

Testimony of John (Chip) Hutcheson III

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Good morning. My name is Chip Hutcheson. I am the publisher of The Times-Leader, in Princeton, KY, a 5,400 circulation twice-weekly mailed newspaper serving Caldwell County in western Kentucky. I am also president of the 2,300-member National Newspaper Association (NNA), based in Springfield, IL, and Falls Church, VA. My biography is attached to this testimony.

Thank you, Mr. Chairman, Ranking member Carper and members of the committee for providing me the opportunity to testify today. NNA has the deepest respect for the expertise on this body—both for the senators and for your staffs who have labored long and hard to figure out where to find the alignment of interests in postal legislation. Even more importantly, this committee has demonstrated through its previous debates that its goal is to do what is right for America. That is why it is an honor to appear here now. I particularly want to thank Chairman Johnson who has met with our publishers for the past several years with great attentiveness and interest and Senator Carper, who worked closely with us during the 2006 postal reforms, and who has introduced the iPOST Act, S 2051, to get our discussion started.

NNA is in its 131st year serving community newspapers.

Our members are primarily weekly newspapers in small towns and rural America that rely heavily upon the mail to reach readers and to carry out their mission to fuel the American democracy with news and information and help drive economic activity in our markets.

Universal mail service has been a top priority for NNA since the 19th Century. Our leaders were involved in postal policy as far back as the Penrose-Overstreet Commission examination of mail classes in 1908, in the 1968-70 creation of the Postal Reorganization Act (PRA), the 2006 passage of the Postal Accountability and Enhancement Act (PAEA) and many, many policy discussions and decisions along the way. We believe mail service is a core responsibility of the federal government. The role of the mail as a part of our great country is enshrined in the US Constitution. Along with the First Amendment, the core obligation of mail service must be the underpinning of our quest to sustain universal service. We need reliable, affordable mail service so our readers can continue to be informed. Newspapers and the Postal Service are

proud to share a common forebear: Benjamin Franklin, a postmaster/publisher, who set us on the road to becoming one nation.

I will address three major points today:

1. Community newspapers have already been harmed by slower mail.
2. Rural America needs the mail.
3. We need urgent action from this committee to avoid further harm. No legislation will be perfect, nor will any act we take this year forever repair the Postal Service. But the iPOST bill, S. 2051, with its mandate to integrate Medicare coverage for USPS retirees, provides a viable foundation for this committee to move forward quickly to do what must be done right now.

1. Community newspapers have already been harmed by slower mail.

Allow me to explain first why the US Postal Service is so critical to America's community newspapers.

We are newspapers on paper. Most of our member companies also operate websites. Quite a few now have mobile apps. But both the revenue stream and the readership are dependent upon the printed newspaper, which means we are also dependent upon the Postal Service.

The Pew Research Center just this month released new data showing that our experience is true across the nation. It examined three critical markets: Macon, Georgia; Sioux City, Iowa, and Denver, Colorado.

Here is that it learned:

- More than half of readers depend primarily upon the printed newspaper
- Among newspaper print subscribers and readers, the heaviest dependence comes from a particularly vulnerable part of our nation: people over 65, people who have not attended college and people with an annual income under \$30,000. Without the newspaper, their engagement in the community would be tenuous.

Pew surveys are always enlightening, perhaps not as much for our community papers as for the larger city dailies. But the data make sense to us as well. We have about 289 daily newspaper members, so we certainly follow the data. Pew does not often recognize the importance of the community weeklies, nor of small towns. What is interesting about this 2016 study is that if print readership is critical for the larger dailies, it will be even more so for our weeklies.

Indeed, NNA's own surveys, most recently released in 2014 by the Center for Advanced Social Research at the University of Missouri, show that community newspapers are the lifeblood of small towns. We see regular and consistent readership of 65 percent or more in smaller communities. In small towns, 78 percent say they rely on the newspaper as their primary source for local news and information—indicating to us that when local news breaks, even our non-subscribers are picking up the paper at the newsstand or borrowing a copy from another reader.

Internet access remains a problem in these communities with more than 25 percent unable to enjoy broadband access at home. Only around 45 percent of residents are telling us they look at the newspaper website. But among those who do go to websites for news, it is the newspaper website that they are most likely to use and trust.

With print as the primary medium for a weekly newspaper, distribution becomes a critical problem.

Our typical member is a 3,000-5,000 circulation weekly. It is generally published between Wednesday and Friday each week, targeting in-home delivery before the weekend. Getting into the home before weekend shopping and social, civic or sports events begin is everything to us. It is critical to our advertisers who count on us to bring traffic to their stores. It is essential to our civic organizations and our churches who give us their press releases to attract people to their events and worship services. A late newspaper is a newspaper that has failed its community.

Our typical member brings its Periodicals mail to the local post office, already prepared in bundles sorted to the carrier's delivery sequence. Much of the mail remains in that local office. On-time mail delivery within that delivery office area is generally not a problem—although the closing of many post offices in small towns now has generated concerns that we did not have a decade ago.

Where we hit headwinds is when those newspapers have to leave the local office to enter the delivery network.

For most of our history, we had to worry only about our long-distance readers getting the paper within a reasonable time. For them, local shopping or attending a local church service is not usually an issue, but they are upset when their paper comes two or three weeks late or arrives in bundles of three or four issues because USPS mail processing has bundled them together. For most of my lifetime, we have had a problem reaching these readers.

What is new for us is the severe difficulty in reaching readers in the satellite towns around our central community. If we are publishing in towns with a lake or an ocean or river resort, we also have new problems getting to the city dwellers who come to our towns for holidays or to enjoy second homes or fishing cabins and the like.

For these readers—I will call them core-market readers—our mail has to leave the local post office and travel to a mail distribution center to be processed and sent on to the post office that serves these readers. The distribution centers are like an eddy of difficulty for us even when USPS operates at optimum levels. Our mail typically is manually sorted because USPS machines cannot handle our newsprint. It arrives in small-density batches, so it is easily put aside while larger mailings are processed. Despite our best efforts to have printers use the white flats tubs that all of you have in your own offices to receive and gather mail, many of our copies are still in mail sacks. The sacks are manually sorted, and it is easy to miss a copy or two in the bottom of a sack. Finally, because our mail is not sorted by machine, it does not produce what the Postal Service calls “visibility” by being scanned as it travels through the network. Our mail today is largely invisible in USPS systems. We have to count on best practices in the processing network as well as in the newspaper mail preparation to move our mail along in timely fashion.

The good news for us is that NNA works very closely with USPS to take advantage of these best practices. In fact, NNA is conducting a training program here in Washington on March 16 to help our printers understand what we need from them to prepare mail as efficiently as possible.

The bad news is that even if everything goes perfectly, the vanishing footprint of the mail processing plant in America’s smaller cities means our mail has to move further and slower to see its first handling by USPS.

The Postal Service has closed more than half of its mail processing centers in the past eight years. The centers that were closest to most of small town America are now gone or have had key functions downsized and removed to larger cities.

Just in my home state of Kentucky, we have lost processing operations in Somerset, Bowling Green, Owensboro, Paducah, Elizabethtown, Campton, Ashland, Pikeville and London. Mail that was handled in the state is now going to Louisville, Nashville, Huntington WV, Evansville IN, or beyond.

Just getting to the processing center can add an additional day to delivery. But it can add more than that if mail arrives just a bit too late to get on a critical truck taking processed mail back to

a town we are trying to reach. If something else also goes wrong—for example, handling our mail is deferred because the plant is now focused on the growing package business—the delays can multiply.

Speaking for the Times-Leader, I can tell you that complaints to our circulation department increase every time a mail processing plant downsizes or closes. I can also say that we experience a slow-down in our own first-class mail, which we depend upon because it has invoices and checks in it. And I am told by publishers across the country that even Priority Mail has become a problem, which many small town publishers use to deliver payroll to their own staffs in news bureaus outside their headquarters. One publisher friend in Blackshear, GA, knowing I was preparing for this hearing, told me on January 8 he had just received a Christmas card postmarked Dec. 21 in Fargo, ND. We were not surprised.

To validate my perceptions, I asked our members last week to update me on their experiences with newspaper delivery. Here is what our member survey told me:

- 92.5 percent have experienced problems reaching readers on time with their Periodicals newspaper;
- 40.3 percent report delivery problems with First-Class or Priority Mail;
- 49.2 percent attribute the problem to a closed or downsized plant; 44 percent say they don't know where the problem arose, but they have a problem;
- 53 percent experienced a problem reaching core-market readers on time—either within their county or within the market but outside the county;
- 79 percent describe the Postal Service as critical to their survival.

I have provided more detailed breakouts of these responses as an appendix to my statement.

I want to give credit where it is due.

NNA does work extremely closely with the Postal Service and we have much respect for the dedication of its workforce and its senior management. We know they want to do the best job possible within the constraints they face.

Since the plant closings began, USPS has set up small transfer hubs in some of the closed location sites so we can hand off certain direct-to-post-office containers of mail that can be loaded on a truck on its way to area post offices serving the former plant's territory. These steps avoid going through the new, more distant plant. Our survey indicates about 22 percent of our members are using these hubs. Another 32 percent say they are not aware of hubs. This may be our own opportunity for education.

But hubs are just a patch— though an incredibly important one. They cannot take the place of an efficient, close-by plant. Also, often by the time they get set up and understood by the publishers or their printers, the damage to our businesses is already done.

The message here is clear: the mail processing network within the Postal Service is critical to us. The harder it is to reach, the slower our mail will be.

2. Rural America needs the mail.

Postal reform can be a thankless, daunting task. NNA appreciates the challenge before the committee, because we have been working with Congress on postal issues for my entire newspaper career. When asked why NNA persists in this quest, I paraphrase Woody Allen in that memorable movie, “Annie Hall when a psychiatrist asked why he put up with a troubled brother who thought he was a chicken: “Because we need the eggs.... That’s how I feel about relationships. They're totally crazy, irrational, and absurd, but we keep going through it because we need the eggs.”

Well, we keep going through it because we need the mail.

NNA newspaper towns are typically composed of 15,000 or fewer residents. Though many small-town residents now commute great distances to work, small-town businesses and farms still employ many of our residents. To preserve their jobs and our local commerce, as well as civic life, we need the mail.

NNA and other rural constituencies have previously testified about this critical sector of America, whence comes our food supply, a portion of the manufacturing sector and about a quarter of the population.

During our participation in public debate about the value of 6-day mail service, we heard several important voices on the central role of rural mail. For example, MedCo Health, now a part of Express Scripts, testified to the Postal Regulatory Commission:

“..mail order provides convenient, cost-effective, and essential access to medications for Americans in rural and underserved communities with limited access to other resources, as well as those who are home-bound. These Americans may not have convenient access to a pharmacy, or to the full range of medications at a pharmacy – or, particularly with older patients -- may not have the mobility or means to access retail services. In these situations, Medco relies heavily on the USPS going that “extra mile” to deliver life-saving and life-enhancing medications. Remember that USPS competitors such as UPS and Fed-Ex in America’s rural areas contract out to local USPS facilities for delivery. Thus, many consumers, particularly those in most need of the access, will suffer under

this proposed delivery frequency reduction plan. Limiting access to critical, life-saving and life-enhancing medicines will disproportionately and negatively impact elderly, underserved, and rural-dwelling Americans.” Revised Rebuttal Testimony of Thomas M. Moriarty on behalf of Medco Health, before the Postal Regulatory Commission, Docket N2010-1, August 3, 2010.

We were also reminded of the importance of mail service for another critical component of democracy: voting. Testifying for the National Grange, Edward Luttrell said:

“There are more than 40,000 local governmental agencies in the United States, most of them operating in rural areas. Not just general municipal or tribal governments but special purpose governmental entities dot the political landscape in rural America. School districts, fire districts, water districts, conservation districts, agriculture districts, public utility districts, and public telephone districts are just some of the special purpose local governmental organizations that serve rural citizens. Each of these organizations rely on some form of public participation through voting, either to elect public officials to oversee provision of public services or through direct referendum to make critical decisions regarding the budgets and operations of these entities. Increasingly, all of these organizations rely on the US mail to conduct these votes. In addition, private, self-governing entities are proliferating in urban, suburban and rural communities. Rural communities have long relied on private, self-governing entities to provide basic services and commercial services, such as rural electric cooperatives, rural water cooperatives, rural telephone cooperatives, credit unions, and farm supply cooperatives. Outside of rural areas, private self-governing entities have proliferated among home owner and condominium associations as well. By law in most states, these entities must conduct their business utilizing postal voting.” Testimony of Edward Luttrell, president, National Grange of the Order of Patrons of Husbandry, before the Postal Regulatory Commission, Docket N2010-1, August 3, 2010.

Finally, many federal agencies and policy experts have expressed concern about lack of broadband Internet access in rural America. The most recent study by the Pew Research Center indicates that 33 percent of the population does not have broadband service. We know this problem is most pronounced in rural areas, but what I find interesting is that a portion of our American population seems to have bypassed broadband altogether and rely solely on their smart-phones. A third of the smart-phone users told Pew that they don’t need broadband because they do everything they need to do on the phone. Yet Pew finds that 25-37 percent of their respondents say not having access to broadband creates problems with the job market: they cannot find job listings, or cannot fill out an application with the digital devices available to

them. “Lack of Broadband Can Be A Key Obstacle,” Pew Research Center, December 28, 2015; <http://www.pewresearch.org/fact-tank/2015/12/28/lack-of-broadband-can-be-a-key-obstacle-especially-for-job-seekers/>.

Pew’s most recent survey about rural areas shows how much more pronounced the digital access issues are for us: only 62% have at-home broadband and 40% have smart-phones.

“Home Broadband 2013,” Pew Research Center. <http://www.pewinternet.org/2013/08/26/home-broadband-2013/>.

The disadvantage to rural areas in the great digital divide is not news. Lower population penetration makes the capital formation for broadband buildout particularly challenging. And rural populations tend to be slightly older people, who often have a lower comfort level with new technologies than the grandkids that they invite over whenever they cannot run their computers.

All of this makes the mail absolutely critical. In small-town America, we need it for medicines, to apply for jobs, to vote and to receive the newspaper.

We who live in this challenged environment intuitively realize our mail has slowed down in the past five years. But USPS on-time delivery statistics do not tell us how well or poorly our mail is doing.

Last year, the Government Accountability Office (GAO) issued a report on how much we know about rural mail service:

USPS and PRC are not required to report—and do not report—delivery information for rural and non-rural areas, thus limiting effective oversight in these areas. USPS and PRC officials told us that they do not provide information or analysis to assess delivery performance specifically for rural areas because they are not legally required to do so. Without data on rural delivery performance, Congress cannot determine the extent delivery performance is timely in rural versus non-rural areas and neither USPS nor PRC can prove or disprove any perceptions that rural areas may be affected differently than non-rural areas.” Actions Needed to Make Delivery Performance Information More

Complete, Useful, and Transparent,” US Government Accountability Office, September, 2015.

NNA has been requesting these data from the Postal Service for several years and I am pleased to report that we now understand USPS and the Postal Regulatory Commission intend to report some data on rural mail measurement in the late spring. We are gratified that the two agencies have collaborated to produce rural measurement studies and we hope it will enlighten many in Congress on the importance of rural mail. I want to note that these studies will not provide information on newspaper on-time delivery because most of our products are not part of the automated mailstream that produces these data. But for the health and economic well-being of our communities that use other mail classes, I would like to compliment Postmaster General Megan Brennan for stepping up to do this study. We hope this committee will follow this progress closely.

Whatever the metrics available, however, they cannot alone produce more reliable, affordable mail. Only the efficient management of the postal system and the correct policies of the United States Congress can get us where we need to go. Rural America simply must be able to rely upon the mail.

3. We need urgent action from this committee and urge it to begin with S. 2051, the iPOST Act, which mandates the integration of Medicare benefits.

NNA has been involved in modern postal reform for the past 25 years. We thought the Postal Accountability Act (PAEA) was a positive step. But no one could have foreseen then that we were soon to plunge into the Great Recession, nor that digital disruption would affect the Postal Service as severely as it has.

PAEA set upon the Postal Service an obligation to pay more than \$5 billion a year for 10 years to the Treasury to prefund retiree health benefits in an environment of shrinking mail volume. From the year that obligation set in, USPS has been struggling, and we who use the mail have been struggling along with it.

Because of its financial woes, USPS has slowed down the mail, and that has created the problems I am addressing in my testimony. The service cuts have trimmed the fat, a lot of the muscle and are now aiming for the aorta. We greatly fear the impact of the next round of mail processing plant closings, having seen how badly the previous rounds have damaged our businesses and communities. It is for that reason that, although not every provision in this bill is

what we would have preferred, our membership believes it provides the vehicle this committee needs to move legislation NOW.

Here is the pain point for us.

This bill would permit USPS to keep the “exigency” money that it began to collect two years ago when it enacted a postage increase that was approximately triple the rate of inflation. Without legislation, USPS will lower postage rates and “roll back” the increase, under orders of the US Court of Appeals and the Postal Regulatory Commission.

Would our members like to have a postage reduction? Absolutely.

In many of our communities, businesses have not ridden the wave of economic recovery after 2009. Money is extremely tight. Community newspapers have experienced staff layoffs, furloughs, workforce cuts and other very painful retrenchments. Some postage money back into our pockets would be very welcome.

But we recognize that the exigency money was principally responsible for USPS’s positive net earnings in 2015. Although its package business is growing, that business does not produce the positive contribution to the system that first-class mail once did. Because of costs growing faster than inflation, our own Periodicals mail class—which is supposed to operate at break-even—cannot produce a positive contribution and in fact struggles to get back to a point where we can cover our costs. Yet if there are service cuts and more of our mail goes away as a result, the problems of the Postal Service deepen and we are faced with spiraling reductions of service, greater financial losses to the economy and USPS, and an increasingly desperate situation where USPS is going to need a taxpayer bailout to cover the costs of existing obligations to its retired workforce.

Thus, our board of directors voted last fall to support legislation that permits the Postal Service to keep this \$1 billion in its rate base, so long as further service cuts can be avoided. We do not wish to convey by our support that we think further exigency increases would be acceptable. This past increase was a painful one that hit our members just as they were finally beginning to climb out of the recession. I have no doubt that it has cost some of our journalists the opportunity to regain a job or get a raise. For many newspapers, postage is the second-largest expense after payroll.

So let me be clear: NNA’s support for suspending the mandate to roll back postage rates in April is contingent upon the Postal Service’s commitment to enact no further systematic service cuts and to live within its means without more exigency increases. To us, that translates into suspending further plant closings and continuing the Postmaster General’s commendable efforts to trim costs without risking more mail volume loss through service cuts.

Our survey of members indicates that our members support the board's position. When we asked, "Which is the priority for your newspaper—lower the rates or maintain/improve service?" The response from 77% of them was: "Let USPS keep the money, but don't do such a big increase again. And definitely improve service." I can assure you, that was not an easy answer to give in our industry at this time.

That is why we urgently want to impress upon the committee that action must be taken NOW. We recognize that there is a cohort in our mailing world that would take the opposite view of ours—lower the rates and address service later. We appreciate their desire to regain lost expenses through the rollback. They may get their wish if Congress does not act before April. But for us, and for rural America, the service is imperative.

There are others on the panels testifying today who are far more expert than I on the fine points of Medicare integration, reforms of the retiree health benefit payments and other provisions that many in the mailing world, the postal unions and the Postmaster General agree on. But I can tell the committee that NNA's Postal Committee is fully aware that postage revenues are funding dual health benefits packages for a substantial number of postal retirees. In an environment where we struggle to provide health insurance for our own active workers, many of our publishers are perplexed that a Congress with a conservative majority believes this double-charge is fair. Certainly, we can understand that Uncle Sam would rather keep that money for an under-funded Medicare system. But it should not be the obligation of small businesses like ours to double-pay for the benefit. We think it is unfair to consider the integration of Medicare benefits as any sort of new burden on taxpayers. Rather, the taxpayers have benefitted for some years now by our extra postage obligations. It is time for Congress to end this unfair hit on small businesses.

Above all, urgency is necessary. It is clear to NNA that a sound piece of legislation can be written this year. If we delay further, and more service cuts occur, unpredictable consequences may snatch this opportunity from us and from the committee. The time is now, and this committee's record of expertise in crafting sound legislation dictates that the need for your leadership is critical and urgent.

In conclusion, Mr. Chairman, Ranking Member Carper, and members of the committee, we appreciate the opportunity to testify. We recognize that there are many versions of legislation that we could support, as well as some we would viscerally oppose, and that the important thing is to start with the measures that have the greatest support and work from there. We believe this committee has an excellent start and that substantial constituencies will support your efforts. The critical thing is to GET STARTED, and to move quickly before greater damage is done. NNA pledges its support for your efforts and looks forward to working with you.