

**Testimony of Charles Mapa
President of the National League of Postmasters**

**Before a Joint Hearing
Of the**

**Senate Committee on Homeland Security and Governmental Affairs,
Federal Financial Management, Government Information, Federal
Services, & International Security Subcommittee**

And the

**House Committee On Oversight and Government Reform,
Subcommittee on Federal Workforce, Postal Service, and the District
of Columbia**

Of the United States Congress

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Chairman Carper, Chairman Lynch, thank you for inviting us here today to testify before you on this vital issue. It is a pleasure to be here. The National League of Postmasters was founded in the late 19th century and represents postmasters from across the country. Rural postmasters are a significant part of our membership.

At the outset, the League would like to commend the Chairmen, Subcommittee members, and staff for undertaking this very important hearing on the Future of the Postal Service. It is a very important issue and a very tricky one. This is because a century and a half of predictions concerning the impact of developments in communications technology on mail have shown that generally such predictions have been pessimistic and inaccurate. Moreover, many of those who are making recommendations understand neither the postal delivery system nor the consequences of their actions on that system. This is particularly relevant with regard to the issues of Post Offices, what they do, why they are there, and why they are needed.

Before going into any further detail, I must strongly express the League's support for resolving the question of the overpayment of the Postal Service into its employee retirement fund, an overpayment that the Postal Service IG has put at somewhere around \$75 Billion. That overpayment should be credited towards the Postal Service's obligation to prefund its retirees' health benefits and a way found to do so without upsetting the Congressional "scoring" applecart.

The rest of this testimony will deal with two items: 1) Post Offices, what they do, how they impact a community, and what they cost, and 2) mail volume projections.

Before turning to that, however, the League needs to emphasize that, regardless future mail volumes, efforts to make the Postal Service more efficient must continue.

In a variety of forums, we have suggested that efficiency in operations could be increased by streamlining or eliminating many of the Postal Service's unnecessary bureaucratic procedures. For instance, there is no reason, when we undertake a procedure such as checking the accuracy of a machine, or scanning a mailbox, to create a procedure whereby we do the procedure, record that, verify that we did the procedure, record that, and then verify that we verified that we did the procedure, and then record that. Such redundancy costs time and wastes money. We are pleased to report, however, that at the strong urging of the League, the Postal Service is actively working with postmasters on this issue, in terms of reports, we are optimistic that significant progress is going to be made soon. Further, as we have suggested in the past, postal management could be streamlined by eliminating the regions and district structure and replacing it with a flatter structure with just one management layer between us and Postal Service headquarters. More work would get done, and it would get done better and more efficiently.

I. The Role of Post Offices Is Not Well Understood by Those Making Recommendations for the Future.

We have heard, time and time again over the last several months, that the Postal Service has 37,000 Post Offices and that this 37,000 are more retail facilities than Starbucks, McDonald's, Sears and Wal-Mart combined. The suggestion is then made that if we essentially eliminate the brick and mortar retail function of the Postal Service by moving the sale of stamps and postage online, then all this post office brick and

mortar—and all the costs associated with it—could be eliminated.

Chairman Carper, Chairman Lynch, this is patent nonsense.

The reason this is nonsense is that this analysis assumes that the retail function that Post Offices play is the only function or at least the primary function that they perform. This simply is not true. Indeed the exact opposite is true. Most Post Offices *are not primarily retail units*. Rather, *they are primarily delivery units* and they ARE the totality of the local delivery function. Close them down and you have closed down the final distribution node of the entire postal system, and online buying of stamps does not replace that delivery function.

Yes we have a lot, but when you realize that there are 3,500,000 square miles in the United States, that might not seem so outrageous. Granted, there are places where people do not live and where there is no postal service. Nevertheless, if one does the math, one finds that there is one Post Office for every 135 square miles. Few analysts making recommendations seem to realize this, and simply focus on the retail function. Often, the retail function is an add-on to the operation, because the unit and the postmaster must be there in order for the delivery function to work, and given this, the incremental . cost of the retail function is not high.

In terms of costs, I have been told that the “costs” of Post Offices encompass both retail and delivery elements, and the USPS costing system does not distinguish between the two functions very well. Thus, efforts to break out which costs should go to the retail function and which costs should go to the delivery function have not been very productive. The truth of the matter is that we really don’t know how much the retail function costs (as compared to the delivery function) except that it logically is less than the figure currently used, which I believe is an overall number that blends both.

Even the Postal Service's Inspector General's office just doesn't quite seem to face the issue, and its recent Report "Analyzing the Postal Service's Retail Network Using an Objective Modeling Approach," (June 14, 2010), does not directly face the issue. While admitting the difficulty in calculating and dividing the duties (and thus costs) of a Post Office staff between the retail and delivery functions¹ the report does not quite seem to grasp that the primary role of the Post Office is a delivery function, and that any analysis of whether there should be a Post Office in a given locality generally depends on delivery matters—density, number of stops, etc.—more than on retail matters. It is interesting, however, that the Report does seem to suggest that, in terms of the retail function, there are not enough retail units in big cities. That, of course, would be because the functions of most Post Offices in big cities are primarily delivery not retail functions.

Finally, the Report's author, who is an economist, clearly does not understand the social and cultural role of small rural Post Offices role in rural society, which is discussed below. This is one of the main reasons that such Post Offices still exist.²

A. A Post Office is Primarily A Delivery Facility, Not A Retail Facility.

While many (but not all³) Post Offices do indeed have a retail function, they are primarily the facilities out of which the Postal Service's carrier force operates and is managed. Further, Post Offices and the post offices boxes in them, are absolutely

¹ See Section I C of this Testimony below.

² See Section I E and I F of this Testimony below.

³ For instance, because of space limitations in older buildings, as communities have grown, many postmasters have created carrier annexes which are Post Offices where there are only carriers and no retail facilities.

critical final delivery points for most of the remittance mail that tens of thousands of businesses depend upon. These functions would still be necessary and present even if every aspect of the retail function disappeared. There is, after all, 3,500,000 square miles in the country, and the Postal Service goes by the doors of almost all citizens every day.

1. Distribution Nodes. While a typical Post Office has a set of retail windows, where retail functions occur, most Post Offices also have carriers. Indeed, for every clerk found in a typical Post Office, there are at least two carriers. In larger Post Offices, there are many more carriers than clerks. If the Post Office is big enough, several supervisors are employed to aid the postmaster in managing the carriers.⁴

Further, in larger areas there are also a variety of stations and or branches, as well as carrier annexes. All of these brick and mortar facilities made up the final distribution node in the system and all are managed by the postmaster. Thus all the brick and mortar is primarily there for the delivery function and not the retail function, and the vast majority of these brick and mortar units are still necessary to deliver the mail today in a timely fashion, even in this electronic age, even if the retail function moved online, and even if mail volume has declined.

Eliminating or reducing retail functions might reduce clerk time, but not the necessity of having the facilities that house the carrier operations, and having the managers that manage them.

⁴ Some very small Post Offices have no carriers, but that is because all their distribution is through their Post Office boxes. Hence they still serve as the final distribution node and, as explained below, as the actually final delivery point as well.

2. Final Delivery Points. In terms of remittance mail, more and more small, medium, and large businesses have obtained special post office boxes for their remittance mail. The businesses have their remittance mail sent directly to that box, even though the rest of their mail goes to the normal business address, and is delivered by the carrier in the normal course of business. In this day and age, for a business to have a post office box—where mail is typically up by 11 a.m.—means that they can get their checks early and deposit them before the banks close at 2 or 3. If they would wait for their normal mail delivery, which often comes after the banks are closed, they would lose a day. This slows a company's revenue stream and the loss due to float and other financial limitations can be significant. That box function, which is becoming increasingly more important, is compromised where access to post offices boxes in a Post Office is not convenient. It is also compromised if boxes would not be collocated with the delivery function and the carriers.

In as much as the Postal Service is doing all it can to maintain remittance mail in the face of electronic diversion, making it less convenient to pick up that mail is a terrible idea and would increase the speed of electronic diversion, perhaps significantly. We note that the key to the potential success of the Postal Service's six day to five day plan is the delivery of remittance mail to P.O. boxes in Post Offices and the continued easy accessibility of Post Offices to the American Public.

Thus, the facile assumption that many make, which is that Post Offices are not necessary in an environment where stamps are purchased in other places, is not accurate. Having efficient final distribution nodes is critical to the system.

B. Why Are There So Many Small Post Offices So Close Together In Urban And Suburban Areas?

Historically, as the populations of urban and suburban communities grew, and increased capacity was needed to service all the new delivery points (regardless of mail volume). The postmaster and his management had a choice—close the current Post Office and open a bigger one that could handle the increased number of carriers that would be needed, or open a second smaller facility and put the new carriers and new routes into the second facility. In many cases, it was more economical to open up the second smaller facility instead of closing the first now-too-small Post Office and opening a newer and larger one.

Obviously that was not the case everywhere, but in the Northeast, where larger tracts of available land were more scarce, it happened frequently. In the West, where more open land was reasonably available, postal executives tended to open newer and larger Post Offices and close the old one more than in the Northeast. Hence, in older areas such as Boston and other parts of New England, there tend to be more smaller urban and suburban Post Offices than in the West.

C. Should the Postal Service Close down Post Offices that Are Losing Money?

While one would think that the question would be obvious, the problem is that the “cost” of the Post Office, against which the retail revenue that comes in the door is measured, includes delivery costs not just retail costs. Thus one may be comparing retail revenue against both retail AND carrier costs, which makes the comparison somewhat senseless, for one is comparing apples to apples and oranges. It certainly does not lead to the conclusion that if a Post Office's retail revenue is less than the

combined retail and delivery costs of the unit, then the Postal Service is “losing money” by keeping it open.

Of course, one could just disaggregate the retail costs of a Post Office and make an apple to apple comparison to the retail revenue of the unit. However, as noted above our understanding is that the way the Postal Service’s costing system is set up makes this very difficult if not impossible to do.

D. The Cost of Small Rural Post Offices Less than One Percent of the Postal Service’s Budget.

Most Post Offices are delivery units, not retail units and have far more carriers than clerks. That is not necessarily true for small rural Post Offices for many of these Post Office have no clerks. Often this is because no carriers deliver mail in that locality, and the only way local residents get their mail is by coming into the Post Office and picking it up. Take away this Post Office, and you have to give mail delivery over to a rural carrier. In any case, it would be *de minimus*.

This is because the total cost of the 10,000 smallest Post Offices—more than one-third of all Post Offices in the United States—was about seven tenths of one percent (0.7%) of the total budget of the Postal Service in 1999.⁵ More recent figures do not differ significantly. Perhaps a tenth or two higher because of the recent downturn in volume due to the recession. However, since added costs would be incurred in delivering the mail that would no longer be delivered at those Post Office Boxes, the net savings from closing every single rural Post Office in the country would be less.

⁵ See Testimony of Robert H. Cohen, Director of Rates, Analysis and Planning of the Postal Regulatory Commission, Testimony before the President’s Commission on the Postal Service (February 20, 2003) at 2, 9-10.

E. The Role of Small Rural Post Offices in America.

Regardless of cost, small rural Post Offices are absolutely critical to the well-being of rural America and they are worth many times their costs to those rural citizens. That is the reason that there are specifically targeted Post Office Sections in the law.

For instance, Section 101(b) of the Postal Accountability and Enhancement Act states that “The Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where Post Offices are not self-sustaining.”⁶ That same section also specifically states that “No small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that the effective postal services be insured to residents of both urban and rural communities.”⁷

Section 404(d) of that same law provides a formal procedure which the Postal Service must follow before it is allowed to close any small Post Office. Among the matters it must consider are the views of the local community that would be affected by the closure of the small Post Office.

The reasons that these provisions are in law is that small rural Post Offices do far more for their rural communities than just deliver the mail. Small rural Post Offices are the lifeblood of American rural life.⁸ They provide the essence of social cohesion in

⁶ 39 U.S.C. §101(b).

⁷ Id.

⁸ My testimony today are limited to rural American society because that is what the League knows and that is where the League's expertise lies. It appears, however, that these same factors appear in rural societies around the world, or at least in English-speaking countries. See for example, the following shorts from Utube concerning rural British Post Offices. These shorts feature several Members of the British Parliament (MPs), newscasters, and prominent rural British residents discussing the insensitivity of the Royal Post to England's small rural Post Offices and the role they play in the social fabric of rural England. <http://www.youtube.com/watch?v=9RI8Ht6cFFM&feature=related>
http://www.youtube.com/watch?v=9P3Jl_tI3ZY&feature=related
http://www.youtube.com/watch?v=VYDXQ-r_7il&feature=related ;

rural areas, and that is what creates “community” in these areas. Healthy rural Post Offices are absolutely critical to keep rural American healthy, and that in turn is vital for the political, economic, and social well-being of America as a whole.

The glue that binds rural America together is our postal system and the local Post Offices. Rural America has not gone out of style. Nor is it about to. Communication by paper has not disappeared from our system. Nor is it about to. If we want to keep rural America strong, and by extension keep America strong, we need to keep our rural postal system strong.

The rural Post Office is an institution that literally binds rural America together, culturally, socially, politically, and economically. It, along with the rural newspaper, set the framework within which rural communities operate. To interfere with either is to interfere with the fundamental dynamics of rural communities and to risk the destruction of them.

It is in the rural Post Offices where community members encounter one another each and every day, greet each other every morning, and daily reinforce their ties of community. Rural Post Offices serve as gathering places where social news is exchanged and political issues are discussed. It is in the rural Post Offices that political questions are addressed, sides argued, and opinions formed. It is where friendships are made and maintained. It is the forum where municipal and county leaders are formed, the forum where their criteria for office discussed and debated, and the forum where the decisions that will be carried out at the ballot box are made. It is the one place where local leaders can go and take the pulse of their community, and see each

<http://www.youtube.com/watch?v=2r3hl32AUlU&feature=related>. This following short contains a bit of typically British “humor” on the subject: <http://www.youtube.com/watch?v=yB64XtfPRIQ&feature=related>.

other every day. Local Post Offices also provide space for community bulletin boards and post federal notices. They are a shelter where children can wait for the school bus. None of these functions are functions that can be filled by having rural letter carriers sell stamps from their cars. Moreover, the local rural Post Office is often “the” face of the government in these rural areas.

These are concepts that may well be foreign to many big city natives and residents, who sometimes find this phenomena difficult to understand or to believe. Nevertheless— and I say this as a postmaster of a very small town—it is true. Rural postmasters play a very important social role that has nothing to do with the postal system or postal revenues. These are roles whose value cannot really be measured in dollars, and it is in part for these roles that the Universal Service mandate exists and the private express statutes remain. For instance, many rural Postmasters help customers with low literacy levels in a variety of ways, providing assistance in writing checks and money orders to pay bills. Many rural Postmasters address envelopes for their patrons, as well as read and explain mail to them. As such, they perform a valuable social function and have done so not merely for decades, but now for centuries. Indeed, the rural postmaster is the eyes and ears of his or her community. He or she is the first to notice and respond to something “just not right.” Whether that be flood or fire, or illness or death, the postmaster is always on the watch. If Mrs. Jones, contrary to her usual habits, doesn’t stop by to pick up her mail, the postmaster wonders if something is wrong with her, and after a day or so will stop by her house to check.

Without rural postmasters, this social need would not be met. The Rural Post Office is an icon of rural America, and neither Congress nor the Postal Service should

tamper with it. This is because, as the Committee knows well, once a rural town's Post Office disappears, the town often shrivels up and dies.

F. What could be Done to Offset the Costs of Small Rural Post Offices.

We believe, and we know that the Direct Marketing Association concurs, that the network of Post Offices in the United states should be leveraged. Since, commonly, the Post Office is THE presence of the government in the community, Congress should allow the facilities to become a revolving office for other governmental services and for appropriate partnerships with the private sector. For example, on a monthly or biweekly basis, a Social Security Administration personnel can meet citizens at the Post Office. In March and April, IRS representatives could partner with Post Offices help taxpayers at the Post Office. State Department of Motor Vehicles administrations could partner with Post Offices to handle registration issues, hunting and fishing licenses could be sold, etc. In essence you could have rural Post Offices become the face of government—federal, state and local.

Additionally services that are valuable to rural citizens, such as Redbox DVD movie rentals, prepaid cell phone cards, Wifi access, copy and fax services, and limited banking services such as ATMS could be provided. These services are rare in tiny rural communities, since there is not enough population to attract the private sector. Thus, these private sector (as opposed to governmental) services should be done in cooperation with the private sector, which would not require a lot of capital investments.

Most probably, the net revenue effect of offering these services would not be huge, certainly not billions of dollars. But it would be enough to compensate for the cost

of small rural Post Offices, and it would also provide valuable services to rural America that they do not have now.

II. The Future of Mail and Mail Volume.

A. Historical Doom and Gloom Predictions. Forecasting volume mail drop off because of diversion to new technology is not new. It started in the early mid 19th century and has been continuing ever since. Indeed in the mid 1800s, “experts” predicted that the telegraph would drive the Post Office Department out of business within five years. Even though that did not happen, such predictions have routinely continued as each new communications technology—telephone, fax, email, etc.—developed. All the Committee need do is check the postal hearings records of the mid to late 1800s and later, and it will find ample examples of these type of predictions.

It is instructive, as former Deputy Postmaster General Jim Finch was fond of pointing out, that in each instance of where doom and gloom was predicted, the exact same thing occurred. While the new technology did indeed divert some mail out of the mail system, the new technology in turn created new uses for the mail. The net effect turned out to be that ultimately more new mail was created than was diverted. While some argue that this is not the case this time around, the jury is still out on the matter. Further, given this long history of unjustified cries of doom and gloom, we suggest that the most prudent approach is to wait and see what the mail volume looks like after the economy has recovered before coming to any conclusions.

B. Three Quick Facts About The Future Of Mail Volume. Finally, let us consider the following three quick sets of fact, all of which go against the doom and gloom notion.

First, in terms of future revenues, particularly in First Class, much will depend upon what happens to Bulk First Class Mail, of which a huge component is bill and

statement delivery.⁹ While many suggest that the American public will soon switch to electronic delivery of this type of mail, leaving the Postal Service in the dust, that is not clear.

For instance, only last month the Foundation of the Envelope Manufacturing Association released a study concerning adult preferences of electronic versus paper mail. The study, which was based on research survey work done earlier this year, found that *two-thirds* of all Americans prefer to have their bills and financial statements delivered via mail and *not* electronically. The survey also found that only 14% of Americans prefer to receive that material electronically. Specifically, the EMA study came to the following conclusions :

- A majority of Americans prefer to receive their bills and financial statements through the mail.
- Americans are strongly opposed to paying more to receive papers bills and statements.
- American wants to decide how they, personally, receive their bills and statements.

While it is true that many companies today are trying very hard to incent their customers to receive their bills electronically, it is not clear whether those efforts will work, given the findings of the EMA study. We urge the Committee not to pass judgment on this very important issue but to watch it very closely and wait until the returns come in before passing judgment.

⁹ The League concedes that bill payment mail is rapidly leaving the system and at some point relatively soon, electronic payment will be the norm, and mail payment the exception.

Second, during the first quarter of 2010, credit card offers in the mail were up 29 percent over last year, according to the latest study by Synovate Mail Monitor.

<http://mailmonitor.synovate.com/> Now, while this statistic is not of any overwhelming significant importance by itself, it is instructive to note that some of the doom and gloom prophets predicted that this could *never* happen, and that credit card offers in the mail would continue to decline year over year.

Third, the financials of this Postal Service's first six months are in and they suggest that FY 2010 revenue and volume will be significantly better than the projection made last September and included in its budget. As one economist has observed, "This means that instead of having percentage declines in revenue in the mid to high single digits in 2010, the Postal Service could see a revenue decline of between zero and four percent . . ."10 That is significant, and in turn suggests to me that the reality of mail growth over the next twenty years will be significantly better than the doom and gloom predictions that have recently been made.

I do want to be perfectly clear about one point. None of these facts "show" that the volume is necessarily coming back to former levels. Moreover, a revenue decline of between zero and four percent is still a revenue decline, and it is coming after several terrible years. Nevertheless, these developments do show not only that mail volume is tied intrinsically to the health of the economy, but also that things are getting better. It will take the economy getting back on its feet and employment returning to normal levels, before one can accurately judge how electronics is affecting mail volume.

Thank you for considering our views.

¹⁰ <http://courierexpressandpostal.blogspot.com/2010/02/usps-december-better-but-still-on.html>