

## TESTIMONY



**STATEMENT OF  
POSTMASTER GENERAL/CEO JOHN E. POTTER  
BEFORE THE  
SUBCOMMITTEE ON INTERNATIONAL SECURITY,  
PROLIFERATION AND FEDERAL SERVICES  
OF THE  
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS**

**SEPTEMBER 20, 2001**

The last week has been extremely challenging for our nation. The acts of terror in New York and Washington have led the people of America to question many of their assumptions about the simple and routine activities that are part of their everyday lives.

With that in mind, the Postal Service was acutely aware of the need to continue daily mail delivery and, where it was interrupted, restore it as quickly as possible.

And the appearance of our letter carriers making their rounds in every community possible, both on the day of the attacks and over the next week, was important in reassuring the nation that the fabric of everyday life, although damaged, was intact.

Similarly, the continued movement of mail was important to limiting the overall economic losses resulting from last week's attacks. A single day's interruption in payments that move through the mail can mean over \$1 billion in lost interest income.

As one of our letter carriers explained when a Washington, D.C. customer asked if there would be mail last Tuesday, "You bet. There's mail everyday!"

I am extremely proud of the 800,000 men and women who make up the world's largest postal system. They provided the Herculean effort, planning and elbow grease that rerouted millions of pieces of mail each day from air to ground transportation, keeping our vital communications system moving.

And there are the thousands of postal employees in New York City who, despite the fact that their personal lives were disrupted in some way by last week's tragedy, continued to work through extremely difficult conditions. But it was important to them that the people of New York – in many cases their own families and friends – remained connected with *their* friends and loved ones, whether within the city or beyond its borders.

The work of our people in New York was not limited to only delivering the mail. The New York Post Office provided trucks and drivers that shuttled medical supplies and other emergency equipment to where it was needed most.

There are many stories of individual postal employees in New York and Washington who took that extra step to serve our customers through this difficult time. I met many of them last week when I visited New York to acknowledge them for their tireless efforts. Witnessing firsthand the unimaginable destruction of so much I was moved again by the incredible spirit and dedication of our nation's postal workers.

One of the selfless people I met was Bubba Ford, manager of New York's Wall Street station. Amid the devastation and confusion in the financial district, Mr. Ford made sure his staff was safe and sent them home. And, because the gate securing the Wall Street Station and the mail it contained would no longer lock, he stood watch in the cab of a postal truck through the gloom, smoke, and dust of that terrible, long first night.

Whether simply doing their jobs – and doing them well – or performing the extraordinary acts that were so important during a time of crisis, the employees of the Postal Service were a solid national anchor in the hours and days following last week's tragedy. We salute them all.

That tells you a great deal about the Postal Service and its role in the daily life of our nation. It is a job we have been doing for more than 200 years, in good times and in bad. It is something that we will continue to do, because the Postal Service is a basic and fundamental service provided for the people by the Government of the United States.

In fulfilling this role, we can never lose sight of the reason the Postal Service exists. Because if we do, we immediately place at risk the nation's investment in a system built over two centuries to enable every American to communicate equally and effectively.

The men and women of the Postal Service perform this role exceptionally well, despite the formidable financial challenges we face in operating an ever-growing network that provides regular, personal delivery service to more than 135 million addresses.

Despite its role as a basic public service, the Postal Service is mandated to operate like a business. And, from that standpoint, we are subject to the same economic factors – good and bad – as every other business. In practice, this means that we must reconcile our public service responsibility within the framework of businesslike operations, since we do not receive – and have not received – congressional appropriations for postal operations in almost twenty years.

Mail is a vital element of the nation's communications system, just as the mailing industry is a vital part of the nation's economic health. The health of the Postal Service is, in turn, a barometer of the mailing industry. That will be the case for many years to come, so we must take the necessary actions today to preserve our ability to finance and provide universal service to the American people – now and long into the future.

Over the past two years, like other businesses, we have seen costs rise significantly for things such as energy and employee health benefits, while revenue and mail volume have lagged behind projections. We have responded appropriately and aggressively to lower our costs. In fiscal year 2001 alone, we removed more than \$1.3 billion in costs from our system.

We have just completed our ninth straight quarter of positive productivity – with a record increase of 4.5 percent over the last two years. That has helped us to keep our expenses more than \$2 billion below what they would otherwise have been.

In fiscal year 2001 alone, we used at least 23 million fewer work hours – the equivalent of 11,500 employees. We did this while absorbing the work connected with our Priority Mail Processing system, which had been

performed by an outside contractor. At the same time, we delivered one billion more pieces of mail to 1.6 million more delivery addresses than we did last year. Accommodating those new homes and businesses requires 3,400 new delivery routes.

Despite these unprecedented cost reductions and increased delivery points, we also had an exceptionally strong record of performance for the people and businesses of America. We maintained record service performance and saw high levels of customer satisfaction.

I am proud of the efforts of our people. They have demonstrated, as never before, that the Postal Service can deliver strong performance while keeping an equally strong focus on its bottom line.

But there are storm clouds in this picture. Recent economic reports have given us cause for concern about future mail volume projections. This, coupled with a projected fiscal year 2001 deficit in the range of \$1.65 billion, requires us to make even further adjustments in our resource usage.

In practice, this means that, for another fiscal year, we must extend our capital spending freeze for the construction of new post offices. In addition, just two weeks ago, I announced the most sweeping organizational changes to affect the Postal Service in nearly ten years. This restructuring is designed to bring improved focus to the organization, prioritize program expenditures, and drive performance.

For these organizational changes to be meaningful, they have to start at the top. And that is where we started, with a reduction of 20 percent in the number of Postal Service officers. We are also streamlining the organization to increase accountability, eliminate redundancy, and focus on those vital few actions that will produce the most significant results. Along with a number of other changes, we are eliminating over 800 positions in our Headquarters organization.

To our customers, the most visible change will be in our Marketing and Sales functions. We have re-established and filled the position of Chief Marketing Officer. She is restructuring the department to emphasize customer service and products that are relevant to America's citizens and businesses.

The majority of our Sales staff, over 1,200 people, will move from our Headquarters operation to field units (Areas and Districts). This will bring them closer to our customers, strengthening the day-to-day relationships with both mailers and the operational managers who are so important to providing the services our customers rely on in doing business.

Our restructuring has also consolidated a number of marketing departments that were responsible for individual product lines. They have been united into a single product management unit, headed by a single vice president, providing greater synergy and consistency to our product development units. This group now has responsibility for all postal products, including packages and eCommerce which, previously, had been independent departments.

Our operations structure – which is the backbone of our organization – is also being streamlined. The changes join our mail processing and distribution functions under a single vice president, allowing both to benefit from the larger pool of resources and talent that had supported these functions individually.

We are also merging our two primary customer service operations – delivery and retail – into a single organization. Since these are the primary services provided to customers by our network of 38,000 post offices, stations and branches, it makes sense for them to be managed as part of a single, service unit. From both an operational and a marketing perspective, these changes will help us to better serve our commercial and consumer customers.

Our restructuring will also affect our field management structure, with the elimination of two of our ten area management organizations. Responsibility for post offices and their operation in the former Mid-Atlantic and Midwest areas is being assumed by adjoining area offices. In the eight remaining Area offices, we are accelerating efforts already underway to achieve a 30-percent reduction in staffing levels.

Managers of our district offices and processing plants, however, have been tasked with reducing administrative staffing by 10 percent within the next twelve months. This represents another reduction of more than 2,000 positions. In addition, over 500 supervisory positions will be eliminated in specific facilities across the country. For the same period, we have established field organization budgets to absorb projected growth of 1.7 million new delivery addresses while reducing an additional 26 million work hours – the equivalent of more than 13,000 positions.

The organizational changes we are implementing are only one part of a series of continuing adjustments to our networks and processes that are designed to improve service and bring costs down.

Another element of our effort is a study of mail processing operations in plants throughout the nation. Our field managers are reporting back to us now about opportunities for the consolidation of some processing facilities and of some of the operations within our processing facilities. These opportunities are the result of an overwhelming success with the automation of flat-sized mail – magazines, catalogs, and larger envelopes. We expect to identify the planned consolidations by mid-October, with implementation scheduled for January, 2002.

All of these changes will help assure that we continue the positive cost management of the last two years while we continue to protect service performance.

Clearly, the Postal Service is experiencing a great deal of change as we prepare ourselves and our organization for the future. We recognize that change is not always easy, particularly as it affects our employees. We are working to address their concerns, both with their union leadership, with leaders of the associations that represent postmasters and managers, and with each of them as individuals. We are doing what we can to answer their questions, provide them with information as soon as it is available, and to support them in deciding how best to move through these organizational changes.

We are providing career counseling services, counseling through our Employee Assistance Program, retirement seminars, and other support services to help some of our employees as they begin the transition from the Postal Service to other employment or to retirement.

While many of our efforts are focused on helping people through this transitional period, we are also working to prepare the future leaders of the

Postal Service to face the challenges of tomorrow. In fact, developing our people is one of the key success strategies that is being pursued at all levels of the organization.

A number of existing and new programs are important to this effort. Succession planning is one of the elements of this strategy, with our executives identifying high-potential employees who can follow them into their positions and providing them the individual development opportunities to better prepare them for increased leadership roles.

Leading up to succession planning is our Advanced Leadership Program which, through formal training – both internally and through participation in college classes – helps to position many of our management employees for advancement into our executive ranks.

For bargaining-unit employees with an interest in upward mobility, our Associate Supervisor Program offers them the formal training – on the job and in the classroom – that provides them with the knowledge and tools that will help them succeed as initial-level supervisors.

In the near future, we will be introducing a new Management Intern Program, which will help us to position both internal and external candidates for operational positions critical to the Postal Service. The design of this program mirrors that of the Presidential Management Intern Program, which represents the premier recruitment process for federal agencies.

Naturally, the success of these employee development programs is dependent on a work environment that encourages every employee to make a maximum contribution to the organization's success. This means that all employees must treat others – and expect to be treated – with dignity and respect, and they must maintain our basic values of integrity and accountability.

With a workforce of almost 800,000 people, the Postal Service is in a unique position to benefit from the diversity represented by its employees as it develops its future leaders. Fortune magazine recognized this strength when, for the second year in a row, it recognized the Postal Service as one of the 50 best workplaces for minority employees.

We take our role as stewards of the Postal Service seriously. As we work to preserve the strength and vitality of our nation's postal system, we also want to ensure that the hands into which its leadership passes are capable, strong and ready.

In our efforts to continue improving our service, one exceptional change that occurred last month has already been making a positive difference to our service scores – our transportation alliance with FedEx. Beginning in late August, the Postal Service began using the FedEx air fleet – one of the largest in the world – to transport Express, Priority and some First-Class Mail. Besides increasing the reliability and reach of our Express and Priority Mail products, this contract will also save us some \$1 billion in transportation costs over the next seven years. This alliance also served the nation well last week as FedEx was one of the first airlines able to fly a full schedule.

We are also using new technology to establish a service-measurement system for commercial First-Class Mail and advertising mail. In two weeks, we will be moving from a test mode to production mode with our Confirm program.

In the future, we intend to have a similar system for magazines. Confirm will enable customers to track their mail through postal operations using special barcodes. Service problems will be more easily identified, allowing us to make the operational adjustments necessary to improve on-time delivery consistency for commercial mail.

Despite our wide-ranging and successful cost-management efforts, the Postal Service is operating from a very difficult position. Our challenges include economic slowdowns, new communication options, and the costs of maintaining a large and necessary infrastructure to support our universal service responsibility. Against this backdrop we must acknowledge that an antiquated legislative charter severely limits our organization's ability to respond quickly to market changes, placing extreme pressures on our bottom line.

Within this financial context, I must also report that the Postal Service is approaching its statutory borrowing limit. Some have suggested that one way to address our financial situation is to extend this borrowing limit. We do not recommend this. We cannot borrow our way to prosperity. Placing further financial burdens on future postal ratepayers is not the solution to our ability to finance universal delivery service.

The Governors of the Postal Service have looked at these factors and weighed them against the Postal Service's primary role as a public service funded by revenue from the sale of postal products and services – not by tax dollars. Their review – and that of management – have left us extremely concerned about the state of the Postal Service's finances.

The numbers are extremely sobering. We are in the final weeks before we close the books on fiscal year 2001. As I mentioned, our forecast is for a net loss in the range of \$1.65 billion. This follows a loss of \$199 million in fiscal year 2000, with the expectation of deficit of at least \$1.35 billion in fiscal year 2002.

The simple fact is that, during the last fiscal year, costs have risen almost twice as fast as revenue. And, our options are very limited as to how we will continue to pay the costs of maintaining the nation's expanding universal service network.

We also believe that we have an obligation to seek all money that is owed us before asking our customer to pay more. Therefore, we have asked the Administration to support our request for a supplemental appropriation of \$957 million in Fiscal Year 2002. This request represents money Congress owes us for preferred rate mail we delivered in the 1990s. Instead of reimbursing the Postal Service for the mail that Congress required us to deliver at preferred rates, in 1993, Congress decided to reimburse us in increments of \$29 million annually over a 42 year period. In light of our current financial circumstances, we are now requesting full payment for these service that have already been provided to the preferred rate mailers designated by Congress.

Regrettably, we must work through an encumbering, 30-year-old statutory rate process that has us initiating the process for new rates over a year in advance of when those new rates might be implemented. Some of the issues we must consider in our rate request include today's weaknesses in the economy, and the resulting drop in consumer confidence and mail volume growth.

Beyond the general economic situation, the outcome of the collective bargaining process with four unions representing 700,000 postal employees remains uncertain. For three of those unions, the decision on what our employees will earn has been placed in the hands of outside arbitrators. We recently began negotiations with the fourth union. While I strongly support and believe in collective bargaining, the process, as it exists for the Postal Service, does not allow us to project and plan for the costs often associated with arbitration awards.

Looking at all of these factors, the Governors of the Postal Service voted unanimously on Monday, September 10, to file a rate case immediately and, further, requested an expedited review by the Postal Rate Commission. This action was taken because the Governors have the responsibility of preserving the financial viability of the Postal Service.

Today we live in extremely unpredictable and rapidly changing times. We face three significant risks over the next year, which can have potentially negative effects on our finances. The first is the possibility that the economy may not improve as rapidly as our forecast projects. Second, are the unanticipated costs of arbitration awards affecting the compensation of employees represented by at least three of the major postal unions. Third, is that the Postal Rate Commission, similar to its action last year, may not issue a recommended decision consistent with the revenue we require.

An expedited review and recommended decision by the Postal Rate Commission will permit us to make an early decision about our options, including when new rates might be implemented. This information is important to our customers as they develop their own plans in preparing for next Fall's mailing season. In addition, we cannot proceed with facility renovation and construction until we have the necessary new revenue.

We fully recognize the concerns of our customers regarding a potential rate increase by next Fall. However, speculation that the Postal Service would seek a rate increase in the range of 10 to 15 percent is incorrect. Our continuing actions in reducing costs will allow us to file for an overall, average increase of just under nine percent. It is significant to note that the 8-cent stamp of 1971 would cost more than the 34 cents we charge today when adjusted for inflation.

Following this process, the American consumer can expect the price of a First-Class stamp to rise by three cents if the Postal Rate Commission's recommended decision reflects our request.

We have considered the suggestion of many customers and mailing industry groups that we implement phased rates. While this is a creative and innovative approach to a rate increase, our review of the proposal and our very serious financial situation have convinced us that, as a practical matter, we would be unable to implement the new rates in this manner. But this is something that we are prepared to consider in connection with future rate filings.

Looking ahead, we will not risk mortgaging the future of the United States Postal Service. We cannot, in good conscience, permit this organization to experience a fourth consecutive year of red ink.

Recognizing the difficult challenges that these issues pose for the Postal Service in the future – financially and in other areas – both Congress and the Comptroller General of the United States have requested that we develop a comprehensive Transformation Plan that would serve as a long-term blueprint for this organization's future and, in turn, for the future of the mailing industry.

Working with Comptroller General David Walker, the Postal Service's Governors and my senior management team have agreed on a three-phase approach that will emerge from this plan.

Phase one will identify the transformative actions the Postal Service can take under current law. I know that a particular interest of this Subcommittee has been increasing the financial transparency of the Postal Service. We have already taken action to put public financial reports to the Board of Governors on our Web site, [usps.com](http://usps.com). We will continue to work with Congress and the General Accounting Office to address these concerns.

The second phase will build on the work that has been led by Chairman Dan Burton of the House Committee on Government Reform, and Committee members John McHugh, Danny Davis and others to identify moderate legislative changes that would enable the Postal Service to realize continued productivity improvement and contribute to providing universal service at affordable rates.

The third phase will identify the long-term and significant structural changes that might be considered, in working with Congress and the Executive branch, to strengthen the ability of the Postal Service to improve its services and manage its infrastructure efficiently in a time of rapid market change. The challenge that we will face together in coming years will be how to preserve universal service over time as costs increase for the extensive network of postal delivery and access.

Development of this Transformation Plan is one of my highest priorities. We are continuing our work with postal stakeholders, including Congress, to complete this plan. Of course, we expect this to be a living document, as our discussion with Congress and other stakeholders continues. We will be submitting an initial document by the end of this month, with a final plan in December.

The Postal Service, Congress, mailers, employee organizations and unions, and other stakeholders have been key participants in the critical debate about the future of the Postal Service. There has been general agreement that the 31-year-old-law that created the Postal Service does not provide it with the tools necessary to protect affordable, universal service for the people of America in a radically changing communications and market environment. Unfortunately, there has been no consensus on the specific elements of transformative legislation or postal reform. The process of creating a comprehensive Transformation Plan provides an opportunity for forging consensus on many of the issues that have been discussed.

When I became Postmaster General, some 100 days ago, I told our employees that I would be one of their staunchest advocates. I told them that I would do all that I could to correct misinformation and set the record straight when it concerned their performance or integrity. I welcome this opportunity to speak on some issues that affect them.



One of the biggest inaccuracies making the rounds is that the Postal Service is up to its knees in "waste, fraud and abuse" – to the tune of \$1.4 billion. That may be a compelling sound bite, but it is not quite the case.

Critics have focused on a statement by the Postal Service's Office of Inspector General, which cited recommendations it has made that have identified potential savings and cost avoidances of \$1.4 billion over a seven-year period.

So how did this become \$1.4 billion in "waste, fraud and abuse" rather than "potential savings" or "cost avoidance"? It's about how some people use words. The Office of Inspector General's mission, in its own words, is "to prevent, detect, and report fraud, waste and program abuse, and promote efficiency in the operations of the Postal Service."

So, if you're trying to pack some major punch into a story, which makes the better headline, "promoting efficiency," or "waste, fraud and abuse"? I guess we know the answer.

Let me share an example. In 1998, the Board of Governors approved funding for the Corporate Call Management program. Over the next two years, because of advances in technology and actual call volume, the original seven-year cost projections became yesterday's news. The Office of Inspector General, in the middle of an audit, wasn't shy about letting us know the numbers had changed and that we could save quite a bit over the original projections. That led to \$962 million that we didn't spend. We call that cost avoidance. *Not* waste. *Not* fraud. *Not* abuse.

There has also been some concern about the Postal Service's eCommerce activities. The Postal Service has always been one of the nation's primary carriers of money, messages and merchandise. We have consistently relied on new technology – from the development of the railroads and the airlines to the Internet – to help us serve our customers better. Today, it is increasingly difficult to separate e-initiatives from our core products as we use electronic technology to make it easier for customers to do business with us, to improve the accuracy and speed of mail processing, to add value to existing delivery services, and to bring the advantages of new communications technology to our customers.

We have established guidelines that clearly communicate expectations for new products in this area, providing a more objective basis for making product decisions. This process involves closely tracking the product's costs, contribution and progress over time. If, even after efforts are made to improve a product's performance, it appears likely that this result will not be achieved, the product will be discontinued. This process will be applied to all existing and new eCommerce initiatives.

For the first six months after launch, which we refer to as the "burn-in" period, we will monitor the product's contribution (revenue less expenses) by accounting period. After the burn-in period, if contribution falls below plan for six consecutive accounting periods, the product will be placed on the "critical list." Once on the critical list, corrective action will be taken to reposition the product, develop a substitute for the product, or execute an exit strategy.

The Postal Service is proud of the benefits that our pay-for-performance program has brought to our customers. This incentive program has provided for exceptional improvement in service, safety and productivity. This program

mirrors those used by private industry and it has served to enhance the overall performance of the Postal Service. It covers 84,000 employees – postmasters, supervisors, administrative employees and managers who work in cities and towns all across America.

The value of this program to the organization is best described through its results. Over the six years since this program has been in place, on time delivery of First-Class Mail committed to overnight delivery has increased by ten points – and we are maintaining that improvement. Lost workday injuries have steadily declined, contributing to even better use of our people. The last six years have seen our highest levels of productivity and financial success. In fact, our increased productivity in the last two years has saved the Postal Service \$3 billion. These improvements are a direct result of the goals set by our pay for performance incentive program and the achievement of our people in meeting those annual goals.

Our pay for performance program is based on the achievement of pre-established performance goals for different organizational units. If all of the organization's goals are met, employees receive full payment credit. If only parts of the goals are met, employees receive only partial credit. If no goals are met, employees receive no payment. Last year, the average payment under this system was \$2,600.

In closing, I would like to express my gratitude to the members of this subcommittee for providing me with the opportunity to share my thoughts and perspectives about the United States Postal Service. As Postmaster General, I am reminded daily of the confidence the people of America have in their Postal Service. They rely on us to share their most private thoughts and their most important business. We are the single government agency that serves them daily – where they live and where they work. We are proud of the role we play in binding this great nation together every day.

As the custodians of this unique public trust, we will do all that we can to preserve the ability of the United States Postal Service to protect the investment our nation has made in it for more than two centuries. I look forward to answering any questions you may have.

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