

Testimony of Steve D. Lenoir
President of the League of Postmasters
Before the Committee on Government Affairs
Of the
United States Senate
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OF THE NATIONAL LEAGUE OF POSTMASTERS
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Chairman Collins, members of the Committee, thank you for inviting us to appear before you today. My name is Steve LeNoir and I am the President of the National League of Postmasters. I have been President of the LEAGUE since 2002, and have served in state, regional, and national positions since 1982. I welcome this opportunity to discuss the important issue of postal reform.

Started in 1887 to represent rural postmasters, and formally organized in 1904, the National League of Postmasters is a management association representing the interests of all Postmasters. Although we represent postmasters from all across the country—from the very smallest to the very largest Post Offices—rural Postmasters are a sizable portion of our membership. The LEAGUE speaks for thousands of retired Postmasters as well.

On a personal note, I am from Horatio, South Carolina, and have been postmaster there since 1981. Currently, I am on leave from my postmaster position to serve with the LEAGUE here in Washington.

Postal Reform is critical to continue the long-term ability of the United States Postal Service to provide affordable, universal mail service to every individual, home, and business in America. There is no doubt that the Postal Service needs fundamental change. We know that our jobs—and those of the people we manage—are ultimately at stake. We appreciate your efforts very much, particularly those focused on employment issues.

One of the concerns the League has with postal reform is that some individuals might think that closing small rural or inner city post offices would save a considerable amount of money. That simply is not true. As we point out below, the cost of the 10,000 smallest Post Offices is less than one percent (1%) of the total budget of the Postal Service.

The most pressing postal issues today are the CSRS issues. Last year Congress passed the Civil Service Retirement System (CSRS) legislation that reformed pension funding and corrected an overpayment to CSRS that saved the Postal Service billions of dollars. We thank you for your efforts in getting that through Congress so quickly. But we still need to address the issues surrounding the postal “escrow” and the \$27 billion in military retirement benefits to be paid by the Postal Service for the military service of postal employees earned *before* joining the Postal Service.

Last year's legislation put the CSRS overpayment into an escrow account, pending a Congressional determination of how to use the money. That money is just sitting there waiting for Congress to decide, and if Congress doesn't decide soon, the Postal Service will be forced to raise rates to an artificially high level that will hurt mailers.

The Postal Service has suggested using the CSRS “savings” to pre-fund retirees' benefits, thus funding one of the biggest unfunded liabilities the Postal Service will face in the future. We think that is an excellent idea and strongly support it.

Also, last year CSRS legislation forced the Postal Service to assume the responsibility for \$27 billion of military retirement benefits that were earned by postal

employees for service before joining the Postal Service. That responsibility is not one the Postal Service should bear, and it deserves to be transferred back to the General Treasury.

We strongly urge Congress and the Committee to make both these issues a top priority.

I. Postal Compensation Issues.

This past year Postal Headquarters, the National League of Postmasters, NAPUS and NAPS worked together to develop a compensation system that promotes something other than a “finish line” mentality. In the past, compensation systems for Postal Managers were an all or nothing system; you either met the goal or you missed it.

Now, we have created a new compensation system for Postmasters and other managers—“Pay for Performance (PFP)”—and it will be a good driver of productivity. It recognizes individuals not only for their contribution to the corporate goals but also their individual performance. It drives the right behavior by constantly encouraging individuals to strive for stretch and breakthrough productivity. Even small measures of improvements will be rewarded. Stretch and breakthrough productivity will be rewarded at higher levels.

The new pay for performance system takes three factors into account: how we perform nationally as a postal service, how our post office performed and how we performed as an individual. With this new system, everyone is aligned with their performance goals. It’s a concept of recognizing both team and individual performance that we’ve never had before

At the post office level, some of the criteria on which we are judged are service indicators such as Express Mail performance and delivery confirmation scans. Some of the financial benchmarks are total operating expenses and budgeted work hour usage. It is important to note that a major portion of a Postmasters evaluation hinges on revenue generation. At the end of the evaluation we are judged on our post offices total revenue versus the amount of revenue we generated the prior year.

When all the factors are weighed there is a formula that gives the Postmaster a numerical rating between 0-15. Depending on where you fall in that rating you are classified as a non-contributor, contributor, high contributor, or exceptional contributor. Then that rating is converted into the percentage of pay raise that the Postmaster will receive.

I believe we have developed a fair system and the postal service has committed to review the process after the first year to see if any adjustments are needed.

The compensation system for rural delivery is also a good driver of productivity in that it provides for an evaluated system that is paid by workload, which includes a combination of mail volume, number of deliveries, mileage and stops. This process provides a win-win situation for both the rural carriers and the USPS. In this case the employee can leave after their work is completed and still be paid according to their evaluation.

Collective bargaining presents different challenges in developing a compensation system. Generally, employees who are paid solely on an hourly basis are not motivated to exceptional performance. These employees need to work eight hours without regard to

how much work is completed. Exceptional performance leads to additional work. Often less than exceptional performance leads to overtime pay.

II. Potential for Improvements to Existing Work Rules.

While, as we have said, the League is pleased so far with the new pay for performance system, we do believe there are too many layers of management between Postmasters and Postal Headquarters, and that some should be removed. We feel strongly that Postmasters should have the authority to manage their Post Offices without being micro managed.

In terms of the people we manage, one problem is that promotions in craft positions are determined by seniority. In many cases the most senior person is not the best qualified for the job. It is not that he or she might be a bad employee, but just not the right person for a particular spot.

Moreover, we need much more flexibility in how we are able to use our craft employees. Current rules prohibit craft employees from doing work in other crafts. We could greatly improve efficiency if we had more flexibility.

One area in which we have made considerable progress is that we have reduced the number of grievances filed by employees. We need to continue making progress in this area and work with the Unions to revise outdated work rules. Finally, there is a need to address sick leave for FERs employees. Currently they get no credit for unused leave at retirement. We need to change this rule so they could sell back sick leave or get credit at retirement.

III. Postal Infrastructure.

Chairman Collins, as we noted above, one of the League's concerns is rural post offices. Not only am I a rural postmaster, but my wife is a rural postmaster in South Carolina and she was a rural postmaster in West Virginia before that. My mother was a Postmaster for 32 years, and the type of dedicated person that worked in the Post Office right up until the day I was born. My great grandfather, Walter LeNoir, was the Postmaster in Horatio from 1900 to 1935. So, when I speak of rural Post Offices, I speak from a century-old tradition.

The Cost of Rural Post Offices Is Less Than One Percent of the Postal Service's Budget.

The League is concerned that access to a Post Office in a rural community could dramatically change if postal reform is not implemented properly. We are particularly concerned that overzealous individuals could develop a mistaken belief that closing small Post Offices would net meaningful savings for the Postal Service. That simply is not true. As the Postal Rate Commission's Robert Cohen pointed out, the cost of the 10,000 smallest Post Offices is less than one percent (1%) of the total budget of the Postal Service. Testimony of Robert Cohen before the President's Commission on the Postal Service, February 20, 2003 at 2, 9-10.

Whether Rural and Inner City Post Offices Are Profitable Depends Upon Postal Accounting of Revenues and Costs.

There is a widespread misconception that many rural and inner city Post Offices are not profitable, and that more than half of the Post Offices do not break even. This is

not an accurate picture of the situation because none of the revenue from a piece of mail is credited to the Post Office where the mail is delivered.

For instance, Carolina Power & Light serves a two-state area and mails electric bills all across North and South Carolina, including hundreds of rural and inner city Post Offices. All the revenue from a Carolina Power & Light mailing is credited to one Post Office in Raleigh, North Carolina. None of it is credited to the hundreds of Post Offices that actually deliver the bills. Clearly it is wrong to say that the Raleigh Post Office is profitable in regards to this mailing simply because it is credited with all the revenue, and to say that the smaller delivery Post Offices are not profitable simply because they are credited with no revenue but have to bear the costs. This is a major mismatch of revenues and costs, which results in a distorted picture of which Post Offices are “profitable” and which are “not profitable.”

Post Offices Are Necessary To Provide Universal Service in Rural America.

In the LEAGUE’s testimony before the President’s Commission on the Postal Service we argued—as many others did—that Universal Mail Service was still needed. We were very pleased to see that the first lines of the Commission’s Report reaffirmed that view: “Universal postal service remains vital to the nation and its economy at the dawn of the 21st century.” Commission Report at vii.

Yet the Commission did not define Universal Service, and we know of no clear definition of Universal Service. As we read it, the question remains open as to what constitutes Universal Service.

The League believes that providing Universal Service means not only providing universal mail delivery to all citizens, but also providing equal access to all postal

services, including Post Offices. The Postal Service has an obligation to provide quality postal services and access to Post Offices on a universal basis, regardless of whether a Post Office is “profitable.” This is particularly true in rural America where Post Offices play a role that go far beyond providing postal services.

The local Post Office is an American institution that is critical to the well-being of rural America. It should not be harmed, for it is the institution that literally binds rural America together, politically, socially, and economically. It is the lifeblood of rural communities.

It is a big deal when the mail arrives at a local Post Office, and often many are there to greet it. Rural Post Offices fulfill a need for this segment of the population as well as provide invaluable service to these customers that one cannot measure in dollars.

Rural Post Offices also serve as gathering places where social news is exchanged and political issues discussed, often with some heat. It is in the rural Post Offices that political questions are addressed, sides argued, and opinions formed. For decades Post Offices have been gathering places where friends share news of graduations, birthdays, and marriages. Neighbors would wait for letters from sons and daughters away at college or serving in the Armed Forces. Rural Post Offices have also provided safe havens for children as school bus stops.

Many rural Postmasters provide services that go above and beyond the call of duty. Postmasters help address envelopes for their patrons, as well as read and explain mail to them. For instance, I used to help customers that didn’t have educational opportunities fill out money orders, write checks, and write correspondence. Additionally, state and federal forms are available in post office lobbies, and rural

Postmasters often help local citizens with these. Local Post Offices also provide community bulletin boards and post federal notices. These are critical services to the rural community.

Even if closing rural Post Offices did save sizeable amounts of money, and even if postal accounting did appropriately credit revenues to Post Offices of delivery, we believe Post Offices must be measured by the service they provide to the entire nation and not be judged solely on financial considerations. The local Post Office is an icon of rural America, and neither Congress nor the Postal Service should tamper with it, for once a town's Post Office disappears, the town often shrivels up and dies.

We were pleased to see that the President's Commission agrees with us: “‘low-activity’ Post Offices that continue to be necessary for the fulfillment of the Postal Service’s universal service obligation should not be closed, even if they operate at a substantial economic loss.” Commission Report at XIV (*italics in original*).

We urge the Committee to see that a definition of Universal Service in any postal reform bill makes it clear that Post Offices are necessary to fulfill the Universal Service mandate, particularly in rural areas, where Post Offices play such a critical role.

Keep the Current Post Office Closing Rules.

While we understand there are legitimate reasons to close a Post Office, we do not believe that the existing rules pertaining to the discontinuance of Post Offices should be changed or modified. These rules are fair to customers, local communities, and to the management of the Postal Service. While we do not believe that the current Postmaster General and Headquarters staff have a hidden agenda on Post Office closings, we cannot

be assured that future leadership will have that same philosophy or the same sensitivity to the needs and interests of the local community, if the law were relaxed.

Flexibility to Close Mail Processing Facilities.

The ability to close mail processing facilities is markedly different from the issue of closing small Post Offices. In November of 2003, Senators Collins and Carper sent Postmaster General Jack Potter a letter requesting information on the Postal Service's plans in this area by April 7, 2004:

You testified that the Postal Service must have the ability to alter its retail and mail processing networks to meet customer needs, provide increased access, and achieve greater operational efficiency. In this regard, the Service's Transformation Plan noted that the Service plans to optimize its retail network, including closing retail facilities deemed to be redundant and reducing the Service's physical infrastructure in markets where the Postal Service considers its retail access to be over represented. . . . we would like for you to provide the Committee with a plan that lays out how the Postal Service intends to optimize its infrastructure and workforce. The plan should describe the criteria, process, and data the Service uses to make its decisions, as well as the parties consulted in the plan's development."

The LEAGUE is waiting to hear how the Postal Service addresses this issue before we comment further.

The Difference in the Retail Markets for Selling Postal Services and Products Requires Two Different Approaches.

We agree with the Commission's recommendation to make postal services, such as stamps and service kiosks, more convenient for customers and to take some of that activity out of Post Offices. But, there's an important fact to note—there are two different retail markets and we should not have a one-size-fits-all mentality.

One market is that of the large Post Offices, whose long lines are a detriment to service. Those Post Offices can benefit by providing more basic service outlets in the

area, outside of the Post Office. However, in medium to small Post Offices, where lines are not an issue, we see a big benefit in having customers transact business in our postal lobbies. That gives us a chance to up sell postal products in addition to offering other services.

The Presidential Commission suggests that we move postal retail to Wal-Marts and other such large retail outlets. While that may make good business sense in large retail markets where lines are an issue, I believe it would be short sighted not to use our lobbies in medium to smaller Post Offices to their full benefit. When customers enter our lobbies, we have a chance to up-sell postal products. We should take advantage of that opportunity.

IV. The Administration’s Five Principles for Postal Reform.

The recent Report of the President’s Commission on the Postal Service concluded “if the nation embraces an ambitious modernization, then the Commission is very confident that the Postal Service can continue its 225-year tradition of innovation and adaptation to remain a valued and relevant enterprise to the nation it exists to serve.” Commission Report at iii. We agree with those sentiments. The Commission also found, however, that the Postal Service is in “significant jeopardy” and that without “fundamental reforms, the risk of a significant taxpayer bailout or dramatic postage rate increases looms large.” We agree with that assessment as well. Postal Reform is an absolute necessity if the Postal Service is to thrive in the 21st century.

On December 8th of last year, the Bush Administration called on Congress to enact postal reform and listed five principles that it believes should guide Postal Reform: Create Greater Flexibility, Remain Self Financing, Ensure Financial Transparency,

Ensure Accountability, and Implement Best Practices. We believe these five principles are an excellent foundation for postal reform.

1. Flexibility. The key to the future of the Postal Service is introducing more flexibility into the system on a wide variety of fronts. We have already discussed the postal infrastructure.

Pricing and Product Flexibility. While we accept the fact that some sort of pricing regulation is necessary for a monopoly, the present system is simply too burdensome. The Pricing system has to be made simpler, and the process faster.

Flexibility to Close Post Offices. We discussed this extensively above and feel current law is sufficient.

2. Self-Financing. We agree with President Bush that the Postal Service should be self-financed. We take pride in the fact that we have not received tax support since 1982. Our commitment to the Transformation Plan has proven that we are committed to continued cost reduction, increasing revenue, and postal self-sufficiency.

One way to help the Postal Service continue its self-sufficiency is to maximize the revenue potential of the nation's Post Offices. While delivery of letters, periodicals, advertising mail, and parcels is our core business, we feel there is so much more we can do. Our network of Post Offices provides a unique opportunity to expand non-postal services at our facilities while utilizing the infrastructure we have. We take pride in serving our customers, and we need to realize our full potential.

Over seven million customers visit our lobbies each business day. By offering appropriate products and services we can serve our customers and improve the Postal

Service's bottom line. We believe that there is great value in our network of over 26,000 post offices and we have not fully maximized that value.

We hasten to point out that we are not suggesting that the Postal Service should enter into competition with the private sector. Rather, we are suggesting that in rural areas where the private sector does not provide adequate services, the Postal Service could fill that gap. For instance, in my city of Horatio, I added a fax and copy machine to my Post Office because the closest photocopying shop was 20 miles away. That served our citizens well, had no effect on the private sector, and has paid for itself many times over.

Ideas for Partnering with the Private Sector. The LEAGUE has been working with Postal Headquarters to explore revenue-producing ideas, and has also been soliciting ideas from our Postmasters over the past year. The ideas I am presenting you with today can enhance the role the Postal Service plays throughout America. This can be done in many instances through partnerships with local businesses as well as in government-related services.

Let's look at some ideas for partnering with the Private Sector:

- Computers for access to the Internet and e-mail could be provided in rural and inner-city Post Office lobbies.
- ATM machines from area banking establishments could be installed in "unbanked communities."
- Coupons and advertising could be sold on the backside of postal receipts as many grocery stores do today.
- Fax and copy services could be offered in communities which currently don't offer that service.

Ideas for Partnering with the Local, State, and Federal Government. Another huge opportunity I see for the Postal Service is working with local, state, and federal governments. Currently, Post Offices serve as a resource to the Federal government by providing IRS tax forms, registration for Selective Service, wanted posters for the FBI, and Duck Stamp sales for the Department of the Interior. We could do more of that:

- Voter Registration. We could offer voter registration at post offices, making it easier for citizens to participate in the democratic process.
- Medicare/ Medicaid assistance. We could designate selected Post Offices, especially in rural America, as administering offices for the Medicare/Medicaid program. These offices could maintain a supply of equipment used by Medicare patients.
- Prescription drug delivery. We could also help with prescription drug delivery in rural areas. Holding the medicine for pickup at the Post Office could prevent its exposure to adverse weather conditions. Numerous customers in rural America receive prescriptions through the mail because there are no pharmacies nearby.
- We could also play a significant role in gathering census data in rural areas.
- We could serve the new Department of Homeland Security (DHS) as information centers, meeting places, storage centers for emergency items, or however deemed necessary by any of the agencies of DHS. We currently have Homeland Security information in our postal lobbies, but there is an even greater role that we could be playing.

These are just a few examples, and I am sure that with creative thinking we can come up with even more possibilities to partner with government and private industry.

3. Transparency. The President's Commission on the United States Postal Service stated that the Postal Service should set the standard for financial transparency by which all other federal entities are judged. Commission Report at 66. In furtherance of this goal, the Commission recommended that the Postal Service voluntarily comply with

applicable provisions of the major Securities and Exchange Commission (SEC) reporting requirements. Commission Report at 66.

I believe we can do this and that the Board of Governors has already started along this path. At the January 2004 Board of Governors meeting, Chairman David Fineman, said:

I am pleased to report that significant progress has been made. The 2003 Annual Report, which is posted on our Web site, includes enhanced disclosures in the footnotes and the Management Discussion and Analysis section. Also, in the First Quarter of Fiscal Year 2004, the Postal Service has begun to publicly report significant events, on our web site, in accordance with SEC Form 8-K reporting requirements. Additional progress will be achieved with the issuance of the Quarter 1, Fiscal Year 2004 Financial Report in February. Consistent with SEC Form 10-Q, this report will include an enhanced Management Discussion and Analysis section and expanded financial statements. . . . In the coming months we will complete plans to further enhance our annual financial reporting.

We believe that the Postal Service is well on its way towards achieving this goal.

4. Accountability. The Postal Service has certain monopoly products, and we understand that monopolies cannot have complete pricing freedom. The LEAGUE accepts that principle and understands that appropriate oversight is vital to the future health and well-being of Universal Mail Service and consumer welfare. The President's Commission recommended a three-person board that would have the power to identify the scope of Universal Service and regulate the products and services we offer. We oppose the idea of giving that much authority to three individuals.

5. Implement Best Practices. The LEAGUE believes that the current structure of the Board of Governors functions well. However, everything can always be improved,

and the LEAGUE would support any measures that ensured the Postal Service's governing body was better equipped to meet the responsibilities and objectives of an enterprise of the size and complexity of the Postal Service.

CONCLUSION

Postal Reform is necessary to ensure the future well-being of the Postal Service. The five principles the administration released as a guide to postal reform are an excellent foundation. Our efforts today to create a viable "Pay for Performance" system are good. We are satisfied with it to date, although only time will tell.

We are concerned that poorly implemented postal reform could hurt rural America. At the beginning of the 21st century, rural America contains 80 percent of the nation's land, is home to 56 million people, and has a poverty level higher than urban America, according to the Department of Agriculture's Economic Research Service. www.ers.usda.gov. We believe Post Offices fulfill a need for this segment of the population by providing invaluable service that cannot be measured in dollars. We believe Post Offices must be measured by the service they provide, and not be judged solely on financial considerations of the Postal Service. The total cost of rural Post Offices is less than one percent of the Postal Service's Budget. Post Offices are critical to rural America and their role goes far beyond a postal function.

Let's work to make Post Offices not only a lifeline to customers but also a positive link to government at all levels. We think there is great value in our network of Post Offices.

The American flag is raised at by Post Offices every day, all across this country. The tradition of the Postmaster—starting with Ben Franklin in colonial times—is

connected to many freedoms enjoyed through the Constitution of the United States and the Bill of Rights. It supports and enables many of the rights given to us. Universal Service is important to all citizens, all Americans, in the equal opportunity it provides.

On behalf of the National League of Postmasters, I want to thank you for this opportunity to appear before you today. We look forward to working with Congress and this Committee to ensure that we pass responsible postal reform that will benefit the Postal Service and the customers we serve.