financial Disclosure Report)

**Senator Jon Tester**  
**Additional Questions for the Record**  
**Nomination of Katherine C. Tobin to be a Governor, U.S. Postal Service**  
**June 21, 2012**

1. Did you authorize Postmaster General Potter's salary and compensation at \$800,000 when you were on the Board of Governors? Do you stand by this decision today? Why or why not?

Yes, as a member of the Board's Compensation and Management Committee, I helped shape and supported this decision and joined the Board when we unanimously made the decision. I stand by that. The following information explains why.

Congress charged the Governors with the responsibility of attracting and retaining exceptional leadership for the second largest civilian employer in the nation. In the law governing the Postal Service, Congress mandated that it "shall be the policy of the Postal Service to maintain compensation and benefits for all officers and employees on a standard of comparability to the compensation and benefits paid for comparable levels of work in the private sector of the economy."

The Postal Accountability and Enhancement Act (PAEA) provided the Board with the authority to

allow up to 12 officers or employees . . . in critical senior executive or equivalent positions to receive total compensation in an amount not to exceed 120 percent of the total annual compensation payable to the Vice President . . . *as of the end of the calendar year in which such payment is received. (emphasis added)*

For other employees, the PAEA vests the Board with the authority to approve a compensation program that would

not cause the total compensation of such officer or employee to exceed the total annual compensation payable to the Vice President . . . *as of the end of the calendar year in which the bonus or award is paid. (emphasis added)*

As can be seen in the language above, these compensation caps apply to monies paid or received in a calendar year. Amounts that are deferred are not "received" by, or "paid" to employees. Therefore, the Governors' practice of deferring compensation complies with the statutory pay restrictions while still allowing the Postal Service to attract and retain highly talented leaders in a competitive corporate environment. The Governors' approach to this matter is in accord with guidance received from outside counsel.

Additionally, in deferring the payment of certain compensation until a senior officer's departure from the Postal Service, the Governors were guided by the manner in which

Title 5 of the United States Code and Title 5 of the Code of Federal Regulations apply in this circumstance to other federal entities. Under Title 5, amounts not paid in a calendar year because of the applicable compensation cap must be deferred and paid in a subsequent year or after the employee leaves federal service.

When the Governors established compensation for Mr. Potter, Towers Watson (formerly Watson Wyatt), an outside consultant retained by the Board on this issue, had informed the Board's Compensation Committee that Postal Service executive officers' compensation is only approximately 15% of the compensation paid in the private sector for comparable work and responsibility. The Board recognized that it would not be possible to achieve full comparability with the private sector, given the limited tools available to the Postal Service. However, given this disparity, the Board made efforts to use the tools that Congress had provided in order to attract and retain the best leaders that any sector of the economy can provide – public or private. One of those tools is deferred compensation.

In response to the new authority given to the Governors in the PAEA legislation of 2006, the Compensation Committee of the Board was thorough and thoughtful, over many months, in its action. In determining Mr. Potter's overall compensation, the Committee designed, and the Governors approved, a compensation system that balanced amounts paid to him as salary, with the ability to earn additional compensation if he met certain challenging performance goals. We wanted all of our decisions to be based on business performance. Clear goals and metrics were laid out for Mr. Potter.

Mr. Potter earned performance incentives during his tenure as Postmaster General. Because those earned performance incentives exceeded the compensation cap, those amounts were deferred and are being paid out over a period of ten years. The amount of deferred compensation referred to in your question reflects incentive compensation earned by Mr. Potter during the course of his service as Postmaster General. A small portion of that amount also reflects performance awards he had received prior to becoming Postmaster General.

I served on the Compensation Committee during those years. Mr. Potter did a remarkable job as leader of the largest postal service in the world under exceptionally difficult conditions. I thought then and believe now that he deserved every penny of his annual salary - which was \$273,296 at its height in fiscal year 2011. As the founders of Hewlett-Packard taught me years ago, it's easy to be a CEO or leader in good times, but the true test of business skill, talent and achievement is how one performs in tough times.

In 2011, the Postal Service delivered 168 billion items, almost half of the world's mail, and generated \$66 billion in revenue. In that year, the Postal Service ranked 109th in Fortune Magazine's listing of Fortune Global 500 Companies. By way of comparison, two of our largest competitors, UPS and Fed Ex, ranked 166th and 261st on this list. If the Postal Service were listed on the Fortune 500 annual ranking of America's largest corporations, it would be ranked 34th in 2011. UPS and Fed Ex were ranked 48th and 73rd on that list in 2011. In that year, the top executives at Fed Ex and UPS were paid a

salary in excess of \$1 million and total compensation and benefits valued at several million dollars. These compensation packages typically consisted of annual and long-term performance incentives, including a combination of cash payments and stock options and a number of benefits and perquisites. Despite Congress' mandate to maintain compensation comparable to the private sector, I do not claim that the USPS top leaders should be paid directly the same as relevant Fortune 500 company leaders. I do argue, though, that we compete for talent, and part of competing and winning is to have a reasonable salary given the scope of responsibility.

2. Do you see the future of the Postal Service as a private enterprise like FedEx or do you think the unique situation of the Postal Service and the promise for universal service is worth preserving?

I am a strong believer in the important role the Postal Service plays in our country through its provision of universal service. Thus I do not see the future of the Postal Service as a private enterprise akin to FedEx. I am not a proponent of privatizing the Postal Service.

3. How would you like to see the role of the Board of Governors improve?

It is the responsibility of the Board of Governors to provide extensive oversight on all financial matters – financial reporting, capital investment, auditing reports. The Board also is charged with focusing on issues of how to generate new revenue, how new products are introduced and marketed, exploring new revenue-generating initiatives, and how the Service handles its regulatory responsibilities. It directs the exercise of the powers of the Postal Service, reviews the practices and policies of the Postal Service, and directs and controls the expenditures of the Postal Service. It accomplishes its purposes by monitoring the operations and performance of the Postal Service, and by establishing basic objectives, broad policies, and long-range goals for the Postal Service.

Clearly, Congress has a strong and continuing oversight role which should continue unchanged. The PRC, however, also has significant regulatory oversight. It reviews and renders decisions on proposed price, mail classification and major service changes. It also hears appeals of post office closings.

I noted in my questionnaire response, and at the Senate Hearing, that there are several areas of overlapping responsibility between the Board and the PRC. For example, both the Board and the PRC currently review new product offerings, price changes and new market strategies as studied and proposed by the executives. Essentially, there is one Presidentially appointed Board making a decision and another Presidentially appointed commission then finalizing the decision or, in the case of service changes, commenting on the decision. What this means practically is the Board of Governors – with its given authority – makes a decision – but the decision is not finished. At some later time, the PRC then receives the Board approved plan and makes its own decision. Thus there is duplication of roles or redundancy that is not conducive to the efficient, timely action is needed in a highly competitive industry.

4. How could the Senate-passed S. 1789 have been improved?

I believe the Senate-passed S.1789 went a long way to provide the Postal Service with financial and market flexibility. It could be improved if the Postal Service is allowed to move forward now, not two years from now, on the change from 6-day a week universal service delivery to 5-day a week universal service delivery. I say this because I believe that most Americans are supportive of this cost-saving action and that there are ways that they can do postal business on the internet or through alternative retail channels on the 6<sup>th</sup> or 7<sup>th</sup> day. Right now, one can, for example, on a Sunday or Saturday, order stamps online, buy stamps in stores, or go to post office lobbies where automated machines allow shipping of small packages.

**Senator Mark Begich**  
**Additional Questions for the Record**  
**Nomination of Katherine C. Tobin to be a Governor, U.S. Postal Service**  
**June 21, 2012**

1. What role do you see for the Bypass Mail program in providing rural Alaskans with universal service?

*Given the unique demands of transporting mail in Alaska, the Bypass Mail program plays two important roles: 1) It provides rural Alaskans with a necessary service that is part of the universal service obligation; and 2) It is necessary and desirable from a practical standpoint because, if the program was ended or substantially curtailed, the Postal Service would not have sufficient capacity in Alaska to absorb Bypass Mail without an onerous and costly expansion that cannot be afforded at this time.*

2. Are you supportive of the Bypass Mail program?

*I strongly support the Bypass Mail program.*

3. What if any changes do you think should be made to the Bypass Mail program?

*None.*

**Senator Susan M. Collins**  
**Additional Questions for the Record**  
**Nomination Hearing of Katherine C. Tobin to be a Governor, U.S. Postal Service**  
**June 21, 2012**

1. In April, the Committee learned that the Postal Service's own preliminary analysis of its Five-Year Plan, which includes changes in delivery standards and facility closures, determined that it would result in more than a nine percent decrease in first-class mail and a 7.7 percent reduction in all classes of mail. It estimated that the first-year losses alone would be \$5.2 billion.

- a. Given this analysis, how would you justify the Postal Service proceeding with the implementation of its Five-Year Plan?

*Though the cited study was commissioned and undertaken after my service on the Board concluded, it is my cursory understanding that a flaw in its design compromised its effectiveness and that the preliminary analysis was far from complete. If confirmed I look forward to examining this issue in more depth and as a member of the Board of Governors I believe that such considerations must balance the need to reduce operational overcapacity while maintaining the service and standards that Postal Service customers have come to expect. Clearly, a large change such as this might result in some reduction in revenue, but not necessarily so if other provisions such as greater online or alternative retail channels are tapped.*

- b. What would you propose as possible alternatives to the plan's many components?

*One of the primary functions of the Postal Service Board of Governors is to ensure that a variety of viewpoints and perspectives help inform USPS's plans and decisions. In fact, in my prior service, one of the primary focuses of the Board was evaluating and weighing the best options to respond to the changing mailing habits of the American people and the resulting loss of mail volume and declining revenue. I believe that every alternative must be given thorough and thoughtful consideration, and that these decisions must be based on how best to secure the financial sustainability of the Postal Service by providing the right mix of products, services and standards to meet the public needs. While I believe the current plan is largely in line with the conclusions of independent analysis of the future postal business environment (see, for example, the recent studies by the Government Accountability Office, the USPS Office the Inspector General, and the outside business consultants commissioned by USPS), if confirmed, I look forward to working with my fellow Governors to ensure that these plans truly are the best response to secure the Postal Service's future.*

2. You were on the Board of Governors when the Board approved a deferred compensation package in excess of \$800,000 for then-Postmaster General Potter, which is still being paid out.

- a. Please elaborate on your reasons for approving this compensation package?

*Congress charged the Governors with the responsibility of attracting and retaining exceptional leadership for the second largest civilian employer in the nation. In the law governing the Postal Service, Congress mandated that it "shall be the policy of the Postal Service to maintain compensation and benefits for all officers and employees on a standard of comparability to the compensation and benefits paid for comparable levels of work in the private sector of the economy."*

*The Postal Accountability and Enhancement Act (PAEA) provided the Board with the authority to*

*allow up to 12 officers or employees . . . in critical senior executive or equivalent positions to receive total compensation in an amount not to exceed 120 percent of the total annual compensation payable to the Vice President . . . as of the end of the calendar year in which such payment is received. (emphasis added)*

*For other employees, the PAEA vests the Board with the authority to approve a compensation program that would*

*not cause the total compensation of such officer or employee to exceed the total annual compensation payable to the Vice President . . . as of the end of the calendar year in which the bonus or award is paid. (emphasis added)*

*As can be seen in the language above, these compensation caps apply to monies paid or received in a calendar year. Amounts that are deferred are not "received" by, or "paid" to employees. Therefore, the Governors' practice of deferring compensation complies with the statutory pay restrictions while still allowing the Postal Service to attract and retain highly talented leaders in a competitive corporate environment. The Governors' approach to this matter is in accord with guidance received from outside counsel.*

*Additionally, in deferring the payment of certain compensation until a senior officer's departure from the Postal Service, the Governors were guided by the manner in which Title 5 of the United States Code and Title 5 of the Code of Federal Regulations apply in this circumstance to other federal entities. Under Title 5, amounts not paid in a calendar year because of the applicable compensation cap must be deferred and paid in a subsequent year or after the employee leaves federal service.*

*When the Governors established compensation for Mr. Potter, Towers Watson (formerly Watson Wyatt), an outside consultant retained by the Board on this issue, had informed the Board's Compensation Committee that Postal Service executive officers' compensation is only approximately 15% of the compensation paid in the private sector for comparable work and responsibility. The Board recognized that it would not be possible to achieve full comparability with the private sector, given the*

*limited tools available to the Postal Service. However, given this disparity, the Board made efforts to use the tools that Congress had provided in order to attract and retain the best leaders that any sector of the economy can provide – public or private. One of those tools is deferred compensation.*

*In response to the new authority given to the Governors in the PAEA legislation of 2006, the Compensation Committee of the Board was thorough and thoughtful, over many months, in its action. In determining Mr. Potter's overall compensation, the Committee designed, and the Governors approved, a compensation system that balanced amounts paid to him as salary, with the ability to earn additional compensation if he met certain challenging performance goals. We wanted all of our decisions to be based on business performance. Clear goals and metrics were laid out for Mr. Potter.*

*Mr. Potter earned performance incentives during his tenure as Postmaster General. Because those earned performance incentives exceeded the compensation cap, those amounts were deferred and are being paid out over a period of ten years. The amount of deferred compensation referred to in your question reflects incentive compensation earned by Mr. Potter during the course of his service as Postmaster General. A small portion of that amount also reflects performance awards he had received prior to becoming Postmaster General.*

*I served on the Compensation Committee during those years. Mr. Potter did a remarkable job as leader of the largest postal service in the world under exceptionally difficult conditions. I thought then and believe now that he deserved every penny of his annual salary - which was \$273,296 at its height in fiscal year 2011. As the founders of Hewlett-Packard taught me years ago, it's easy to be a CEO or leader in good times, but the true test of business skill, talent and achievement is how one performs in tough times.*

*In 2011, the Postal Service delivered 168 billion items, almost half of the world's mail, and generated \$66 billion in revenue. In that year, the Postal Service ranked 109th in Fortune Magazine's listing of Fortune Global 500 Companies. By way of comparison, two of our largest competitors, UPS and Fed Ex, ranked 166th and 261st on this list. If the Postal Service were listed on the Fortune 500 annual ranking of America's largest corporations, it would be ranked 34th in 2011. UPS and Fed Ex were ranked 48th and 73rd on that list in 2011. In that year, the top executives at Fed Ex and UPS were paid a salary in excess of \$1 million and total compensation and benefits valued at several million dollars. These compensation packages typically consisted of annual and long-term performance incentives, including a combination of cash payments and stock options and a number of benefits and perquisites. Despite Congress' mandate to maintain compensation comparable to the private sector, I do not claim that the USPS top leaders should be paid directly the same as relevant Fortune 500 company leaders. I do argue, though, that we compete for talent, and part of competing and winning is to have a reasonable salary given the scope of responsibility.*

- b. Do you continue support your decision? Please elaborate.

*Yes, for the reasons explained above.*

3. As you are aware, there are differences of opinion about the privatization of the Postal Service. Privatization of the Postal Service would (1) end the Postal Service monopoly on first-class mail and mailbox use; (2) limit current Postal Service authority to search, seize, detain, inspect, and examine certain mail matter; and (3) end the mailbox use monopoly. What are your views on privatization?

*I believe that the Postal Service should not be privatized, and that there is a clear and important governmental role, including public health and safety, for the federal government to provide universal postal service. The monopoly on first-class mail and mailbox use and the resulting need to administer these functions are necessary in order to provide this universal service.*

4. What are your views on the "universal service standard" and the various delivery methods currently employed to carry out this mandate (e.g. Alaska Bypass Mail, six day delivery, the overnight delivery standards)?

*As indicated previously, I wholeheartedly support the universal service standard, and I believe that we should be working to provide the most effective and far-reaching service possible within the business and market constraints of the modern mail environment. Striking this balance is an important challenge facing the Board of Governors, and if confirmed, I will approach these decisions from the perspective of providing the greatest quality of service possible.*

5. As you are aware the Postal Accountability and Enhancement Act of 2006 requires that by the end 2015 at least four members of the Board of Governors have experience managing an organization of 50,000 employees or more. You indicated that this requirement would be difficult to reach as 50,000 employees it is an extremely high bar. Where would you set the management requirement and why?

*I would step back from having a numerical goal that speaks to the number of employees managed. That is no longer relevant in terms of how one defines or assesses leadership capacity.*

*The twenty-first century requires Board members to be experienced in working within a volatile and unpredictable world where markets and government are in flux and complexity is increasing. Core characteristics would be that all nominees have strong interpersonal and communication skills. They need to be able to make a considerable investment of time and talent. In addition to being able to understand the organization from a strategic business vantage point, they need to also understand operational detail in order to provide effective oversight and guidance.*

*I believe candidates should be sought who have worked in large companies, serving as senior executives or as board members of such companies. So I might suggest that the guideline be revised to state that at least four members of the Board of Governors have experience managing at a senior level within a Fortune 100 company.*

*Further, given the time required and the fact that this is not a lucrative board position, it could be useful to tap successful retired executives. At that stage of person's career, he or she might be more able to take on this time-consuming, public service responsibility.*

6. At the hearing, you indicated a concern that there is considerable overlap in oversight of the Postal Service, which handicaps the Postal Service.
- a. Please provide further detail about this concern.

*In my Pre-Hearing Questionnaire, I was asked to describe the role of the Board of Governors in terms of its oversight of the Postal Service's efforts to improve its financial condition and to exercise its flexibility for increasing postal revenue and cutting costs. The second part of the question then inquired how the Board's role differs from the role of the Postal Regulatory Commission or of Congress.*

*It is the responsibility of the Board of Governors to provide extensive oversight on all financial matters – financial reporting, capital investment, auditing reports. The Board also is charged with focusing on issues of how to generate new revenue, how new products are introduced and marketed, exploring new revenue-generating initiatives, and how the Service handles its regulatory responsibilities. It directs the exercise of the powers of the Postal Service, reviews the practices and policies of the Postal Service, and directs and controls the expenditures of the Postal Service. It accomplishes its purposes by monitoring the operations and performance of the Postal Service, and by establishing basic objectives, broad policies, and long-range goals for the Postal Service.*

*Clearly, Congress has a strong and continuing oversight role which should continue unchanged. The PRC, however, also has significant regulatory oversight. It reviews and renders decisions on proposed price, mail classification and major service changes. It also hears appeals of post office closings.*

*I noted in my questionnaire response, and at the Senate Hearing, that there are several areas of overlapping responsibility between the Board and the PRC. For example, both the Board and the PRC currently review new product offerings, price changes and new market strategies as studied and proposed by the executives. Essentially, there is one Presidentially appointed Board making a decision and another Presidentially appointed commission then finalizing the decision or, in the case of service changes, commenting on the decision. What this means practically is the Board of Governors – with its given authority – makes a decision – but the decision is not finished. At some later time, the PRC then receives the Board approved plan and makes its own decision. Thus there is duplication of roles or redundancy that is not conducive to the efficient, timely action is needed in a highly competitive industry.*

- b. How would you restructure the oversight of the Postal Service?

*Essentially, my goal would be to have the PRC deal with the Postal Service like any other regulatory agency deals with an independent business. Normally, regulators do not make, approve, or guide a business's decisions; rather they monitor and review only as necessary. So I envision the Postal Service being given the tools by Congress to become more nimble as well as innovative and responsive to changing business climate and opportunities.*

