

STATEMENT OF
POSTMASTER GENERAL/CEO JOHN E. POTTER
BEFORE THE
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICES,
AND INTERNATIONAL SECURITY
UNITED STATES SENATE

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Good afternoon, Mr. Chairman and members of the subcommittee. For the past two years, I have testified about the dire financial circumstances facing the United States Postal Service. Once again, I am here to report that our financial situation is precarious, mail volumes continue to decline, and the cost of delivering mail to each address continues to increase. While all postal stakeholders are aware of these circumstances, I am concerned that there is insufficient appreciation for the long-term financial peril that the Postal Service faces. Expert, independent analysis clearly shows an open-ended decline in mail volume and the revenues associated with it. The foundation of our self-sufficient business model has been swept aside by a digital communications revolution and a severe economic crisis. While our Nation will continue to rely on a dedicated delivery network offering universal service, it cannot be supported now and in the future by a business model based on increasing volumes and revenue. Today, the Postal Service stands on the brink of financial insolvency. Without significant and immediate changes, this pattern of constant financial distress will continue unabated for years to come.

Over the past several months, I have had many discussions with members of Congress, Administration officials, business mailers, chief executive officers, and consumers about our financial plight and the action needed to address it. Too much attention has been focused on short-term financial fixes, such as an adjustment to our retiree health benefits fund, or a single, significant service change, such as five-day delivery. Too little attention has been paid to the need for other, significant, across-the-board changes to our regulatory and legal framework. An independent examination of the postal marketplace projects an annual Postal Service loss of \$33 billion in 2020 and cumulative losses of \$238 billion over the next ten years, if we make little or no changes. A piecemeal approach with short-term financial relief only delays the inevitable, and impedes our ability to maintain productive and efficient operations. Without bold, decisive, and comprehensive action by this Committee and Congress, the Postal Service will face continual financial peril.

Before I discuss the Postal Service's action plan for the future, I would like to call your attention to a study conducted by our Office of Inspector General (OIG) regarding overpayments by the Postal Service to the Civil Service Retirement System (CSRS) pension fund. Given the significance of the OIG's findings, it is imperative that this matter be given prompt consideration by Congress and the Administration. Failure to resolve this matter quickly will have an adverse effect on Congress' ability to consider other legislative proposals beneficial to the Postal Service. It should also be noted that any financial adjustment to the Postal Service's CSRS fund would not eliminate the need for the changes proposed in our action plan, but it could influence the timing of their implementation.

The OIG looked at employees who worked for both the pre-1971 Post Office Department and the U.S. Postal Service. The report reviewed how the retirement obligation for those employees was divided. The CSRS provides annuities based on the employees' highest three-year average base wage and an increasing percentage credit for years of service. When calculating the Postal Service's portion of the obligation, the Office of Personnel Management (OPM) apportioned the obligation based only on the service and base salaries at the time of postal reorganization in 1971. OPM determined that the effects of future salary increases on the amount of the total pension obligation were not the responsibility of the federal government. 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. We have asked the Postal Regulatory Commission (PRC) to retain an actuary in reviewing this matter, and to submit their findings to Congress.

The Postal Service supports the OIG recommendation that the Postal Service and the federal government split the total pension obligation for an employee's civilian service based on years of employment completed pre- and post-1971. This "years of service" method would divide pension liabilities in a far more equitable manner than the current system. OPM currently uses the "years of service" method in allocating health care premiums for retirees. Moreover, the CSRS overpayment could be transferred to finance the Postal Service's Retiree Health Benefits Trust Fund. We are asking Congress to amend the *Postal Act of 2006* to do the following:

- Require OPM to use of the methodology recommended by the OIG;
- Allow the transfer of the funds from the CSRS Trust Fund to the Retiree Health Benefits Trust Fund;
- Eliminate the annual average retiree health benefits pre-payment of \$5.5 billion;
- Allow the annual premiums for existing retirees to be paid from the Retiree Health Benefits Trust Fund before 2017; and
- Allow the Postal Service to begin to pay the "normal" cost for its current employees.

This would mean that the Postal Service would be fully funded for both its retirement systems, as well as its health benefit obligation. And, since the Postal Service would be paying the normal cost for current employees, the Postal Service would continue to be fully funded for its retiree health benefits obligation. This change would save the Postal Service roughly \$4.6 billion annually.

The OIG report states that "freeing the Postal Service from unjustified legacy costs is critical if the Postal Service is to have the agility it needs to face an uncertain future." It is the right thing to do, and I urge you to take a close look at this critical issue. To be clear, I believe the changes proposed in our plan are inevitable. Adoption of the OIG's recommendation would, however, affect the timing of when these options would need to be implemented.

In regard to our action plan for the future, the Postal Service Board of Governors and postal management have acted vigorously in responding to the ongoing nationwide economic crisis and electronic diversion that has so dramatically eroded mail volume in recent years.

We have done so by embracing innovation. Last week, for example, we announced a new product test—Postage Paid Greetings—with our partner, Hallmark. This product, which is made possible by our Intelligent Mail barcode (IMb), allows customers to purchase a greeting card with postage included in the price. The unique IMb on each card allows Hallmark to pay the postage expense when the card is mailed. Postage Paid Greetings provides convenience to the customer, while it enhances cash flow for Hallmark and the Postal Service.

We have offered innovative pricing incentives. Consider Priority Mail. We now have the ability to offer contract pricing to commercial customers. With contract pricing we can compete more effectively with private carriers on price. This has allowed us to grow our shipping and mailing business during a challenging economic time. Still another service innovation is the adoption of cubic pricing—which gives our commercial mailing customers even more choice. Cubic pricing is the commercial version of the Flat Rate box.

The successful Summer Sale of 2009, which provided mailers a pricing discount on incremental advertising mail volume, generated nearly 1 billion additional pieces of mail. With that kind of success, we are moving forward in launching the Summer Sale of 2010 and have adopted other sales innovations for our commercial mailers interested in high density mailings.

Embracing innovation also extends to other aspects of our business such as sustainability. This summer we will be testing five different electric vehicles as part of our research and development in seeking electric conversion solutions for the future. These tests will provide valuable information on what concepts might work to best transition our aging Long Life Vehicle fleet.

We are not standing still. We have devoted this same effort in crafting a way forward in light of these circumstances. We used all the resources at our disposal to study current and future economic trends. We asked for an independent examination of the postal marketplace, projections for the future, and recommendations to address the financial and service problems we face. We sought the advice and counsel of the entire postal community in designing a path for the future that preserves affordable, universal mail service.

The results are both encouraging and sobering. While mail volume will continue to drop and postal revenues will remain stagnant over the next ten years, we can still maintain a viable and healthy Postal Service. With increased operational flexibility and reasonable adjustments to our legal and regulatory framework, the Postal Service can continue to provide quality mail services for years to come. On the other hand, this comprehensive analysis revealed that "doing nothing" or "doing little" are not options. Failure to act will only worsen our financial crisis. Applying short-term fixes will intensify the budgetary difficulties the Postal Service will face in succeeding years. Our proposals for changes must be considered in their entirety, as it will take many years for us to reap the cost reduction and revenue generation benefits of these actions.

The Action Plan that we have constructed takes into account the fact that American commerce is rapidly evolving in ways that will change our product and customer mix. While we are committed to a smooth transition for customers who have expressed their intent to leave the postal system, we must focus our energy toward customers who will continue to use the postal system well into the future. To do this, hard decisions must be made now to right-size a postal service that will meet the obligation for universal service while serving the mailing community of the future.

I am confident that the Congress, the PRC, the Government Accountability Office (GAO), the mailing community, and consumers are committed to the long-term sustainability of the Postal Service. Together, we can make the difficult, yet necessary, decisions to maintain an effective, universal mail network.

Mr. Chairman, we have compiled the results of these studies and our recommendations for change in a document entitled "*Ensuring a Viable Postal Service for America: An Action Plan for the Future.*" I ask that our action plan be included in the hearing record.

To help develop this plan we engaged three of the world's most experienced and respected management consulting firms: McKinsey & Company, The Boston Consulting Group, and Accenture, LLC. We asked each of these firms to act independently and to conduct studies and have conversations with postal customers, mailers, labor associations, regulators, and mailing industry stakeholders. We wanted them to gather information to help us determine the likely state of the mailing industry and the Postal Service over the next decade. Our expectation was for the

consultants to produce ideas that would allow the Postal Service to close the growing gap between revenues and expenses without undue impact on stakeholders.

The consultant's key findings included:

- Without fundamental changes, the Postal Service's losses will continue. By 2020, cumulative losses could exceed \$238 billion.
- Mail volume will decline by roughly 15 percent to about 150 billion pieces in 2020, from 177 billion pieces in FY 2009.
- The mix of mail will change; First-Class Mail will fall sharply and Standard Mail will stay fairly flat. First-Class Mail contributes more toward covering institutional costs, which support retail, processing, and delivery networks.
- The Postal Service could close the gap by as much as \$123 billion, without statutory or regulatory changes, by taking product and service actions, continuing to improve processes and productivity, adopting workforce flexibility improvements, and pursuing purchasing savings. Achieving this will be extremely challenging.
- There are no multi-billion dollar, revenue initiatives that the Postal Service could pursue, inside or outside of our core competencies. Nor do the business models of foreign posts offer any short-term, practical applications for generating revenue here in the U.S.
- Key areas within our core functions have been identified and options provided to close the remaining \$115 billion gap. However, legislative and regulatory changes are needed to achieve them.
- The best way to address the financial challenges and preserve the strength of the Postal Service and the entire mailing industry is through a comprehensive approach that balances the needs of all key stakeholders.

The Postal Service created its action plan based on a thorough review and consideration of the consultants' recommendations. Management and the Board of Governors can take actions that will close \$123 billion of the \$238 billion projected gap.

And, we are taking action to implement our plan. Through March of this year, we have reduced approximately 50 million workhours, the equivalent of 28,000 full-time employees. Last year, through our Area Mail Processing consolidations we were able to achieve \$28 million in cost savings. This year we are reviewing consolidations at approximately 33 facilities, which could lead to further cost savings. We're studying real estate holdings and assets to determine which facilities it makes sense for us to sell or where we should terminate our leases. Year to date, we have reviewed 950 buildings and, so far, we have realized \$9.8 million in savings from terminating or disposing of 44 facilities, as well as revenue of \$29.4 million from selling real estate holdings. Our historic route reduction agreement with the National Association of Letter Carriers led to the evaluation of more than 151,000 of routes in 2008 and 2009, and the elimination of 9,692 routes. This gave us the ability to react swiftly to the unprecedented drop in mail volume. In addition, through a combination of vehicle reassignments, lease terminations or vehicle sales, we have reduced some 10,000 vehicles from our fleet with an estimated annual cost savings of more than \$17 million.

Our operations management team has been tasked with making the necessary changes to accommodate market changes and volume fluctuations. And they have done so through effective overtime controls, complement management and continued consolidation efforts.

Let me go into greater detail on the \$18 billion actions within our control to lower costs and drive revenue, which cumulatively brings us to the \$123 billion revenue gap identified in the plan. This \$123 billion is extremely challenging and will require us to move forward without delay. The first area that we concentrated on was growing mailing and shipping services, which we think we can

grow some \$2 billion annually by being extremely aggressive and focused in our actions. Our research indicates that in mailing services, we have additional opportunities to grow direct or Standard Mail for small businesses. We also learned through our prior campaigns that mailers respond to First-Class Mail and Standard Mail promotions, so we intend to continue these. In Package Services, our plan is to continue the successful Priority Mail Flat Rate box campaign, to expand the number of commercial contracts, to bring back product samples in the mail and to grow the Parcel Select business. Our partnerships with FedEx, UPS and other carriers have been extremely beneficial as we are able to provide last mile delivery for customers at a price that works for our business partners and the American consumer. We also realized that there were opportunities to further grow the business in areas where we already have a presence. For example, in a number of Post Offices, we can increase the number of Post Office boxes available to rent, and we have the processes and procedures identified to manage passport transactions and can easily expand the number of locations where we can provide this and other government services.

Regarding productivity improvements, we calculate that our focus on continuous improvement and adopting standardized procedures throughout our networks will yield approximately \$10 billion annually. We will manage this by continuing to consolidate plants and delivery routes. Even though we already process 91 percent of the mail through automation, we can capture additional savings through the expansion of our Flat Sequence Sorting system, which is yet another example of automation helping us become even more efficient. For many years now, we have been working with our mailing industry partners on improving address quality, and the IMb with its powerful data capability will help us improve address quality even more. In addition, IMb offers new services to customers along with transparency.

Obviously, a large part of our savings in productivity comes from workforce management, and we plan on continuing our effective use of attrition to manage workforce complement. We also think that we will benefit from the advancement of technology in that more and more Americans will chose alternative access points for securing postal services, which means that we will need fewer employees to handle customer service transactions.

Finally, another \$500 million in cost saving opportunities exist in purchasing through competitive sourcing, rigorous negotiation and supply market analysis. Our supply management team is already capturing savings by renegotiating transportation contracts, and approaching purchasing supplies and mail equipment in new ways.

We intend to do everything in our authority to achieve those savings, but they are not without risk. Our plan also provides proposals to address the remaining \$115 billion gap and is a balanced and reasonable approach to creating a financially sound future. To implement the plan, a number of fundamental changes are necessary, some of which would require legislative changes. The necessary solutions are:

- **Restructure the Prefunding of Retiree Health Benefits** – If no adjustments are made to the CSRS fund, we request that Congress permit these payments to be deferred and shifted to a "pay-as-you-go" system comparable to what is used by the rest of the federal government and the private sector. This would provide the Postal Service with an average of \$5.6 billion in cash flow per year through 2016. As noted previously, correcting the Postal Service's overpayment to the CSRS pension fund and transferring that amount to the Retiree Health Benefits Fund would eliminate any need for these payments.
- **Delivery Frequency** – We request the ability to adjust permanently the number of mail delivery days to better reflect current mail volumes and match customer usage.
- **Expand Access** – We will continue to modernize our channels for alternate access by providing services where our customers are already transacting business. We also will continue to increase and enhance customer access through private sector retail partnerships, kiosks, and improved online offerings. However, the Postal Service needs to

be relieved of the statutory prohibition against closing a Post Office for solely economic reasons.

- **Workforce** – We will work during our upcoming collective bargaining negotiations to establish a more flexible workforce that is better positioned to respond to the changing needs of customers and take advantage of the over 300,000 voluntary separations projected to occur over the next decade, as employees become eligible to retire. We would also ask that Congress pass legislation that requires an arbitrator to take the financial health of the Postal Service into consideration.
- **Pricing** – We request that Congress apply the Consumer Price Index price cap to the entire basket of Market Dominant products, rather than the current restriction which caps prices for every class at the rate of inflation. This will allow pricing to respond to the demand for each individual product and its costs. In addition, we will use existing flexibility to pursue an exigent price increase. Assuming other parts of our plan can be implemented, the exigent price increase will be moderate and not occur before 2011.
- **Expand Products and Services** – We ask that Congress permit us to evaluate and introduce more new products and services consistent with our mission. This will allow us to better respond to changing customer needs.
- **Oversight** – We ask that Congress provide a more streamlined and efficient process that provides appropriate oversight while promoting effective business practices. This will help to achieve the solutions in our action plan.

Some of these solutions could be implemented relatively quickly, while others would require much more time to achieve. Adjusting retiree health benefit payments and implementing five-day delivery will generate the largest and most immediate financial benefits for the Postal Service. Nonetheless, each part of the plan is critical to restoring the Postal Service's financial health. No one solution is the answer to reversing our financial condition. We believe a balanced approach that provides the Postal Service with the flexibility to respond to market dynamics and the speed to bring products to the market quickly, and that incorporates initiatives focused on cost, service, price, new products, and changes in the law would be the best approach. It is also the one that is most likely to perpetuate a financially sound Postal Service, able to meet the needs of the American people. We are ready to proceed with the plan. But we need Congress to provide the legislative reform necessary to move forward.

I would like to provide greater detail regarding our legislative proposals. The *Postal Act of 2006* included ambitious requirements for the Postal Service to prefund its legacy costs. While this appeared to be good public policy at the time, these measures did not anticipate, and were inconsistent with, the economic realities the country would soon face. I refer specifically to the provision that requires the Postal Service to prefund 73 percent of all future retiree health benefits—a 75-year liability—in just a ten-year period ending in 2016. This prefunding mandate is not shared by other federal agencies or private sector companies. The aggressive schedule, a product of budget scoring rules, requires annual prefunding payments averaging \$5.6 billion. Moreover, the Postal Service's prefunding account had a balance of more than \$35 billion at the end of FY 2009.

Between 2006 and 2009, mail volume fell by 17 percent and revenue fell by 6 percent. Consequently, we do not have the ability to meet this unique statutory requirement to prefund retiree health benefits at the accelerated pace. This enormous obligation costs Postal Service customers—not taxpayers—approximately \$50 billion in prefunding over the ten-year period. Eliminating this requirement is one of the major components of our action plan.

The Postal Service greatly appreciates the action taken by Congress last year to enact legislation that restructured the payment for 2009. However, for 2010 and beyond, there is no assurance that similar adjustments will be granted. A restructuring of the payment obligation is urgently needed to allow the Postal Service to continue to fulfill its mission now and in the future. Legislative change would also reduce the need for the Postal Service to borrow funds from the U.S. Treasury for the

sole purpose of depositing the money back into a fund at the U.S. Treasury. The Postal Service needs a quick decision by Congress on how this issue will be addressed to provide clarity regarding the amount and timing of other actions that are necessary to close the gap. Our preference is a comprehensive solution, but we need similar relief this year to ensure liquidity in Fiscal Year 2011.

Regarding our request to change the frequency of the number of mail delivery days each week, the statutory requirement for six-day mail delivery has been in existence since 1983. It imposes a very large financial burden, and is inconsistent with the overall mandate of the law requiring the Postal Service to operate like a business. Due to the unprecedented decline in mail volume, there no longer is sufficient volume to sustain the cost of the current six-day delivery network. The number of pieces of mail per delivery has declined from an average of five pieces in 2000 to four pieces in 2009, a 20 percent reduction. Without any changes in the business model, we can expect an average of three pieces per delivery by 2020. However, assuming a scenario of five-day delivery and FY 2009 mail volume, the amount of mail per delivery would increase to more than five pieces. Revenue per delivery point dropped by more than 20 percent between 2000 and 2009, because our largest volume declines occurred in profitable First-Class Mail.

Moving to five-day delivery is necessary to ensure financial viability, both now and into the future. Reducing the frequency of delivery is the single most effective way for the Postal Service to substantially reduce operational costs—allowing us to reduce annual net costs by more than \$3 billion. It would greatly assist us with regaining a portion of our financial footing and help to ensure that affordable universal service is maintained nationwide. It is a prudent step a business would take given the financial projections for the future. I would note that both Canada and Australia have five day delivery and their Posts remain strong and useful to their citizens. In Germany, which has maintained six-day delivery, the price for their equivalent to a First-Class stamp is 80 cents.

Market surveys conducted independently and on behalf of the Postal Service show that customers want to see the Postal Service survive and flourish. Most are willing to accept the elimination of Saturday delivery to reduce the Postal Service's losses. And, most would rather have Saturday delivery eliminated than have stamp prices increased significantly, as would be needed to ensure the Postal Service's financial stability. I would also like to cite the results of a Gallup survey conducted in March 2010. The survey showed that 68 percent of those polled favored a change to five-day delivery "as a way to help the Postal Service solve its financial problems" over other alternatives such as increasing postage prices or closing local Post Offices. This result was echoed by recent *USA Today* and *Washington Post* polls reporting that the majority of those surveyed support five-day delivery as a means of addressing our financial problems. In the *USA Today* survey, 87 percent of Americans rated the Postal Service's performance as "excellent" or "good."

In anticipation of a possible change, we have conducted extensive stakeholder outreach through dozens of meetings with customers. We identified mailer issues and ensured their consideration in developing the proposed five-day plan. These exchanges helped us to understand and address the needs of the mailing industry and the public concerning a potential change in the frequency of mail delivery. The Postal Service has developed a comprehensive operations plan for five-day delivery that addresses most, if not all, possible impacts from required software programming modifications to workforce adjustments. Two major assumptions guided the development of the concept: existing service standards would be maintained and any changes would comply with existing collective bargaining agreements.

Our plan for five-day delivery, which was filed with the PRC last month, includes:

- Residential and business delivery and collections would be discontinued on Saturday.
- Post Offices will be open on Saturdays.
- Post Office Boxes would receive mail delivery on Saturday.

- Express Mail would continue to be delivered seven days a week, including Saturday and Sunday.
- Remittance mail (bill payments) addressed to Post Office Box and Caller Service customers would still be made available to recipients seven days per week.
- Firm hold outs (mail that a business picks up at the Post Office) would continue to be available for Post Office Box addressed mail Monday through Saturday, nationwide.
- No mail pick-up from collection boxes on Saturdays except for dedicated Express Mail collection boxes.
- Acceptance and drop-shipping of destinating bulk mail would continue on Saturday and Sunday.
- Alternate contract locations would remain open on their normal schedules.
- Access to online services via *usps.com* would continue to be available 24/7.

Any change in the number of delivery days will require Congress to eliminate the appropriations language that mandates six-day-a-week delivery. Should Congress approve such a change, we are committed to implementing an in-depth communications plan for our customers and employees to make the transition as smooth as possible. In fact, we have established a dedicated website that describes in detail our plan for implementation. Upon approval, we intend to provide customers with six months notice prior to implementing a change which we estimate would be no earlier than mid-2011.

If five-day delivery is enacted, we expect to handle adjustments to our career workforce through attrition, not layoffs, consistent with existing collective bargaining agreements. However, five-day delivery will substantially reduce the need for part-time, noncareer employees, most of whom work one day per week for the Postal Service. I would like to elaborate on why this is the best time to move forward on implementing five-day delivery. Due to the number of retirement eligible employees we have in our system, and due to the fact that we have structured a number of positions as temporary positions, we would be able to enact this change without having to layoff any career employees. Approximately, 25,000 full-time employee assignments would be reduced. This could be accomplished by eliminating full-time carrier technician and relief carrier assignments, reducing part-time flexible and transitional employee work hours and reducing overtime. In accordance with our collective bargaining agreements, some delivery positions would be reassigned. Our window of opportunity is now and I encourage Congress to consider the impact of their decision upon our workforce.

Legislative action is also needed to provide the flexibility to realign our retail network in order to improve service while lowering costs. The Postal Service's primary goal in adjusting its retail network is to find the right balance between cost, efficiency, and providing universal service. In order to do this, we need the flexibility to close Post Offices. This will require the elimination of the statutory prohibition against closing Post Offices solely for economic reasons. The law concerning how we manage Post Offices needs to be modernized to allow our customers to be served where they shop. With more options for consumers, including *www.usps.com*, self-service kiosks, big-box outlets, banks, and the ability to buy stamps in grocery stores and at ATM machines, any law governing Postal Service business practices needs to reflect what consumers want—convenient access to services. Expanding access is part of the action plan and we already have results to share. Today, in more than 300 Office Depot locations, you can now also purchase postal services. We're now working with Pitney Bowes on testing self-service mailing and shipping kiosks in about a dozen Target stores nationwide and have discussions underway with other major retailers on ways that we can partner together.

Saving costs on "brick and mortar" expenses will help us remain viable. Continuing to partner with the private-sector to expand nationwide access will help in meeting customer demand for increased access and greater convenience.

Customer research indicates that the American public is not concerned about Post Offices closing if postal services were moved to other retail locations. Many actually preferred to have postal services provided in nearby retail locations. In considering whether to consolidate or close a Post Office, the Postal Service operations plan would take into account convenient alternative places where customers can access postal services. As this realignment takes place, it would be a long-term process of adjusting the number of brick-and-mortar Post Offices while expanding access points for postal services.

The Postal Service must become a leaner organization. The large number of expected employee retirements creates an important opportunity to achieve this through what can be an orderly process of attrition, and by establishing more flexible work rules through the collective bargaining process. Through 2020, approximately 300,000 current employees will be eligible to retire. It would not make sense to replace them with full-time employees if demand is moving in a direction better suited to a part-time workforce.

The Postal Service is fully committed to negotiating collective bargaining agreements that are fair to our employees and our customers. National economic conditions, the current and future viability of the Postal Service, and the need to bargain in good faith for wages and benefits must all be a part of contract negotiations. Under existing law, arbitration is always a possibility. The financial health of the Postal Service and the affordability of postal products should be key considerations in any arbitration ruling. While some arbitrators have considered the fiscal health of the Postal Service, they are not required to take it into account. Our legislative proposal calls for a change to our collective bargaining process that was initially proposed in legislation introduced in the Senate last year. We ask that legislation be adopted to require arbitrators to take into account the Postal Service's financial condition before making any decision.

In order to react to market forces and offset potential declines in revenue and volume, we are also seeking legislative adjustments to the pricing mechanism found in the *Postal Act of 2006*. That law divided postal products into two broad categories: Market Dominant and Competitive, with different rules for each. Market Dominant, or mailing services, refers primarily to First-Class Mail, Periodicals, and Standard Mail. Rate increases for mailing services products are tied to a price cap applied to each mail class based on the Consumer Price Index – All Urban Consumers.

Competitive, or shipping services, refers to products such as Priority Mail and Express Mail that compete with private carriers. Shipping services products do not have a price cap, but have a price floor. Market Dominant products account for about 90 percent of revenue. The Postal Service wants to ensure that prices of Market Dominant products can be based on the demand for each individual product and its costs, rather than capping prices for each class at the rate of inflation. We ask that the inflation price cap be applied to Market Dominant products as a whole, rather than to each class of mail under this category. In asking that the price cap be applied by category, rather than individual products, the Postal Service is seeking the flexibility to price according to market conditions and to maximize revenue. This action would help us ensure that products cover their costs.

As technology and customer needs change, so will the definition of mail. The Postal Service seeks additional flexibility to innovate its products and better meet changing customer demands, while tapping into new sources of revenue. Currently, every potential new product, including individual customer contracts, requires before-the-fact review by both the Postal Service Governors and the PRC. This can delay the implementation of customer contracts, leading to mailer frustration and providing an advantage for competitors. In some other instances, such as the addition, deletion, or transfer of a product from the market dominant to the competitive product lists, there are no time limits on the review. The current regulatory framework should be changed to broaden the definition of postal products, enable streamlined, after-the-fact product and pricing reviews, and place time limits on all areas of review.

We are also seeking adjustments in the oversight of the Postal Service. Our current oversight model includes Presidentially-appointed Governors (USPS) and Commissioners (PRC), Congress, portions of the Executive Branch, GAO, the Postal Service Inspector General, and other federal agencies. In many situations, roles and responsibilities overlap and are not sufficiently clear. Changes in law are necessary to make oversight processes more responsive to market needs. They should include looking at issues such as time limits on reviews, and moving from before-the-fact to after-the-fact reviews. Collectively, these changes would ensure continued protection of customer interests while providing flexibility to manage in the changing postal environment.

I would like to comment on the recently released report by the GAO regarding the Postal Service business model. I appreciate all their efforts and contributions to this critical issue. Their report was mandated by the *Postal Act of 2006* for completion in 2011. However, GAO was asked by this Committee to accelerate its completion given the national, economic conditions of the past two years and our tenuous financial circumstances. For these same reasons, GAO added the Postal Service to the High Risk list in 2009.

Many of GAO's findings are consistent with the analysis and action plan we have submitted for your consideration. GAO's findings include:

- The Postal Service's financial condition is dire, and its outlook is poor. Immediate Congressional action is needed for the Postal Service to attain financial viability. If no action is taken, risks of larger Postal Service losses, rate increases, and taxpayer subsidies will increase.
- The Postal Service must apply the management flexibility called for in the *Postal Act of 2006*, by continuing to restructure its operations, networks, and workforce.
- Congress should consider revising Postal Service retiree health benefits funding and requiring any binding arbitration to take the Postal Service's financial condition into account.
- The Postal Service should pursue the development of new enhanced products to increase revenue.

The GAO report describes a number of strategies and options available to Congress and the Postal Service for long-term structural and operational reform. The Postal Service can improve its financial viability by working with Congress and taking aggressive actions to reduce costs. However, as GAO notes, the Postal Service is unlikely to succeed without Congressional action to remove the legal and regulatory constraints that impede our ability to increase revenue and decrease costs. I look forward to working with Congress, the GAO, PRC, and the entire postal community in implementing the best choices for our continued success.

We do have a concern about one of the options listed in the GAO report. They note that Congress may want to establish a commission of independent experts to assist in making changes to the Postal Service's network, business model, and operations. We believe that such a commission would only add a layer of bureaucracy and delay to problems that require immediate attention. Our challenges are urgent and well documented. Congress should be seeking the most expeditious and effective resolutions to the Postal Service's financial difficulties. Commissions and additional studies will not contribute to that process.

GAO also suggests that the Postal Service be required to provide Congress with regular reports to ensure that our financial condition is improving. We agree, and plan to ensure transparency and accountability through a number of regular reports we currently are required to file. One of the central components of the *Postal Act of 2006* was to provide greater transparency in Postal Service operations. That objective has been met, and existing procedures for documenting our financial and operational condition are sufficient.

Our findings, recommendations, and legislative proposal come as no surprise to postal stakeholders. In our effort to develop a long-term action plan for success, we have made a concerted effort to consider proposals and feedback offered by the entire postal community. Our plan of action has been shared with Congress, the PRC, GAO, mailers, employee groups, and consumers. While no one is to blame for our current financial condition, we must all work together to overcome it. Efforts to fine tune this organization can only occur in a transparent environment with full participation by all stakeholders. We are committed to continuing this process of an open dialogue to ensure the future success of the Postal Service.

Mr. Chairman, our founding fathers recognized the need for a basic and fundamental service to "bind our Nation together." For over 230 years, the Post Office has served that indispensable purpose helping our country grow and prosper. In 1970, Congress passed legislation creating an independent establishment to be operated in a business-like manner. This hallmark legislation was based on the necessity that a national, government-sponsored, postal network required sound business practices and the freedom from political manipulation. Given the communications and technological advancements between 1970 and 2006, it is not surprising that further changes to our legislative mandate were needed to keep up with the times. More fine-tuning is needed to preserve self-sustaining, universal mail services for all Americans.

The Postal Service must be leaner and have the ability to quickly respond to customer needs. Our action plan is a path to a future in which the Postal Service will remain a vital driver of the American economy and an integral part of every American community. We will continue to deliver the greatest value of any comparable post in the world. If given the flexibility to respond to an evolving marketplace, the Postal Service will be an integral part of the fabric of American life for a long time to come.

Thank you for your support of our ongoing efforts to ensure a sound Postal Service. I look forward to working with you and other members of Congress to achieve the passage of legislation that will address our near-term and future challenges. I will be happy to answer any questions that you may have.

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