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National Association of Postmasters of the United States

Testimony of

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Hearing

Senate Subcommittee on Federal Financial Management, Federal Services, and International Security
District of Columbia
Washington, DC

December 2, 2010

Chairman Carper and Committee Members, thank you for the opportunity to once again share the views of our Nation's Postmasters regarding the state of the Postal Service, and specifically S. 3831, the "POST Act". As the frontline managers of the nation's Post Offices, Postmasters have a strong commitment to the Postal Service, its continued viability, and to ensure the maximum degree of service to our customers.

As the Chairman and the Committee can certainly appreciate, there are parts of S. 3831 that NAPUS whole-heartedly support, while there are other parts with which we have reservations. The testimony I offer on behalf of my members will touch upon these issues.

At the outset, I need to state that Postmasters bear a very heavy burden as they attempt to maintain high-quality service, as the financial and operational conditions of the U.S. Postal Service continues to teeter. Although the agency and Congress confronts a colossal task to ensure the universal postal system, I do not believe the declaration by the Postal Service that it is facing a $230 billion deficit within the next decade to be particularly helpful or accurate. In fact, at a House hearing, earlier this year, outgoing Postmaster General Potter conceded that the number is "theoretical"; it is predicated on the Postal Service and the Congress doing absolutely nothing. You know that this is not true. In addition, Senators recognize that postal employees, frontline managers and rank-and-file workers alike, have become proficient at doing more with less. Moreover, I strongly suspect that the USPS' alarmist number has been counterproductive – I believe that it scared away postal business, which has compounded the Postal Service's financial problems and dampened the enthusiasm for constructive legislation.

It is also important to note that the specter of the "great recession" continues to haunt the Postal Service. Business and consumer confidence has depressed mail volume. Moreover, the negative impact of flat or shrinking postage revenue on the Postal Service has been exacerbated by the unfair and inequitable financial burden to <u>fully</u> prefund its retiree health costs, a requirement made of no other public or private enterprise.

Mr. Chairman, NAPUS fervently believes that section 2 of S. 3831 takes a definitive and vital step in the right direction to address this inequity. In addition, section 2 is crucial for the Postal Service's immediate operational needs. NAPUS believes this section so important to the Postal Service that we respectfully encourage you to separate section 2 from the rest of the bill, and favorably report it as an independent bill. This provision provides immediate financial relief to the Postal Service and has considerable support among most, if not all, postal stakeholders.

Permit me to return to the Post Offices that my members manage. The ongoing fiscal and operating challenges of the Postal Service have placed mounting demands on front-line manager to fill the void created by unfilled postal positions, particularly in the area of customer and delivery services. This personnel void places excessive burdens on Postmasters of large and small Post Offices. Postmasters must work hours that far exceed the standard workweek to maintain postal accessibility. In addition, over 3,000

Postmaster positions remain unfilled, requiring working Postmasters to cover "vacant" locations and supervise postal personnel at those locations. Moreover, we know full well that the agency seeks statutory changes, which could dramatically change the nature of a universal postal service. Indeed, Postmasters fully understand the depth of the fiscal crisis confronting the Postal Service. However, Postmasters and many of your colleagues on Capitol Hill are trying to understand why, in this fiscal environment, the Postal Service awarded certain highly-compensated postal executives significant retention bonuses – that is "pay <u>before</u> performance"; while, frontline managers, including supervisors and Postmasters, the managers who actually ensure postal services, suffered through the arbitrary lowering of <u>earned</u> pay-<u>for</u>-performance ratings for fiscal year 2009, and are in limbo over pay-for-performance for the previous fiscal year, as well as the current one.

NAPUS recognizes that fiscal year 2010 ended with the Postal Service losing $8.5 billion. However, it should be understood that of the total loss, $5.5 billion is attributable to the congressionally-mandated requirement that the Postal Service prefund its retiree health benefits and another $2.5 billion is the result of a recalculation of the assumptions underlying workers' compensation. Permit me to think out loud about why the White House cannot recalculate the Postal Service pension liability with as much ease as it recomputed the USPS' worker compensation obligations.

Notwithstanding the level of the fiscal year 2010 losses, it would be inaccurate to declare that the Postal Service has failed to respond to those losses. Over the past two years, the Postal Service cut $9 billion from its operating budget, including the elimination of

105,000 full-time positions. These actions have come at a price, which is being acutely felt by frontline managers, their personnel, and our customers. In addition, large and medium size Post Offices do not have adequate staffing to adequately market postal products to an under-tapped and potentially underserved customer base – small community-based businesses.

The Postal Service is considerably handicapped by the 4-year-old statutory requirement that the agency fund its future retirees' health care obligations through 2016, at an average annual rate of $5.6 billion. As this Committee knows, there exists no other institution, public or private, that voluntarily or forcibly, remits such payments. This one-of-its-kind obligation impairs postal operations and renders postal sustainability questionable.

Consequently, NAPUS strongly supports section 2 of S. 3831, which modifies the methodology for calculating the Postal Service's retirement liability. This modification is similar to the one contemplated legislation introduced by Representative Stephen Lynch in H.R. 5746. The House Subcommittee on the Federal Workforce, Postal Service and the District of Columbia favorably reported H.R. 5746, earlier this year. Two independent evaluations of the currently used methodology – one review commissioned by the Postal Service Office of Inspector General and the other commissioned by the Postal Regulatory Commission – concluded that the Postal Service has been required by law to overfund its pension obligations from $50 billion to $70 billion. NAPUS would have hoped that the Chairman and Senator Collins would have persuaded the White House to use its administrative prerogative to revise the pension formula on its own; regrettably, the Office of Management and Budget has not yielded to logic and equity.

The S. 3831-prescribed formula follows the PRC mythology that yields surplus contributions of at least $50 billion. In addition, the provision permits the Postal Service to recover the surplus and transfer the amount, over time, to the Postal Service Retiree Health Benefits Fund. This would help cover the Postal Service's future retiree health coverage obligations. At the same time, this health liability is grossly overstated, resulting from an Office of Personnel Management assumption of a 7 percent health care inflation; the industry standard is 5 percent. We understand that OPM has revised the projected inflation rate by gradually reducing the assumption over a period of years. Nevertheless, the Inspector General has projected that the Postal Service could potentially recover $6.8 billion.

Also, NAPUS believes that the legislation should enable the Postal Service to recover approximately $3 billion in surplus agency contributions on behalf of Federal Employee Retirement System (FERS) participants. This overfunding was documented by a recent Postal Inspector General audit, which was based on Office of Personnel Management data.

Although NAPUS believes that this legislation should focus on this key element of postal fiscal health, we would like to share our views on several other provisions included in S. 3831.

NAPUS also supports the provisions within section (3)(b) that would allow the Postal Service to make available additional profitable products and services. Currently, the Postal Service is restricted to the acceptance, processing and delivery of hard-copy communications. More flexibility with regard to parcels and authorizing its re-entry into limited financial services would be constructive and could generate much-needed revenue. In addition, commercial partnerships that could benefit from the Postal Service's retail network that reaches into small towns and rural communities would be a win-win-win for the Postal Service, interested organizations and postal customers. For example, a joint venture with a company such as the Automobile Association of America could reap rewards for the American public, the triple-A and the Postal Service. It is vital to remember that although the agency is still the world's largest "wireless communications entity", it is unable to productively participate in the communications, financial, real estate and logistics marketplace. Legislation should address this void. Furthermore, NAPUS supports the provision that encourages cooperative agreements between the Postal Service and federal agencies, and state and municipal governments. NAPUS believes that, under current law, the Postal Service has had the latitude to enter into arrangements such as the one that exists with the State Department, relating to passport applications. We believe that the Postal Service, through its Post Offices, is fully capable of providing identity verification and licensing services for a wide variety of governmental agencies, including local motor vehicles agencies, park services, and municipal permitting services. In addition, Post Offices can be exploited for their ability to promptly and efficiently distribute information and emergency products that ensure the safety of the American public and help secure homeland security. NAPUS also supports the provision that allows the Postal Service to convey wine and beer. To the extent other parcel shippers are permitted to carry these products, there is no reason why the Postal Service should be prohibited from delivering these commodities.

Regrettably, NAPUS is deeply concerned about those provision is section 3, which, in our view, would jeopardize universal postal service. In the mid-1970's, after the enactment of the Postal Reorganization Act, the Postal Service suffered a volume decline that spurred the agency to arbitrarily change the Post Office closing criteria to facilitate a major reduction of small and rural Post Offices. Even at that time, the prohibition against closing small rural Post Office solely for operating at a deficit was the law of the land. Apparently, the statutory restriction was insufficient to protect these governmental touch points for rural and small town communications and commerce. Consequently, the Senate, in 1976, overwhelmingly passed legislation that compels the Postal Service to solicit the views of the impacted community, and to take those views into consideration, prior to a Post Office closing. This 1976 "Randolph Amendment", combined with pre-exiting prohibition against closing a Postal Office solely for having expenses that exceed revenue and the requirement to provide full postal service to rural communities, provides the legislative firewall against closures and consolidations that would otherwise devastate rural communities. It has been suggested that section 3662 of Title 39, Rate and Service Complaints, is a safeguard against closures and consolidations that undermine universal service. On its face, it does not appear that the PRC has the authority to order the reopening of a Post Office, should the PRC find that the Postal Service is in noncompliance with its universal service obligation. Of course, NAPUS would support an amendment to rectify this omission.

I would point out a certain irony in the Postal Service’s concerted effort to reduce delivery-frequency from 6 to 5 days a week. If the agency succeeds, there would be an increased need for accessible Post Offices, particularly in rural areas. In fact, the Postal Service website and Postal Regulatory Commission filings provides assurance that Post Office Box service and counter service will be available through local Post Offices. In rural communities and small towns this accessibility is paramount. However, Post Office closures would deny the very “Plan B” that the Postal Service is heralding.

NAPUS believes that current law already provides the Postal Service with sufficient authority to shrink its retail, distribution and processing network, responsibly and transparently. The current law is not an insurmountable hurdle for the Postal Service to recalibrate its retail network – and just as importantly – satisfy the needs of the serviced community. It is not NAPUS’ position that all postal retail facilities are “untouchable”; in fact, NAPUS state officers are actively involved in the review of retail locations that have been identified for discontinuance. And, if a community does not need a Post Office, or does not object to its closing, NAPUS would support the closure. In addition, NAPUS has been consulting with the Postal Service over the efficiency of Post Offices, through a new initiative, Delivery Unit Optimization (DUO). The USPS’ DUO goal is to consolidate delivery functions within designated postal facilities. It is important to note, however, that the majority of Post Offices do not have a delivery function; instead they are limited to window and post office box service.

NAPUS does not object to the Postal Service seeking out retail locations that may not necessarily be in a Post Office, in order to boost revenue and accessibility. These efforts can help to minimize wait times in congested postal locations, so long as the transactions are fairly simple and straight forward. However, I have cautioned Postal Headquarters and I caution the Subcommittee that we must protect the security of the mail and ensure the accountability of individuals who conduct business on behalf of the Postal Service. It was not too long ago that the Postal Service began to prohibit depositing large envelopes and small parcels into neighborhood collection boxes. The mail is required to be personally presented to a postal employee at a postal facility. The reason is our homeland security, and the safety of postal employees and delivery point customers. Authorizing collection of such mail by an individual other than a postal employee, in NAPUS' view, could compromise the safety of our national mail stream and of the American public. So, services offered at alternative retail locations need to be limited. In addition, as a Postmaster, many times, I have found myself having to correct mistakes made by individuals who staff postal contract units and have, in a number of cases, suspended their contract for cause. Finally, it is important that co-location of postal services not be used as a ploy for closing a Post Office.

NAPUS believes that eliminating the prohibition against closing a Post Office solely for having expenses that excess revenue, or that would diminish a community's entitlement to the same level of postal services as other communities, undermines universal service. An individual Post Office's profit or loss is virtually meaningless. Mail revenue that is collected at the originating Post Office is not credited to the destination Post Office, though both facilities are essential and add value to mail matter. In economic terms, the valued-added benefit at any particular Post Office or stop along the way is not calculated by the U.S Postal Service. Neither is the imputed processing or delivery costs assigned to any individual Post Offices. Consequently, net revenue or net expenses are not a key determinant to a Post Office's viability.

Even if the Postal Service was able to successfully close the 10,000 smallest Post Offices it would not make a meaningful contribution to reducing the Postal Service's operating costs. The cost of maintaining these public service outlets hovers at about seven-tenths of one percent of the Postal Service's operating budget. Ironically, the Postal Service has been resistant to aggressively consolidating its bloated area and district field office structure, a structure which contributes no value to the mail. In 2009, the USPS eliminated one area office and consolidated six district offices, leaving eight areas and seventy-four district offices, costing approximately $1.5 billion – about three times the cost of maintaining small and rural Post Offices.

Ironically, the "profitability standard" penalizes communities served by Postmasters who manage large Post Offices. Large Post Offices tend to have expansive delivery and processing operations, which are not revenue producers. The Post Office might generate revenue through window operations; however, that revenue is insufficient to cover the

Post Office’s operating costs. Hence, the Post Office is characterized as a money-loser. As a result of this “deficit” the Postal bureaucracy may grant the Postmaster inadequate resources to maintain services, or generate revenue.

In the past, the Postal Service provided NAPUS with a listing of all Post Offices in the United States. The data included revenue and expense data for each Post Office. On the bottom of each page, the Postal Service cautioned about using net revenue as an indicator for Post Office profitability, since the Post Office is part of a network. In late October, NAPUS requested the same data sheets as had been provided in the past. NAPUS felt that this data would be useful, since Postal Headquarters has not been bashful in seeking legislative authority to close “unprofitable” Post Offices. The Postal Service treated NAPUS’ inquiry as a Freedom of Information Act application. In response to the “application”, the Postal Service denied NAPUS’ request for Post Office revenue numbers. I would suggest that it may come to light that the numbers would demonstrate the foolishness of using Post Office profitability as the “sole” criteria for closure.

Mr. Chairman, I think it is important to underscore this point – individual Post Office profitability is not and should not be the metric by which Post Offices are evaluated for closing or consolidation. Rather such drastic and irreparable decisions, which could undermine universal service, should use a device that fairly evaluates the importance of the Post Office to the serviced community, as well as its contribution to the universal postal network. This is the reason that I believe that the overwhelming majority of Americans oppose closing Post Offices – 86% according to a 2010 Gallup Poll.

I believe that the Postal Regulatory Commission will make a valuable contribution in creating criteria to measure Post Office importance. The PRC has commissioned a series of studies that may provide greater understanding of the value of Post Offices, and may offer some guidance as the Committee considers the scope and importance of the postal retail network. The PRC will attempt to measure the economic value of Post Offices on the communities they serve, and how a postal presence moderates the cost of postal-related products and services offered by competitors. In addition, the PRC is interested in the relationship to homeland security and a postal presence. Finally, the PRC is looking at the importance of Post Offices to the unbanked, a particular issue in rural areas and small towns.

In part, I think that the efforts to curtail small town and rural postal services are rooted in the mistaken assumption that broadband services have rendered brick and mortar postal locations obsolete. Just last month, the Department of Commerce's National Telecommunications and Information Administration found that more than one-third of American households lack high-speed internet connectivity. The Department also found that one in four households completely lacked internet connections, dial-up as well as broadband. Within the data, it is uncovered that <u>approximately one-half of citizens who live in rural areas do not have access to broadband connections</u>. This rural digital disadvantage underscores the necessity of accessible full service Post Offices.

Mr. Chairman, our nation's Postmasters commend you and the Committee for the continued attention you have given to maintaining a viable Postal Service. We believe that an accurate accounting of the agency's retirement liability, with the authority to use the surplus to prefund its retiree health retirement is fundamental. The effort to close and consolidate Post Office should be tempered with the recognition that an individual Post Office's profitability should not be the sole criteria for such an irrevocable action; current law recognizes this fact and it should be maintained. Discontinuance determinations should be based on the value of the Post Office to the community and how the Post Office furthers the universal service obligation. NAPUS looks forward to continuing to work with you and your staff as we seek out ways to fortify a universal postal system.