

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

DEC. 2, 2010

Good morning, Mr. Chairman and members of the subcommittee. It is an honor for me to be testifying for the first time as Postmaster General-designate of the United States Postal Service. I would like to take a moment to first recognize my predecessor, Jack Potter. All of you worked with him for quite a long time and you know firsthand of his dedication, leadership, hard work and commitment to keeping the Postal Service viable and growing. Mr. Potter saw the Postal Service through extremely challenging times, including the 2001 anthrax attacks, which took place only months after he assumed office. He provided exceptional leadership through some tough years; years which saw the Postal Service have its highest mail volume and years that brought some of its toughest losses, both in mail volume and revenue. I appreciate everything he did for this organization and I thank him for his years of service.

I look forward to fostering my own positive, strong relationships with each of you. I value the trust that the Postal Governors have placed in me and I plan to work with all stakeholders – with members of Congress, the mailing industry, unions and management organizations, our employees and anyone who shares my goal of continuing to make the Postal Service better, more efficient, and the epitome of excellent service. The Postal Service has considerable challenges in front of it, but I am not dismayed by these challenges; rather, I am energized by them and I look forward to working with each of you on a variety of crucial matters.

As I begin my term leading the Postal Service at this most critical time, it is important that I give you a brief snapshot of both what we have done up to this point and what actions are still needed to improve the Postal Service. Let me stress that strategies you have heard about previously from Postmaster General Potter will not change. Rather, we will enhance these initiatives with renewed energy, with a sharper focus on customers and their experience in using the Postal Service. Our ultimate goal is to make sure customers of every type have a positive interaction with all Postal employees. Our commitment is to be the very best delivery organization, connecting senders and receivers throughout the world. Postal employees are fully engaged and they want to be as helpful to our customers as possible. Ensuring customer satisfaction is the ultimate goal within all the plans and strategies I will discuss today.

My personal philosophy can be summed up in a single word: service. Nothing is more important to me than providing the absolute best service to our customers. My commitment is to make sure that no matter when or where customers interact with us, they have a positive experience. My aim is to not simply meet, but surpass the expectations of the customer – individuals and businesses – when they utilize the Postal Service at any level. Providing top-notch service for our partners in the mailing industry is the key to their success – and to ours. With our vast network and unsurpassed reach into American homes, we provide direct customer access to businesses. Our industry partners run the gamut from printers and consolidators to Approved Shippers, non-profit organizations, mail service providers, and small and large mailers. The mailing industry is a multi-billion dollar a year business, employing millions of people. It is our job to position the mail as a tool to help companies – large and small – enhance their business, create jobs and fuel economic growth. It is our job to make the mail

as simple and efficient to use as possible. The core activity and focus of the Postal Service is simple - delivering. That is at the heart of what we do. And the tools available to our customers should be just as simple; an easy-to-navigate website, pricing structures that are easier to understand, and products and services with a more intuitive feel. Whether a customer interacts with us through our 1-800 help line or drops off a shipment at a Business Mail Entry unit, we will make that experience simple, secure and personal. We want customers to think of the Postal Service first to fulfill their mailing and shipping needs. We will do that by ensuring every customer's experience is of consistently high quality.

The ideal of a relentless focus on customer service has been honed over years of working on programs and processes that directly affect what we do every single day - collect, process, transport and deliver the mail to approximately 150 million addresses. Over the last several years, the Postal Service has taken steps to make sure we keep our organization strong. Many of these initiatives take place behind the scenes, so the public is not always aware of them, but they do affect our bottom line in many ways.

Since I am new to many of you on the committee, I would like to take a moment and introduce myself to you. As Chief Operating Officer for the past nine years and as Deputy Postmaster General for the last five years, I have had the privilege of working with teams across the entire spectrum of Postal operations to introduce a variety of new management practices. These changes have led to vastly improved operations and have changed mail processing exponentially. Using the latest technology, we have improved the flow of mail through our system with advancements such as delivery point sequencing for letters, flats and parcels. We have introduced tools that allow customers to track mail through the system. Teams of highly motivated employees throughout the Postal Service are using Lean Six Sigma methodologies to reduce waste, improve processes, and find long-term solutions to existing practices. As with everything we do, the role our employees play in these initiatives ultimately drives their success. For example, letter carriers have participated fully in realignment efforts to make delivery routes more efficient. Through joint agreements with letter carrier unions, we have been able to consolidate carrier routes and, over the last two years, eliminate more than 12,000 routes. The net result of these actions helped drive a 20.1 million work hour reduction in City and Rural Delivery operations.

Even during extremely challenging times, the Postal Service has made both productivity and efficiency gains. Our employees have risen to the occasion time and time again. We are essentially doing the same job today as we did ten years ago, but with 200,000 fewer employees. That is a testament to the dedication of the entire Postal Service team. By working smarter, using cutting-edge technological advancements, and carefully managing our workforce, we have become more productive and efficient while delivering service that is second to none. But we will not stop there. We will continue to seek ways to become leaner, smarter and faster, offering simplified but extremely effective tools for business customers and individuals, never taking our eyes off the ultimate goal, which is exceptional customer service.

A healthy Postal Service equals a healthy mailing industry, which, as I noted, contributes hundreds of billions of dollars a year to our economy. I will discuss in more detail ways we have already begun to ensure the future viability of both the Postal Service and the mailing industry; but there is still more to be done. We have a responsibility to help customers to grow their businesses, to provide simple, affordable and convenient products and services to consumers, and we have a responsibility to our employees to keep the Postal Service a vigorous and robust organization.

Our commitment is to listen carefully and gather input from our partners in the mailing industry, such as suppliers, printers, consolidators, mail service providers, and transportation companies. We rely equally on feedback from other stakeholders, including our employees, unions, management associations, Congress, the Postal Regulatory Commission (PRC), Government Accountability Office (GAO), Postal Service Office of the Inspector General (OIG), Office of Management and Budget (OMB) and the Office of Personnel Management (OPM). We welcome suggestions and appreciate the concern for the future of the Postal Service shared by all the groups I just named.

In recent years, you have heard testimony numerous times about the serious financial circumstances in which the United States Postal Service finds itself. While our service remains strong, our financial situation continues to be dire. The reasons are the same ones that have plagued us for quite some time. Volume for First-Class Mail, our most profitable product, continues to shrink. Another concern is the continued change in the mix of mail. While projections show future increases in Advertising Mail volume, this mail brings in less revenue and contribution per piece. It takes three pieces of Advertising Mail to equal the profit contribution generated by one piece of First-Class Mail. Specifically, the contribution per piece from First-Class Mail to the Postal Service is 22 cents, while the contribution per piece from Advertising Mail is only 7 cents. You can clearly see the reason for our concern regarding First-Class Mail volume declines. Customer habits continue to evolve and our business model, in place and successful for decades, is threatened. Because this business model is based on hard copy communications, the focus now must be on finding ways customers can avail themselves of our network, which is one of our strongest assets. Customers who use the mail to tap into this vast network – which reaches every home and business in America – can reap huge dividends. Let me share with you the story of one business owner in Bethlehem, PA, who used the Postal Service to great success in growing his business.

George Lioudis, owner of Lehigh Pizza, used various methods to let customers know about his pizza restaurant. These included coupon books, phone directory ads, even door flyers. But the return on his investment was not what he hoped for. George decided to use the mail to send menus to customers in the area. Using available saturation mail incentives, Lehigh Pizza was able to save a significant amount of money over other advertising methods. His menus went directly into the mailboxes and into the hands of customers. The results were amazing and business increased substantially. This is just one example of the incredible reach and value of the mail. It shows how using newer products, such as saturation mail incentives, can benefit both businesses and the Postal Service. It was a simple but highly effective strategy to grow business using the mail.

As this story illustrates, despite the significant value of hard copy mail, the Postal Service continues to be affected by a combination of the digital communications revolution, shifting customer habits, and the lingering effects of the severe recession. We are obligated to deliver to every home in the country, which we do proudly and with a level of service unsurpassed by any other Postal system in the world. At the same time, our address and delivery networks continue to grow, on average, by 1 million each year. We are burdened by law with a pre-funding obligation which is borne by no other entity, public or private. With our business model threatened and with our continued troublesome finances, we need immediate and substantial changes to help ensure our financial solvency. These challenges are affecting not only the Postal Service. The entire mailing industry is at stake, including the millions of people who work in this field.

Let me share just a snapshot of our overall performance for FY 2010. Mail volume declined 3.5 percent. Our total net loss for the fiscal year was \$8.5 billion. This loss consisted of a \$500 million loss from our controllable operations, plus \$5.5 billion of pre-funding for Retiree Health Benefits (RHB), plus a \$2.5 billion non-cash adjustment to our workers' compensation liabilities driven mostly by changes in interest rates. By managing the things under our operating control, and with the extraordinary efforts of our employees, we were able to hold the line on costs and reduce our controllable operating loss from \$1.1 billion in 2009 to just \$500 million in 2010. Based on our operational performance, including a 6 percent work hour savings, we reduced costs by \$3 billion and were only \$500 million short of breaking even on controllable operations. Although we sought a deferral on the pre-payment obligation for RHB of \$5.5 billion, similar to one we received in 2009, that action was not approved by Congress this year and we made the full payment on September 30. Unfortunately we will see some of the consequences of making this full payment at the end of FY 2011. While the Postal Service will continue its aggressive cost-cutting efforts and we will carefully manage our finances, our current forecasts show we will not have sufficient cash to make the next \$5.5 billion pre-funding payment, due on September 30, 2011. Any major disruption, such as mail volume declines, weather-related challenges or emergency circumstances, could cause us to experience an earlier cash shortfall resulting in defaults on financial obligations earlier in FY 2011. Simply put, the risk remains quite high.

To help mitigate this risk, the Postal Service has, over the last two years, conducted extensive outreach with a variety of stakeholders. We exchanged ideas, sought input, and are currently pursuing an array of solutions, based on these conversations. These meetings included discussions with you, Mr. Chairman, your colleagues and staff both here and in the House. We appreciate the deep interest and the genuine concern about the future of the Postal Service. Our efforts involved meetings with Postal customers, including medium and small-businesses, to determine their needs and gather their ideas. We sought feedback from CEOs and individual consumers alike. Virtually everyone agrees on one main concept – there must be substantial, meaningful and significant across-the-board changes in our operational, regulatory and legal framework.

Four years ago this month, the Postal Accountability and Enhancement Act (PAEA) was signed into law. While the RHB pre-funding component of the Act presents tremendous challenges, we have seen positive results from the law as well. We are now able to bring products and services to market more quickly. We can propose and resolve pricing matters within a faster schedule, without the cumbersome 18-month timeline, which was used for years. One component of the PAEA focused on transparency within Postal Service operations. Our dedicated employees once again have proven to be the difference, as the Postal Service recently became fully compliant with Sarbanes-Oxley (SOX) requirements. We take great pride in being the first and only government entity to achieve this. We have met the objectives and requirements for SOX compliance and our financial and operational conditions are fully documented and supported.

Even with the positive changes brought about by the PAEA, further improvement is urgently needed. The Postal Service has been through reform before, beginning in 1971 with passage of the Postal Reorganization Act (PRA). We continued to evolve with implementation of the PAEA. However, additional measures are needed to continue these efforts at shaping the Postal Service of the future. In 2006, the year the PAEA was passed, the Postal Service saw mail volume hit its peak of 213 billion pieces. At the time, it was thought the changes in the law would support the Postal Service's ability to finance universal service for many years. Soon after, however, the recession hit and our entire financial picture changed. We now are in need of further updates to existing law that will preserve our ability to move forward. We created an action plan and issued that plan on March 2, 2010, to identify the needed changes in law and the steps we can take to close the significant financial gap we are now facing.

Today, I will update you on our progress since we issued our plan. The action plan noted that without changes, the Postal Service could face a \$238 billion projected gap in 2020. Without regulatory and statutory changes, the Postal Service could close that gap by \$123 billion by focusing on those things within our control. In FY 2010, we cut spending by \$3 billion, bringing our total cost savings over the last three years to \$10 billion. We now have the smallest career complement since Postal reorganization in 1970. We have reduced our total number of employees by 200,000 over the last ten years; 100,000 of those in the last three years. And we did all this while continuously improving service across all product levels, including on-time delivery and enhanced customer experience. Our Total Factor Productivity, which is a measure of efficiency using the relationship between mail volume, workload and resources, doubled in the last ten years. None of these achievements would be possible without our employees, who have worked hard to bring about cost savings and efficiencies unheard of even in the private sector. Yet despite these efforts, as well as others you will hear more about, there remains a gap that needs immediate attention.

One of the most important changes and one that has been discussed in detail since enactment of the PAEA is the pre-funding requirement for retiree health benefits (RHB). As you know, the PAEA requires the pre-funding of future Postal Service retiree health benefits on an extremely aggressive ten-year schedule. As we continually point out, no other federal agency or private sector companies have a similar burden. This unique statutory requirement was put in place under very different circumstances, as I mentioned, and at the time of enactment, the Postal Service believed the provisions within the PAEA were achievable.

Payments for RHB pre-funding average approximately \$5.6 billion per year. In 2007 and 2008, the Postal Service made the required pre-funding payments and consequently sustained losses of

\$5.1 billion and \$2.8 billion, respectively. Had it not been for these payments, in 2007 the Postal Service would have seen profits of \$3.3 billion and in 2008 profits would have been \$2.8 billion. In 2009, Congress passed legislation that deferred \$4 billion of the payment, reducing our \$5.4 billion pre-payment to \$1.4 billion. While the Postal Service appreciated that effort, it was a short-term fix. Further, even with the deferral, Postal Service losses for 2009 totaled \$3.8 billion. The 2010 net loss was \$8.5 billion, driven most significantly by \$5.5 billion of RHB pre-funding and the \$2.5 billion non-cash workers compensation adjustment. The degree to which Postal operations cannot generate sufficient contributions to cover the accelerated pre-funding of RHB highlights the need for a long-term resolution to the issue of pre-funding health benefits for retirees.

In March, the Postal Service proposed that Congress restructure the current pre-funding model in such a way as to uphold our obligation to current and former employees while not constraining cash flow. As I have indicated, cash flow and liquidity are very real concerns we have going forward in FY 2011. A comprehensive solution would help ensure the Postal Service could make payroll, payments to vendors and suppliers, and required payments covering workers' compensation funds. In FY 2010, the Postal Service made the required \$5.5 billion payment to the Retiree Health Benefits Fund (RHBF). However, this brought Postal Service cash reserves to a level well below that recommended by external bankers. With a net loss of \$6.4 billion forecast for FY 2011 and a statutory limit on borrowing of \$3 billion for the year, we project we will have a cash shortfall of \$2.7 billion by the end of FY 2011. Additionally, as we will have borrowed up to our overall statutory limit of \$15 billion, we will have no liquidity heading into FY 2012.

In January 2010, almost one year ago, the Postal Service's OIG issued a study regarding possible overpayments made by the Postal Service to the Civil Service Retirement System (CSRS) pension fund. I would like to thank the OIG for undertaking the work that went into producing this and other reports and for their continuing efforts in bringing attention to this crucial policy matter. The OIG maintains that the responsibility for pre- and post-1971 pension costs should be divided between the federal government and the Postal Service in a more reasonable manner. Such a calculation would recognize the future earning potential of postal employees at the time of the 1971 reorganization. The OIG study concluded that the Postal Service was overcharged \$75 billion.

I would also like to offer my thanks and appreciation for the assistance of the PRC on this matter. Earlier this year, at our request, the PRC hired an outside actuary, the Segal Company, to perform an independent audit of the existing methodology and the division of the CSRS liability between the former Post Office Department and the Postal Service. The findings of the Segal Company determined that the methodology used subsequent to the Postal Reorganization Act (PRA) was not fair, equitable or appropriate and did impact the Postal Service unfairly. Segal agreed that a surplus does exist in the amount of approximately \$50-\$55 billion. In subsequent discussions with OPM, they agreed with Segal's estimate of the surplus value given their calculation method. However, OPM continues to advise that their calculations have been performed in accordance with their reading of the statutes. If there were clarifying modifications to the statutes, then OPM would perform the new calculations to determine any surplus.

In recognition of the serious state of Postal Service finances, Senator Carper introduced S. 3831, the *Postal Operations Sustainment and Transformation (POST) Act of 2010*. I would like to take this opportunity to thank Senator Carper for his acknowledgement and understanding of the significant financial risk facing the Postal Service. This is a wide-ranging bill which seeks to make improvements in a number of areas and provides the Postal Service with the legislative flexibility it needs. One of the most crucial aspects is a permanent fix for the pre-funding issue for RHB. The solution for RHB is tied to our other significant legacy cost issue - the CSRS overpayment I mentioned before. In an effort to address the CSRS issue, H.R. 5746, the *United States Postal Service's CSRS Obligation Modification Act of 2020*, was introduced by Rep. Stephen Lynch (D-MA). This bill changes the methodology used by OPM for calculating the amount of any postal surplus or supplemental liability under the CSRS. The bill provides direction and a timetable for OPM to review the Postal Service's obligation and make corrections if a surplus is found.

Enactment of S. 3831 would solve both the RHB and the CSRS situations. S. 3831 would require OPM to use the Segal-suggested methodology to calculate whether a surplus exists and, if so, the amount of the overpayment. It would allow the Postal Service Board of Governors to vote to transfer an amount up to the annual required pre-funding amount from the CSRS Trust Fund to the RHBF to satisfy the annual pre-payment amount. Any remaining surplus would be transferred to the RHBF in 2017. In short, it satisfies the often-stated need to fairly charge the Postal Service for CSRS pension benefits, and it satisfies the requirement to pre-fund retiree health benefits as prescribed under PAEA. Swift action on this pending legislation would permit the Postal Service to have some breathing room and operate in an environment of improved stability, supporting growth and expansion of our core business.

The Postal Service is taking a multi-pronged approach to righting our ship and laying out plans for our future viability. RHB and CSRS are two very large pieces of the puzzle, but they are by no means our only strategy for success. Another important part of our March 2 action plan was a proposal to allow the Postal Service to manage delivery frequency; a provision which is also contained in S. 3831. We do not want to be in a position of diminishing service, but we have to face our new reality; especially since we lost 20 percent of our mail volume. The flexibility to manage delivery frequency would give the Postal Service one of the most effective tools available to reduce operating costs. This transition could save the Postal Service more than \$3 billion annually, according to our calculations. I mentioned earlier in this testimony that our delivery network has grown by an average, over the last ten years, of 1 million addresses each year. Even in this down market, our delivery points increased by some 739,000 addresses in 2010. Contrast that growth with another startling figure; the number of pieces of mail per delivery has declined from an average of five pieces in 2000 to four pieces in 2009. That is a 20 percent reduction. Absent any changes in our business model, the Postal Service can expect to see an average of three pieces per delivery by 2020. Another way to look at it is in terms of revenue contribution per delivery. In 2000, the Postal Service brought in \$1.80 in revenue for each delivery. By 2009, that number had shrunk to \$1.40 and, by 2020, it is estimated the figure could be around \$1.00 in revenue contribution for each delivery point.

On March 30, we pursued another part of our March 2 plan when we formally filed a request for an advisory opinion, related to adjusting delivery frequency, with the PRC. We incorporated customer feedback in our proposal and modified our plan to reflect that feedback. We will continue to deliver mail to P.O. Box customers and deliver Express Mail on Saturday. Customer feedback, via a number of public polls, shows the majority of the mailing public would rather see a reduction to five-day delivery than have a substantial stamp price increase or see their local Post Office close.

Mr. Chairman, our organization is one of the largest in the nation. We help drive the American economy. We are the second largest civilian employer in the nation. Our survival is vital to the American economy. Many of the mailing industry businesses I mentioned as part of that multi-billion dollar partnership are small or medium-sized businesses, which we all know are the lifeblood of the economy. In order to preserve the Postal Service, in order to keep the economy as a whole – not just the Postal Service – thriving, we must make changes in how we operate. Adjusting the current delivery frequency schedule is just one step, but it is a vital step; one that can help guarantee the survival of a huge part of the American economy.

In our March 2 plan, we also noted that, as our customer needs and behaviors change, the Postal Service requires the ability to adapt quickly by expanding access to postal products and services. Over and over, we have heard that the Postal Service must use creative thinking when planning its future course. Our primary goal when it comes to expanding access is to better align where the customers are, where they shop, where they make those purchases, how they pay for purchases and how they mail. Offering more options for customers is an integral part of our future action plan.

On March 2, the Postal Service proposed that we be permitted to fully explore improvements that will enhance alternate access channels, which currently number around 70,000. We committed to expand existing partnerships and seek out new opportunities to reach customers where they shop, spend and mail. One example of the importance of alternate access channels is the success of the Automated Postal Center (APC), launched in 2005. We have had extraordinary success with these self-serve

kiosks where customers can do virtually everything they do at a Post Office. The average APC currently generates \$240,000 in revenue per year - more than the revenue brought in at 19,000 of our smaller Post Offices. We partner with a number of small and medium-size businesses to create neighborhood mailing centers under our Approved Shippers program. In August, we began a new partnership with over 1,000 Office Depot stores. Office Depot stores offer customers the opportunity to purchase stamps as well as other postal products, such as Express Mail, Priority Mail, our popular Flat Rate boxes, Parcel Post and special services like Delivery Confirmation and Signature Confirmation. The Postal Service worked closely with Office Depot to ensure their staffs would be able to respond to customer questions and allow for quick, easy and convenient mailing and shipping. Office Depot is the first national retailer the Postal Service has worked with in this way and we anticipate extending our reach even further in the future. By providing convenient alternatives to customers, the Postal Service can move toward making improvements in the structure of our network.

Increased flexibility and the ability to fully pursue partnerships are crucial to our success, but as we do that, we must also be able to adjust our retail network. In our March 2 plan, we requested more flexibility in determining exactly where our retail facilities should be located. As the Postal Service seeks to remain relevant in the lives of our customers, one key strategy is to go where the customers are. Our existing network of retail outlets does not always allow us to do that. In many cases, Postal facilities were put in place decades earlier. As populations expand and move outward, our Post Offices, stations and branches are located in areas where people no longer live, work or shop. We often have a redundancy in our network, with one, two or even three locations within a five mile radius. Allowing the Postal Service the ability to close offices that fail to cover their costs is a huge step toward our future viability.

We must find the right balance between our physical locations, alternate access channels placed where the public shops, and a full suite of online options. In many communities, small businesses struggle to survive, especially in the current tough economy. The Postal Service can serve as a lifeline for these business owners, with partnerships such as Contract Postal Units (CPU). A CPU not only provides Postal services for the community, they increase traffic in existing businesses, allowing for growth and survival of these vital components of the local economy. Current law prohibits the Postal Service from closing Post Offices solely for economic reasons. This law must be modernized in recognition of changing customer habits. Customer service research indicates that the American public is open to change, if it enhances their ability to do business quickly and conveniently. Having postal services available where customers shop is key. Allowing the Postal Service to take a careful and measured approach in determining how best to align our infrastructure will free us to reach our goals of expanding access points to all customers. Allowing the Postal Service the ability to close offices that fail to cover their costs is a huge step toward our future viability.

It is my responsibility to guide the Postal Service as we continue to become leaner and more efficient. It is a responsibility I take seriously. Effectively managing those things under our direct control extends to our workforce. As I have noted today more than once, the key to our success lies with our employees and consideration of issues affecting them is at the forefront of our plans. This year, we entered into negotiations with two of our unions - the American Postal Workers Union, AFL-CIO (APWU) and the National Rural Letter Carriers Association (NRLCA). While negotiations with the NRLCA resulted in an impasse, at the time of submission of this testimony, we were still in negotiations with the APWU. Failure to reach agreements sets in motion a process which could result in a third party determining contract terms and work rules for more than 324,000 employees whose wages and benefits exceeded \$20 billion last year. On March 2, we reiterated our support for legislation that requires arbitrators to take into account the financial health of the Postal Service before making a final decision. Senator Carper's bill, S. 3831, includes this important provision. Requiring an arbitrator to take into account the financial health of the organization would provide an additional level of assurance that agreements reached with our labor organizations are fair and equitable to employees and to the mailing public.

The Postal Service has continued to make operational changes to increase efficiency. A new effort that we are exploring is to realign employees in our delivery units. Through our Delivery Unit Optimization (DUO), each district decides how best to combine carrier operations at facilities in close

proximity. We reached out to Postmasters in this effort, gathering their feedback on guidelines. They have done an excellent job helping us move forward with realizing even greater efficiencies in our delivery units. These changes are transparent to customers and allow the Postal Service to make better use of existing larger facilities, to save energy and maintenance costs, and to put our carriers in centralized locations that make logistical sense.

The March 2nd plan also called for pricing flexibility. In 2010, the Postal Service filed an exigent price proposal with the PRC, which was subsequently denied by the Commission. Our appeal to the U.S. Court of Appeals for the D.C. Circuit is pending at this time. The court has granted the request to expedite our appeal and the current schedule calls for a possible decision sometime next spring, although that timeline is at the Court's discretion. It is important that the Postal Service obtain added flexibility in price setting. Presently, our hands are tied, to some extent, when it comes to setting prices. We want to continue working with the PRC to enhance our ability to quickly bring to market new products and services, and to swiftly implement price changes that will keep us competitive.

We plan to take full advantage of the law and move as much as possible to the Competitive category. We continue to strengthen the business to customer channel, creating an array of attractive products and services. We have proposed incentive programs, such as Reply Rides Free and Saturation Mail/High Density options, which give mailers flexibility and allow them to save when mailing higher volumes. We are seeking the ability to handle more lightweight parcels through Standard Mail, leveraging our last mile capability to generate mail volume and increase revenue. We want to provide simpler access to the mail and we welcome the opportunity to work with customers to increase both their profits and mail volumes.

On November 2, the Postal Service filed with the PRC a proposal for price increases for Competitive products. As with any price change proposal, we sought to minimize increases while still allowing the Postal Service to price our products in line with customer use and demand. The Postal Service, with this filing, introduced innovative new product offerings, such as a Legal Flat Rate Envelope, a new Regional Rate Box, and a new Critical Mail product. We continue to find creative ways to generate revenue by offering Commercial Base Prices and Commercial Plus Prices for Express Mail and Priority Mail, giving customers the ability to save money when mailing high volumes. It is expected the PRC will complete its review and issue an opinion sometime today, December 2. New prices for Competitive products will be implemented on January 2, 2011, which is in keeping with our goal of providing mailers a predictable and manageable timeline for Competitive price increases.

In the last few years, the Postal Service has entered into new customer agreements, launched new ideas and formed partnerships with private companies and government entities to grow the mail. To help gauge the future of the mail, understand customer needs and find ways to enhance their mail experience, we held three innovations symposiums this year. The first was with the Mailers Technical Advisory Committee (MTAC) which is a group of mailing industry and Postal representatives. This group meets regularly and discusses the "nuts and bolts" of the mail. On National Postal Customer Council (PCC) Day this year, we took the opportunity to solicit input and feedback from thousands of mailers and business owners. We asked them to send us their ideas for innovation in the mail. Finally, in October we held a third symposium which included CEOs, executives from large, medium and small businesses, marketing experts, members of academia and Congressional staff. During these meetings, we held focused breakout sessions to garner the "best of the best" in ideas that will lead the way to a profitable future for the Postal Service, our partners in the mail, and the economy as a whole.

We are currently evaluating this tremendous feedback. Discussions at these symposiums revealed that the process of translating ideas into products was something on which we needed to focus. We are committed to doing that. Once the evaluation is complete, we will report back to all stakeholders who gave so freely of their valuable time to help us generate thoughtful debate and discussion on Postal innovation. From these meetings will spring new products, services, and offerings that will allow the Postal Service to help our customers build their businesses.

Creative and new uses of the mail are out there. I will give you just one example. This is one of my favorite stories about how to use the mail in ways no one ever imagined. In Hawaii, one of the biggest and best-known attractions is Hilo Hattie. Hilo Hattie, in business since 1963, is Hawaii's most visited retail outlet, with over 60 million customers logged in its 47-year history. It is a landmark; a place where tourists can buy fashions, jewelry, food, and anything and everything to help them remember their time in Hawaii. One of the gentlemen here today, Mr. Bob Rapoza, is from Hilo and can probably tell you even more about it. This unique retailer gives their customers a novel way to shop. At Hilo Hattie, customers can walk in and get a Priority Flat Rate Box at the door. They put the box together and can then simply browse the store, putting the items they want into the box. When they are ready to check out, the folks at Hilo Hattie add in the cost of postage to send the boxes to wherever the customer wants. Most of the time, customers send the packages back home, and they do not have to risk having no room in their luggage for gifts and souvenirs. Hilo Hattie clerks even package the boxes, providing cushioning where needed and securely taping them. All you have to do is pick up the box with the rest of your mail once you get back home. I cannot think of an easier, more convenient and fun way to shop. Again, this is just one of the incredibly innovative uses of the mail to increase Hilo Hattie's revenue and the Postal Service's, too.

Our March 2 plan was a roadmap for our future; one that would ensure we continue to grow, to fulfill our universal service obligation and remain a part of the fabric of this nation. It is important to note that, although we requested a great deal within our action plan, the Postal Service has not been idle, simply waiting for enactment of our suggestions. I noted some of the efforts we have undertaken, operating as well as we can under current constraints. Not only have we continued to innovate and work hard to find new sources of revenue, we have accomplished savings and fiscal restraint most other businesses only dream of.

Our history is long, Mr. Chairman, and the Postal Service has a rich heritage of service in binding the nation together. We have been there through the growth, the development and the prosperity of our country. Behind all the numbers I mentioned today are hundreds of thousands of people. People who live and work in the communities you and your colleagues represent. People whose daily efforts begin and end with what is found in millions of mailboxes every day.

The mail has meaning. The mail is important. The mail is relevant. We do need change, however, and the proposals I have detailed today will allow us to become leaner, more efficient, more business-like and ultimately more successful. We value our place in the landscape of America and our goal is to remain viable for a long time to come. With your help, we can achieve that goal.

I appreciate your ongoing support in ensuring a sound Postal Service. I will be happy to answer any questions you may have.

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