THE U.S. POSTAL SERVICE: 101

HEARING

BEFORE THE

SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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THE U.S. POSTAL SERVICE: 101

TUESDAY, APRIL 17, 2007

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:04 a.m. in room 2247, Rayburn House Office Building, Hon. Danny K. Davis of Illinois (chairman of the subcommittee) presiding.

Present: Representatives Davis of Illinois, Norton, Sarbanes, Cummings, Kucinich, Clay, Lynch, Maloney, Marchant, and McHugh.

Staff present: Tania Shand, staff director; Lori Hayman, counsel; Cecelia Morton, clerk; Alex Cooper, minority professional staff member; and Kay Lauren Miller, minority staff assistant.

Mr. DAVIS OF ILLINOIS. The subcommittee will come to order.

Let me apologize for being a few minutes tardy. I had 45 young people from the Kip Charter School that I had promised to see. They got caught in traffic and were a little late. But thank you all for coming.

Let me welcome Ranking Member Marchant, members of the subcommittee, hearing witnesses, and all of those in attendance. Welcome to the Federal Workforce, Postal Service, and the District of Columbia Subcommittee hearing on the U.S. Postal Service: 101.

Hearing no objection, the Chair, ranking member, and subcommittee members will each have 5 minutes to make an opening statement, and all Members will have 3 days to submit statements for the record.

Ranking Member Marchant, who is stuck in a storm, members of the subcommittee, hearing witnesses, and the entire postal community, welcome to the first hearing the subcommittee will hold on the U.S. Postal Service in the 110th Congress. As I understand it, this hearing is long overdue. There has not been an oversight hearing on the Postal Service in close to a decade, and this will be the first of many.

The U.S. Postal Service performs a valuable national service. It delivered over 213 billion pieces of mail to over 146 million delivery points in 2006. Almost $72 billion was s pent in providing these and other postal services required as part of the meeting of Postal Service needs and the universal service mandate.

To ensure the financial service of the Service and its primary function of mail delivery, last year the Congress passed the Postal Accountability and Enhancement Act of 2006. The act is a direct

result of the postal community coming together and reaching agreement on work sharing, rate setting, pricing, flexibility, diversity, and a number of other provisions to ensure that the Service can compete in today's marketplace.

To ensure compliance with the act, the subcommittee is going to conduct aggressive postal oversight and monitoring the implementation of the Postal Accountability and Enhancement Act of 2006.

In addition to the act, the subcommittee will look into mail delivery services in Chicago, diversity in Service's upper management, and it will engage the postal community in a discussion about outsourcing the delivery of U.S. mail. Highway contract routes, are a long-established and accepted postal transportation contracts that are used for bulk mail and delivery services in rural areas. What is less established is the Service's use of contractors to deliver mail to suburban and rural areas and whether or not this practice is good public policy. These issues and others raised during this hearing will be the basis for future subcommittee hearings.

Before I thank today's witnesses for taking the time to testify before this subcommittee, I also want to announce that today Senator Akaka and I will introduce legislation honoring public servants during Public Service Recognition Week, May 7th through May 13th. The mail does not get delivered and the Government cannot function without dedicated public servants. I am pleased to make this announcement during this hearing, because the Postal Service, through its employees, ensures equal access to secure, efficient and affordable mail service, and they should be commended for it.

In closing, I ask unanimous consent to submit for the record the statement of Representative Jan Schakowsky, a Democrat from Illinois, and other Members wishing to submit statements for the record.

Hearing no objection, those will be submitted.

[The prepared statement of Hon. Danny K. Davis follows:]

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**STATEMENT OF CHAIRMAN DANNY K. DAVIS
AT THE SUBCOMMITTEE ON FEDERAL WORKFORCE,
POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA**

HEARING ON "THE U.S. POSTAL SERVICE: 101"

April 17, 2007

Ranking Member Marchant, Members of the Subcommittee, hearing witnesses, and the entire postal community, welcome to the first hearing the Subcommittee will hold on the United States Postal Service of the 110th Congress. As I understand it, this hearing is long overdue. There has not been an oversight hearing on the Postal Service in close to a decade and this will be the first of many.

The U.S. Postal Service (the Service) performs a valuable National service. It delivered over 213 billion pieces of mail to over 146 million delivery points in 2006. Almost $72 billion was spent in providing these and other postal services required as part of meeting the Services' universal mandate. To ensure the financial soundness of the Service and its primary function of mail delivery, last year the Congress passed the Postal Accountability and Enhancement Act of 2006 (the Act).

The Act is a direct result of the postal community coming together and reaching agreement on worksharing, rate-setting, pricing flexibility, diversity, and a number of other provisions to ensure that the Service can compete in today's marketplace. To ensure compliance with the Act, the Subcommittee is going to conduct aggressive postal oversight, and monitor the implementation of the Postal Accountability and Enhancement Act of 2006.

In addition to the Act, the Subcommittee will look into mail delivery services in Chicago, diversity in the Services' upper management, and it will engage the postal community in a discussion about outsourcing the delivery of U.S. mail. Highway Contract Routes are long-established and accepted postal transportation contracts that are used for bulk mail and delivery services in rural areas. What is less established is the Service's use of contractors to deliver the mail (Contract Delivery Service) to suburban and rural areas and whether or not this practice is good public policy. These issues and others raised during this hearing will be the basis for future Subcommittee hearings.

. Before I thank today's witnesses for taking the time to testify before the Subcommittee, I want to announce that today, Senator Akaka and I will introduce legislation honoring public servants during Public Service Recognition Week, May 7 through May 13th. The mail does not get delivered, and the government cannot function, without dedicated public servants.

I am pleased to make this announcement during this hearing because the Postal Service, through its employees, ensure equal access to secure, efficient, and affordable mail service and they should be commended for it.

In closing, I ask unanimous consent to submit for the record the statement of Representative Jan Schakowsky (D-IL), and other members wishing to submit statements for the record.

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Mr. DAVIS OF ILLINOIS. At this time I would like to extend 5 minutes for an opening statement to members of the subcommittee. The gentleman from New York, Mr. McHugh?

Mr. MCHUGH. Mr. Chairman, thank you. I will not take 5 minutes.

This is deja vu all over again for some of us, Mr. Chairman. I do have a statement that I am going to ask unanimous consent can be entered in its entirety in the record.

Mr. DAVIS OF ILLINOIS. Without objection.

Mr. MCHUGH. I would say to you, Mr. Chairman, congratulations, not just for holding this hearing, although certainly that is important, but for taking up this gavel. I look forward to working with you as we have in the past on these kinds of very critical issues.

It has been 10 years, as you noted. I think that is why we have a lot of pent-up interest here today. Obviously, this is a new era based on a new paradigm for the Postal Service. Many, many folks in this room joined us in working long and hard in helping to construct the first postal reform legislation in more than 35 years. I am looking forward to hearing some of the perspective held by those individuals in the early days of this new reform.

So, Mr. Chairman, again with my words of appreciation and anticipation toward our four panels, I would yield back the balance of my time.

Mr. DAVIS OF ILLINOIS. Thank you so very much. I appreciate the comments of the gentleman from New York, who has labored long and hard on these issues. We look forward to working with you continuously through this session.

Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

I will take an opportunity to use a brief amount of time. I would like to thank you and Ranking Member Marchant for holding this hearing. I would also like to thank today's panelists.

Last year witnessed the enactment of H.R. 6407, the Postal Accountability and Enhancement Act. That was the first major reform of the U.S. Postal Service in over 35 years and the result of a decade-long effort led by the distinguished chairman of our subcommittee, Mr. Davis, the chairman and ranking member of our full committee, and Mr. Waxman and Mr. Davis of Virginia and Mr. McHugh of New York.

However, while this legislation constitutes an important first step toward addressing the financial challenges faced by the Postal Service, we must continue to exercise proper oversight of this institution to ensure the responsible implementation of the act and safeguard the best interests of our postal workers, our partners, our greatest asset toward effecting a meaningful postal reform.

The bravery, dedication, and sacrifices made by our Postal Service workers was never more evident than in the weeks following September 11th, during which a series of anthrax attacks were conducted through the U.S. mail system. Tragically, two employees of the Brentwood mail sorting facility, Joseph Curseen, Jr., and Thomas Morris, Jr., were among the victims of these attacks. At the time, every one of our postal workers—every clerk, every carrier, every mail handler—was faced with the very difficult choice

between continuing to come to work under very difficult and dangerous conditions and staying at home, and thereby risking the stability of our own economy. It was a special responsibility and dilemma for our Postal union representatives, who had the dilemma of sending their members, sending their workers into an area where we knew there was anthrax contamination.

Behind the scenes on the September 11th attacks and thereafter, there was much hanging in the balance. At the end of the day, the postal unions and the postal workers went to work and the mail kept running; however, not without great concern.

As we all know, America's postal workers chose to come to work because they considered it their patriotic duty to do so. Accordingly, I believe it is our duty to safeguard the best interests of America's postal workers as the long process of modernization of the U.S. Postal Service moves forward. To this end, I welcome the continued input of our postal worker unions, the American Postal Workers Union, the National Association of Letter Carriers and the National Postal Mail Handlers Union and the National Rural Mail Carriers Association in this hearing.

Thank you, Mr. Chairman. I yield back the balance of my time.

[The prepared statement of Hon. Stephen F. Lynch follows:]

REP. STEPHEN F. LYNCH
Subcommittee on Federal Workforce, Postal Service, and the District of Columbia
"*U.S. Postal Service: 101?*"
April 17, 2007
10AM, 2247 RHOB

Opening Statement

THANK YOU, MR. CHAIRMAN.

I'D LIKE TO THANK YOU AND RANKING MEMBER MARCHANT (*MAHR*-CHANT) FOR HOLDING THIS HEARING. I'D ALSO LIKE TO THANK TODAY'S PANELISTS FOR HELPING THE SUBCOMMITTEE WITH ITS WORK.

LAST YEAR WITNESSED THE ENACTMENT OF H.R. 6407, *THE POSTAL ACCOUNTABILITY AND ENHANCEMENT ACT* – THE FIRST MAJOR REFORM OF THE UNITED STATES POSTAL SERVICE IN OVER THIRTY-FIVE YEARS AND THE RESULT OF A DECADE-LONG EFFORT LED BY THE DISTINGUISHED CHAIRMAN OF OUR

SUBCOMMITTEE, MR. DAVIS, THE CHAIRMAN AND RANKING MEMBER OF OUR FULL COMMITTEE, MR. WAXMAN AND MR. DAVIS OF VIRGINIA, AND MR. MCHUGH OF NEW YORK.

HOWEVER, WHILE THIS LEGISLATION CONSTITUTES AN IMPORTANT FIRST STEP TOWARDS ADDRESSING THE FINANCIAL CHALLENGES FACED BY THE POSTAL SERVICE, WE MUST CONTINUE TO EXERCISE PROPER OVERSIGHT OF THIS INSTITUTION TO ENSURE THE RESPONSIBLE IMPLEMENTATION OF THE ACT AND SAFEGUARD THE BEST INTERESTS OF OUR POSTAL WORKERS – OUR PARTNERS AND OUR GREATEST ASSET TOWARDS AFFECTING MEANINGFUL POSTAL REFORM.

THE BRAVERY, DEDICATION, AND SACRIFICES MADE BY OUR POSTAL WORKERS WAS NEVER MORE

EVIDENT THAN IN THE WEEKS FOLLOWING SEPTEMBER 11TH, DURING WHICH A SERIES OF ANTHRAX ATTACKS WERE CONDUCTED THROUGH THE U.S. MAIL SYSTEM. TRAGICALLY, TWO EMPLOYEES OF THE BRENTWOOD MAIL SORTING FACILITY, JOSEPH CURSEEN, JR. AND THOMAS MORRIS JR., WERE AMONG THE VICTIMS OF THESE ATTACKS.

AT THE TIME, EVERY ONE OF OUR POSTAL WORKERS – EVERY CLERK, EVERY CARRIER, AND EVERY MAIL HANDLER – WERE FACED WITH THE VERY DIFFICULT CHOICE BETWEEN CONTINUING TO COME TO WORK EVERY DAY UNDER VERY DIFFICULT AND DANGEROUS CONDITIONS AND STAYING AT HOME, THEREBY RISKING THE STABILITY OF OUR OWN ECONOMY, UPSETTING THE FLOW OF COMMERCE,

AND SHAKING THE CONFIDENCE OF THE AMERICAN PEOPLE.

AS WE ALL KNOW, AMERICA'S POSTAL WORKERS CHOSE TO COME TO WORK BECAUSE THEY CONSIDERED IT THEIR PATRIOTIC DUTY TO DO SO.

ACCORDINGLY, IT IS OUR DUTY TO SAFEGUARD THE BEST INTERESTS OF AMERICA'S POSTAL WORKERS AS THE LONG PROCESS OF MODERNIZING THE UNITED STATES POSTAL SERVICES MOVES FORWARD.

TO THIS END, I WELCOME THE CONTINUED INPUT OF OUR POSTAL WORKERS UNIONS – THE APWU, THE NATIONAL ASSOCIATION OF LETTER CARRIERS, THE NATIONAL POSTAL MAIL HANDLERS UNION, AND THE NATIONAL RURAL LETTER CARRIERS' ASSOCIATION.

THANK YOU, MR. CHAIRMAN. I YIELD THE BALANCE OF MY TIME.

Mr. DAVIS OF ILLINOIS. Thank you, Mr. Lynch.

Delegate Norton.

Ms. NORTON. Thank you, Mr. Chairman. I very much appreciate that we are having an early oversight hearing on the Postal Service and that our committee has reincorporated the Postal Service into this subcommittee. It is very important oversight.

What your chairmanship and the new committee configuration promises is the kind of continuous oversight that this most very important service of the United States of America deserves.

The Postal Service and I have gone through a lot together because of the trauma at Brentwood and the heroic way in which both the employees and management faced that extraordinary and unique situation. There were bumps along the way, but if one walks into that new facility and to the other facilities here in the region, one sees the resiliency of postal workers and of the way in which management and workers have worked together, not only to recover but to move forward in ways that we believe provide far greater safety.

The new Brentwood is no longer the Brentwood. It has been appropriately renamed for the two employees who lost their lives. I think that the entire country now has come to grips with the importance of safety first, particularly given the way in which we all depend upon a vital service like the Postal Service. So my congratulations go to employees and to management for the way in which they have come to grips with this unique and awful crisis.

Mr. Chairman, I heard the piece on NPR this morning. I don't know if you have mentioned it. I was in the shower this morning and I heard the melodious voice of our own chairman. It is a voice that you could recognize anywhere. He was describing the upcoming hearing. What I was surprised to hear about, however, was that there had been some slippage since the bad, old days.

I am not sure what the figures show in the District of Columbia, but I have very painful recollections of the early 1990's when this region was at the bottom in delivery time, and I must tell you I have never seen anything like what the Postal Service in this region did. It went to the very top. So I have seen what the Postal Service can do. I have seen what the Postal Service can do in the midst of the worst crisis imaginable, the anthrax crisis. And I have seen what the Postal Service can to when this region, in particular, is in the pits and then rises to the top.

I was concerned that Chicago had not had the same experience we had, or perhaps you are having the same experience we had, that you are now below the average and you yearn to be at least average and perhaps where I suppose we still are—and I will have to check that out—but where we were was at the very top.

This hearing comes, I think, in time and with the kind of oversight that I can tell you that with oversight, with oversight the Postal Service, in fact, corrected the problem in this region. With oversight, I have no doubt that the very same will happen in the Chicago region.

I thank you again for this hearing, Mr. Chairman.

Mr. DAVIS OF ILLINOIS. Thank you very much. I can assure you that Chicago shall follow the District of Columbia and in the next hearing we will see tremendous improvements.

Our first panel is seated and I would like to just introduce them before they testify.

Panel one: John Potter was named 72nd Postmaster General of the United States of America on June 1, 2001. Jack Potter has led the Postal Service to record numbers of service, efficiency, and financial performance.

Our second witness, Mr. James C. Miller III, was elected chairman of the Board of Governors of the U.S. Postal Service in 2005. In addition to serving on the Board, he is senior advisor to the international law firm of Blackwell, Sanders, Pepper and Martin. The Postmaster General and Deputy Postmaster General serve at the pleasure of the Governors.

Our third witness, whom we have known in another life, Mr. Dan Blair, serves as the first chairman of the Independent Postal Regulatory Commission, the successor agency to the former Postal Rate Commission. He was unanimously confirmed as a commissioner of the former Postal Rate Commission on December 9, 2006, by the U.S. Senate, and designated chairman by President George W. Bush on December 15, 2006.

Gentlemen, thank you very much.

It is our policy that all witnesses are sworn in, so if you would rise and raise your right hands.

[Witnesses sworn.]

Mr. DAVIS OF ILLINOIS. The record will show that each witness answered in the affirmative.

Thank you very much.

Of course, your entire statements will be placed in the record. You have been through this many, many times, so you know the drill. The green light indicates that you have 5 minutes to summarize your statement. The yellow light means that time is running down and that you have 1 minute remaining to complete the statement. Of course, the red light means that time has expired and we would hope that witnesses would stop.

We will begin with our Postmaster General. Mr. Potter, welcome and thank you very much for being here.

STATEMENTS OF JOHN E. POTTER, POSTMASTER GENERAL/CEO, U.S. POSTAL SERVICE; JAMES C. MILLER III, CHAIRMAN, BOARD OF GOVERNORS, U.S. POSTAL SERVICE; AND DAN G. BLAIR, CHAIRMAN, POSTAL REGULATORY COMMISSION

STATEMENT OF JOHN E. POTTER

Mr. POTTER. Good morning, Mr. Chairman and Ranking Member Marchant and all the members of the subcommittee. I am honored to be here as America's postal system enters a new era.

It is appropriate that I am joined by Board of Governors Chairman Jim Miller and Postal Regulatory Commission Chairman Dan Blair. Our ability to work together as roles are changing is critical to the success of the new law. The Postal Reorganization Act of 1970 converted a heavily subsidized Post Office Department into a self-supporting Postal Service, one defined by excellent service, customer satisfaction, and productivity improvement. Our people have done an outstanding job.

Unfortunately, significant changes in the communications and delivery markets have made continued success under the original law problematic. That is why our Nation is fortunate that so many have recognized this and acted to preserve affordable, universal Postal services.

I appreciate the efforts of this committee, both houses of Congress, Comptroller General David Walker, the administration, and the President's Commission on the U.S. Postal Service. It is my hope that 30 years from today a future Postmaster General will sit at this table and report on the progress made possible by the Postal Accountability and Enhancement Act of 2006.

Unfortunately, our business model remains broken, even with the positive pricing and product changes in the new law. With the diversion of messages and transactions to the Internet from the mail, we can no longer depend on printed volume growing at a rate sufficient to produce the revenue needed to cover the costs of an ever-expanding delivery network.

This is not to say that the new law does not offer opportunities. We are in a better position than ever to respond quickly to market conditions, and we will operate far more nimbly in the expedited and packaged product sectors. Growth is our greatest challenge, as we shift from a transaction-based mail stream to one centered on lower-margin marketing and advertising mail.

People are also finding new uses for their mail. The State of Oregon conducts elections through the mail, resulting in greater voter participation. This is encouraging and presents a unique opportunity for our democracy. We will continue our work with all mailers and the use of the latest technology to add even more value to the mail.

One example is the new intelligent mail bar code. It improves quality, cuts costs, and increases convenience for mailers and for the Postal Service. The good news is that marketers have learned that direct mail adds to the value of campaigns, and that mail complements other advertising media, including the Internet. Overall, direct mail is among the fastest-growing and most effective advertising channels in America today, and that is why I am bullish on the mail. But I am also a realist. Success under the new law will not be easy. We have never worked under a fixed rate cap. We have never had to manage our costs by class of mail. Both, to me, are extremely challenging.

Because we have little control over some costs such as fuel and employee retirement and health benefits, we must maintain an intense focus on managing what we spend. Keeping our rates under the rate cap, and being able to pay our employees a fair wage requires us to find ways to remove an additional $1 billion in costs each year. Our preferred path to staying under the rate cap is to achieve productivity targets consistent with the needed billion dollars in savings. Management and the unions can and should work together to increase productivity in processing, retail, and delivery operations, thus keeping costs at or about the rate of inflation.

If we do not do that, we will have created a situation that requires other action such as reducing service or contracting out. Since the earliest days of America's Postal system, contractors have transported and delivered the mail safely and securely. They are

screened by the Postal Inspection Service, and, like career employees, are subject to legal penalties under Title 18 of the United States Code for criminal mishandling of the mail.

Procedures governing contracting out are contained in the labor/management agreements with our unions. They are a product of complex give-and-take that marks collective bargaining. Let me assure you that it is not, it is not our intention to take delivery work performed by Postal employees and contract that work out. We do contract out new deliveries, but only in those locations where it makes sense, and in accordance with our national labor agreements. Of new deliveries, those new homes and businesses in 2006, 94 percent are currently being served by U.S. Postal Service city and rural letter carriers. I do not foresee laying off any carriers as a result of out-sourcing. That is something I pledge not to do.

I stand ready to work with our unions to secure the future of our organization, its people, and the people we serve.

In closing, let me reiterate my sincere belief that the Postal law offers opportunities for the Postal Service and the entire mailing community. We will take full advantage of these opportunities in support of our historic mission of providing affordable, universal mail service to our Nation.

Let me just say, since Delegate Norton brought it up, Washington, DC, remains the top performer in the country.

Mr. Chairman, you know that I am committed to Chicago and the folks in Chicago to provide similar results and a similar turnaround as was seen in Washington, DC.

I would be pleased to answer any questions you may have after the remaining speakers.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Potter follows:]

UNITED STATES POSTAL SERVICE

STATEMENT OF
POSTMASTER GENERAL/CEO
JOHN E. POTTER
BEFORE THE
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE,
AND THE DISTRICT OF COLUMBIA
OF THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES
WASHINGTON, DC

APRIL 17, 2007

Good morning, Chairman Davis, Congressman Marchant, and members of the Subcommittee. It is an honor and a pleasure to be here with you today as we prepare to enter a new era in the development of America's postal system.

Only four short months ago, a new and comprehensive governing statute for the United States Postal Service became law. It was the culmination of more than 10 years of effort by many of you here today, by your predecessors, by your colleagues in this body and in the United States Senate, by the Administration, by the members of the President's Commission on the United States Postal Service, and by forward-looking members of the entire postal community.

It was not an easy task, but it was a necessary one. The work of a previous generation of legislators, completed 37 years ago, established the modern Postal Service and its business model – one that created the foundation for more than three decades of success in serving the people of our nation.

To make that possible, the Postal Reorganization Act of 1970 converted a heavily subsidized Post Office Department into a self-supporting Postal Service. It created a system of management and staffing based on performance, merit, and accountability, independent of partisan influence. It resulted in fair wages and career opportunity for employees at every level.

This engendered the stability that permitted the new Postal Service to anticipate, plan, and invest in the future, moving it from an organization that relied primarily on inefficient and costly manual operations, to one that is today at the cutting edge in automated mail processing technology. This has contributed to steady improvements in service performance, customer satisfaction, and productivity.

In its last full year of operation, the Post Office Department's 741,000 employees handled 85 billion pieces of mail delivered to 95 million families and businesses. Last year, roughly the same number of employees handled 213 billion pieces of mail for a delivery base of 146 million addresses. Without advances in productivity and automation, and innovations such as customer worksharing, growth in mail volume over the intervening years would have required a staff of 1,800,000 employees – with the associated growth in costs.

Consistent with its mandate to break even over time, the modern Postal Service, over the course of 36 years of progress, has matched its expenditures with its income. It has not received an operational subsidy from Congress since 1982 – a full quarter century ago. Stamp prices, on average, have tracked the Consumer Price Index since the transition from the Post Office Department to the United States Postal Service became effective, on July 1, 1971.

And, perhaps most significantly for our nation, a productive partnership and cooperation with postal customers – a relationship marked by creative responses to their needs – contributed to the creation of a vibrant mailing industry that today plays a leading role in our economy. This is a situation not found anywhere else in the world.

Unfortunately, continued success under the original law became problematic over the last several years. Revolution in the communications and delivery markets – including technologies that could not have been imagined when the 1970 legislation was enacted – have challenged us like never before.

While the pace of change will continue, our nation is fortunate that so many have recognized, understood, and acted to preserve affordable, universal postal services for the people and businesses of America.

Representative John McHugh was among the first, more than 10 years ago. He worked tirelessly with his colleagues on both sides of the Hill to have them understand what was at stake and to involve them in developing a solution that would work for our country.

Comptroller General David Walker also understood that, without change, America's postal system would be in serious jeopardy. Testifying before the United States Senate six years ago, he issued a clear call for change, and described our finances and transformation efforts as high risk.

Mr. Walker's candid but fact-based assessment was instrumental to the genesis of our Transformation Plan, which was adopted in 2002, during my first year as Postmaster General. Our goal in developing the Plan was simple – to create strategies that would involve the entire organization and keep it focused on achieving steady progress in three key areas:

- Fostering growth by increasing the value of postal products and services to our customers;
- Improving operational efficiency; and,
- Enhancing our performance-based culture.

I am pleased to say we have been successful. That success is a reflection of the hard work, dedication, and professionalism of Postal Service employees in communities in every corner of the nation. They have stepped up to the challenge. They have given it their best. And they have made a difference.

Service performance, independently measured, has reached record levels – levels that some thought were impossible not so long ago. As we begin the third quarter of this fiscal year, nationwide service performance remains strong. In locations where service may not reflect national averages, we rely on our Area staff and, where necessary, headquarters resources, to work with our field managers to improve local service.

This commitment includes my personal involvement, as well. I have visited Chicago twice in the last month to assist in the achievement of the service levels that our customers expect and deserve. I can assure you that changes underway will deliver results.

Our customer satisfaction index – also independently measured – shows that 92 percent of our customers rate their experience with the Postal Service as excellent, very good, or good – commendable results for any business.

The customer experience is important to us. In fact, the respected Ponemon Institute has recognized the Postal Service as the most trusted agency of the federal government – for the third consecutive year – and among the 10 most trusted organizations – public or private – in the United States.

We are positioned to achieve an unprecedented eighth consecutive year of productivity growth. At the end of the last fiscal year, our debt was less than one-fifth of the $11 billion outstanding when we created the Transformation Plan. Reducing and restructuring our debt has taken interest costs from more than $300 million annually to only a few million dollars today. And we have reduced staffing by over 100,000 positions – without layoffs.

We have continued to improve the working environment for our employees. This is reflected, for example, in our safety programs, which include effective partnerships with the Occupational Safety and Health Administration. These have contributed to a 43 percent reduction in OSHA illnesses and injuries over the last five years. Working relationships marked by dignity and respect must begin with a workplace that protects the health and safety of our employees.

We have built on the original Transformation Plan with the implementation of our Strategic Transformation Plan 2006-2010. This is updated periodically to reflect changing market conditions, the achievement of existing Plan goals, and the addition of new ones. We fully recognize that, even with a comprehensive new postal law, it is incumbent on us to continue our pursuit of system efficiency, service improvement, cost management, and customer value, all based on the efforts of a customer-focused, performance-based culture.

When Comptroller General Walker called for postal transformation, he was also clear about the fact that the Postal Service, by its efforts alone, would be unable to fully surmount many of the challenges he identified. He also recognized that they could be overcome only in tandem with a fundamental revision of the Postal Service's basic governing statute, Title 39 of the United States Code.

By the end of last year, the seeds planted by Mr. Walker had thrived and were ready for harvest. The Postal Service had moved into phase two of its transformation efforts – with a strong record of success under its belt. And Congress had enacted the Postal Accountability and Enhancement Act, paving the way for longer-term success. The pieces were now in place for a future that would protect affordable, universal mail service for everyone in America.

With the progress and promise represented by both of these actions, the Government Accountability Office removed the Postal Service from its "high risk" list this past January. We are grateful for this recognition of the efforts of our people over the last five years. We fully appreciate our obligation to continue to bring focused, productive, and efficient management to every element of our business. And that is our continued commitment.

At the same time, we will do everything possible – both internally and in cooperation with the full range of industry stakeholders and government partners, particularly the new Postal Regulatory Commission – to implement the provisions of the new postal law efficiently and effectively.

Soon after the new law was enacted, we began to identify, plan, and manage the timelines and processes necessary for the successful and timely implementation of the provisions of the new law. We have restructured several functions to assure maximum levels of integration, cooperation, and success. Cross-functional workgroups, including representatives from finance, marketing, operations, human resources, and the law department are meeting regularly and making progress in developing the new processes, policies, and regulations necessary to implement the new law.

We have also initiated a dialogue with other federal agencies whose activities are affected by the new law. These include the new Postal Regulatory Commission, the Department of the Treasury, the Department of State, the Department of Homeland Security's Customs and Border Protection unit, the Federal Trade Commission, and the Government Accountability Office. Of course, ongoing liaison activities with both houses of Congress, particularly our authorizing and appropriations committees, are important elements of our efforts.

We have also made mailing community outreach a key part of our activities. Last month, along with the Postal Regulatory Commission, we participated in a number of events intended to provide the mailing industry with a better understanding of the new law and how it will affect them and, more importantly, listening to what the mailers need from the new law.

These activities included a symposium, sponsored by American University's School of Public Affairs, which examined key elements of the law, and a well-attended summit, which explored a wide-range of pricing, service, and process issues arising from the Act. This was a particularly valuable discussion as the Commission begins the process of drafting the regulations that will govern the new pricing regimen.

At the 2007 National Postal Forum, the leading mailing industry trade conference, senior officers of the Postal Service presented a number of sessions devoted exclusively to the new law. In addition, the Forum's opening general session, attended by more than 4,000 delegates, featured my conversation with Dan Blair, the chairman of the Postal Regulatory Commission. And, the Postal Service Board of Governors discussed the new law at a general session on the second day of the Forum and responded to questions submitted by attendees.

We are also working closely with the Mailers Technical Advisory Committee, whose membership consists of a representative cross-section of the mailing industry, on requirements arising from the new law. Most significantly, this includes the review of our service standards and the measurement systems that will support them. We believe that ultimate success in this area must take into account the needs and preferences of our customers, the costs of implementation – for mailers and for the Postal Service – and the use of compatible technologies that passively gather and report performance metrics.

The Mailers Technical Advisory Committee and the Postal Service are also hosting a Flats Symposium in May. As we prepare for the deployment of the new Flats Sequencing System, which will sort larger envelopes, magazines, and catalogs into delivery sequence, we look forward to this important conversation with mailers. While the flats sequencer will help us manage costs and bring the full advantage of automation efficiencies to this product category, it will require changes for the Postal Service and the industry. With our transition to a shape-based rate structure, rather than one that has been primarily based on weight, we believe this symposium will benefit all parties.

The new law has created a close, complex, and complementary relationship between the Postal Service and the Commission. As Chairman Blair has noted, he and I are now "connected at the hip." I look forward to working with the Commission, not only through the development of processes supporting the implementation of the new law, but on the day-to-day regulatory and oversight issues that will help to define the Commission's new role, as well.

The Postal Service has entered a period of accelerated transition. This will require flexibility, innovation, and focus to continue achieving our transformation goals within the context of the significant changes required by the new postal law. We have an enormous responsibility to do our part in achieving the law's goals of putting the Postal Service on a firm financial footing for the future and preserving universal service at affordable rates, with price increases tied to the rate of inflation.

It is my hope that some 30 years from today, a future Postmaster General will be invited to sit at this table and report on the progress that was made possible by the Postal Accountability and Enhancement Act of 2006. But, having said that, I would be remiss if I did not point out that the Act, while providing much needed flexibility in key areas such as price-setting and product differentiation, does not resolve the underlying issue of a business model that, simply put, is irrelevant to the reality of today's market, a fact recognized by the President's Commission on the United States Postal Service in its 2003 report, "Embracing the Future." Frankly, I do not believe any law, however well intended, can repair that broken model because mail volume is no longer growing at a rate sufficient to sustain the ever-expanding delivery network.

My position is not meant as criticism; rather it is an acknowledgement that the dynamics of the 21st century communications market have altered – forever – the basic assumptions of postal economics in a monopoly environment. The traditional postal monopoly, while it still exists as a matter of theory and law, particularly for what the new statute terms our "market-dominant products," does not exist in actual practice.

The explosive growth of electronic communications and an intensely competitive package delivery sector have led to the diversion of messages, transactions, and packages from the mail channel. Competition exists for every piece of mail that moves through our system. This has significantly slowed overall volume growth, with actual declines in some products, and resulted in shifts from higher-margin products to those making a lesser contribution.

In a practical sense, this means that mail volume growth can no longer match the historic trends of the last three decades and appears to be beginning to flatten. We can no longer depend on volume growing at a rate necessary to produce the revenue required to cover the costs of an ever-expanding delivery infrastructure.

This is not to say that the new law does not offer opportunities and needed relief from an overly restrictive, inflexible, lengthy, and adversarial pricing process. To the contrary, with the potential for annual rate adjustments tied to the Consumer Price Index for market-dominant products, we are in a much better position than ever to respond quickly as the market and our financial situation demand.
And with the separation of our competitive products portfolio from the market-dominant one, we will be able to operate far more nimbly in the expedited and package products sector. The new law is sensitive to the needs of the broader market and preserves the proper balance among the Postal Service and its private-sector competitors in this area in best serving customers.

Moreover, the new law does position us favorably for growth by supporting market-based pricing and making it possible to offer volume discounts. One of our greatest disappointments historically had been the reliance of other federal agencies on our competitors for package and expedited delivery services because the old law did not permit us to match their offers. Through the improvements made by the new law, we look forward to the ability to compete with others for the privilege of serving our partner federal agencies in new and better ways than had been possible in the past.

In addition, with a retail presence at 37,000 locations in communities from coast to coast, the Postal Service offers the potential for those agencies to provide convenient and cost-effective access to their programs through our facilities. For example, today we assist the Department of State by accepting over two-thirds of passport applications at almost 5,500 of our local offices.

Growth, of course, represents our greatest challenge going forward. Electronic billing and payment alternatives continue to adversely affect First-Class Mail volume, driving the transition from a transaction-based mailstream to one increasingly centered on marketing and advertising, both of which heavily rely on Standard Mail. Because of First-Class Mail's higher margins, it takes more than two pieces of Standard Mail to provide the profit contribution of each piece of First-Class Mail diverted from our system.

The good news is that marketers have learned that direct mail – whether First-Class Mail or Standard Mail – can add to the value of campaigns that also utilize other media. In this regard – and contrary to conventional wisdom – research shows that hard-copy mail and the Internet are complementary sales channels, with one increasing the effectiveness of the other.

Direct mail, particularly catalogs, increases the time consumers spend on a retail web site. It increases the likelihood they will buy. It increases the amount of merchandise they will purchase. And it increases the amount of money they will spend.

People are also finding new uses for the mail. The State of Oregon switched to mail ballots as a better way to conduct elections, resulting in far greater voter participation than in-person voting. This is an encouraging trend, and presents a unique opportunity for our democracy. It is something I will be discussing with a gathering of the secretaries of the nation's 50 states later this year.

Since a network of post roads and post riders tied 13 struggling colonies together more than 230 years ago, the Postal Service has taken great pride in helping to connect America's citizens with their government. Vote-by-mail is simply a current example of how this traditional role continues to evolve in a new century.

Mail is also at the core of the business model of some of today's most forward-looking businesses – businesses whose primary customer interfaces are the Internet and the mail. Netflix relies on the mail to distribute videos to millions of customers every year, taking advantage of the Postal Service's daily link to every home and business in the nation. This makes it quicker, easier, and more convenient than ever for busy families to enjoy current and classic movies without having to leave their homes.

Similarly, eBay, one of the fastest-growing businesses in the world, connects millions of buyers to millions of sellers, through the mail. Our productive relationship with eBay involves continued work with members of the eBay community to develop and offer service features that provide continually improved solutions to their shipping needs.

We will continue our work with all mailers, and using state-of-the-art technology, to add even more value to our products and services. One example is the new Intelligent Mail Barcode. It improves quality, cuts costs, and increases value – for mailers and for the Postal Service.

The Intelligent Mail Barcode simplifies, streamlines, and modernizes mail entry and payment procedures. It provides a window into operations as the mail moves through our system. This helps us to identify and eliminate operational bottlenecks, while it provides mailers with data that assists in planning and decision making in areas such as staffing, cash flow, inventory, marketing, and advertising. It contributes to more accurate addressing, helping to reduce the huge and unnecessary Postal Service and industry costs of undeliverable-as-addressed mail. It will also serve as the basis for providing actual service measurement data for specific mailings rather than simply sample-based aggregate system averages. Today, more than 60 mailers enjoy the benefits of the Intelligent Mail Barcode and we are continuing its expansion, anticipating full rollout in 2009.

The value of the mail goes beyond its advantage as a business driver. It is also an important part of the social fabric of our nation. We are particularly proud of our association with ADVO, Inc. and the National Center for Missing & Exploited Children through the "America's Looking for Its Missing Children" campaign. Through leads generated by the program's "Have You Seen Me?" cards, one of the most recognizable direct mail pieces in America, 144 missing children have been safely recovered.

Overall, direct mail is among the fastest-growing and most-effective advertising channels in America today. Mail gets attention. Its results are measurable. It can be targeted like no other media. That makes it more personal than any other. No other medium can tap into individual interests, or needs, like the mail. That makes it relevant. And that makes it welcome. There's nothing like it. That's why I'm bullish on the mail.

I am also a realist. I recognize that success under the new law will not be an easy lift, by any stretch of the imagination. We have never worked under a rate cap. We have never had to manage our costs by class of mail. Both are extremely challenging.

Significant portions of our costs – such as fuel, and employee retirement and health benefits – routinely exceed the Consumer Price Index. These are costs over which we have little control. While we all experienced a sense of relief as last year's stratospheric gasoline costs receded, they have begun, once again, to climb back up. With one of the largest vehicle fleets in the nation, and an infrastructure of almost 28,000 owned and leased facilities that must be powered, lighted, heated, and cooled, this is a cause of great concern for the Postal Service and for our ratepayers. For every one-cent increase in the price of gasoline, our costs rise $8 million dollars annually.

We will maintain an intense focus on managing those costs we can control. We have had great success in this area over the last several years. We have picked the low-hanging fruit. We have stretched our arms to reach even higher. Yet we must do more.

Keeping our rates under the cap and, at the same time, being able to pay our employees a fair wage, requires that we find ways to remove at least an additional $1 billion in costs each year. We believe this can be done. It will require discipline, difficult choices, and cooperation throughout the organization, as well as support from our customers, the Postal Regulatory Commission, and the Congress. But this is not about the Postal Service for its own sake; it is about our ability to preserve affordable, quality, universal mail service for all of America.

For example, we have been exploring the expanded use of contracted delivery services – one of the most cost-effective delivery modes available. This is nothing new. Since the earliest days of America's postal system, we have used contractors to move the mail safely and securely from point to point and provide box delivery along their routes.

In fact, much of the mail you receive each day – whether delivered by a city letter carrier or a rural letter carrier – has been handled by contractors providing over-the-road or air transportation. It has been paid for by a postage stamp that may have been purchased at a supermarket, convenience, stationery or greeting card store, or perhaps at a Post Office cleaned and maintained by a contracted service provider. Just as likely, postage was provided by a meter owned and leased by a private-sector provider. And you may have deposited or picked up your mail at one of almost 4,000 contract postal retail units operated by local business people in their communities. By augmenting the services we provide directly with the services provided by others, we have been able to better manage costs, improve efficiency, and provide even more convenient access for our customers.

Viewed within the totality of our business, contract delivery service represents the smallest portion of our outsourced activities – and an extremely small percentage of our overall deliveries. The Postal Service takes a number of steps in assessing contractors and subcontractors who are selected to provide mail delivery service. They undergo background checks, screening and fingerprinting. Their suitability is ultimately determined by the Postal Inspection Service, the federal law enforcement group charged with protecting the security of the mail. Any carrier – whether a Postal Service employee or a contractor – who is involved in the criminal mishandling of the mail is subject to the same criminal penalties contained in Title 18 of the United States Code.

Procedures governing contracting out, adjusting delivery routes, and protecting employees from involuntary layoffs are contained in the collective bargaining agreements with our unions. They are the product of joint negotiations, as required by Title 39 of the United States Code. This was one of the great advances of the Postal Reorganization Act of 1970 and it is a process that Congress has endorsed through its preservation in the Postal Accountability and Enhancement Act of 2006.

The collective-bargaining process is a complex exchange of positions, ideas, and proposals. Because it is a collective process, it requires both parties to consider and adjust their own priorities in the light of those of the other. Ultimately, it is intended to produce a working agreement with provisions acceptable both to management and to the labor unions – and that work for our customers. Possible violations of the resulting contract can be challenged and resolved through a multi-step grievance procedure, which includes third-party arbitration. The parties may also revisit existing contract provisions through the joint negotiation process.

We understand the concerns any labor organization would have with outsourcing. But it is not our intention to take existing work away from our letter carriers, nor is it our intention to lay off any carriers. That is something I pledge not to do.

With postage rates linked to inflation under the new postal law, contracting out remains an effective and necessary tool to help us manage costs to achieve this mandate. Yet I believe achieving productivity gains in the delivery function can limit the growth of contracted delivery work.

This is true, as well, of our mail processing and retail operations. We must have the ability to adjust our network to accommodate the changing needs of our customers, to achieve the highest return on our technology investments, and to adapt to shifts in the type of mail moving through our system. This is critical to our success.

Our ability to operate within the constraints of a rate cap requires that we achieve our productivity targets. We can choose either of two paths. Management and the unions can work together to maximize the opportunities to increase productivity in processing operations, retail, and delivery. If we do not do that, we will have created a situation that requires additional contracting out. I stand ready to work with our unions to secure the future of our organization and its people.

I am also hopeful that we will be able to reach a negotiated contract settlement with the NALC, as we have with the American Postal Workers Union and the National Postal Mail Handlers Union. While we are formally entering the interest arbitration process, I believe the parties – and the interests of our customers – are best served by an agreement reached jointly, without the need for third-party intervention. Therefore, I will continue my efforts to achieve this outcome.

Despite our progress in cost management, there has been some concern regarding the Postal Service's financial position this fiscal year, following four consecutive years of positive net income. As you know, we are projecting a loss of approximately $5.2 billion this year.

This is primarily a function of a number of related issues connected to the creation and funding of a new Postal Service Retiree Health Benefits Fund by the new postal law.

- The $3 billion in cash that the Postal Service placed in a federally mandated escrow account in Fiscal Year 2006 was designated to be placed into the Fund in the first quarter of the current fiscal year.
- Generally Accepted Accounting Principles require that the $3 billion escrow funds, which had been considered restricted assets, be reported as a Fiscal Year 2007 expense.
- While we would have preferred a 30- or 40-year amortization schedule, the new law has a flattened 10-year payment requirement into the Fund that ranges from $5.4 to $5.8 billion annually, beginning this Fiscal Year.

It's important to put this into perspective. Although it will have a multi-billion dollar impact on our reported 2007 financial results, the additional cash required is approximately $600 million.

These payment and accounting changes create a difficult financial situation in the short term; however, this will improve significantly in 2017 and beyond, when retiree health benefits should be fully funded and this payment is no longer required.

In closing, let me reiterate my sincere belief that the new postal law offers opportunities to the Postal Service and the entire mailing community. We acknowledge these opportunities do not come without added responsibilities. To take advantage of the opportunities and to fulfill the responsibilities, we will continue to improve every aspect of our business. We can do no less.

While some have asked me what might be changed in the law, I believe it is premature to consider, without sufficient experience, what – if any – revisions might be warranted. While this may be the subject of a fruitful discussion in the future, our immediate focus must be a smooth transition and implementation of the new law. I assure you that the Postal Service will do everything possible to do that successfully.

I would be pleased to answer any questions you might have.

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Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Postmaster General.

Now we will proceed to Chairman Miller.

STATEMENT OF JAMES C. MILLER

Mr. MILLER. Thank you, Mr. Chairman, Mr. McHugh, Mr. Lynch, Mr. Sarbanes. Thank you for inviting us here today. Thank you for holding this hearing. We are always looking for ways and opportunities for improving our service.

I have a statement that I submitted for the record. I ask it be included in the record.

Mr. DAVIS OF ILLINOIS. Without objection.

Mr. MILLER. Thank you very much.

It is a statement on behalf of the Board of Governors, the entire Board of Governors of the Postal Service. Our message to you today is that all of us, the Postal Service employees, the Postal Regulatory Commission, the customers of the Postal Service, and Members of Congress must all pull together if this enterprise is to provide the kind of service at reasonable prices that the American people have come to expect. Yes, we have made substantial progress in the last few years: transformation plan, rate increases below inflation, increased quality, contraction of the labor force, streamlining the network, overcoming challenges of higher fuel costs, paying off $11 billion in debt, and 7 years of increased productivity.

However, the centuries-old social compact that has characterized the Postal Service, where you could defray almost any level of cost by raising the price on monopoly mail, just doesn't work any more. That compact is broken. The reason is that we are in a competitive environment. In the economists' terms, the demand for monopoly mail is shifting to the left and becoming more and more elastic as time goes forward from competitive sources. They just simply can't do that any more. We have to re-evaluate.

The business model, as my friend Jack Potter has indicated, is broken. By the way, I am delighted and honored to be here with Mr. Potter and Mr. Blair and the other panelists that will appear before you today.

We have to be much more consumer oriented. I have in my statement an example of where I bought some stamps in Los Angeles, and the Postmaster came out and thanked me personally for buying so many stamps, and saying if there is anything else she could do, she would be glad to do that.

I also gave an example of a letter carrier who complained about a bunch of mail that I had proffered. Now, it could have been the other way around. It could have been the mail carrier had done the customer work, and we have all had mail carriers that have been delightful and been very solicitous of our business and postmasters that have not been so solicitous. But we have to be more solicitous of our customers. We have also got to listen to the needs of our customers, even anticipate the needs of our customers. We have also got to be much more innovative. We need more win/wins, like the forever stamp. The forever stamp is good for us and it is good for customers. Automated postal service where you go in and are able to weigh something, mail it right there, click and ship, grade inno-

vation. Our Web site, which is visited by a lot of people every day, very useful. I visit it all the time.

We need better metrics, as the GAO has pointed out. We need to, as my friend Allen Murton over at George Mason University said, what gets measured gets better. If we have the right measures, things will get better.

Even more attention to cost is needed. Flats processing machines hold potential for substantial savings.

By the way, on the cost side you need to bear in mind that this new law adds cost to the Postal Service, not just in terms of the costs that we have had recently announced in February, but adds cost, Sarbanes/Oxley and other things.

We need to make the structure of rates more closely approximate the structure of cost. I gave an example in my testimony. When I was at the undergraduate University of Georgia I worked at a hardware store, and the manager gave me the key to reading the little script on there that told me what the wholesale price was of any big item and authorized me to negotiate down to the wholesale price. And then after a while I began to think, if we sold everything at wholesale price there wouldn't be anything left over to pay the rent, the building, the light bill, and my meager salary. Now, the Postal Service can't sell at wholesale rates, either. We have to do better than that.

I think it is really important, and my colleague over here, Mr. Blair, and his colleagues at the Postal Rate Commission, how they establish the parameters of our competition in our monopoly or non-competitive sector and also in our competitive sector.

I remember when I was chairman of the Federal Trade Commission, Chairman John Dingle of the Commerce Committee emphasized to me, he said, if I am given the choice of writing the goals of a bill and writing the process, I will choose the process every time and I will beat you ever time. The process is really key here.

Members of Congress can help. To ban contracting out is a very bad idea. As Jack has just said, we don't anticipate additional contracting out right now. Contracting out is only, like, 2 percent of our total deliveries. I mean, this is just a small sliver, but to ban it, to put us in a box and say never is a very bad idea.

You also need to give us more running room with respect to the streamlining of our logistics system. Constant restraints on our ability to streamline is very costly. It costs all of the mailers.

Mr. Chairman, by the way, we would like to have better relations with Congress, the Board and the Postal Service management both. I think it is only that way we can find out what your concerns are, and also you can find out what our problems are.

The Postal Service is the 57th largest enterprise in the world measured by annual sales. It is the 20th largest domestically. It carries 44 percent of the world's mail. Its pickup and delivery goes to 146 million homes six times a week. It is in the top 25 most respected companies in America. It is the most respected Government agency. All that is a tribute, in my judgment, to our distinguished Postmaster General, Jack Potter, and his team at the Postal Service, and to postal employees. We are proud of the record that we have and we want to make it even better.

At the appropriate time, Mr. Chairman, I would be happy to answer and respond to any of your questions.

[The prepared statement of Mr. Miller follows:]

BOARD OF GOVERNORS

UNITED STATES
POSTAL SERVICE

Prepared Statement

of

James C. Miller III
Chairman
Board of Governors
U.S. Postal Service

before the

Subcommittee on Federal Workforce, Postal Service,
and the District of Columbia
Committee on Oversight and Government Reform
U.S. House of Representatives

April 17, 2007

Chairman Davis, Ranking Member Marchant, and Members of the Committee: thank you for inviting my colleagues and me today. And thank you for holding this hearing. We at the Postal Service are constantly on the lookout for ways to improve. This is no less true of the Board of Governors as with management, led by Postmaster General Potter, and other employees. And, I'm sure this is also true of Chairman Blair and his colleagues over at the Postal Regulatory Commission (PRC).

The Board of Governors appreciates very much this opportunity to present our views – which this statement summarizes (though individual Governors may take exception to a statement or emphasis here and there). We also want to make sure that in the future we have more communication between the USPS and Congress. The Postal Service is facing significant challenges and opportunities – especially in implementing the new law – and we believe extensive, cordial relationships between us and Congress are vital to our understanding your concerns and to your need to oversee and understand our operations.

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What we wish to convey to you today is that while over the short run we have had considerable success, over the longer run we must all work together if this enterprises is to survive to provide the kinds of services at reasonable prices the American people have come to expect. By "all" we mean postal employees, customers, the PRC, and even Members of Congress. As Benjamin Franklin said at the signing of the Declaration of Independence, "We must all hang together, or assuredly we will all hang separately."

We've made steady progress in our Strategic Transformation Plan. Our objective is no less than a substantial reorientation of Postal operations -- to increase revenue, to reduce costs, to increase quality and satisfaction among our customers, and to empower each of our employees to contribute to the success of these efforts. Over the past several years, successes under the plan have allowed us to reduce the number of full-time employees by approximately 100,000, overcome substantial increases in fuel costs, and pay off all our debt. As a great testament to the Postmaster General and his team, we've increased total factor productivity for seven straight years.

That said, we are increasingly concerned about the outlook for the longer run, and the reason for our concern is this: the century-old "social compact" that has characterized the Postal Service is breaking down. That is, the Postal Service is given a monopoly on letter mail, and with the profits from the monopoly it provides universal service; until recently, anytime a shortfall seemed imminent and unavoidable, the Postal Service could rely on increasing the price on letter mail to cover the loss.

That doesn't work anymore. The monopoly return on letter mail is disappearing. In economists' terms, the demand curve for letter mail is shifting to the left and becoming increasingly elastic. Why? Because of electronic communications, primarily, but also because of other substitutes such as express mail. We live in a different mail world than existed 20, or even 10 years ago. We live in a competitive environment -- not just the 10 percent of our business the new law identifies as "competitive," but the so-called market-dominant portion as well.

This is a very positive development for most American consumers. It means they are taking advantage of a myriad of emerging modes of communication. It also means increasing pressure on the Postal Service to be competitive and customer-oriented. We've certainly got to do our part. Let me give you two personal examples of the kinds of things we should and should not be doing.

A year or so ago I was in Los Angeles, on business, and dropped by one of the USPS retail stores downtown. I asked for, and purchased, five-hundred-dollars'-

worth of Reagan stamps. Before I could leave, the Postmaster came out, personally thanked me for my purchase, and said that if there were anything else I needed just let her know. Now, that's being customer-friendly.

On the other hand, a couple of months ago my spouse completed a personal mailing one evening while we were in town at our apartment in DC, and I brought the cardboard-box-full down to the concierge the next morning. Here were several hundred letters, all affixed with stamps and all in order. That afternoon, the concierge told me the letter carrier, who drives a Postal truck, had given him a very hard time about all this "extra mail" and that if he ever had such a volume of mail again he'd have to call for a special pickup. Now, that's not being customer-friendly.

I don't mean to pick on letter carriers and praise Postmasters. It could easily have been the other way around. The point is, none of us can afford to be indifferent to our customers, as if we are the only game in town. We have to be responsive to what our customers want and need, because if we don't we won't be around for very long.

We also have to be better at listening to our customers to ascertain their needs. Further, we must anticipate those needs by offering services they will endorse and on which they will come to rely. In particular, we must look for innovations that will constitute "win-wins" for both consumers and the Postal Service. The "Forever Stamp," initially championed by PRC Commissioner Ruth Goldway, is an example: it alleviates the necessity of individual mailers' having to come up with extra stamps in case of a rate increase, and it helps the Postal Service by avoiding the costs of printing and selling those extra stamps – and also, we get the use of the money until the stamps are redeemed. There are other examples: automated postal centers, "Click N Ship," and a user-friendly website all redound to the benefit of the Postal Service and its customers.

Opportunities for "win-wins" extend to the rate structure as well. As you know, in the recent rate case we proposed, and the PRC recommended, tariffs that give incentives to customers to tender mail in ways that we find easier to process, saving mailers money and lowering USPS costs. We believe the compensation guidance contained in the new legislation also qualifies as a "win-win." We are now developing guidelines to put that new authority to work flexibly and effectively – to make sure we attract and/or retain the best personnel for essential management positions. And, we will work with the Postmaster General to make sure these guidelines are implemented fully.

To improve service, we need better metrics on performance. As George Mason University President Alan Merten says, "What gets measured gets better."

This is a matter the Government Accountability Office has brought to our attention. We are excited about the development of "intelligent mail," with its new bar code, which identifies the sender, the place the mail is "dropped," the kind of service, et cetera. This will allow "real time" tracking of mail and enable performance reports helpful to us as well as our customers.

If we are to survive in the long run, we must give even more attention to costs. We're very high on our new flats processing machines. Like our letter processing machines, they promise significant savings and increases in performance (both reduced delivery time and reduced error rate).

Speaking of costs, we should note that the new postal law adds significantly to our cost base. As you know, we recently restated our FY 2007 forecast to conform with the new law's mandates. Relief from the $3.3 billion planned escrow payment and the reduction of $1.5 billion in CSRS payments fail to offset fully the $5.4 billion we must place with the newly-created Postal Service Retiree Health Benefits Fund. The result is a $600 million shortfall. We also note that complying with the letter, not just the spirit, of the Sarbanes-Oxley law will add considerable costs that will have to be covered by Postal customers. As you know, private firms have experienced significant cost increases complying with the law, and our hybrid status presents additional challenges. There are other costs that may be attributed to the new law, although we do not have a rack-up of these to offer at this time.

One matter on which we should comment is the structure of rates in relation to the structure of costs. As you know, the new postal act gives the Department of Treasury a significant role in determining Postal costs attributable to various services. One reason for this initiative is widespread dissatisfaction with the Postal Service's attributing only 56 percent of its costs, with the rest allocated to "overhead." One might expect the participation of Treasury and others in the cost allocation process to lead to an increase in the proportion of the Postal Service's costs that are attributable. If so, then that likely will dictate a change in the structure of rates. As you may know, even under the new rates accepted by the Board of Governors, some rates on some classes of mail just barely cover their attributable costs, whereas on other classes the coverage exceeds 200 percent.

It's not enough just to cover attributable costs. Let me give you a personal example. When I was an undergraduate at the University of Georgia, one summer I worked as a clerk at a local hardware store. After being there for a couple of weeks, the store manager asked me, "Do you know about 'BACKSMITHE'?" I didn't, so he told me that the wholesale price of an item was coded on the price sticker – "B" for 1, "A" for 2, and so forth. He then authorized me to negotiate on larger items down to the wholesale price. I thought that was pretty neat, but then it occurred to me that if

we sold every item for the wholesale price, there would not be anything left over to pay the store's electrical bill, the telephone bill – and my (meager) salary! We can't sell Postal Services at wholesale rates either.

Going forward, it is absolutely essential that the PRC set ground rules that are reasonable and allow the Postal Service the flexibility it needs to respond to changing conditions – on both the price side and the cost side. We need to be able to respond to emerging marketing opportunities – to consumer needs and potential needs. We also need to be able to change the structure of our rates in response to changes in the structure of costs. Let me give you an example. Suppose – just as a hypothetical -- the new flats processing equipment lowers the attributable costs of this type of mail significantly. In that event, we would expect to lower rates on this type of mail. We would need the flexibility to do so.

A major reason we believe this is important – and one reason we had misgivings about the new legislation – is that process matters. Some 20 years ago I learned from Commerce Committee Chairman John Dingell that procedure is critical to outcomes. Chairman Dingell told me: "If you give me the choice of writing the goals of a bill and writing the procedures, I'll choose procedures and beat you every time!" Just how the PRC crafts the "rules of the game" under the new law will determine, to a considerable degree, what kind of Postal Service we see decades from now.

Finally, let us address some ways in which we believe you, Members of Congress, can be of assistance. Presently, by most accounts, USPS career craft employees enjoy a significant wage premium, owing to the unusual statutory arrangement for resolving differences between labor and management. We have been told that the prospect of any relief on this score is nil. Indeed, during the negotiations leading up to the new law, this matter was considered a "sacred cow." Thus, the ways we have of addressing labor costs – which constitute some 80 percent of our total costs – and remaining competitive on the wage front are limited.

As described above, we are working very hard on productivity and are achieving significant success. We have also contracted out some small portion of our work. Now, the National Association of Letter Carriers (NALC) is refusing to settle because we won't commit to no further contracting out. Since 1973, our agreements with the NALC have recognized the Postal Service's right to contract out, although the the USPS is required to consider cost, efficiency, public interest et cetera before doing so. Currently, only 2.5 percent of deliveries are contracted out, and there are no plans to contract out routes currently served by NALC members. But to say never more– to tie our hands and put us in a box – is not an acceptable alternative; nor should it be prohibited legislatively. Not only does contracting out,

where necessary, lower our costs, the prospect of contracting out moderates demands for wage increases. Now, we have received word that spokesmen for the NALC have boasted that they will attain their goal through legislation. We sincerely urge you to reject such an initiative.

We also ask for your indulgence in our efforts to streamline our logistics network – one important source of productivity improvements. Area Mail Processing (AMP) centers, consolidations, and other reforms in our network not only lower costs but increase the quality of our services. Reflex opposition to such changes impedes progress, increases costs to Postal customers, and makes it difficulty for us to offer superior services at reasonable prices.

The U.S. Postal Service is one of the largest business enterprises in the world, ranking 57th in annual sales in 2006 according to Fortune magazine; in the U.S., we rank 20th, again according to Fortune. We deliver 44 percent of the world's mail and provide pickup and delivery service to 146 million addresses every day of the week except Sunday. We are the most trusted government agency according to a recent Ponemon Institute poll, and are among the top 25 most respected companies in America, according to Forbes magazine. This is a tribute to the 700 thousand USPS employees and, in particular, the leadership of our distinguished Postmaster General, Jack Potter.

We are proud of our record and want to make it even better.

Thank you, Mr. Chairman, Mr. Ranking Member, and Members of the Committee. That completes my statement. I shall be happy to address any questions you might have

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Chairman.

We now will proceed to Chairman Blair.

STATEMENT OF DAN G. BLAIR

Mr. BLAIR. Good morning, Chairman Davis, members of the subcommittee. Thank you for the chance to testify here this morning. I thank you for the opportunity to appear here on the panel today with Postmaster General Potter, as well as Chairman Miller. I also want to give a brief thank you to you for your interest in the Postal Service over the years, and especially thank you to John McHugh for your efforts over the last 12 years in bringing this to fruition. I think that your efforts have paid off, so thank you very much.

I also want to acknowledge my fellow commissioners here with me this morning, and Vice Chairman Tisdale, Commissioners Goldway, Hammond, and Acton, who are in the audience this morning.

The passage of the Postal Accountability and Enhancement Act represents a profound change in our regulatory functions and significantly enhances the Commission's authority. As noted, the Postal Service will have more autonomy in setting rates, particularly for its competitive products. However, the ability to increase rates for market dominant products will be limited ordinarily by increases in the Consumer Price Index. The act assigns continued oversight responsibilities to the Commission.

The law equips the PRC with authority to use new enforcement tools, including subpoena authority; the authority to direct the USPS to adjust rates and take other remedial actions; and the imposition of fines in case of deliberate noncompliance with applicable postal laws.

We will analyze and report on the Service's compliance with the new law, consider complaints, and report on a regular basis to the President, Congress, and the public.

The Commission is fully engaged in implementing the strength and regulatory responsibilities required by the act, as well as completing pending business in the previous law. We understand that transforming the Commission into the regulator envisioned by the reform legislation will result in changes to our organizational structure and work force capacity. The PRC is working with an outside expert in this regard.

Regarding old business, on February 26th the Commission rendered its recommended decision on the most recent omnibus rate case. This was the first fully litigated case since 2001. We audited the Service's projected revenue needs and made adjustments to their initial estimates based on subsequent Postal Service refinements of these estimates. We also recommended improvements in the design of rates for many postal products at the Service's request to align rates more closely with shape.

Our decision relied on well-established ratemaking principles, including a reaffirmation of the principle that work-sharing discounts should be limited to the amount of the cost savings accrued to the Postal Service, the approach ratified by the act.

On March 19th the Postal Governors endorsed the Commission's rate recommendations with tree limited exceptions, including those for standard rates, flats, mail. On March 29th the Commission

issued an order establishing procedures for further consideration of these issues and invited comments from interested parties before the end of this month. Because the Commission deliberations are ongoing, I hope people will understand that it is inappropriate for me to address them specifically at this time.

One of the most critical responsibilities the act assigns to the Commission is the establishment of a modern system for regulating rates and classes for market-dominant postal products. We are moving quickly to develop regulations for the new ratemaking system.

The Commission published an advanced notice of proposed rulemaking on January 30th soliciting public comments on how the Commission can best fulfill its responsibilities and achieve the objectives of the act. The initial round of comments was due on April 6th, and reply comments are due May 7th. To date, 32 parties have submitted comments.

Creating a regulatory framework for the establishment of a more modern rate setting process is only one of the many actions facing the Commission. The act directs the Postal Service, in consultation with the Commission, to establish service standards for market-dominant products and assigns regulatory oversight to the Commission. The act also directs the Postal Service and the Commission to consult on developing a plan for meeting these standards. We look forward to full consultation, as envisioned by the act, with the Service later this spring and summer.

A key aspect of the Commission's ongoing efforts is outreach, soliciting input from postal stakeholders, especially mail users, in consultation with other Government agencies such as Treasury, State, the FTC, Customs and Border Protection, the Postal Inspector General, and the GAO. Appearing before this subcommittee today and hearing your views and concerns is a critical part of this process.

Mr. Chairman, the benchmarks established for the Commission pose some daunting challenges, especially in light of the Postal Service's opportunity to file one last omnibus rate request under prior law. There is no question that this final rate case will divert Postal Service and Commission resources that, in my view, would be better devoted to developing a new system of regulatory oversight. Nevertheless, the Commission is committed to timely performance of all its statutory obligations, and to doing so in a reasoned and balanced manner.

Mr. Chairman, members of the subcommittee, thank you for this chance to testify today. I ask that my written statement be included in the record, and am happy to answer your questions.

[The prepared statement of Mr. Blair follows:]

Testimony of

The Honorable Dan G. Blair, Chairman

On behalf of the

Postal Regulatory Commission

Before the

U.S. House of Representatives

Committee on Oversight

And Government Reform

Subcommittee on Federal Workforce,

Postal Service, and the District of Columbia

April 17, 2007

Chairman Davis, Ranking Member Marchant, and members of the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, thank you for the opportunity to provide testimony on the operation of the new Postal Regulatory Commission (PRC) and our strategy for the future.

I wish to particularly thank Chairman Davis, full Committee Chairman Waxman, full Committee Ranking Member Davis, and Congressman McHugh for their longtime support of the Commission and the confidence they have shown in the Commission as demonstrated by the Postal Accountability and Enhancement Act (PAEA).

The PRC is an independent agency that has exercised regulatory oversight over the Postal Service since its creation by the Postal Reorganization Act of 1970. Primarily, that oversight has consisted of conducting public, on-the-record hearings concerning proposed rate, mail classification, major service changes, and recommending decisions for action by the postal Governors.

The Postal legislation enacted on December 20, 2006, strengthens the authority of the renamed Postal Regulatory Commission and changes the form of regulatory oversight in many respects. The Postal Service is granted more autonomy in setting rates, particularly for its competitive products. However, the Service's ability to increase rates for market-dominant products is limited ordinarily by changes in the Consumer Price Index (CPI). The law now requires the Commission to complete its review of new rates for compliance with the CPI cap within 45 days. Moreover, the PAEA streamlines the Postal Service's ability to introduce new postal products.

To counterbalance the Postal Service's enhanced autonomy in setting rates and introducing new services, the PAEA assigns continuing oversight responsibilities to the Commission. The law appropriately equips the PRC with authority to use new enforcement mechanisms. Oversight will consist mainly of information gathering,

annual determinations of Postal Service compliance, consideration of complaints, and periodic reports on Commission operations. Enforcement tools include subpoena power, authority to direct the Postal Service to adjust rates and to take other remedial actions, and levying fines in cases of deliberate noncompliance with applicable postal laws.

The Commission is now fully engaged in implementing the strengthened regulatory functions assigned by the PAEA. This effort involves completing pending business under previous law, as well as developing an organization adapted to the Commission's new responsibilities.

As you know, the Commission rendered its recommended decision on the Postal Service's omnibus rate request on February 26, 2007. We audited the Postal Service's projected revenue needs and made appropriate adjustments to their initial estimates based upon subsequent Postal Service refinements of these estimates. We also recommended improvements in the design of rates for many postal products at the Postal Service's request, such as aligning rates more closely with shape, which affects processing costs. The Commission's decision relied on well-established ratemaking principles, including a definitive reaffirmation of the principle that worksharing discounts should be limited to the amount of cost savings accruing to the Postal Service – the approach ratified by the PAEA.

On March 19, 2007, the Governors of the Postal Service endorsed the Commission's rate recommendations, with three limited exceptions: rates for the Priority Mail flat rate box; for additional ounces of non-standard First-Class letters; and for Standard Rate Flats mail. On March 29, 2007, the Commission issued an Order establishing procedures for further consideration of these issues and inviting comments from interested parties before the end of this month. Because the Commission's deliberations on these topics are ongoing, I hope you will understand that it is inappropriate for me to address them specifically at this time.

Other pending business includes two mail classification proceedings, one of which concerns a Negotiated Service Agreement or NSA. To date, the Commission has completed proceedings on six proposed NSAs and approved each of them, with the exception of one that was withdrawn at the request of the Postal Service and the co-proponent. The Commission also issued an Advisory Opinion on December 19, 2006, on the Postal Service's plans for reconfiguring its mail processing and transportation networks.

One of the most critical requirements the PAEA assigns to the Postal Regulatory Commission is the establishment of a modern system for regulating rates and classes of market-dominant postal products. In order to move expeditiously toward the new ratemaking system, the Commission published an Advance Notice of Proposed Rulemaking on January 30, 2007, soliciting comments on how the Commission can best fulfill its responsibilities and achieve the objectives of the PAEA. The initial round of comments was due on April 6, 2007, and reply comments will be due on May 7, 2007. To date, the Commission has received comments from 32 parties. In addition, the Commission and the Postal Service co-sponsored a summit on meeting customer needs in a changing regulatory environment, with over 200 attendees on March 13, 2007.

The PAEA directs the Postal Service, in consultation with the PRC, to establish service standards for market-dominant products, and assigns regulatory oversight to the Commission. The Act also directs the Postal Service and the PRC to consult on developing a plan for meeting these standards, including any necessary changes to the Service's processing, transportation, delivery, and retail networks. Consequently, we will revisit these infrastructure issues in the context of service standards to be established under the PAEA. Moreover, we appreciate the opportunity for Commission personnel to observe meetings of the Mailers Technical Advisory Committee (or MTAC) to become better informed on mailers' views of their service needs. We look forward to full consultation with the Postal Service, as envisioned by the Act, later this spring and summer.

The Commission is also advancing toward performance of its auditing and reporting responsibilities under the PAEA. During the next two years, these responsibilities will require the following essential actions:

- A comprehensive review and report examining universal postal service and the postal monopoly in all regions of the United States, including an assessment of likely future needs and recommended changes;

- A review of all non-postal products offered by the Postal Service, followed by a determination whether each of them should continue, based on an assessment of public need for the service and the private sector's ability to meet any such need;

- Annual notice-and-comment proceedings followed by Commission determinations on whether any rates, fees, and service standards failed to comply with applicable requirements during the preceding year; and

- A report to the President and to the Congress on the first year of the Regulatory Commission's operations.

In furtherance of these tasks, the Commission has already begun discussions with the Departments of Treasury and State, the Federal Trade Commission, U.S. Customs and Border Protection, the Postal Service's Office of Inspector General, and the Government Accountability Office, regarding implementation of the new law.

The Commission is also moving on other fronts to meet its new regulatory responsibilities. One critical effort is organizational – adapting the existing Postal Rate Commission into the regulatory body envisaged in the PAEA.

With the enactment of the PAEA, the Commission will need to undergo changes in its organizational structure, workforce size and skill mix, areas of functionality and expertise, and policies and procedures. The Act outlines specific requirements that necessitate a timely and thorough analysis of the Commission's current state, and a strategic plan of action to bridge functional gaps and to meet statutory deadlines. The PRC is working with an outside expert in this regard.

The first step in this process documented the current organizational baseline through in-depth interviews with staff to gauge what competencies were required to perform their current duties. The Commission is analyzing and identifying skill gaps between the current baseline and the requirements the Act places on the PRC.

Another key component of the Commission's ongoing efforts is outreach: soliciting input from postal stakeholders, especially mail users, and consultation with other government agencies. Appearing before the Subcommittee today, and hearing your views and concerns, is an important part of this process. We are also progressing on schedule toward the appointment of the Commission's first Inspector General. I would like to note that the Commission has recently created an Office of Public Affairs and Governmental Relations to maintain contact with all postal stakeholders.

The benchmarks established for the Commission by the PAEA pose some daunting challenges, especially in light of the Postal Service's opportunity to file one last omnibus rate request under prior law. There is no question that an additional rate case would divert Postal Service and Commission resources that, in my view, would be better devoted to developing the new system of regulatory oversight. Nevertheless, the Commission is committed to timely performance of all its statutory obligations, and to doing so in a reasoned and balanced manner.

CONCLUSION

In closing, I wish to acknowledge the dedication and commitment of my colleagues – Vice Chairman Dawn Tisdale, Commissioners Ruth Goldway, Tony Hammond, and Mark Acton. Thank you, Mr, Chairman, on behalf of the Commission, for this opportunity to present a status report on our progress toward activating the strengthened oversight responsibilities assigned by the Postal Accountability and Enhancement Act. Your Subcommittee's attention to these matters assists us greatly in maintaining focus on issues vital to our Nation's postal system.

I will be happy to answer any questions you may have.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Blair.

We will now move to the question and answer part of this. I will begin.

Mr. Postmaster General, why don't I begin with you. All of us are proud of the Postal Accountability Act, which was signed into law on December 20, 2006, which replaced the Federal body that regulated the U.S. Postal Service, the Postal Rate Commission, with the Postal Regulatory Commission, and gave this new entity greater powers.

My question is: what do you see in the mix of all of this, and what do you view as the greatest challenges in implementation of the Postal Accountability Act?

Mr. POTTER. Mr. Chairman, probably the initial challenge is to develop the regulatory process, and what we are doing is we are working as closely as we can with Dan Blair and his fellow Commissioners and the Postal Regulatory Commission, as well as mailers, to make sure that the product of this regulatory process serves the people that it was intended to, and that is the mailing community. So we are working very closely to develop that process. There are some hurdles in the new law that, quite frankly, as my testimony stated, are going to be a challenge for us. We have never attempted to manage our cost by product line, which is what this is asking us to do. We have always taken a tact of we would make investment that would produce the biggest return for the Postal Service, not by class of mail but by bottom line for the Postal Service, and it is going to have us rethink some of our investment strategy so that we can meet the tenet of the law, which basically says keep your rates below inflation by class of mail.

Another issue is going to be the transition and the establishment of service standards for all classes of mail and tracking systems for all classes of mail. We do have standards now that we are working with the Mailers Technical Advisory Committee on, as well as other mailers, people who use the mail, but establishment of those standards and goals at the same time to me is problematic. I believe that we should establish the standards, we should put measurement systems in place, but we shouldn't establish a goal until we have some base of performance, and then, again, establish a goal off of that base.

But, in addition to that, the law calls for more transparency under Sarbanes-Oxley, and we are going to have to work very hard to live up to what the law is asking us to do.

Let me assure you, though, that we are committed to implementing the law and to taking full advantage of the flexibility that is built into the law. We understand why different provisions are put into the law. We are going to live, again, up to the spirit of that, and we hope to take advantage of the flexibility for pricing that is built into the law, as well as take advantage of the fact that we are going to be allowed to compete for package services, expedited services, and others as decisions are made along the lines of what is a competitive product and what is a market dominant product.

Mr. DAVIS OF ILLINOIS. Thank you very much.

On January 23, 2007, the Inspector General's office issued an internal report concerning Cintas, which is a service contractor that provides a full range of services from uniform programs, interest

mats, to restroom supplies, and promotional products. The investigation centered on Cintas adding a randomly calculated additional charge or environmental charge to its services. The report ultimately recommended that the Postal Service consider suspension and debarment of the Cintas Corporation. Have you, since this recommendation, renewed this contract? And if so, can you tell the committee why?

Mr. POTTER. I am not familiar with that contract.

Mr. DAVIS OF ILLINOIS. Thank you.

[The information referred to follows:]

October 12, 2007

The Honorable Danny K. Davis
Chairman,
Subcommittee on Federal Workforce,
Postal Service and the District of Columbia
Washington, DC 20515-6143

Dear Chairman Davis:

This responds to the question you raised at the Subcommittee on Federal Workforce, Postal Service and the District of Columbia's April 17 hearing regarding the U.S. Postal Service's contract with Cintas Corporation for custodial supply services. You asked whether the Postal Service has renewed its contract with Cintas Corporation.

It may be helpful if I provide some background information on this matter. On December 20, 2002, the Postal Service awarded a competitive contract to Cintas Corporation, for an initial four-year term with three two-year renewal options. This contract was one of two Supply Chain Management (SCM) strategic contracts awarded for custodial supplies. Prior to these contract awards, custodial supplies were sourced in a decentralized manner from over 200 suppliers. By reducing the number of suppliers from approximately 200 to 2, the Postal Service employed a structured SCM business strategy resulting in the standardization and uniformity of processes, products and services. Also, by placing the Cintas items on the Postal Service's electronic eBuy catalog, the Postal Service has standardized business processes relative to source selection, order placement, invoicing and payment.

The initial contract period for the Cintas contract expired on December 19, 2006, and the contract was extended for an additional two-year period through December 20, 2008. Prior to exercising this option, the contracting officer conducted market research and price analysis, and determined that the supplier was still providing the best value to the Postal Service.

During the term of the initial four-year contract with Cintas, the Department of Justice (DOJ) advised the Postal Service of a private sector class action lawsuit alleging that Cintas had fraudulently charged environmental related fees on its contracts. The DOJ subsequently opted out of the class action suit and declined to pursue litigation on behalf of the U. S. Government. Since the DOJ decided there were insufficient grounds to pursue a claim against Cintas, the Postal Service made a determination that there was insufficient cause to pursue debarment.

Based on the allegations, and after discussion with the Office of the Inspector General (OIG), the Postal Service considered attempting recovery of environmental fees it had paid to Cintas. However, because it would be difficult to recover costs on contracts for which the statute of limitations had expired, and because the amount the Postal Service sought to recover was of a small-dollar value (approximately $65,000), we made a determination that it would cost more to pursue the claim than a likely recovery would yield. As such, we did not pursue this matter further, and notified the OIG accordingly.

It is important to note that, while the Postal Service did renew its contract with Cintas, the pricing and contract were structured in such a manner that will protect it from recurrence of an incident of this nature. The Postal Service negotiated specific, all-inclusive pricing for the various services Cintas provides, and no additional "environmental" charges can be added to the pre-determined fee for any given service. To date, Cintas continues to satisfy high level performance expectations and has fulfilled its contractual obligations in a professional and responsive manner at substantial savings to the Postal Service.

I hope this information is helpful.

Sincerely,

John E. Potter

Mr. DAVIS OF ILLINOIS. You recently announced that 100 new carriers would be brought on board in Chicago.

Mr. POTTER. 200.

Mr. DAVIS OF ILLINOIS. 200 new carries would be brought on board to shore up delivery capability. Overall, we have seen the number of carriers falling by more than 9,000 in the last 5 years, according to the annual report. We are talking about across the board. Is there a connection between these reductions in the carrier work force and the delivery problems that we are seeing in various parts of the country?

Mr. POTTER. The bulk of the reduction in the city carrier work force is the result of increased use of automation on the part of—or increased bar coding capability of letter mail for those carriers. So mail that we can put a bar code on, we are able to put into walk sequence for the letter carriers, and so the letter carrier work is more productive.

In the case of Chicago and in a couple of cases around the country, we have had decisions made by local management not to hire the authorized carrier levels, and when those come to our attention, we basically work with the local management to bring those carrier staffing levels up to speed. So we are monitoring that from a national level, and Chicago is an example of where the national authorized staffing for that local area was allowed to be dropped below what our recommendation would be, and so that is why we are hiring the carriers.

We now are in the process of checking around the country to see whether or not other situations like that exist. But the bulk of the reduction in city letter carriers is a result of improved productivity.

Mr. DAVIS OF ILLINOIS. Thank you very much.

I see that my time has ended, and so we will go to Mr. McHugh.

Mr. MCHUGH. Thank you, Mr. Chairman.

General Potter, you heard Chairman Blair's comments about his concerns about your filing another rate case under the old system. What can you say to assuage some of Chairman Blair's concerns, and I might add some of the concerns I have heard amongst the mailing community, if anything?

Mr. POTTER. Well, I the provision in the law allows us to file one more time under the old rules, and I think that was a good provision of the law because it basically anticipated that it would take some time for the new regulatory body to put in new regulation, and by law they have to do that by June 2008. By law we have to make a decision whether to file under the old rules or the new rules by December 2007. So, being pragmatic, not knowing what the new rules are, you have to move ahead with or anticipate that you have to prepare a case as if you were filing under the old rules. We are hoping that over the course of the coming months that the Commission will be able to make some decisions that will give us some guidance as to what the outcome of their decisionmaking process on the new regulations is. Certainly that would weigh heavily in terms of how the Board of Governors might make a decision on whether to file under the old rules or the new rules.

Mr. MCHUGH. So it hasn't been a decision made?

Mr. POTTER. No. No decision has been made. No new rules have been promulgated. So we are kind of operating in the blind right now.

Mr. MCHUGH. Of course, 18 months is the outside window. Chairman Blair, do you think you have a chance of doing it before then?

Mr. BLAIR. Well, I think we do. Last month we had the opportunity to engage in what was deemed to be a summit at the Bolger Center, which we had about 300 folks, and at which the Postmaster General and I welcomed and talked about this issue.

One of the things that I wanted to throw out there was the idea that we would get a framework in place by, say, maybe the fall—October was the date that I mentioned—in order to allow the Postal Service the opportunity to have a rate increase under the CPI cap as early as some time next year.

Now, I agree with the Postmaster General that the law clearly envisions the opportunity for a new rate case filing, but I think what the law didn't really take into account was the fact that we just completed one rate case right as the new law was being enacted, and so the question remains is there a need for a new base case or can the omnibus rate case that just took place serve as that base case.

I think there are some issues that still need to be sorted out, and I think we can sort them out over the next few weeks. Initially I was going to say over the next few months, but those 18 months have now dwindled down to 14 months and time is flying by, and so I think that we really need to make some decisions and work this out over the course of the next few weeks.

Mr. POTTER. If I could?

Mr. MCHUGH. Sure.

Mr. POTTER. Hopefully my remarks have not created an impression that we are not working as closely as we can. These are very complicated issues that deserve quite a bit of debate when it comes to the regulation. And I am not just talking about a discussion between the Postal Service and the regulator; I am talking about the entire mailing community participating in that process. So this wasn't meant to case aspersions; it is just, being a good businessman, you have to sit back and say, all right, keep your options open.

Mr. MCHUGH. No aspersions cast, or certainly none received. Trust me, I know a little bit about the complexity of this bill. I understand the challenges therein.

You spoke about it. Your business model is still broken. Chairman Miller, you mentioned, underscored that, as well. You talked about a need for what I believe I heard you describe as running room to streamline your logistics system.

What kind of broken system are you dealing with? What still needs to be fixed? Is this a legislative fix or administrative approaches? What kind of parameters?

Mr. POTTER. Well, let me try to clarify what the weakness is. The weakness in Postal Service going forward is that our core product, first class mail, is in a state of decline, so volume is declining. It is a high margin product. It is largely transaction based—bill pre-

sentment, bill payment—business mail. That product is very weak, or is weakening over time with competition from the Internet.

So the challenge, from a Postal Service perspective, is to be able to respond to that weakness in volume and revenue growth going forward, as well as to change our processes and our infrastructure in response to mailer behavior. As time goes on, there has been a consolidation of printing industry, list processors, logistics companies. They are taking greater advantage of discounts that are available through the current rate structure, and as they do what we end up with is under-utilized aspects of our network.

So our response to that low use of network assets might mean consolidation of facilities or some other changes, staffing levels, changes that are necessary to keep the Postal Service productive and to, again, allow us to operate under the rate cap.

Mr. DAVIS OF ILLINOIS. Thank you, Mr. McHugh.

Mr. MILLER. Could I add, Mr. Chairman, just a moment please, sir? On the question of a rate case under the old law versus the new law, first let me say I think it is admirable, highly admirable, that the Postal Regulatory Commission is moving forward with trying to establish these parameters. I appreciate, Dan, your working with us on that.

The Board of Governors has not yet decided what to do. It is really their authority would be exercised here. I think the next step is for us to decide what we would like to see in terms of a rate structure, a new rate structure, and then we would look at whether we could do that, accomplish that under the new law with the parameters that the Postal Regulatory Commission would set forth, or whether we have to do that under the old law. That depends on what the PRC comes up with, so we haven't made that determination yet.

I will say to you—I think I am speaking on behalf of the other Governors—that it is unlikely that in a new rate case we would have an overall rate increase of anything more than the CPI. As the new law contemplates, we would anticipate having rate increases annually, something no more than the CPI by class, but that determination is one that the Governors are focusing on, that the staff of the Postal Service is helping us evaluate, and some outside people are helping us evaluate, as well.

Mr. DAVIS OF ILLINOIS. Thank you very much.

We will go now to Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Davis, Mr. Chairman.

First of all I want to thank Mr. Potter, Mr. Miller, and Mr. Blair for coming before the committee and helping with this work. At these hearings I am required to do a little bit of disclosure. First of all, my Mom was a postal clerk for 30 years, now retired. My Aunts Sis and Kay, her two sisters, also clerks. My sister Linda is a steward with the American Postal Workers Union on tour one. My sister Karen is a postal worker on tour two. My Aunt Pat and my Cousins Danny, Bill, Jimmy, Marie, and Joe—Joe was a business agent for Letter Carriers Local 34 in Boston. So when people suggested that fact that so many of my family are employed at the Post Office might affect my objectivity here, I must say they are problem right. [Laughter.]

It is the family business.

First of all, I want to say that I am encouraged by the statements, Mr. Potter, about trying to work together with your unions, as well as with the postal supervisors and others, to solve our problems at the Post Office. I must confess that when I hear you say that we are all pulling together, I must say that I think that the postal workers are pulling harder than anyone, the employees of all of our unions here. They are the ones that are doing the great work, and they are the ones that I think are faced with the greatest challenges.

I want to say that, while I see some managerial improvements, I must also say that in some of my local Post Offices they have decided to close the Post Office against the will of the employees and the union at noon hour, where most people would actually use the Post Office. I scratch my head at that development.

Second, I just want to say that, Mr. Miller, if you are truly interested in having a better relationship with Congress, I would strongly suggest that you need to have a better relationship with your employees. Those are the people who we rely on every single day.

You cite quite rightly that the Post Office is recognized as one of the top 25 most respected institutions in America today, but I would just disagree that it is due to the great work of Mr. Potter. I would suggest that it is due to the fact that the postal clerk when I drop my mail off in the morning at my local Post Office, because they greet me with a smile and total professionalism, that is why the Post Office is so well respected. When my letter carrier comes up my doorstep on time every day and very reliably and professionally delivers my mail every day, that is why the Post Office is so widely respected. When my mail handlers work so hard, depending on wet weather in the northeast, and does a very professional job, as well, that is why the Post Office is so widely respected. As well, the supervisors who iron out the problems when they do arise in such a big business, those are all the principal reasons why the Post Office is so widely respected.

I just want to say this: in the history of this country, we regarded the delivery of the mail as so important to the national security and to the economy of our country that we made a decision that we would put a special duty upon our postal employees that they conduct their business in a continuous fashion. In order to ensure that, the Government took away the right to strike from our postal employees, the very ability to stop work. They cannot stop work. They must continue working. That was a precious right that they surrendered to us.

Now I am hearing that this social contract, this agreement that we made with our workers, is going to be jettisoned, that we are going to go to privatization, we are going to pay some employees less. I am wondering, if we are going to tear up that agreement, that we are going to take away the right to strike from these employees but we are going to treat them with respect and dignity, if we are going to tear up that agreement, my question to the three of you is: are we also going to restore the right to strike to these employees that we strip from them when we ask them to submit to their labor? I find it troubling, this contracting out business.

I just came back last night. I flew in last night from Iraq and Afghanistan, and I heard continuous concerns from our civilian and military departments that the contracting out of their services in Iraq and Afghanistan have stripped them of capacity, stripped this Government of capacity to perform its duties, at great cost.

I just ask you, is that what you are suggesting? Are we going to renege on our agreement with our postal workers? And, if so, are we going to restore to them the right to strike?

Mr. MILLER. Mr. Lynch, could I just respond? When I used the term "social contract," it was in the context of the ability of the Postal Service to cover costs by raising price on letter mail. That was what I meant by the term "social contract." I didn't imply that we would tear up an agreement with respect to employees.

With respect to employees, let me say that I want to congratulate the postal employees because I think there has been a change in the attitude of so many postal employees. It is a cultural change that has taken place in the last 10 years. A member of the U.S. Supreme Court communicated to me his delight that the attitude on the part of his local Post Office had changed dramatically over the past several years, and he attributed this in part to the leadership of Jack Potter, but also the recognition that we are in a competitive environment now, and that is one reason.

But I think it is very important, it is essential that postal employees be part of this effort to be more consumer friendly and more outgoing and outreaching to customers. We cannot survive unless we are able to do that.

Mr. DAVIS OF ILLINOIS. Thank you very much.

Jack, did you want to respond?

Mr. POTTER. If I could.

First of all, I would like to say I am from the postal family, as well. My father was in the business for 40 years, was a letter carrier and then was a member of the unions and worked his way up in management, and I was a proud member of the APWU under Bill Burress' leadership and Beau Biller's leadership, and so let me just say that we cherish our employees. But we also have a business challenge, and the hurdles actually got higher with the new law in the sense that when you look forward you have to keep your rates under inflation. I would be happy to share with you some of our cost drivers, because it is really problematic. How do you satisfy both sides?

If I could just make one statement, though, when it comes to the notion that our employees do not have the ability to strike, in exchange for that they got binding arbitration, so where the Postal Service management and labor organizations, when they can't reach an agreement through the collective bargaining process, that disagreement goes to a third party. Whether it is the grievance process or if it is a national contract, it goes to a third party to decide, so that binding arbitration really was the tradeoff for strike.

As far as contracting out, there is a provision in each of the agreements of our unions that was put in place in 1973 that was a product of collective bargaining. In exchange for that provision, management gave up a lot. We really have to be, in my opinion, true to the collective bargaining process. I am firmly committed to that. I just wanted to share that information.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Lynch. I am pretty sure that both the Postmaster General and the employees all will accept as many accolades as they can get, no matter which direction they come from. We just hope that they keep earning them and that they keep getting them.

We will move now to Mr. Clay.

Mr. CLAY. Thank you very much, Mr. Chairman. I thank the panelists for being here.

Mr. Blair, you talked about an additional rate increase, I guess coming within the next year. I heard Mr. Potter say that one of the reasons for that is because of the decline in volume of the first class mail. I just wondered, what is the justification for an additional rate increase? Can you tell the American public while they are watching C-Span if they will have to pay an additional? We know that May 14th we will go up $0.02 to $0.41 for first class mail. Will they have to expect an additional increase? And why?

Mr. BLAIR. Well, I think, correctly, that the price of a first class stamp will go up on May 14th. For periodicals mail, that was delayed until July. But as far as the prospects for a new rate increase this year, I wouldn't want to speak for the Governors of the Postal Service within whom is vested the authority to file a rate increase.

So one of the things that the Commission had posited was whether or not if we could get a new system of ratemaking up and running before they would have to raise increases under an old system. I think that, from our viewpoint, that would be a good idea, but this is part of the ongoing dialog that we are having between the Postal Service, the Regulatory Commission, and the mailing community.

I think it is important to note that we have done quite a bit of outreach on this issue. I referenced the summit that we had a month ago in which we had about 300 participants. We also put out this notice of proposed rulemaking back in January. We had 32 comments submitted to us early in April on what this new system might look like.

What is interesting about these comments—and I haven't had a chance to go through all of them yet—is that there are 32 unique comments. I think that is important and it shows the work and dedication that those commenters put into putting forth what their ideas are for this new system down on paper and submitting them before the Regulatory Commission.

We have given any interested party an opportunity to reply to those comments. That deadline is in early May. As we sift through these, I think we will be able to have a better idea of what this new system might look like, and then I think we can better engage the Postal Service and help them decide whether or not they are going to file a new rate case under the old system.

Mr. CLAY. Mr. Potter, give me the additional justification for another rate increase.

Mr. POTTER. OK. If you look at Postal Service's costs, they go up every year. And the reason that they go up every year is because our employees get increases in pay, cost of health benefit grows. That is the biggest cost for the Postal Service is labor. Labor is 80 percent of our cost. So what I said earlier, we have other things that drive cost.

Mr. CLAY. How about the decline in volume?

Mr. POTTER. Well, let's talk about——

Mr. CLAY. How does that play into that?

Mr. POTTER. Here's what we have. We have two things going on, Congressman. We have an increase in the number of deliveries every year, 1.8 million to 2 million new deliveries every year, and volume is relatively flat, so there is a cost of $300 million to $400 million to deliver mail to new deliveries when volume of first class mail is in decline and other mail is relatively flat. So that means that the carrier is bringing less dollars to every door every day. That is where the challenge lies, because if those costs are growing at a greater rate than inflation, and earlier I said that we have to save a billion dollars every year, well, it is based on calculations that our financial people have done that project what our costs are going to grow by, versus what the rate cap is.

So the broken wages and benefits and fuel and other things that we have to spend is growing above the rate of inflation. The offset to that is to drive productivity up, as well as the delivery base is going up without commensurate increase in volume.

Mr. CLAY. Thank you for the explanation.

Mr. Miller.

Mr. MILLER. Mr. Clay, bear in mind that letter mail has a markup of something like 200 percent—it depends on the particular way it is proffered at center—whereas the fastest-growing mail has a very small markup. So if you are losing out on the mail that has the big markup and you are growing the mail that has the little markup, then obviously there is a problem then. That said, the postal rates overall have increased less than the cost of living since 1970. We want to drive productivity even more. There are opportunities that we have for increasing our sales, increasing innovations, and then reducing costs. We need the flexibility in order to achieve those.

Thank you.

Mr. DAVIS OF ILLINOIS. Thank you very much.

Mr. CLAY. Thank you.

Mr. DAVIS OF ILLINOIS. Thank you, Mr. Clay.

We will move now to Mr. Kucinich.

Mr. KUCINICH. I thank the gentleman.

Mr. DAVIS OF ILLINOIS. I am sorry, Mr. Kucinich, but you are out of line. I know that you are running for President, but Mr. Sarbanes is actually next. Mr. Sarbanes.

Mr. SARBANES. Thank you, Mr. Chair.

First I wanted to associate myself with the comments of Representative Lynch, which I thought were right on target in all respects, although I feel compelled to confess that I have no members of my family that are working in the Postal Service or have done. Many of my great-uncles and-aunts were in the restaurant business, but that is not what this hearing is about today.

I had a visit recently to the main Post Office in Baltimore, MD, which was fascinating for me. It was my first behind-the-scenes visit to a Post Office. That one is really state-of-the-art. It is on the cutting edge in terms of technological innovation, and really has served as a model in many respects for a lot of the practices, best

practices that have been brought to bear across the country, from what I understand.

I want to salute the employees of the Postal Service and salute, as well, the organizations that represent them so well.

The employees, and in particular those who staff the Post Offices, as it were, at the front desk and the letter carriers, are really the face of a service which the American people have come to trust almost implicitly. It is a wonderful success story, the faith and confidence that the average person has in the Postal Service. But in order to preserve that we have to make sure that the employees that provide the service on the front line are given the support that they needs, because when they are under stress that gets communicated and it ends up undermining the tremendous reputation the Postal Service has.

The other thing which I didn't appreciate and I do now after the tour that I took is really understanding the Postal Service as one of the largest distribution systems in the world, and the implications that has for its ability to respond and support us in this country in times of crisis. In fact, I heard stories of how the first people in to help, the first faces that appeared after Hurricane Katrina were the faces of the local postal carriers. We need to keep that in mind, because this is a system that needs to be state-of-the-art and we need to preserve its stellar reputation.

Two questions. We have discussed a little bit this contracting out of services. I would like to hear what the basic criteria are that you use to determine when that makes sense or not, and we can start with Mr. Potter.

Mr. POTTER. Are we talking about the contracting out of delivery services?

Mr. SARBANES. Yes.

Mr. POTTER. Let's start with that, because we do contract out highway contract services.

Mr. SARBANES. Delivery services.

Mr. POTTER. So in delivery services if we have an established route, whether that is a city letter carrier route or a rural letter carrier route, and there is a new delivery, generally 20 deliveries or even 50 deliveries within that route, that work goes to the NALC or the rural carriers, because we already have a person on that line of travel and that work goes to them.

The only time that we consider contracting out is when we have major new developments. So if we have a community that is being built that has 600 homes, we will consider contracting that out and using contract employees to do that. why would we do that? Because of cost. There is definitely a cost benefit to using contract employees versus using career employees.

Mr. SARBANES. Well, presumably you have had major new developments in the past that require new deployment of letter carriers before this era of contracting out. The decision was made to have the traditional work force handle that.

Mr. POTTER. Well, let me just use data. Today, 2 percent of all deliveries in America are made by contract employees, generally highway contract route employees. Last year we had 6 percent of new deliveries went to contractors versus craft employees of the U.S. Postal Service. Again, when you look at this as a business

model—and I grant that we are a service—but you also look at cost factors, and now a bar that has been raised that we have never had, which says that we have to keep costs under inflation for all classes of mail, bottom line is we are trying to comply with the new law. So, as part of that strategy, we have to look at all of our costs, what we pay for any product, any service that we get, and we have to consider what is reasonable going forward.

Mr. SARBANES. I see my time is out, so I just wanted to followup real quick on one point you made about what happened in Chicago. You said that the staffing levels were not at the authorized levels, and that came to your attention. When it came to your attention, then you moved to respond. I am just curious why the local manager would have been able to depart from the authorization mandate on the first instance.

Mr. POTTER. Well, we don't operate with—mail delivery is not an exact science, so the fact that somebody would say hey, I am going to make an attempt to try to improve productivity, and that was a rationale for lack of hiring, that is all well and good if they assess the risk and the risk is to maintain service, I mean, we will lose service. Once you lose service then, we stepped in and said hey, you have to bring your staffing levels up. But, believe me, there is much more in play in Chicago than just city carrier staffing levels. There are a whole host of issues that are contributing to the service decline that we saw, and there will be a whole host of issues addressed when we turn service around.

Mr. SARBANES. Thank you, Mr. Chairman.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Sarbanes.

Now, Mr. Kucinich?

Mr. KUCINICH. Thank you very much, Mr. Chairman. Thank you to the panelists. I want to thank all those who are involved in the Postal Service. I can tell you that in Cleveland, OH, where I am from, we are very proud of the service that all of the postal workers give, all those who deliver that mail on time. The service is excellent, the people appreciate it. I speak not only on behalf of the people in my area, but I know all across the country people are grateful for the work that the Postal Service does.

One of the concerns that I have had brought to my attention in the last few days relates to what you would know as other mail and services. According to the GAO testimony that we are going to receive a little bit later, other mail in this report includes mail such as magazines, newspapers, and parcels. According to this chart which has been produced for us by the GAO, we are finding that other mail provides 6 percent of mail volume, 22 percent of revenues, and makes an 8 percent contribution to cover overhead costs.

Now, I understand—and maybe Mr. Blair could be the one to answer this—that the Postal Service is contemplating a significant increase in the mailing costs that would affect a lot of magazines in this country. I am wondering, first of all, is that true?

Mr. BLAIR. Well, we recommended a significant rate redesigned for periodicals class this past rate case.

Mr. KUCINICH. When you say "redesigned," is that an increase?

Mr. BLAIR. It was an increase. It was an increase. Some mailers saw decreases in their mail, some saw no increases, others saw

some increases. But it was better reflected to represent the way that they actually mail and present their mail today. But you are right that periodicals has been declining as a part of volume over the last 5 years.

Mr. KUCINICH. Now, when you redesign, as you call it, your rate structure, do you take into account the possibility that the redesign of that structure could put some of these smaller magazines that are very price sensitive out of business?

Mr. BLAIR. We take into account that is part of the fair and equitable and part of the factors that we consider, so yes, we do, sir.

Mr. KUCINICH. So you are saying you consider it. So then if, in fact, this could drive people out of business, you have considered that?

Mr. BLAIR. Well, we considered that along with the others that are saying that they can be more efficient. And then if you have more efficient rates for more efficient ways of mailing and processing, you want to encourage that, as well, so we have to balance that against an efficient mail stream, as well.

Mr. KUCINICH. Let me provide some encouragement to you, sir, as a member of this committee, and that is that part of the first amendment debates that we have in this country from magazines and publications of all kinds representing great diversity of political opinion are enabled and, in effect, facilitated by access through the mail. To the extent that you raise the rates and take out of the reach of general circulation these magazines because of high pricing, you are proceeding in a way that is actually contrary, I would think, to the spirit of the Postal Service and to the spirit of the first amendment which relies on the Postal Service.

I would like your comment.

Mr. BLAIR. I think that you are right that we should and we do take into effect the editorial content and the need for diversity in the periodicals class, but we also take into effect that the law requires that mailers pay their fair share cost and that other mailers should not be cross-subsidizing. So it is a balance of the equities in this case, but we certainly take into account the factors that you mentioned.

Mr. KUCINICH. Well, Mr. Chairman, we well know that there are cross-subsidies that always go on with respect to the mail service, and the gentleman has recognized that they are aware of the effect that their rates would have on some of these smaller magazines.

Mr. Chairman, I am appealing to you as a member of this committee to hold a separate hearing on this issue, because this does relate to the capacity of a free and open debate that takes place in the diversity of magazines that are out there. I think it would be interesting to be able to have, as part of that discussion, the internal communications of Mr. Blair's office so we could see how this philosophy is reflected that he has just talked about, is reflected in the workings of their office, Mr. Chairman.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Kucinich. Let me assure you that the Chair is, indeed, sensitive to the issue that you raised, as well as the issue of special classes of mail, such as mail that is prepared by organizations like the National Federation of the Blind that is having some difficulty now with rates or with having to change the configuration of their packaging. So I would

agree with you that a full hearing on this matter is, indeed, appropriate, and the committee would be pleased to accommodate your request.

Mr. BLAIR. And, Mr. Chairman, could I just—

Mr. KUCINICH. Excuse me. I am having a colloquy here with my Chair, if I may. Mr. Chairman, I want to let you know how much your response is appreciated, not only by me but by people all across this country who are so concerned that their particular relationship that they have with a publication that relates to their political philosophy, and understanding this could be quite a diverse mix, is going to find an opportunity for expression before the Chair's committee and at the Chair's grace. I want to thank you very much for indicating a willingness to pursue that. Thank you.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Kucinich, and thank you for raising the issue.

Mr. Blair.

Mr. BLAIR. Yes, Mr. Chairman and Mr. Kucinich, I think it is important to note that periodicals as a class I think receives the lowest markup of any of the classes out there, and so the Commission has gone to great pains to make sure that we keep rates and rate shock as ameliorated as possible for that group.

Mr. KUCINICH. I thank the gentleman. And I want to thank the Chair for his response. Thank you.

Mr. DAVIS OF ILLINOIS. Thank you very much.

We shall now move to Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. I, too, want to thank you for this hearing.

I want to associate myself, since I didn't hear all of the comments of our panel, with the comments of my distinguished colleague from Maryland, Mr. Sarbanes. Our main post office just so happens to be in my District in Baltimore. So often what has happened is that Democrats have been accused, Mr. Chairman, of being anti-business, and that nothing upsets us more than that. Speaking of business, I just want to pick up where Mr. Kucinich left off.

One of my constituents, who is a businessperson who is doing an outstanding job, wrote me a letter. I just want to read part of it to Mr. Blair and others that may want to respond to this, because I think it brings the issue of businesses staying in business to the forefront. I, too, want to thank all of our postal employees for the job that they do every day. We take it for granted. We take our postal system for granted, and we should not do that.

According to this letter, which is dated back on October 5, 2006, it says: "The United States Post Office has proposed doubling the rate to deliver our product, a product that we have mailed for 20 years. This increase will devastate our business and will cause a substantial portion of our 220 employees and 150 temporary employees to lose their jobs. The United States Postal Service is a monopoly and by law has no competition. Its business practices are highly questionable. The United States Postal Service utilizes a piece of equipment that was designed to pass boxes through regular mail streams. it allows our box product, boxes holding CDs and others, to be priced as regular mail instead of a parcel delivery. In the latest rate case, they have called for removing the equipment

and the favorable rates associated with using it. Our product has been in the regular mail stream since the 1980's. This raises multiple questions." I am just going to point two out.

"How is it possible that new equipment for sorting mail cannot meet the U.S. Post Office's specifications for 10 years ago? Who determined the specs for the equipment? Isn't the Post Office the largest purchaser of machines that would sort mail?"

The other question is: "What other business facing their well-known troubles would eliminate a line of business? Included with our boxes is the elimination of CDs and DVDs in their current packaging. The U.S. Post Office needs more business and more mailings to cover their fixed costs, not less business."

Could you just comment on that, Mr. Blair?

Mr. BLAIR. I am not aware of the specific case that you mentioned.

Mr. CUMMINGS. I don't want you to, not necessarily the specific case, the general—and I do want to hear your answer—so often what happens is we make our rules in these lofty places, but the people who are really affected are the people who have to deal with the rules that we make from day to day. We go off to Wonder-Wonder Land, but there are businesses that are still struggling, trying to make it, and it is not easy to be in business today. So we are trying to figure out how do we keep our businesses not only surviving but thriving.

You can go on.

Mr. BLAIR. I think that what you need to realize, and I think this underscores the fact for need for postal reform. The current cost of service pricing that we do is intended to generate revenues that cover the cost for buying that level of mail service. So maybe for the writer of that letter that you got the Postal Service's costs may have increased that dramatically that it costs the Postal Service that much to carry those packets of CDs or those parcels of CDs. That would just be my idea at this point. But basically under a cost of service pricing you ask for the rates that cover those costs. But under the Postal reform legislation that was recently enacted with attempted to decouple rates from costs and say that the Postal Service would be capped at what they can raise their rates for that class.

I think that will go a long way toward addressing these problems in the future. While it doesn't do much for your constituent today, I think in the future it will say that you, as a businessman engaged in the mail stream, a businessperson in the mail stream, that you can have usual and predictable rate increases in the future.

I am not sure that really answers your question suitably, but it gives you an idea for what the efforts were over the last decade and where we are going to be moving forward.

Mr. CUMMINGS. Always remember that anybody who has been in business—I have been in business—a businessperson will tell you that the most important thing they need is predictability. They need to be able to figure it out because it affects everything they do. It affects their budget, how many employees they take on, the whole bit. And so one of the interesting things, as I see my time has run out, when we contacted the Postal Service and said what

can we do to help this constituent, they told us to just tell him to change the packaging. Well, he didn't have enough time to do that. In the meantime he sends, and many people, hard-working Americans who get up at 5 every day, working hard, may very well lose their job.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Cummings.

We do want to get to our next panel, but I need to ask at least a question, Mr. Potter.

I mentioned just a moment ago about these categories and classes of mail, and of particular concern do I have about the Federation of the Blind, that for a number of years has been able to get its mail out to its membership and to a category of individuals who have a certain kind of need, and we have not been able to work out to their satisfaction, I don't believe, or to my satisfaction, the ability to assist the continuation of a process for them. I think part of the problem has been that it is so specialized until some kinds of adjustments have to be made.

Mr. POTTER. If I could just comment and maybe put Congressman Cummings' issue into perspective, yes, businesses need predictability, and that is one of the things I think we want to make sure that we work out in the new law is work out a schedule of rate adjustments that would enable them to build changes in cost, whether up or down, into their budget process.

What happened with this last round of rates was the Postal Service made a proposal to the Postal Rate Commission at the time, now Regulatory Commission, and a lot of people budgeted against those new rates. Using a strict costing model, the Rate Commission increased the rates for a lot of mailers, and I believe the nonprofit mailers that the chairman and Congressman Cummings are talking about are those where they increased the rates beyond the Postal Service's proposal. They were not prepared to react. I think they were prepared to mail at our proposed rates, but not at the increased rates.

So our effort has been to try and keep everybody in the mail. We don't want people to walk away from the mail, but we have limited ability to appeal the rates that were given down, and so that is why we are attempting to work with the mailers to take what are many times greeting card boxes and convert them into a flat rate and put them into the mail stream.

The other thing that you are referring to I believe, and I don't know the specifics, but I will just describe to you what is going on. We have two different types of machines that sort flat rate mail, and flat rate is an oversized envelope or a magazine. We have one that is automated, called an automated flat sorter 100, that is very productive, and then we had a machine called the flat sorter 1,000, which was less productive. Over time, people got a greater discount for making their mail compatible with the more effective machine.

So what has happened is the mail for the other machine, the 1,000, has dried up. We have gotten our full benefit from that machine, but as that mail stream declines we are trying to move people into the more efficient mail stream.

The new equipment that we are planning, the FSS, the one that will walk-sequence mail, will accommodate that mail, but in the in-

terim it doesn't, and the rates reflect that change. So I hope that is a little fuller explanation of what I believe is going on.

I feel like you, that I am very concerned for those mailers and I wish we could have known in advance so that they could have made the adjustments necessary for this fall mailing season. I recognize the fall is their biggest opportunity to get vital funds that run a lot of these very, very important organizations for our society.

Mr. DAVIS OF ILLINOIS. Thank you very much.

Yes, Mr. Cummings?

Mr. CUMMINGS. Fifteen seconds? One of the things, even with all that has been said, this constituent said, you know, I will bend over backward, I will lose money, just get them to give me some time to make this adjustment. Basically, the answer was no. I mean, you just sat there and said how much you all want to work with our folks and whatever, and you can bet your bottom dollar it is just not my constituents and a constituent in Baltimore. There are business people all over this country. In some kind of way we have to help these folks, because they have employees who have to feed families, got to send kids to school. They have to make a dollar. If there is any way you can give these folks an incentive, here's a guy who says I feel like I am getting screwed, but at the same time I will do what I can to try to work with the Postal Service, and he still gets a no.

Mr. POTTER. I am in your camp. Let me just say, in the discussion about whether or not we could do that and take individual classes or people who are most affected by rate changes—some people got up to a 300 percent increase in rates. I mean, could we discriminate for them? If we didn't have a sound reason to delay the rates, I was told it was illegal to do so.

Mr. BLAIR. The law would prevent it.

Mr. POTTER. So I feel handicapped. Chairman Blair referred to the new law. That gives us a lot more flexibility to not be bound by some strict cost regimen and to take into account the needs of businesses and to transition rates in a graduated form and to signal to people that these changes are necessary to maintain our efficiency. What the Postal Service proposed was a movement to get more money where our costs were greater, but not the levels that some people experienced.

Again, we were advised by counsel that we had no legal ability to delay certain rates because of the level of increase.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Cummings.

Just so I can go home this weekend in peace, Mr. Potter, could you just outline those plans for Chicago and recommendations that you have made personally?

Mr. POTTER. I have been to Chicago twice, as the chairman knows, and I have walked the floor. What we are intending to do is, first of all, make sure that our staffing levels are up for the requirements so that we can deliver mail in a timely fashion. We are overhauling every piece of equipment in Chicago because some of it, unfortunately, was not well maintained. We are in the process of going station-by-station to look at our physical plants. Where they are not up to speed for our customers and our employees, we are in the process of doing that. In addition to that, we are looking

at the exchange of mail between the multiple facilities in the Chicago metro that exchange mail for Chicago residents. It is largely a busy hub, Irving Park Facility at the airport and downtown Curtis Collins facility, all new facilities, state-of-the-art, and ones that we need to reconfigure in order to serve the people better.

In addition to that, we are going on the street with 75 people who are going and checking our address data base to make sure that what is in our system will enable us to sort mail properly and in the right order for our city letter carriers.

Those are just kind of the higher-level things we are doing, but, bottom line is we are going to reconfigure that network, we are going to put fixes in place that will not just have a flash in the pan for Chicago. I was asked by a reporter when do you think Chicago's service will begin moving up, and I said 6 months, but the true test is 2 years from now, not 6 months from now. We are not going to walk away from Chicago. We are going to get it fixed.

I was the manager of Capital Metro operations when Baltimore was fixed, when Washington, DC, was fixed, so I believe I know a little bit about how to get this done, and you have m you personal commitment that I am going to be there until it is fixed.

Mr. DAVIS OF ILLINOIS. Thank you very much. I have taken some time, so, Mr. McHugh, do you have any final questions?

Mr. MCHUGH. That is very gracious, Mr. Chairman, but we do have three other panels and any other questions I believe we can submit for the record.

Mr. DAVIS OF ILLINOIS. Thank you very much.

I want to thank all member of the panel. I would just end this discussion by indicating that I am somewhat concerned about the new concept of contracting out and what that is going to really mean and how we defined it and some of the rationale that has been explained for it. I am sure that is something we will have further discussion about and try and see if we can't reach an amicable conclusion to it.

Thank you, gentlemen, very much. We appreciate your being with us.

And I would like to ask if our second panel will come and be seated, Mr. David Williams and Ms. Katherine Siggerud.

We want to apologize to all of those who have come to participate and couldn't find a seat. We will see if we can't make absolutely certain that when room assignments are made that everybody around here will know that postal issues have come front and center, and that we have to make additional space.

Mr. David Williams was sworn in as the second independent Inspector General for the U.S. Postal Service on August 20, 2003. He is responsible for a staff of more than 1,100 employees located in major offices nationwide that conducts independent audits and investigations, a work force of about 700,000 career employees, and nearly 37,000 retail facilities.

Ms. Katherine Siggerud is a Director in the Physical Infrastructure Issues Team at the Government Accountability Office [GAO]. She has directed GAO's work on postal issues for several years, including recent reports on delivery standards and performance, process and network realignment, contract and policies, semi-postal stamps, and biological threats.

We thank you both. Of course, as the usual custom is, we swear all witnesses in.

[Witnesses sworn.]

Mr. DAVIS OF ILLINOIS. The answer is in the affirmative, yes, and we thank you so much.

You know the normal approach, and I won't necessarily go through that, but we will go right to Inspector General Williams and proceed.

STATEMENTS OF DAVID C. WILLIAMS, INSPECTOR GENERAL, U.S. POSTAL SERVICE; AND KATHERINE A. SIGGERUD, DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

STATEMENT OF DAVID C. WILLIAMS

Mr. WILLIAMS. Thank you, Mr. Chairman and members of the subcommittee. I appreciate the opportunity to appear today to discuss the work of my office and my assessment of Postal Service challenges.

When I came to the Postal Service in August 2003 the OIG lacked the confidence of the Postal Service and Congress and the public. The past 3 years have been years of progress and accomplishment in restoring confidence by fundamentally strengthening planning and engaging stakeholders in clarifying our statutory role. We are now a performance-based organization aligned to mirror postal functions.

Our audit resources now focus on network optimization, revenue assurance, cost reduction, mail delivery operations, and data systems reliability. Our investigative resources focus on contracting, false disability claims, internal mail theft, and embezzlement. These changes have resulted in substantial increases to productivity.

Since I arrived, the audit staff has increased monetary benefits by 500 percent to over $441 million. During the same period, our investigators increased arrests from 6 to 277, and administrative cases referrals from 8 to over 1,900, with cost avoidance and fines of over $110 million. Last, new jurisdictional responsibility and resources were transferred from the Postal Service to the OIG.

The Postal Accountability and Enhancement Act represents the most significant modernization of postal governance in 35 years. Much is needed for the successful implementation of the act, and I assure you that my office is prepared to fulfill its new responsibilities.

From my comprehensive statement, I would like to focus on two areas. The first is the network optimization plan, which is going to be challenging, given the ongoing electronic communications revolution and the unpredictable ways mail volumes and mix are changing. Some mail is declining, some is increasing, and some is establishing a symbiotic relationship with electronic mail.

Streamlining efforts are occurring inside an environment of significant change. The Postal Service is on the edge of a $600 million annual savings opportunity with the new flats sequencing system, set to repeat the significant advance made when letters were first sorted by carrier route.

The Postal Service is also aggressively seeking cost opportunities with mailer discounts to keep large amounts of mail outside of upstream processing plants.

Stricter submission requirements will better align mail with postal equipment.

Last, we must consider enterprise resilience in the event of major disruptions. Natural disasters or acts of terrorism highlight the value of maintaining some redundancy if operations are disrupted or destroyed.

These variables, working alone or in combination, require an agile streamlining effort, classic models for large-scale projects that feature elaborate sequencing and require thousands of alterations when the model changes may not work well. The planning model needed is not that of a static blueprint, but what one might expect from an order of battle plan. The Postal Service needs to prepare and plan as best it is able, while understanding the change will occur the moment they step on to the field.

Once the build-down begins, it is essential that it continue its philosophy to avoid protracted, anemic staffing of an oversized network.

Financial viability is the second area I would like to focus on. In the last 4 years, Postal Service actions have taken it from over a $600 million net loss to a $900 million surplus, while retiring $11 billion debt. The success of the Postal Service's transformation efforts and savings from unnecessary CSRS payments are responsible; however, total labor costs are continuing to increase, from over $51 billion in 2001 to over $56 billion in 2006, despite significant staff reductions.

The Postal Service needs to continuously pull excess work hours from its mail processing plant as it introduces more automation and more work share discounts. Cross-reduction opportunities in delivery are available, also. Most delivery work hours are spent on the street without direct supervision. Management and control efforts have been expensive and not very effective. The Postal Service should seek new work rules that incentivize performance and that are self-policing.

The act imposes some transition costs. In particular, the Postal Service must make substantial yearly payments to the Retiree Health Benefit Fund. These payments will help secure long-term financial viability, but they are large expenses in the short term.

The new law also provides increased pricing flexibility, but to keep prices below the new caps aggressive efficiencies must address network streamlining and labor costs.

My office stands ready to support postal efforts and we are cognizant of our responsibility to continue to keep Congress fully and currently informed.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Williams follows:]

Hearing before the Subcommittee on Federal Workforce, Postal Service and the District of Columbia Committee on Oversight and Government Reform United States House of Representatives

Long Statement for the Record On the Status of the United States Postal Service

David C. Williams
Inspector General
United States Postal Service

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to submit my testimony concerning the United States Postal Service. I would like to report on the recent work of the Office of Inspector General (OIG), comment briefly on how the Postal Service and the OIG will be affected by passage of Public Law 109-435, and discuss the key challenges the Postal Service faces in the years ahead. But first, I would like to acknowledge the assistance that the Congress, the Postal Service Board of Governors, and the Postal Service provided to the OIG in resolving the long-standing issue concerning the statutory roles of the OIG and the U. S. Postal Inspection Service. Your assistance ensured that the OIG's role is in accordance with the intent of the Inspector General Act of 1978.

Recent OIG Contributions to the Postal Service

I became the Inspector General of the United States Postal Service in August 2003. The OIG at that time lacked the confidence of the Postal Service, the Congress, and the public. The past 3 years have been ones of progress and accomplishment as the OIG has taken steps to restore confidence. These have included fundamentally changing our planning, engaging all of our stakeholders in meaningful dialogue, fully clarifying our statutory role, and ensuring the work environment is one of productivity and balance. In addition, our office is fundamentally aligned to mirror the Postal Service; we established a virtual front office to reduce administration and increase the mission focus of the staff; and we are now a performance driven organization. These changes have been

extremely productive and beneficial for the OIG, the Postal Service, and our stakeholders.

Although our audit staff in numbers has almost remained the same since my arrival, the value of the audit work to the Postal Service has increased dramatically. The cumulative monetary benefits to the Postal Service have increased by 500 percent to over $441 million.

The OIG is partnered with the Postal Service in audit work and investigative activities using Value Proposition Agreements and a Countermeasures program, respectively. Value Proposition Agreements involve the Office of Audit and the Postal Service working together to identify audit areas that could yield savings and maximize the OIG's value to the Postal Service. Since their introduction 2 years ago, our Value Proposition Agreements have resulted in more than $273 million in savings for the Postal Service. We are continuing this Value Proposition work with the Postal Service and look forward to similar successes.

The Office of Investigations' (OI) recently created Countermeasures program involves a continuous examination of investigations to identify trends and a process to develop effective countermeasures to prevent or minimize future violations. Trend surveys are used to capture information on investigations. The OI then develops business cases for proposed countermeasures and works with the Postal Service to ensure proper implementation and monitoring of approved

countermeasures. For example, employee mail theft at a plant may be prevented or minimized with an enforced policy prohibiting employees from carrying personal items like a backpack or gym bag on the workroom floor and allowing only clear plastic bags for personal items. The Countermeasures group is also working closely with important mailers such as the Department of Veterans Affairs' Consolidated Mail Outpatient Pharmacy on proactive initiatives to more quickly identify non-receipt of prescription drugs and possible points of loss within the postal network.

Our Special Agents – federal law enforcement officers – assist the Postal Service in detecting and deterring misconduct and help maintain the integrity of the postal system and its employees. The vast majority of postal personnel are dedicated, hard-working public servants whose daily efforts instill trust in America's postal system. However, it takes only one incident of theft, fraud or misconduct to potentially diminish that trust. Investigations of these breaches of integrity are a key component in maintaining trust in the system and safeguarding the Postal Service's revenue and assets.

With more than 500 Special Agents located in 90 offices throughout the country, we investigate all types of employee misconduct, including theft of mail by Postal Service employees and contractors. We also investigate workers' compensation fraud, embezzlements, bribery, narcotics, and contract fraud, as well as other postal crimes. Our work shows that crime does not pay.

I would like to highlight some of our major investigations as examples of our continuing investigative successes. For example, as the result of a recent OIG investigation, a postal vendor agreed to settle a False Claims Act case concerning alleged false billings. While denying that it engaged in any wrongdoing, the vendor agreed to pay $10 million to the Postal Service. In another case, the Postal Service received $5 million in settlement from a postal automation equipment contractor, following an OIG investigation concerning defective cost and pricing data. In another case, we quickly identified a payment error by a contractor who was allegedly underpaying the Postal Service for paper purchased for recycling. As the result of this investigation, the Postal Service received nearly $400,000 initially, and will realize $3.5 million more over the life of the contract. In a tort claim investigation, the Postal Service avoided a $10 million claim after OIG investigators established the claim was fraudulent.
Last year, investigative efforts into workers' compensation fraud helped the Postal Service avoid $115 million in long-term compensation payments. In one case, an employee was paid more than $450,000 in disability payments since 1988 for an alleged back injury. However, investigators gathered evidence that contradicted these claims, including surveillance and photographs of the employee doing physical labor in his yard and community. The employee was convicted of fraud, sentenced to 12 months incarceration, and ordered to repay $242,000.

In another case, OIG Special Agents specializing in computer crimes uncovered an employee who failed to collect $450,000 in postage. In 2006, that postal employee was sentenced to 30 months in jail and 3 years of probation. Last year Special Agents completed 6,357 investigations, which resulted in 293 arrests and 237 indictments; 2,977 administrative actions; and $20.9 million in fines, restitutions, and recoveries.

The Postal Accountability and Enhancement Act

When President Bush signed the Postal Accountability and Enhancement Act (the Act) on December 20, 2006, it represented the most significant modernization of postal governance and regulation in 35 years. The Act fundamentally changes the way the Postal Service is regulated and the way the postal overseers operate. As the Inspector General, I assure you the OIG is ready to fulfill its responsibilities under the Act to:

- Regularly audit the data systems underpinning the Postal Service's costs, revenue, rates, and service reports;
- Prepare a report on workplace safety and workplace-related injuries; and
- Prepare a report assessing how the Postal Service administers certain rate deficiencies for non-profit mail.

The OIG has already started working on these projects. In fact, we recently published an audit of the Postal Service's Transportation Cost System and in May 2007 we plan to publish an audit of the Postal Service's Management

Operating Data System, a data system that has received significant criticism in past rate cases. The OIG also expects to continue its support of the Postal Service's external auditor. The OIG will devote significant resources to the Postal Service's transition to quarterly Securities and Exchange Commission (SEC)-style reporting and the requirement that it comply with Section 404 of Sarbanes-Oxley.

Major Challenges Confronting the Postal Service

In recent years, the Postal Service's financial position has been improving. In particular, over the last 4 years the Postal Service has retired $11 billion in debt, due in large part, to the reduced Civil Service Retirement System (CSRS) payments. As a result, for the first time since the postal reorganization in 1970, the Postal Service ended fiscal year (FY) 2005 with no debt obligations outstanding. During that same 4-year period, the Postal Service moved from a $676 million net loss to $900 million in net income. These positive financial results are due to successful efforts to generate revenue, reduce costs, focus on customer needs, and improve service.

Despite this progress, the Postal Service – with nearly $73 billion in annual revenue, rising costs, and approximately 700,000 career employees – faces many challenges if it is to continue to provide affordable mail service to the American public 6 days a week. These challenges include network optimization, cost control, revenue, and technology.

Network Optimization

The Postal Service recognizes the need to transform its mail processing and transportation networks into a 21st century operation. The new postal law also strongly encourages the Postal Service to streamline its network. The law gives the Postal Service 18 months to submit a strategy and plan for rationalizing the postal facilities network and removing excess processing capacity. The law also calls for annual reports on actions taken to realign or consolidate facilities. Any organization the size of the Postal Service – its network is one of the largest in the world with more than 37,000 facilities, 16,727 highway network routes, and 216,000 vehicles interfacing daily with the $900 billion a year domestic mail industry – would find this a daunting challenge.

Optimizing such a massive network might predictably suggest migrating towards a classic, large-scale planning strategy that emphasizes detailed sequencing and has the advantages of transparency and easier success measurement. Instead, the Postal Service has relied on an incremental approach to streamline its operations. This includes simplifying and downsizing the network, redefining the roles and functions of processing plants, and consolidating mail and transportation operations. Postal Service accomplishments over the last 7 years using this approach include:

- Reducing 180.5 million workhours (which equates to 86,779 staff years);
- Closing over 90 mail facilities;

- Converting over 30 facilities to a new network infrastructure; and
- Reducing highway contract routes by over 65 million miles.

The advantages to the Postal Service of the incremental approach include: (a) increasing network flexibility to allow for easier changes as demographics, mail mix, and technology evolve; (b) reducing risks inherent in attempting to make all network changes at once; (c) allowing testing for pilot projects in a more forgiving environment; (d) increasing local buy-in of network changes; and (e) generating incremental internal capital to cover the cost of network optimization.

Given the size, complexity, and expense of this effort, it appears that taking an incremental approach to the network changes represents an acceptable method for reducing inefficiencies and standardizing best operational practices. This approach is reasonable considering that other major government modernization efforts[1] that used traditional strategic planning approaches nevertheless experienced significant cost overruns and delays.

The Postal Service is currently working to develop a plan to comply with the law in streamlining its network. This network plan must also consider the need for enterprise resilience — the ability to continue to provide service despite natural or man-made disruptions. We continue to be involved in reviewing the Postal Service's efforts to consolidate its mail processing and facilities to determine

[1] Examples include the Internal Revenue Service, Federal Aviation Administration, and Department of Defense modernization projects.

whether the projected efficiency gains are based on reasonable assumptions and to assess the impacts on service.

Proper planning and oversight are essential to addressing the risks associated with incremental streamlining. These risks include: (a) local network changes might not be consistent and integrated with national strategy, creating disruptions in the network and affecting service; (b) stakeholder influences and pressure may delay or curtail consolidations; (c) piecemeal solutions to facility changes may result in inefficiencies; (d) time lags between staff reductions and facility closures may waste money and lower productivity; and (e) successes may be more difficult to identify.

The Postal Service also faces some operational challenges from their incremental approach to network optimization. They include:

- Maintaining service levels while transitioning from old networks to a new infrastructure.
- Streamlining and standardizing the mail processing and transportation networks by redefining the roles and functions of plants.
- Developing and deploying new mail processing technology to complement the network optimization.

As the Postal Service continues to streamline its mail processing and transportation network, the OIG will continue to assess these changes as it has

over the past several years. In the last 3 years, we have assisted the Postal Service in its network optimization modeling efforts, reported on accomplishments and challenges, and examined the Postal Service's overall network change process. Our work has assisted the Postal Service in identifying excess workhours worth $669 million, and in reducing transportation costs with an economic impact of more than $303 million. We have also assessed selected consolidations of individual mail processing facilities.

Cost Control

Cost control is often at the forefront of Postal Service news. In April 2002, the Postal Service's Transformation Plan inaugurated a significant effort to contain costs by increasing automation, improving productivity, redesigning logistical networks, optimizing the retail network, and retiring debt. Postal Service management committed to continue the transformation with its September 2005 Strategic Transformation Plan. In the first 3 years following the April 2002 plan, a reduction in CSRS payments of approximately $9.2 billion allowed the Postal Service to move from a net loss of $676 million in 2002 to a positive net income for each of the last 4 years. We believe the Postal Service is still faced with cost reduction challenges that in certain cases include regulatory restrictions such as:

- Each year the Postal Service adds almost 2 million new mail delivery points. While these new delivery points add significant costs, they also result in additional revenue. It is still critical that the Postal Service effectively manage delivery cost, which is 43 percent of operating costs, because mail delivery

requires a significant infrastructure investment of carriers, mail processing, transportation, and buildings. Historically, the Postal Service's business model relied on rising First-Class Mail® volume to cover the cost of operating the expanding delivery network. However, since 2001, First-Class Mail volume has decreased by more than 6.1 billion pieces while the delivery network expanded by more than 8 million new delivery points. The decline in First-Class Mail volume is due, in large part, to electronic diversion as businesses, nonprofit organizations, governments, and households increasingly rely on e-mail and other electronic means to conduct financial transactions and send correspondence. This dynamic was not, of course, anticipated in the 1970 business model. The Postal Service's Strategic Transformation Plan recognizes this challenge and looks to the streamlining of delivery routes and the consolidation of delivery points as ways to reduce delivery costs.

We recently conducted 15 audits under Value Proposition Agreements with the Postal Service to help them better manage delivery and retail utilization of workhours, costs, and retail service. This work showed the Postal Service could improve delivery operations by adequately reviewing mail volumes and data in delivery systems when determining daily workhours for carriers. We also found there were opportunities for the Postal Service to improve morning standard operating procedures, operating plans, volume recording, delivery point sequence, and matching workhours to workload. In addition, in certain

areas the standard staffing of retail windows was not always done and managers did not ensure the accurate recording of retail workhours. Postal management agreed with our findings and recommendations and was proactive in correcting deficiencies.

- One could question how many of the more than 27,000 post offices that largely comprise the Postal Service's delivery network are essential for mail service. Many small post offices are not strategically located because they were established before the introduction of modern transportation systems. In some areas, post offices are in close proximity to one another. This produces redundancy resulting in unnecessary facilities that may lose money. No other public or private entities are required to bear these costs. Customer service should always be of paramount concern to the Postal Service, but over-serving customers is not a sound business decision. The Postal Service should have the flexibility to consolidate facilities, if it makes business sense to do so.

In 2001, the Postal Service's career labor force was approximately 776,000 employees; today that number has shrunk to approximately 696,000. This labor trend is significant and encouraging, but total labor costs have continued to increase, from $51.4 billion in 2001 to $56.3 billion in 2006. Several factors have contributed to growing labor costs, such as increasing retiree and employee

health care costs, salary increases, and limited flexibility in how employees can be deployed.

A significant cost that continues to affect the Postal Service's bottom line is workers' compensation expenses for injured workers. The size of the bargaining unit workforce and nature of work performed are the primary factors that made the Postal Service the largest participant (47 percent of the total federal workforce cases) in the Department of Labor's Office of Workers' Compensation Programs in 2006. Although the Postal Service has taken positive steps over the past 3 years to reduce workers' compensation expenses, in chargeback year 2006 these expenses increased from $840 million to $884 million (5 percent).

Unionized Postal Service workers enjoy a unique status within the federal government because they have the right to negotiate compensation through collective bargaining under the National Labor Relations Act (NLRA). However, unlike private sector companies that are subject to the NLRA, Congress expressly forbade Postal Service employees and management two key collective bargaining tools: the right of employees to strike, and the right of management to implement its best and last final offer if impasse is reached. Instead, if collective bargaining negotiations do not result in agreement, arbitration ensues, resulting in a third-party arbitrator setting compensation and other contract terms for the parties through a binding arbitration award.

The new postal law provides for mediation if the Postal Service and union do not reach a negotiated agreement. If agreement still is not reached, binding arbitration continues to be the next statutory step. This arbitration process authorizes a three-person panel to decide on the disputed terms for a new agreement and offers few incentives for the parties to reach a negotiated settlement. Hopefully, the new postal law's provision for mediation will encourage the parties to reach agreements and maintain control over the process instead of throwing their disputes to third parties to decide.

The issue of greater flexibility in the deployment of the Postal Service workforce was discussed in the July 2003 Report of the President's Commission on the United States Postal Service. We agree that effective use of employees is essential to the process of building and maintaining a world-class workforce. However, one impediment to this is that the labor agreements between the Postal Service and three of its four major unions — the American Postal Workers Union, the National Postal Mail Handlers Union, and the National Association of Letter Carriers — state that "normally, work in different crafts, occupational groups or levels will not be combined into one job." This is a prohibition against what is referred to as "crossing crafts," which cannot be done except in accordance with certain restrictive provisions. This prohibition may slow the Postal Service's efforts to increase efficiencies in mail processing and delivery. Specifically, it limits the Postal Service's ability to make cross craft assignments even when there is no question the reason for the assignments is to avoid

duplication of effort and increase efficiencies. For example, if a postal clerk has insufficient work for an 8-hour workday, but there is a heavy workload elsewhere, management cannot readily assign the clerk to that work unless it is within their craft and at their pay grade. The Postal Service needs to explore with its unions ways it can more effectively use its most valuable asset — its employees.

Postal Service letter carriers are classified as city or rural carriers. Their compensation is collectively bargained between the Postal Service and their unions resulting in unique labor agreements. The city carrier's workweek is 40 hours per week, 8 hours per day. Overtime is paid in the event city letter carriers work beyond 8 hours in a day and 40 hours in a week. The rural letter carrier's compensation is determined on an evaluated route basis that includes mail counts, route miles, evaluated time as determined by the office, and the route time.

The management of letter carrier costs using city and rural classifications has proven challenging to the Postal Service. Extensive command, control, and surveillance systems are required to ensure efficient mail delivery because letter carriers receive limited direct supervision while delivering mail. To achieve a significant breakthrough in delivery costs, the Postal Service should explore an incentive-based letter carrier performance system, regardless of how delivery routes are currently classified.

The Act has removed two significant financial burdens from the Postal Service. The Postal Service no longer has to fund the CSRS escrow nor does it have to pay retirement costs associated with military service. However, the Act also adds financial challenges. The Postal Service must make significant payments into the new Postal Service Retiree Health Benefits Fund (PSRHBF) until 2016. For 2007, the Postal Service is required to make a $5.4 billion payment; it also had to transfer into PSRHBF the $3.0 billion placed in escrow in FY 2006. Under Generally Accepted Accounting Principles, the transfer appears as an FY 2007 expense. The net effect of these three items (PSRHBF payment, escrow savings, and CSRS savings) is that the Postal Service must pay $600 million more than it did under the old rules in FY 2007. In future years, however, the net effect should be positive as the combined escrow and CSRS military service payments were scheduled to become larger than the new PSRHBF payments. These payments benefit the Postal Service because it is paying down its future liabilities, but they are still large expenses in the short term.

The Postal Service bears the cost of non-competitive air carrier rates that other businesses do not incur in their normal operations. Although the Postal Service gained the freedom to contract for most domestic air transportation in 1985, as a result of airline deregulation, international air transportation rates are still mostly regulated. The Postal Service believes the international rates the U.S. Department of Transportation set are far higher than those it could negotiate on the open market. As a case in point, the Postal Service has some limited

freedom to contract air transportation for international parcels. When the Postal Service is able to use this exception, it pays less. The Postal Service is mandated to operate in a businesslike manner and purchasing air transportation should not be an exception. This kind of constraint hinders the kind of large and innovative solutions that are required for managing a fast-paced and largely unforgiving business environment. The Postal Service was not intended, nor is it able, to subsidize the airline industry.

Finally, Total Factor Productivity (TFP) is a measure of postal efficiency and cost-effectiveness. TFP is a ratio of output (workload) to input (resources). Workload includes the number of delivery points and mail volume. Resources include labor, materials, transportation, and capital. Postal Service productivity for the last 7 years has grown at an average annual rate of 1.5 percent. In 2006 the TFP improved by 0.4 percent. This is a notable achievement considering that from 1972 to 1999 the average annual growth rate was 0.3 percent. Historically, during times of increasing mail volume growth, the Postal Service experienced TFP gains. However, when mail volume growth slowed, so did productivity.

The recent annual TFP trend is encouraging as it seems to be a departure from the historic gain/loss cycle. However, sustaining the current trend may prove to be a challenge. The recent TFP increases are a direct result of the Postal Service's efforts to use fewer workhours. It may not be possible to continue cutting costs indefinitely. Labor comprises 79 percent of the total operating

expenses used by the Postal Service, and it has limited flexibility to manage labor costs. To sustain TFP growth, the Postal Service must have the freedom to adjust its network and staffing levels to operate at maximum efficiency. It is also important to ensure that TFP growth does not come at the expense of service.

Revenue

As with any business, the Postal Service must continually find ways to increase revenue. While doing so, the Postal Service must provide high-quality customer service and greater efficiency.

The Postal Service offers numerous products, but First-Class Mail and Standard Mail together account for 82 percent of the Postal Service's mail revenue and 94 percent of the mail volume. Since these two classes so strongly dominate postal finances, Postal Service revenue growth largely depends on their future prospects. It is well known that single-piece First-Class Mail revenue is in decline but less well known that pre-sorted First-Class Mail revenue is slowly growing. Of the two subclasses of Standard Mail, the Enhanced Carrier Route subclass, which is delivered to entire neighborhoods, has grown modestly in recent years, and regular Standard Mail, which is addressed to individuals, is doing even better. Although the current trends differ from the past they are not wholly discouraging.

However, most revenue comes from business mailers, to whom mail recipient satisfaction matters greatly. Making sure that mail is targeted effectively, so that households receive mail that interests them enhances the value of mail for both senders and recipients. As First-Class Mail volume stagnates, the Postal Service may find an increasing opportunity to generate revenue from advertising mail to support its network.

In addition, the Postal Service has identified opportunities to provide greater customer value and increase revenue through innovations, such as:

- Worksharing occurs when mailers (or mailer agents) do part of the work that the Postal Service itself would normally perform, usually in exchange for a discount. Worksharing is believed to have cut costs, spurred volume growth, and lowered postage rates. It has also resulted in a slow, de-facto privatization of the Postal Service that many believe has benefited mailers and the mailing industry as well as consumers and the economy at large. The idea is that if the mailers can do the activity at a lower cost than the Postal Service, then they should do it themselves and save the Postal Service the costs it would otherwise bear. Worksharing supports the principle of "lowest combined costs" such that the incentives exist to encourage the least expensive provider to do the work. For example, if presorting a piece of mail saves 10 cents in postal processing costs, but costs the mailer 5 cents to do, then it makes sense to provide a discount and let the mailer do the work. If a

discount of 10 cents or less is given to the mailer, then the Postal Service is at least no worse off than before the discount.

- Click-N-Ship® allows customers to pay for and print domestic and international labels with PC Postage using a credit card, or to print labels without postage, using their home or business computer and printer. Click-N-Ship® users can calculate postage rates, find ZIP Codes, and access online shipping history information. The system sends customers e-mail shipment notification, stores their credit card information, and validates and saves addresses in an online address book. In addition, the user is provided free Delivery Confirmation™ for Priority Mail® and online purchase capability for USPS insurance.

- Customized MarketMail® (CMM®) offers Direct Mailers the opportunity to creatively capture a target audience. CMM is an advertising mail option that permits the mailing of any shape and virtually any material (paper, foam, cardboard, cardstock, rubber, and plastic). This mail may contain enclosures as well as product samples. It allows advertisers to differentiate their product in the mailbox.

- Negotiated Service Agreements (NSAs) are customized and intended to be mutually beneficial contractual agreements between the Postal Service and a specific mailer (customer or organization). An NSA provides for customized

pricing, rates, and classifications under the terms and conditions established in the NSA and may include modifications to current mailing standards and other postal requirements. Any mailer may initiate an NSA discussion with the Postal Service.

We have done and are continuing to do audit and investigative work pertaining to a number of revenue areas and initiatives, to help ensure that the Postal Service's revenue is protected and that it is maximizing its revenue potential to ensure profitability.

Financial forecasting is essential to the ratemaking process and for maintaining profitability/viability. However, historically the Postal Service has encountered difficulties in accurately forecasting revenue, volume, and income, especially given market fluctuations, such as the decline of First-Class Mail and economic cycles that affect advertising mail. The Postal Service must find, as private industry does, ways to mitigate undue influences so that forecasting is more accurate.

In contrast to the forecasting difficulties, the Postal Service has continued to improve in disclosing financial information. In 2004, the Postal Service began SEC-type financial reporting. In addition, the Postal Service also reports cost and revenue data in great detail to the Postal Regulatory Commission as part of the rate setting process. In 2005, the Postal Service initiated steps towards

Sarbanes-Oxley Section 404 compliance by documenting major processes at its Accounting Service Centers. After passage of the Act, the Postal Service accelerated its efforts to be fully compliant by September 30, 2010. The OIG is currently coordinating with postal management and Ernst & Young to assist in ensuring compliance by the September 30, 2010, deadline.

In 2006, debt was influenced by the requirements of Public Law 108-18, which required that the "savings" the Postal Service realizes[2] from the CSRS payment be held in escrow and not be obligated or expended until otherwise provided for by law. For 2006, the projected cash flow from operations, after funding the escrow requirement (estimated at $3.1 billion) would not be sufficient to cover capital investments. A projected borrowing of at least $1 billion was needed to make up the shortfall. At the end of 2006, the Postal Service's debt was $2.1 billion, a 110 percent increase over the projected debt. In 2007 and beyond, debt levels will be influenced by the PSRHBF (until 2016), the ability to operate at close to break even, and the amount of capital investment required to continue its efforts to streamline operations.

Technology

Between FY 2000 and FY 2006, the Postal Service approved $5.8 billion in engineering investments that are expected to produce $19 billion in savings over their useful life. The Postal Service generally does not invest in automation

[2] The difference between the contributions the Postal Service would have made to the Civil Service Retirement and Disability Fund had the legislation not been enacted and the contributions it now makes under the law.

equipment unless it can be expected to generate at least a 20 percent return on investment. With overall volume levels growing slowly, automation has facilitated cost cutting in workhours for processing and delivery operations.

Our independent audit and investigative work in postal technology helps assure that the decision making and deployment processes are sound while protecting the Postal Service in its contracting process. Our work has resulted in significant process improvements and monetary savings for the Postal Service.

The Postal Service continues to make significant strides in automating mail processing. This can be seen in the improving flats and parcel technology,[3] which is maturing and benefiting from technology adapted from letter automation systems. Future plans call for developing and deploying new or improved automation and mechanization equipment that will increase operating efficiency and productivity.

Over the years, letter mail technology has increased the Postal Service's productivity by sorting mail to delivery walk sequence, thereby eliminating much of the manual handling of this mail. Sorting mail by automation is more than 10 times cheaper than manual processing – it costs $5 to sort 1,000 letters through automation versus more than $55 to sort the same amount manually. As letter mail technology has matured, investments have focused on software

[3] Flat-size mail exceeds the dimensions for letter-size mail. Parcel mail does not meet the mail processing category of letter-size mail or flat-size mail.

improvements to increase address readability, reduce error rates, and further eliminate workhours required for manual handling.

In FY 2006, the Board of Governors approved the purchase of mail processing equipment called the Flats Sequencing System. This equipment is designed to put flat mail, such as catalogs and magazines, in delivery route sequence for the letter carrier. This will eliminate the need for the letter carrier to manually sort this type of mail. The Postal Service anticipates this technology will provide annual operating savings of approximately $612.5 million.

The Postal Service continues to pursue new technologies that improve existing mail processing systems. The Postal Automated Redirection System (PARS) and optical character reader (OCR) enhancements are additional examples of initiatives to further improve mail processing efficiency. PARS improves the processing of forwarded mail by intercepting the mail before it is delivered to an old address. OCR enhancements, as technology improves, will allow mail processing machines to read mailing addresses better and faster, thereby increasing processing speed while reducing errors.

While technology breakthroughs in the Postal Service are significant, like certain other federal departments, the Postal Service has become increasingly dependent on a few contractors. This dependence on limited competition increases the risk of higher cost and service disruption. Furthermore, the

contractors generally own proprietary rights to software and licensing. To their credit, the Postmaster General and Governors have raised this concern and are exploring ways to mitigate risks.

In conclusion, the Postal Service made significant improvements in overall operations over the last 3 years by streamlining operations, reducing costs, and initiating significant restructuring. Yet significant challenges remain, not the least of which are:

- The extremely dynamic environment in which it operates, especially compared to the more stable environment in which most other government entities function.
- Continuously advancing technological capabilities.
- The constantly changing mix of volume and types of mail, in the midst of a still ongoing communications revolution.
- Evolving relationships with mailers in regards to discounts and mail preparation and submission requirements.

The Postal Service must continue to respond to these challenges, with the support of Congress in certain areas, to remain a viable business providing universal mail service at affordable prices to the American public.

Mr. DAVIS OF ILLINOIS. Thank you very much.

We will go to Ms. Siggerud.

STATEMENT OF KATHERINE E. SIGGERUD

Ms. SIGGERUD. Thank you, Chairman Davis and members of the subcommittee. Thank you for your invitation to testify at this first oversight hearing for the U.S. Postal Service since the postal reform law was passed.

To begin, I want to recognize the Congress' efforts in passing this law that provides tools for establishing an efficient, flexible, transparent, and financially sound Postal Service, one that can more effectively operate in an increasingly competitive environment.

My remarks today will focus on four areas: first, why GAO recently removed the Service's transformation efforts and outlook from GAO's high-risk list; second, the Service's current financial condition; third, opportunities and challenges facing the Service today; and, finally, issues and areas for continued congressional oversight.

First, when we placed the Service on our high-risk list in 2001, we stated that a structural transformation was needed to address the financial, operational, and human capital challenges that threatened its ability to deliver on its mission. We use this list to bring attention to issues that we think need action by the administration and the Congress. We decided to remove the Postal Service from the high-risk list because of significant changes that occurred. Specifically, the Service issued a transformation plan in 2002 and demonstrated a commitment to the plan by cutting costs, improving productivity, downsizing its work force, and improving its financial reporting.

The 2003 law reduced the Service's payments for pension obligations, allowing it to achieve record net income, repay debt, and delay rate increases.

Elements of the 2006 postal reform law that are responsive to our concerns include: first, a framework for modernizing the rate-making process; second, an opportunity to preserve affordable universal service by reassessing customer needs and identifying efficiencies; third, recognition of the Service's long-term financial obligations by pre-funding retiree health benefit obligations, resulting in short-term costs but long-term benefits; and, fourth, enhanced transparency and accountability.

The Service's financial condition will be affected by the postal reform law and the upcoming rate increase. The law has better equipped the Postal Service to control its costs and operate on a financially sound, businesslike manner than at any time since the Service's inception. It places the Service on the path to eliminating multi-billion-dollar retiree health obligations, which in turn provides an opportunity to better position the Service financially in the long term.

Changes to Postal Service finances this year, besides the prefunding I have already mentioned and the transferring of the military pension, include expending escrow funds and eliminating future escrow payments and eliminating certain annual pension funding requirements.

The position expects to lose $5.2 billion this year, largely due to a one-time expending of the $3 billion escrowed last year and then transferred this year to the Retiree Health Benefit Fund, and the additional contribution to this fund the Service must make. The Service plans to borrow $1.8 billion, $600 million more than it had originally planned for this year.

Nevertheless, other expenses and revenues have tracked closely to projections. Factors that could still affect the Service's finances are the impact of the recent rate increase, changes in fuel prices, and resolution of certain labor agreements.

Although we removed the Service from our high-risk list, there are continuing and new challenges. These include: generating sufficient revenues to cover costs as the mail mixes changes; controlling costs, particularly for compensation and long-term health benefits; and improving productivity while operating under a price cap structure; promoting the value of mail while providing affordable, quality service; and establishing mechanisms to measure and report performance; providing useful and reliable financial data; and managing the Service's infrastructure and work force to respond to operational needs and financial challenges.

The reform law provides opportunities, tools, and flexibilities to address these challenges. A series of new regulations, frameworks, and studies over the next few years for both the PRC and the Service will be key to implementing this law.

Finally, with regard to potential areas for congressional oversight, two particularly important areas are ensuring the Service's future financial condition remains sound and ensuring that the new legal and regulatory requirements are carried out in accordance with the intent of the postal reform law.

Other areas that warrant continued monitoring include: first, the impact of the upcoming rate increases on mail volumes, mailers, and the Service's financial condition; second, actions to establish the new price-setting framework; third, the Service's ability to operate under a price cap, while some of its cost segments are increasing above the rate of inflation; fourth, actions to establish modern service standards, monitor delivery performance, and the Service's plan for meeting those standards; and, fifth, the Service's ability to provide high-quality delivery service as it takes actions to reduce costs and realign its infrastructure and work force.

The successful transformation of the Postal Service will depend heavily upon innovative leadership by the Postmaster General and the chairman of the PRC and their ability to work effectively with their employee organizations, employees, the mail industry, Congress, and the general public.

Mr. Chairman, this concludes my statement. I am happy to answer any questions the subcommittee may have.

[The prepared statement of Ms. Siggerud follows:]

United States Government Accountability Office

GAO

Testimony

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

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U.S. POSTAL SERVICE

Postal Reform Law Provides Opportunities to Address Postal Challenges

Statement of Katherine Siggerud, Director
Physical Infrastructure Issues

GAO-07-684T

April 17, 2007

GAO
Accountability Integrity Reliability

Highlights

Highlights of GAO-07-684T, a testimony before the Subcommittee on the Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, U.S. House of Representatives

U.S. POSTAL SERVICE

Postal Reform Law Provides Opportunities to Address Postal Challenges

Why GAO Did This Study

When GAO originally placed the U.S. Postal Service's (the Service) transformation efforts and long-term outlook on its high-risk list in early 2001, it was to focus urgent attention on the Service's deteriorating financial situation. Aggressive action was needed, particularly in cutting costs, improving productivity, and enhancing financial transparency. GAO testified several times since 2001 that comprehensive postal reform legislation was needed to address the Service's unsustainable business model, which assumed that increasing mail volume would cover rising costs and mitigate rate increases. This outdated model limited its flexibility and incentives needed to realize sufficient cost savings to offset rising costs, declining First-Class Mail volumes, unfunded obligations, and an expanding delivery network. This limitation threatened the Service's ability to achieve its mission of providing affordable, high-quality universal postal services on a self-financing basis.

This testimony will focus on (1) why GAO recently removed the Service's transformation efforts and outlook from GAO's high-risk list, (2) the Service's financial condition in fiscal year 2007, (3) the opportunities and challenges facing the Service, and (4) major issues and areas for congressional oversight. This testimony is based on GAO's past work, review of the postal reform law, and updated information on the Service's financial condition.

www.gao.gov/cgi-bin/getrpt?GAO-07-684T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Katherine Siggerud at (202) 512-2834 or siggerudk@gao.gov.

What GAO Found

Key actions by both the Service and Congress have led GAO to remove the Service's transformation efforts and long-term outlook from its high-risk list in January 2007. Specifically, the Service developed a Transformation Plan and achieved billions in cost-savings, improved productivity, downsized its workforce, and improved its financial reporting. Congress enacted a law in 2003 that reduced the Service's annual pension expenses, which enabled it to achieve record net incomes, repay debt, and delay rate increases until January 2006. Finally, as illustrated in the table, the postal reform law enacted in December 2006 provides tools and mechanisms that can be used to address key challenges facing the Service as it moves into a new regulatory and increasingly competitive environment.

The two key factors that will affect the Service's financial condition for this fiscal year are the new reform law and new postal rates that go into effect in May. The reform law increases the costs of funding retiree health benefits but provides opportunities to offset some of these cost pressures through efficiency gains and eliminating certain pension payments. For the rest of the year, Service officials do not expect significant changes from its projected expenses and revenues. Other factors, such as costs for fuel or labor resolutions varying from plan, could affect the Service's projected outcome for this fiscal year.

Postal Reform Law Provides Opportunities to Address Challenges

Challenges facing the Service	Opportunities to address challenges
Generating sufficient revenues to cover costs as the mail mix is changing.	Provides price-setting flexibility and allows the Service to retain earnings.
Controlling costs, particularly for compensation and long-term health benefits, and improving productivity.	Encourages the Service to reduce costs and operate more efficiently in areas such as realigning its network and workforce.
Maintaining affordable, reliable service and establishing reliable mechanisms to measure and report service performance.	Establishes service standards and monitoring by the new Postal Regulatory Commission (PRC).
Providing useful and reliable financial data to assess performance.	Establishes new reporting, accounting, and ratemaking data requirements.
Managing its workforce to respond to operational changes.	Requires a plan with the Service's vision for realigning its infrastructure and workforce, and the resulting impacts on its workforce.

Source: GAO.

Congress's continued oversight of the Service's transformation is critical at this time of significant changes for the Service, PRC, and mailing industry. Also, key to a successful transformation is innovative leadership by the Postmaster General and the PRC Chairman and their ability to work effectively with stakeholders to realize new opportunities provided under the postal reform law. GAO has identified key issues and areas for oversight related to implementing the reform law and new rate-setting structure, as well as other challenges to ensure the Service remains financially sound.

Chairman Davis, Representative Marchant, and Members of the Subcommittee:

I am pleased to be here today to participate in this oversight hearing for the U.S. Postal Service (the Service). To begin, I want to acknowledge Congress's efforts in passing comprehensive postal reform legislation.[1] The Postal Accountability and Enhancement Act (the act) provides tools and mechanisms that can be used to establish an efficient, flexible, fair, transparent, and financially sound Postal Service—a Service that can more effectively operate in an increasingly competitive environment not anticipated under the Postal Reorganization Act of 1970. Effective collaboration among the Service, the newly established Postal Regulatory Commission (PRC), mailers, and employee organizations can help to facilitate the successful implementation of the act by achieving a greater understanding of each other's changing needs and operations, and how they correspond to the American public's need for the continued provision of affordable, high-quality postal services.[2] My remarks today will focus on (1) why we recently removed the Service's transformation efforts and outlook from GAO's high-risk list, (2) the Service's financial condition in fiscal year 2007, (3) the opportunities and challenges facing the Service, and (4) major issues and areas for continued congressional oversight.

In summary:

When we originally placed the Service's transformation efforts and long-term outlook on our high-risk list in early 2001, we stated that a structural transformation would be needed to address the growing financial, operational, and human capital challenges that threatened its mission to provide affordable, high-quality universal postal services on a self-financing basis.[3] This designation would help raise the urgency of taking actions to address these challenges before the situation escalated into a crisis where the options for action could be more limited. Since that time, key actions by both the Service and Congress have improved the Service's financial, operational, and human capital condition and outlook.

[1]Pub. L. No. 109-435: The Postal Accountability and Enhancement Act, enacted Dec. 20, 2006.

[2]The act renames the Postal Rate Commission as the Postal Regulatory Commission. We will use the abbreviation PRC to represent both.

[3]GAO, *U.S. Postal Service: Transformation Challenges Present Significant Risks*, GAO-01-598T (Washington, D.C.: Apr. 4, 2001).

Specifically, the Service's management issued a Transformation Plan in 2002 that outlined steps to guide it in addressing its challenges and has demonstrated a commitment to implementing the Plan by cutting costs, improving productivity, downsizing its workforce, and improving its financial reporting. Further, a statute enacted in 2003 reduced the Service's annual pension expenses, which allowed the Service to achieve record net income, repay debt, and delay rate increases until January 2006.[4] Comprehensive postal reform legislation was enacted in December 2006 that among other factors, provides:

- a framework for modernizing the Service's rate-setting process;
- an opportunity to preserve affordable universal service by reassessing the future needs of postal customers and taking actions to increase value and efficiencies throughout the postal network—fundamental principles of functioning in a competitive environment;
- recognition of the Service's long-term financial obligations by prefunding retiree health benefit obligations, which will result in short-term cost increases for the Service, but over the long-term this action improves the fairness and balance of cost burdens for current and future ratepayers;
- for a transfer of the obligation to fund civil service pension payments attributable to past military service from postal ratepayers to taxpayers;[5] and
- enhanced transparency and accountability by requiring that the Service collect, track, and report financial and service performance information, including the creation and reporting of modern service standards.

Based on these actions, we determined that sufficient progress has been made to warrant the removal of the Service from our high-risk list in January 2007. We recognize, however, that the Service continues to face challenges to maintain its viability as it implements significant changes under the new law and will further discuss these challenges below.

[4]Pub. L. No. 108-18: Postal Civil Service Retirement System Funding Reform Act of 2003.

[5]Pub. L. No. 108-18 shifted the responsibility for funding benefits attributable to military service from taxpayers to postal ratepayers.

The Service's financial condition for the current fiscal year has been affected by the act, which, along with the ensuing rate increase, will continue to affect its near- and long-term financial outlook. Specifically, changes to either projected or actual Postal Service payments that result from this act include:

- accelerating funding of the Service's retiree health benefit obligations,
- expensing funds previously set aside in escrow (transferring them to the Treasury) and eliminating future escrow payments,
- transferring funding for selected military service benefits back to the Treasury, and
- eliminating certain annual Civil Service Retirement System (CSRS) pension funding requirements.

Since the law was enacted, the Service has updated its expense projections for fiscal year 2007. To date, those expenses not directly impacted by the 2006 Act and its total revenues have tracked closely to budgeted estimates. For the remainder of the fiscal year, Service officials do not expect significant changes from projected expenses, and still expect to meet revenue targets—even though the rate decision approved by the PRC was different than what the Service requested.[6] These officials did acknowledge, however, that other factors could have a favorable or unfavorable impact on the Service's projected net loss for the year, such as the effect of rate increases on mail volumes, changes in fuel prices, and resolution of certain labor agreements. The Service is planning to borrow $1.8 billion this year, which will push its total outstanding debt to almost $4 billion to meet short-term cash flow needs that come at year end.

As the Service transitions to its new statutory framework in an increasingly competitive environment, it will continue to face financial, operational, and human capital challenges. Table 1 illustrates how the legislation provides opportunities to address some of these challenges.

[6]Higher postal rates for most mail classes will be implemented on May 14, 2007, including an increase in the price of a First-Class stamp from 39 to 41 cents. Rates for Periodicals (e.g., magazines, newspapers, etc.), however, will not increase until July 15, 2007, due to the need for more time to prepare for implementation by the Service and Periodical mailers. A detailed explanation of the recent rate developments are covered later in the testimony.

Table 1: Reform Legislation Provides Opportunities to Address Continuing Challenges

Challenges facing the Service	Opportunities to address challenges
Generating sufficient revenues to cover costs as the mail mix is changing.	Provides price-setting flexibility and allows the Service to retain earnings.
Controlling costs, particularly for compensation and long-term health benefits, and improving productivity.	Encourages the Service to reduce costs and operate more efficiently in areas such as realigning its network and workforce.
Maintaining affordable, reliable service and establishing reliable mechanisms to measure and report service performance.	Requires the Service to establish service standards in consultation with the new Postal Regulatory Commission, which will annually report on the Service's performance against these standards.
Providing useful and reliable financial data to assess performance to management, regulators, and oversight bodies.	Establishes new reporting, accounting, and ratemaking data requirements.
Managing its workforce to respond to operational needs.	Requires a plan to describe the Service's vision for realigning its infrastructure and workforce, including the impacts of facility changes on its workforce and whether the Service has sufficient flexibility to make needed workforce changes.

Source: GAO.

Continued oversight will be necessary to help ensure the Service's future financial condition remains sound and that the intent of the act is followed throughout implementation. In particular, we have identified major issues considered significant by various postal stakeholders, as well as areas for continued oversight including:

- the effect of the upcoming rate increases and statutory changes on the Postal Service's financial condition;
- the impact of the Service's decision on whether or not to submit a rate filing later this year under the old rate structure;
- actions by the PRC to establish a new price-setting and regulatory framework;
- the Service's ability to operate under an inflationary price cap while some of its cost segments are increasing above the rate of inflation;
- actions by the Service, in consultation with the PRC, to establish modern service standards, and the Postal Service's plan for meeting those standards;
- the Service's ability to provide high-quality delivery service as it takes actions to reduce costs and realign its infrastructure and workforce; and

- the PRC's development of appropriate accounting and reporting requirements aimed at enhancing transparency and accountability of the Service's internal data and performance results.

The successful transformation of the Postal Service will require innovative leadership by the Postmaster General and the Chairman of the PRC, and their ability to work effectively with their employees, the mailing industry, and the general public. We are encouraged by the Service's ongoing efforts to facilitate workgroups with participants from the mailing industry that will make recommendations regarding new service standards and measures. It will be important for all postal stakeholders to take full advantage of the unique opportunities that are currently available by providing input and working together, particularly as challenges and uncertainties will continue to threaten the Service's financial condition and outlook.

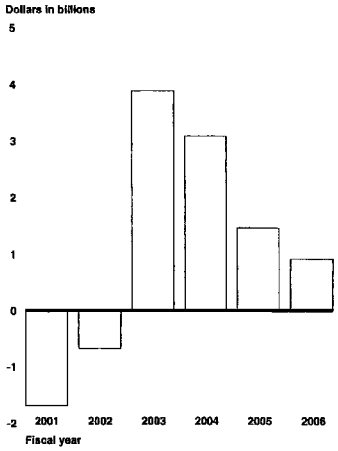
Recent Actions Warranted the Postal Service's Removal from Our High-Risk List

Several actions—both by the Service and the Congress—led us to remove the Service's transformation efforts and long-term outlook from our high-risk list. In 2001, we made this designation because the Service's financial outlook had deteriorated significantly. The Service had a projected deficit of $2 billion to $3 billion, severe cash flow pressures, debt approaching the statutory borrowing limit, cost growth outpacing revenue increases, and limited productivity gains. Other challenges the Service faced included liabilities that exceeded assets by $3 billion at the end of fiscal year 2002 major liabilities and obligations estimated at close to $100 billion, a restructuring of the workforce due to impending retirements and operational changes, and long-standing labor-management relations problems. We raised concerns that the Service had no comprehensive plan to address its financial, operational, or human capital challenges, including its plans for reducing debt, and it did not have adequate financial reporting and transparency that would allow the public to understand changes in its financial situation. Thus, we recommended that the Service develop a comprehensive plan, in conjunction with other stakeholders, which would identify the actions needed to address its challenges and provide publicly available quarterly financial reports with sufficient information to understand the Service's current and projected financial condition. As the Service's financial difficulties continued in 2002, we concluded that the need for a comprehensive transformation of the Service was more urgent than ever and called for Congress to act on comprehensive postal reform legislation. The Service's basic business model, which assumed that rising mail volume would cover rising costs and mitigate rate increases, was

outmoded as First-Class Mail volumes stagnated or deteriorated in an increasingly competitive environment.

Since 2001, the Service's financial condition has improved and it has reported positive net incomes for each of the last 4 years (see fig. 1).

Figure 1: Recent Postal Service Net Incomes



Source: Postal Service Annual Reports.

The Service has made significant progress in addressing some of the challenges that led to its high-risk designation. For example, the Service's management developed a Transformation Plan and has demonstrated a commitment to implementing this plan. Since our designation in 2001, the Service has:

- Reduced workhours and improved productivity: The Service has reported productivity gains in each year. According to the Service, its productivity increased by a cumulative 8.3 percent over that period, which generated $5.4 billion in cost savings. The Service reported eliminating over 170

million workhours over this period, with a 4.5 million workhour reduction in fiscal year 2006.

- Downsized its workforce: The Service has made progress in addressing some of the human capital challenges associated with its vast workforce, by managing retirements, downsizing, and expanding the use of automation. At the end of fiscal year 2006, the Service reported that it had 696,138 career employees, the lowest count since fiscal year 1993. Attrition and automation have allowed the Service to downsize its workforce by more than 95,000, or about 10 percent, since fiscal year 2001.

- Enhanced the reporting of its financial condition and outlook: The Service responded to recommendations we made regarding the lack of sufficient and timely periodic information on its financial condition and outlook that is publicly available between publications of its audited year-end financial statements by enhancing its financial reporting and providing regular updates to the financial statements on its Web site.[7] The Service instituted quarterly financial reports, expanded the discussion of financial matters in its annual report, and upgraded its Web site to include these and other reports in readily accessible file formats.

The 2003 pension act provided another key reason for why we removed the high-risk designation.[8] Much of the Service's recent financial improvement was due to the change from this law that reduced the Service's annual pension expenses. Between fiscal years 2003 and 2005, the Service had a total of $9 billion in decreased pension expenses when compared to the annual expenses that would have been paid without the statutory change. This change enabled the Service to significantly cut its costs, achieve record net incomes, repay over $11 billion of outstanding debt, and delay rate increases until January 2006.

The Service's improved financial performance and condition during this time was also aided by increased revenue generated from growing

[7]GAO-01-598T; GAO, *U.S. Postal Service: Deteriorating Financial Outlook Increases Need for Transformation*, GAO-02-355 (Washington, D.C.: Feb. 28, 2002); *U.S. Postal Service: Accounting for Postretirement Benefits*, GAO-02-916R (Washington, D.C.: Sept. 12, 2002); *U.S. Postal Service Actions to Improve Its Financial Reporting*, GAO-03-26R (Washington, D.C.: Nov. 13, 2002).

[8]The Postal Service Civil Service Retirement System Funding Reform Act of 2003 (Pub. L. No. 108-18) was enacted in response to the Office of Personnel Management's analysis, performed at our request, which concluded that the Service was on course to overfund its pension payments.

volumes of Standard Mail (primarily advertising) and rate increases in June 2002 and January 2006. Standard Mail volumes grew by almost 14 percent from fiscal year 2001 to 2006, and Standard Mail revenues, when adjusted for inflation, increased by over 11 percent during the same time period. In June 2002, the Service implemented a rate increase (the price of a First-Class stamp increased from 34 cents to 37 cents) to offset rising costs. In January 2006, the Service implemented another rate increase (the price of a First-Class stamp increased from 37 cents to 39 cents) to generate the additional revenue needed to set aside $3.0 billion in an escrow account in fiscal year 2006 as required by the 2003 pension law. Revenues in fiscal year 2006 increased by about 4 percent from the previous year due largely to the January 2006 rate increase.

The passage of the recent postal reform legislation was another reason why we removed this high-risk designation. Although noticeable improvements were being made to the Service's financial, operational, and human capital challenges, we had continued to advocate the need for comprehensive postal reform legislation.[9] After years of thorough discussion, Congress passed a comprehensive postal reform law in late December 2006 that provides tools and mechanisms that can be used to establish an efficient, flexible, fair, transparent, and financially sound Postal Service. Later in this statement, I will discuss how some specific tools and mechanisms can be used to address the continuing challenges facing the Service.

The Postal Service's Current Financial Condition

The Service's financial condition for fiscal year 2007 has been affected by the reform act, which, along with the May change in postal rates, will continue to affect its near- and long-term financial outlook. The Service will benefit financially from an increase in postal rates in May averaging 7.6 percent. Key steps in the rate process are provided in appendix I. The Service is estimating that it will gain an additional $2.2 billion in net income in fiscal year 2007 as a result of the new rates. The recent rate case, in addition to generating additional revenues, took significant strides

[9]GAO, *U.S. Postal Service: Bold Action Needed to Continue Progress on Postal Transformation*, GAO-04-108T (Washington, D.C.: Nov. 5, 2003); *Need for Comprehensive Postal Reform*, GAO-04-455R (Washington, D.C.: Feb. 6, 2004); *U.S. Postal Service: Key Elements of Comprehensive Postal Reform*, GAO-04-397T (Washington, D.C.: Jan. 28, 2004); *U.S. Postal Service: Key Reasons for Postal Reform*, GAO-04-565T (Washington, D.C.: Mar. 23, 2004); *U.S. Postal Service: Despite Recent Progress, Postal Reform Legislation Is Still Needed*, GAO-05-453T (Washington, D.C.: Apr. 14, 2005).

in aligning postal rates with the respective mail handling costs. Some rate increases are particularly large—i.e., some catalog rates may increase by 20 to 40 percent. The new rates structure is aimed at providing the necessary incentives to encourage efficient mailing practices (e.g., shape, weight, handling, preparation, and transportation) and thereby encourage smaller rate increases and steady mail volumes in the longer run.

At the beginning of fiscal year 2007 (before the enactment of the reform law), the Service expected to earn $1.7 billion in net income, which reflected the additional revenue the Service estimated it would receive from the May increase in postal rates. The Service, however, planned to increase its outstanding debt of $2.1 billion at the end of fiscal year 2006 by an additional $1.2 billion in fiscal year 2007 in order to help fund the expected $3.3 billion escrow requirement for 2007.

Since enactment of the reform law, the Service has updated its expense projections. While the Service's total expenses for fiscal year 2007 have been affected by passage of the act, those expenses not directly related to the act and total revenues have tracked closely to plan. The Service currently is estimating an overall fiscal year 2007 net loss of $5.3 billion, largely due to changes in either projected or actual Postal Service payments as a result from the act including:

- Accelerating funding of the Service's retiree health benefit obligations: Beginning this fiscal year, the Postal Service must make the first of 10 annual payments into a newly created Postal Service Retiree Health Benefits Fund (PSRHBF) to help fund the Service's significant unfunded retiree health obligations. The 2007 payment of $5.4 billion is due to be paid by September 30. The Service has accrued half of this expense— $2.7 billion—during the first 6 months of the fiscal year and will accrue $1.35 billion in each of the remaining 2 quarters.

- One-time expensing of funds previously set aside in escrow and eliminating future escrow payments: The act requires the Service to transfer the $3.0 billion it escrowed in fiscal year 2006 to the PSRHBF, which the Service recognized as a one-time expense in the first quarter of fiscal year 2007.[10] The reform act also eliminated future escrow payments required under the 2003 pension law, including the $3.3 billion payment scheduled for fiscal year 2007.

[10]The Postal Civil Service Retirement System Funding Reform Act of 2003 required the Postal Service to escrow the reduction in its civil service pension expenses that resulted from changes to how the Service funded these pensions.

- Transferring funding for selected military service benefits back to the Treasury: The act significantly reduced the Service's civil service pension obligations by transferring responsibility for funding civilian pension benefits attributable to the military service of the Service's retirees back to the Treasury Department, where it had been prior to enactment of the 2003 pension law. The reform act requires that any overfunding attributable to the military benefits as of September 30, 2006, be transferred to the PSRHBF by June 30, 2007.[11]

- Eliminating certain annual Civil Service Retirement System (CSRS) pension funding requirements: The act eliminated the requirement that the Service fund the annual normal cost of its civil service employees and the amortization of the unfunded pension obligation that existed prior to transferring the military service obligations to the Treasury Department.[12] The Service estimates that it will save $1.5 billion in fiscal year 2007 from eliminating the annual pension funding requirements and amortization payments.

The result of these payments is a net increase in retirement-related expenses of $3.9 billion,[13] which is $600 million higher than the expected $3.3 billion escrow payment for 2007 that was eliminated. Thus, the Service is planning to borrow $600 million more than initially budgeted to cover this shortfall. This increase is anticipated to result in the Service's borrowing $1.8 billion in fiscal year 2007, which would bring its total outstanding debt to $3.9 billion by the end of the fiscal year.

The Service has identified other factors and uncertainties that, depending on how results vary from budgeted estimates, could have a favorable or unfavorable impact on the Service's projected net loss for fiscal year 2007. For example, volumes and revenues may be affected by a continued slowdown in the U.S. economy or unanticipated consequences of the recent rate decision. The Service has anticipated economic growth to pick up in the third and fourth quarters of this year, but a slowdown may depress volume growth below projected levels for the rest of the year.

[11]The Office of Personnel Management has preliminarily estimated the overfunding to be more than $16 billion.

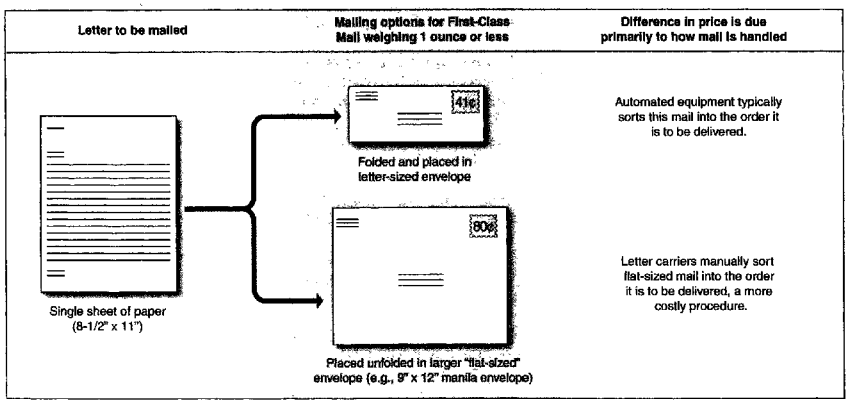
[12]The reform act delays resumption of payments from the Postal Service to liquidate any pension underfunding until September 30, 2018.

[13]The $3.9 billion net increase in retirement-related expenses is comprised of the $5.4 billion retiree health payment due to the PSRHBF by September 30, 2007, and the $1.5 billion reduction in the Service's pension expenses through fiscal year end.

Furthermore, the unusual nature of the rate case creates uncertainties for the Service that may affect its financial results. These uncertainties include how the Service and its customers will respond to the:

- limited implementation times—the 2-month implementation period (the Postal Service Board of Governors decision on March 19, 2007, stated that most new rates would become effective on May 14, 2007) leaves little time for the Service to educate the public and business mailers on the new rate changes and to allow mailers sufficient time to adjust their mailing practices and operations accordingly;
- delayed implementation times—how mailers and the Service will be affected by the delay in implementing new Periodical rates until mid-July;
- magnitude of certain restructured rates, particularly for those specific types of mail that will experience rather significant increases, and the related impact on volumes and revenues; and
- unfamiliarity with restructured rates—the prices for many popular products, such as certain types of First-Class Mail, will experience significant shifts based on the shape of the mail. For example, figure 2 shows how the cost of First-Class Mail will differ based on its shape.

Figure 2: Cost of First-Class Mail Will Differ Based on Shape of Mail under New Rate System



Source: GAO.

Moreover, the Service's expense projections may be susceptible to rising fuel prices due to the Service's vulnerability in this area or that the outstanding contract negotiations for two of its major labor unions would vary from projected levels. Although the extent to which these factors and uncertainties will affect the Service's financial condition for fiscal year 2007 is not known, they may affect its subsequent financial outlook. For example, if the Service finds that its financial performance and condition is weakening—either through revenue shortfalls or expense increases—it may decide to file another rate increase later this year.

Postal Reform Law Provides Opportunities to Address Challenges

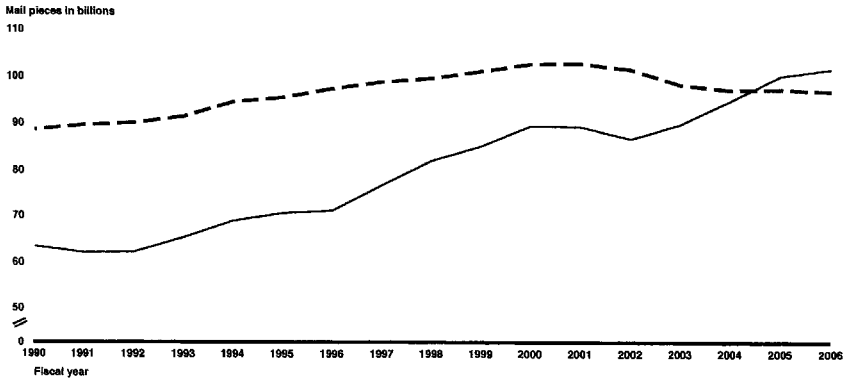
The new postal reform law provides new opportunities to address challenges facing the Service as it continues its transformation in a more competitive environment with a variety of electronic alternatives for communications and payments. Specifically, it provides tools and mechanisms to address the challenges of generating sufficient revenues, controlling costs, maintaining service, providing reliable performance information, and managing its workforce. Effectively using these tools will

be key to successfully implementing the act and addressing these challenges.

Generating sufficient revenue as First-Class Mail volume is declining and mail mix is changing

The Service continues to face challenges in generating sufficient revenues as First-Class Mail volume continues to decline and the mail mix changes. First-Class Mail, historically the class of mail with the largest volumes and revenues, saw volume shrink by almost 6 percent from fiscal year 2001 to 2006. The trends for First-Class Mail and Standard Mail, which currently combine for about 95 percent of mail volumes and 80 percent of revenues, experienced a historical shift in fiscal year 2005. For the first time, Standard Mail volumes exceeded those for First-Class Mail (see fig. 3).

Figure 3: Standard Mail Volumes Are Outpacing Those for First-Class Mail



Source: Postal Service Annual Reports.

Note: First-Class Mail volume does not include Priority Mail.

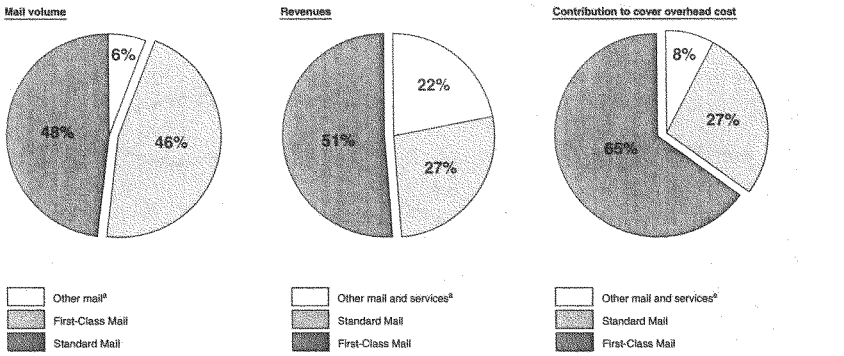
This shift has major revenue implications because:

- First-Class Mail generates the most revenue and is used to finance most of the Service's institutional (overhead) costs (see fig. 4).

- Standard Mail generates less revenue per piece compared to First-Class Mail and it takes about two pieces of Standard Mail to make the same contribution to the Service's overhead costs as one piece of First-Class Mail.

- Standard Mail is a more price-sensitive product compared to First-Class Mail because it competes with other advertising media. Also, because advertising, including Standard Mail, tends to be affected by economic cycles to a greater extent than First-Class Mail, a larger portion of the Service's mail volumes is more susceptible to economic fluctuations.

Figure 4: Mail Volume, Revenues, and Contribution to Cover Overhead Costs, Fiscal Year 2006



Source: Postal Service.

[a]Other mail includes mail such as magazines, newspapers, and parcels. Other services include postal services such as post office boxes, money orders, and delivery confirmation.

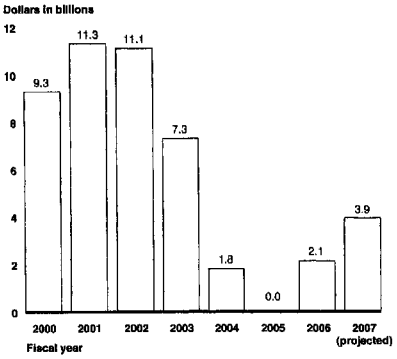
The act provides tools and mechanisms that can help address these revenue challenges by promoting revenue generation and retention of revenues. The act established flexible pricing mechanisms for the Service's competitive and market-dominant products.[14] For example, it allows the Service to raise rates for its market-dominant products, such as First-Class

[14]Sections 201 and 202 lists which products are market-dominant and competitive.

Mail letters, Standard Mail, and Periodicals, up to a defined price cap; exceed the price cap should extraordinary or exceptional circumstances arise; and use any unused rate authority within 5 years. For its competitive products, such as Priority Mail or Expedited Mail, the Service may raise rates as it sees fit, as long as each competitive products covers its costs and competitive products as a whole cover their attributable costs and make a contribution to overhead.

The act also allows for the Service to retain any earnings, which may promote increased financial stability. First, to the extent the Service can generate net income to retain earnings, this could enhance its ability to weather economic downturns. For example, a slow economic cycle or sudden increase in fuel prices might not necessitate an immediate rate increase if sufficient retained earnings exist to cover related shortfalls. Furthermore, to the extent the Service can retain earnings as liquid assets, it may reduce the Service's reliance on borrowing to offset cash shortfalls. The Service has stated that it will take out debt to cover cash shortfalls in fiscal year 2007 and projects that this increase will result in $3.9 billion of outstanding debt at the end of the year (see fig. 5). Controlling debt will be important because the Service needs to operate within its statutorily set borrowing limits ($3 billion in new debt each year, and $15 billion in total debt outstanding). Reducing debt was one of the key factors we cited in removing the Service's high-risk designation.

Figure 5: The Service Projects Nearly $4 Billion in Outstanding Debt at the End of Fiscal Year 2007



Source: GAO analysis of Postal Service data.

Uncertainties related to the recent rate decision and reform law may impact the extent to which the Service is able to address its revenue related challenges. The uncertainties include:

- How will mailers and volume respond to the new rate decision's pricing signals?
- What types of innovative pricing methods will be allowed?
- How will the Service set rates under the new price cap system, and how will mailers respond to this additional flexibility? How will the Service and mailers be able to modify their information systems to accommodate more frequent rate increases?
- How will customer behavior change as prices change under the new system? To what extent will customers desire for mail be affected by privacy concerns, environmental concerns, preference for electronic

alternatives, or efforts to establish Do Not Mail lists?[15]

- How will the Service be able to enhance the value of its market-dominant and competitive products (e.g., predictable and consistent service, tracking and tracing capabilities, etc.)?
- What will the Service do with any retained earnings (e.g., improve its capital program, save to weather downturns in the economy)?

Controlling costs and improving productivity

The Service faces multiple cost pressures in the near- and long-term associated with the required multi-billion dollar payments into the PSRHBF, dealing with key cost categories experiencing above-inflation growth while operating under an inflationary-based price cap, and other costs associated with providing universal postal services to a growing network—one now expanding by about 2 million new addresses each year. While the reform act takes actions that increase current costs by improving the balance of retiree health benefit cost burdens between current and future ratepayers, it also eliminates other payments and provides opportunities to offset some of these costs pressures through efficiency gains that could restrain future rate increases. It will be crucial for the Service, however, to take advantage of this opportunity and achieve sustainable, realizable cost reductions and productivity improvements throughout its networks.

Personnel expenses (which include wages, employee and retiree benefits, and workers' compensation) have consistently accounted for nearly 80 percent of annual operating expenses, even though the Service has downsized its workforce by over 95,000 employees since fiscal year 2001. The Service's personnel expenses have grown at rates exceeding inflation since fiscal year 2003 and are expected to continue dominating the Service's financial condition. In particular, growth in retiree health benefit costs have, on average over the last 5 years, exceeded inflation by almost 13 percent each year. This growth is expected to continue due to (1) rising premiums, growth in the number of covered retirees and survivors, and increases in the Service's share of the premiums; and (2) the Service will continue paying the employer's share of the health insurance premiums of its retirees along with the required payments ranging from $5.4 billion to

[15]As part of the reform act, GAO is required to issue a report on the activities of the Postal Service to promote recycling and other opportunities for improvement in this area.

$5.8 billion into the PSRHBF in each of the following 9 years. While we recognize the cost pressures that will be placed on the Service as it begins prefunding its retiree health benefits obligations, we continue to believe that such action is appropriate to improve the fairness and balance of cost burdens for current and future ratepayers. Furthermore, beginning in fiscal year 2017, the Service might enjoy a significant reduction in its retiree health costs if its obligations are fully funded.

In addition to these personnel expenses, the Service has also experienced growth in its transportation costs that exceeded the rate of inflation in fiscal years 2005 and 2006. Transportation costs represent the second largest cost category behind compensation and benefits. These costs grew by about 11 percent from fiscal year 2005 to 2006, largely due to rising fuel costs. In a February 2007 report, we stated that the Service is vulnerable to fuel price fluctuations and will be challenged to control fuel costs due to its expanding delivery network and inability to use surcharges.[16]

The Service has made some progress in containing cost growth, and pledged to cut another $5 billion of costs out of its system between fiscal years 2006 and 2010 through productivity increases and operational improvements. The Service has reported productivity increases for the last 7 years, but the reported increase in fiscal year 2006 was its smallest during this period. The Service has recently had trouble absorbing gains in mail volumes while achieving targeted workhour reductions. Although the Service has reduced its workhours in 6 of the last 7 years, in fiscal year 2006, its goal was to reduce workhours by 42 million, but the Service reported a decrease of only 5 million workhours.

While both the recent rate decision and reform act seek to improve efficiencies in the postal networks, these developments will pose challenges to the Service. In terms of the rate case, the Service will be challenged to modify its mail processing and transportation networks to respond to changes in mailer behaviors (e.g., in the quantity and types of mail sent and how mail is prepared) to minimize their rates. Furthermore, the reform act provides an opportunity to address the Service's cost challenges because it requires the Service to develop a plan that, among other things, includes a strategy for how the Service intends to rationalize

[16]GAO, *U.S. Postal Service: Vulnerability to Fluctuating Fuel Prices Requires Improved Tracking and Monitoring of Consumption Information*, GAO-07-244 (Washington, D.C.: Feb. 16, 2007).

the postal facilities network and remove excess processing capacity and space from the network, as well as identifying the costs savings and other benefits associated with network rationalization alternatives discussed in the plan. This plan provides an opportunity to address some concerns we have raised in previous work, in which we stated that it was not clear how the Service intended to realign its processing and distribution network and workforce, and that its strategy lacked sufficient transparency and accountability, excluded stakeholder input, and lacked performance measures for results.[17] We are currently conducting ongoing work on the Service's progress in this area over the past 2 years and will be issuing a report this summer with updated findings.

Taking advantage of the opportunities available will have a direct impact on the Service's ability to operate under an inflationary-based rate cap, achieve positive results, and limit the growth in its debt. If the Service is unable to achieve significant cost savings, it may have to take other actions such as borrow an increasing amount each year to make year-end property and equipment purchases and fund its retiree health obligations. The following uncertainties may have a significant impact on the Service's ability to achieve real cost savings and productivity in the future:

- How will operating under a rate cap provide an incentive to control costs?
- How will the Service operate under a rate cap, if certain key costs continue to increase at levels above inflation (e.g., health benefit costs)?
- How will the new rate designs/structure lead to efficiency improvements throughout the mail stream?
- Will the Service's implementation of its network realignment result in greater cost savings and improved efficiency?
- Will the Service achieve its expected return on investment and operational performance when it deploys the next phase of automated flat sorting equipment?

[17]GAO, *U.S. Postal Service: The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability*, GAO-05-261 (Washington, D.C.: Apr. 8, 2004).

- How will the Service's financial situation be impacted when the 10-year scheduled payments into the PSRHBF are completed?
- Will the balance of the PSRHBF—which is a function of the PSRHBF's investment returns and the growth in the Service's retiree health obligations—be sufficient to cover the Service's retiree health obligation by the end of fiscal year 2016?

Maintaining, Measuring, and Reporting Service

The Service will be challenged to continue carrying out its mission of providing high-quality delivery and retail services to the American people. Maintaining these services while establishing reliable mechanisms for measuring and reporting performance will be critical to the Service's ability to effectively function in a competitive market and meet the needs of various postal stakeholders, including:

- The Service—so that it can effectively manage its nationwide service and respond to changes and/or problems in its network.
- The Service's customers (who may choose other alternatives to the mail)—so that they are aware of the Service's expected performance, can tailor their operations to those expectations, and understand the Service's actual performance against those targets.
- Oversight bodies—so that they are aware of the Service's ability to carry out its mission while effectively balancing costs, service needs, and the rate cap; can hold the Service accountable for its performance; and understand service performance (whether reported problems are widespread or service is getting better or worse).

The Service's delivery performance standards and results have been a long-standing concern for mailers and Congress.[18] We found inadequate information is collected and available to both the Service and others to understand and address delivery service issues. Specifically, the Service does not measure and report its delivery performance for most types of mail (representative measures of delivery performance cover less than one-fifth of mail volume and do not include key types of mail such as Standard Mail, bulk First-Class Mail, Periodicals, and most Package Services), certain performance standards are outdated; and that progress

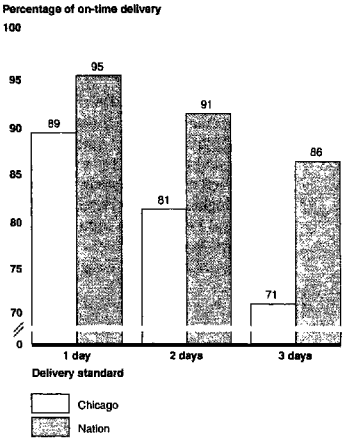
[18]GAO, *U.S. Postal Service: Delivery Performance Standards, Measurement, and Reporting Need Improvement*, GAO-06-733 (Washington, D.C.: July 27, 2006).

has been hindered by a lack of management commitment and collaboration by the Service and mailers. Based on these findings, we recommended the Service take actions to modernize its delivery service standards, develop a complete set of delivery service measures, more effectively collaborate with mailers, and improve transparency by publicly disclosing delivery performance information.

The Service has recently reported positive delivery results for the limited segment of mail for which the Service does track performance. It has reported on-time delivery performance improved in the first quarter of fiscal year 2007 for some single-piece First-Class Mail.[19] However, issues such as late deliveries have been reported in places such as Chicago, Los Angeles, and El Paso; and for different types of mail such as Standard Mail and Periodicals. Figure 6 shows that delivery performance in Chicago for this type of mail was worse than the national average at the end of the first quarter for this fiscal year.

[19]The External First-Class Measurement System (EXFC) measures delivery performance for single-piece First-Class Mail deposited in collection boxes in selected areas of the country. EXFC is not a systemwide measurement of all First-Class Mail performance.

Figure 6: Delivery Performance in Chicago Was Below the National Average for Some Single-Piece First-Class Mail at the end of First Quarter, Fiscal Year 2007



Source: GAO analysis of Postal Service delivery information.

The reform act provides an opportunity for the Service to address this challenge by establishing requirements for maintaining, measuring, and reporting on service performance. Specifically, the act identified four key objectives for modern service standards:

- enhance the value of postal services to both senders and recipients;
- preserve regular and effective access to postal services in all communities, including those in rural areas or where post offices are not self-sustaining;
- reasonably assure Postal Service customers delivery reliability, speed, and frequency consistent with reasonable rates and best business practices; and
- provide a system of objective external performance measurements for each market-dominant product as a basis for measurement of Postal Service performance.

The act also required the Service to implement modern delivery performance standards, set goals for meeting these standards, and annually report on its delivery speed and reliability for each market-dominant product. Key steps specified in the act include that within 12 months of enactment (by December 2007) the Service must issue modern service standards, and within 6 months of issuing service standards the Service must, in consultation with the PRC, develop and submit to Congress a plan for meeting those standards. Furthermore, within 90 days after the end of each fiscal year the Service must report to PRC on the quality of service for each market-dominant product in terms of speed of delivery and reliability, as well as the degree of customer satisfaction with the service provided.[20]

These requirements provide opportunities to resolve long-standing deficiencies in this area. As the Service transitions to the new law, the following uncertainties may impact its ability to address challenges in maintaining, measuring, and reporting service performance in the future:

- How will the Service implement representative measures of delivery speed and reliability within the timeframes of the reform act, while taking cost and technological limitations into account?
- How much transparency will be provided to the PRC, Congress, mailers, and the American people, including the frequency, detail, and methods of reporting?

Financial Performance Reporting

Another challenge facing the Service is to provide reliable data to management, regulators, and oversight entities to assess financial performance. Accurate and timely data on Service costs, revenues, and mail volumes helps provide appropriate transparency and accountability for all postal stakeholders to have a comprehensive understanding of the Service's financial condition and outlook and how postal rates are aligned with costs. Earlier I discussed the past issues we have raised related to the Service's financial reporting and the improvements that the Service has

[20]The act further stipulates that the PRC must provide an opportunity for public comment on the report and must, within 90 days of receiving the annual service data from the Postal Service, make a written determination of compliance as to whether any service standards were not met. If PRC finds noncompliance, it is required to order the Service to take such action as PRC considers appropriate to achieve compliance. PRC also can fine the Service in cases of deliberate noncompliance.

recently made. We have also reported on the long-standing issues of ratemaking data quality that continue to persist.[21]

The act establishes new reporting and accounting requirements that should help to address this challenge. The major change is the establishment of, and authority provided, to the new PRC to help enhance the collection and reporting of information on postal rates and financial performance (see table 2).

Table 2: Selected PRC Responsibilities for Financial Transparency, Oversight, and Accountability

Subject	PRC Responsibilities
Oversight of market-dominant products	• Prescribes by regulation the form and content of annual Service reports that analyze costs, revenues, and rates, using methods that PRC must prescribe, and in sufficient detail to demonstrate compliance with applicable requirements. Specify which reported information shall be made public. Initiate proceedings as necessary to improve the quality, completeness, or accuracy of this information. • Annually determine whether rates are in compliance, after providing an opportunity for public comments on the Service's annual reports. • If rates are not in compliance, order the Service to take appropriate action to come into compliance and remedy the effects of noncompliance, such as ordering rates to be adjusted to lawful levels. • Consider any complaints that rates are not in compliance, which stakeholders may file at any time during the year.
Oversight of competitive products	• Establish regulations that ensure that each competitive product covers its attributable costs, prohibits the cross-subsidization of competitive products by market-dominant products, and ensures that competitive products collectively cover what PRC determines to be an appropriate share of the Service's institutional costs (overhead costs). • Consider any complaints that stakeholders may file at any time during the year. If noncompliance is found, PRC must order the Service to take appropriate action to come into compliance and remedy the effects of any noncompliance, such as requiring the Service to make up for revenue shortfalls in competitive products.

[21]GAO, *U.S. Postal Service: Improving Ratemaking Data Quality through Postal Service Actions and Postal Reform Legislation*, GAO-05-820 (Washington, D.C.: July 28, 2005).

Subject	PRC Responsibilities
Financial reporting	• Receive annual, quarterly, and other periodic reports from the Service that contain information required by the Securities and Exchange Commission (SEC) for registrants[a] The annual report must also include information on the Service's pension and post-retirement health obligations. Receive reports on the Service's compliance with rules prescribed by the SEC for registrants in implementing section 404 of the Sarbanes-Oxley Act of 2002. Initiate proceedings as necessary to improve the quality, completeness, or accuracy of this information. • Establish the accounting principles and practices that the Service must follow. • In establishing the Service's accounting principles and practices, consider recommendations of the Department of the Treasury, including how to value assets and liabilities associated with providing competitive products, among other factors.

Source: Pub.L. No. 109-435.

[a]The Postal Service is deemed the "registrant" by the reform act, however the Service is not a registrant for the purposes of submitting reports to the SEC.

Service officials have acknowledged the importance of financial reporting, but stated that there are cost implications associated with these improvements. The Service has recognized that it will incur costs in complying with the Securities and Exchange Commission's (SEC) internal control reporting rules and by changes needed to provide separate information for competitive and market-dominant products. We have reported that significant costs have been associated with complying with the SEC's implementing regulations for section 404 of the Sarbanes-Oxley Act, but have also reported that costs are expected to decline in subsequent years given the first-year investment in documenting internal controls.[22]

As the Service transitions to these new reporting and accounting requirements, its ability to address future challenges in this area will be impacted by uncertainties including:

- How will the PRC use its discretion to define and implement the new statutory structure?
- What criteria will PRC use for evaluating the quality, completeness, and accuracy of ratemaking data, including the underlying accounting data and

[22]GAO, *Internal Control: Analysis of Joint Study on Estimating the Costs and Benefits of Rendering Opinions on Internal Control over Financial Reporting in the Federal Environment*, GAO-06-255R (Washington, D.C.: Sept. 6, 2006); *Sarbanes-Oxley Act: Consideration of Key Principles Needed in Addressing Implementation for Smaller Public Companies*, GAO-06-361 (Washington, D.C.: Apr. 13, 2006).

additional data used to attribute costs and revenues to specific types of mail?

- How will PRC balance the need for high-quality ratemaking data with the time and expense involved in obtaining the data?
- How will PRC structure any proceedings to improve the quality of ratemaking data and enable the Service and others to participate in such proceedings? What proceedings might PRC initiate to address data quality deficiencies and issues that PRC has raised in its recent decision on the rate case?
- How will the Service be impacted by the costs associated with complying with the SEC rules for implementing section 404 of the Sarbanes-Oxley Act, as well as for the requirement of separate information for competitive and market-dominant products?

Managing Its Workforce

The Service will be challenged to manage its workforce as it transitions to operating in a new postal environment. The Service is one of the nation's largest employers, with almost 800,000 full and part-time workers. Personnel-related costs, which include compensation and benefits, are the Service's major cost category and are expected to increase due to the reform legislation requirements to begin prefunding retirement health benefit costs. We have reported on the human capital challenges facing the Service, but have found the Service has made progress in addressing some of these challenges by managing retirements, downsizing, and expanding the use of automation.[23]

Provisions in the reform act related to workforce management can build on these successes. As part of the Postal Service Plan mandated by the act, the Service must describe its long-term vision for realigning its workforce and how it intends to implement that vision. This plan is to include a discussion of what impact any facility changes may have on the postal workforce and whether the Postal Service has sufficient flexibility to make needed workforce changes.

The Service, however, faces human capital challenges that will continue to impact its financial condition and outlook:

[23]GAO-04-108T and GAO-05-453T.

- *Outstanding labor agreements*: Labor agreements with the Service's four major unions expired late in calendar year 2006. In January 2007, the Service reached agreements with two of these unions, including semi-annual cost-of-living adjustments (COLA) and scheduled salary increases. Labor agreements, however, remain outstanding for the other two unions that cover over 42 percent of its career employees.

- *Workforce realignment*: As the Service continues to make significant changes to its operations (i.e., rationalize its facilities, increase automation, improve retail access, and streamline its transportation network), it will be challenged to realign its workforce based on these changes. This challenge may become more significant as mailers alter their behavior in response to the new rate structure. These actions will require a different mix in the number, skills, and deployment of its employees, and may involve repositioning, retraining, outsourcing, and/or reducing the workforce.

- *Retirements*: The Service expects a significant portion of its career workforce—over 113,000 employees—to retire within the next 5 years. In particular, it expects nearly half of its executives to retire during this time. The Service's decisions regarding these retirements (that is, whether or not to fill these positions, and if so, when, with whom, and where) may have significant financial and operational effects.

The following uncertainties will affect the Service's ability to address workforce-related challenges in the future:

- How will the Service be able to respond to operational changes? How will the Service balance the varying needs of diverse customers when realigning its delivery and processing networks?

- How will employees and employee organizations be affected and informed of network changes and how will the Service monitor the workplace environment?

- How will the resolutions to the outstanding labor agreements affect the Service's financial condition?

- How will the Service take advantage of flexibilities, including allowing more casual workers to deal with peak operating periods?

Key Issues and Areas for Continued Oversight

The Postal Service, the PRC, and mailers face a challenging environment with significant changes to make in the coming months related to implementing the recent rate decision and the new postal reform law. We have identified several major issues considered significant by various postal stakeholders, as well as areas related to implementation of the law that will warrant continued oversight. Specifically, focusing attention on these issues during this important transition period will help to ensure that the new statutory and regulatory requirements are carried out according to the intent of the reform act and that the Service's future financial condition is sound. These key issues and areas for continued oversight include:

- the effect of the upcoming rate increases and statutory changes on the Postal Service's financial condition;
- the decision by the Service whether or not to submit a rate filing under the old rate structure;
- actions by the PRC to establish a new price-setting and regulatory framework;
- the Service's ability to operate under an inflationary price cap while some of its cost segments are increasing above the rate of inflation;
- actions by the Service, in consultation with the PRC, to establish modern service standards and performance measures, and the Postal Service's plan for meeting those standards;
- the Service's ability to maintain high-quality delivery service as it takes actions to reduce costs and realign its infrastructure and workforce; and
- the PRC's development of appropriate accounting and reporting requirements aimed at enhancing transparency and accountability of the Service's internal data and performance results.

One of the most important decisions for monitoring in the short term is whether or not the Service decides to file another rate increase before the new rate structure takes effect. The trade-offs involved in the Service's decision on whether to file under the new or old systems include weighing the respective costs, benefits, and possible unintended consequences of the Service's need for new rates along with the time and resources required by the Service, the PRC, and the mailing industry to proceed under either the new or old systems. For example, the Service may benefit from filing under the old system because it would allow the Service to

further align costs with prices prior to moving into price-cap restrictions. Under the old rules, the Service would have to satisfy the "break-even" requirements that postal revenues will equal as nearly as practicable its total estimated costs. Under the new rules, the Service would have to ensure that rate increases for its market-dominant products do not exceed a cap based on the growth in the Consumer Price Index. Filing under the old system, however, could put additional strain on mailers and the PRC. In particular, the PRC would be reviewing the Service's rate submission while transitioning to its new roles and responsibilities under the legislation—establishing a new organization structure, a new regulatory framework with new rules and reporting requirements, which must include time for public input, and a multitude of additional requirements.

Recognizing these challenges, the Chairman of the PRC has suggested (and asked for public comments on) that rather than expending resources on extending the application of the old system, the PRC would work with the Service and mailers to implement the new regulatory systems even sooner than the 18 months allotted by the new law. This action could allow the Service to implement new rates sooner under the new regulatory system depending upon when the PRC completes its work and the Service chooses to file new rates. The Service's decision will not only impact its financial performance and condition, but also the mailing industry and the focus of the PRC.

Another key provision of the law that warrants close oversight is the requirement for the Service to develop modern service standards. We are encouraged by the Service's actions to date to establish a workgroup that includes participants from the mailing industry to review and provide recommendations on service standards and measures. This workgroup is expected to complete their work in September of this year, and the Service is to make its decisions on the new service standards by December 20, 2007. The Service then has 6 months to provide Congress with a plan on how it intends to meet these standards, as well as its strategy for realigning and removing excess capacity from the postal network. We believe this plan is a particularly important opportunity to increase transparency in these areas, particularly given the changes to the Service's plans for network realignment and the limited information available to the public. We will be reporting this summer on the status and results of the Service's efforts to realign its mail processing network.

Finally, the PRC's role in developing reporting requirements is critical to enhancing the Service's transparency regarding its performance results. Congress was particularly mindful in crafting the reform act to ensure that

the provisions for additional pricing flexibility were balanced with increased transparency, oversight, and accountability. The new law provides the regulator with increased authority to establish reporting rules and monitor the Service's compliance with service standards on an annual basis.

The successful transformation of the Postal Service will depend heavily upon innovative leadership by the Postmaster General and the Chairman of the PRC, and their ability to work effectively with their employees, employee organizations, the mailing industry, Congress, and the general public. It will be important for all postal stakeholders to take full advantage of the unique opportunities that are currently available by providing input and working together, particularly as challenges and uncertainties will continue to threaten the Service's financial condition and outlook.

Chairman Davis, this concludes my prepared statement. I would be pleased to respond to any questions that you or the Members of the Subcommittee may have.

Contact and Acknowledgments

For further information regarding this statement, please contact Katherine Siggerud, Director, Physical Infrastructure Issues, at (202) 512-2834 or at siggerudk@gao.gov. Individuals making key contributions to this statement included Teresa Anderson, Joshua Bartzen, Kenneth John, John Stradling, Jeanette Franzel, Shirley Abel, Scott McNulty, and Kathy Gilhooly.

Appendix I: Summary of Recent Rate Developments

Date	Description	Rate increase, on-average	First-Class stamp rate[a]

5/3/06	**Postal Service submits proposal to Postal Rate Commission (PRC)[b]**
	• Requests rate increases effective May 2007.
	• Proposes Forever Stamp[c]
	• Establishes pricing structure based on mail weights and shapes:
	  • Revises old structure which was primarily weight-based.
	  • Recognizes that different mail shapes have different processing costs.
	  • Gives mailers an opportunity to minimize their rates by altering shape of mail.
		8.1 percent	42 cents

2/26/07	**PRC issues recommended decision on Service's proposal**
	• Issued after detailed administrative proceeding involving mailers, employee organizations, consumer representatives and competitors.
	• Recommends revisions to many of the rates and rate designs submitted by the Service:
	  • Increases rates substantially for some types of mail.
	  • Revised rates are intended to more accurately reflect costs and send proper pricing signals.
	• Approves Forever Stamp.
	• Concurs with shape-based pricing structure and, according to the PRC, the change in rates will still meet the Service's revenue needs.
	• Anticipated that this would have been the last rate case initiated prior to implementation of the new rate structure established under the reform legislation and explained that its recommended rates are intended to provide a sound foundation for the future.
		7.6 percent	41 cents

3/19/07	**Postal Service's Board of Governors issues decision to implement PRC-recommended rates** • Implements most rates effective May 14, 2007. • Asks PRC to reconsider some rates, most notably those for flat-sized Standard Mail, which is generally advertising and direct mail solicitations (this could lead to further changes in these rates). • Delays rate implementation for Periodicals for over 2 months, citing reactions of magazine mailers and the publishing industry's need to update software. • Begins sale of Forever Stamp starting April 12; stamp will be valid for postage starting May 14.	7.6 percent	41 cents

Source: U.S. Postal Service and Postal Regulatory Commission documents.

[a]First-Class stamp prices cover letters weighing up to 1 ounce that are sent via First-Class Mail.

[b]The name of the Postal Rate Commission was changed to the Postal Regulatory Commission due to provisions of the Postal Reform and Enhancement Act.

[c]The Forever Stamp will sell at the First-Class one-ounce letter rate, and will continue to be worth the price of a First-Class one-ounce letter even if that price changes.

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Mr. DAVIS OF ILLINOIS. Thank you very much. I thank both of you for your testimony.

Mr. Williams, you indicated that there had been a significant increase in the number of arrests. I believe you said from 6 to now more than 200?

Mr. WILLIAMS. Yes, sir.

Mr. DAVIS OF ILLINOIS. To what do you attribute this increase? What is causing it?

Mr. WILLIAMS. We enlarged the emphasis on enforcement upon my arrival. As I said, the office, as I took it over, was not particularly productive either on the audit side or the investigative side, so that was one of the factors. We then received a substantial amount of new jurisdiction, and I think that is probably the major cause for the enlargement of the program from the Postal Service. That was as a result of a long-term transition that had been occurring from the Inspection Service to the Office of the Inspector General for things such as mail theft. Of course, mail theft is probably the prime example.

Mr. DAVIS OF ILLINOIS. So you are saying that one can actually expect, when there are allegations of wrongdoings, that there is going to be an investigation and a finding and in all likelihood something could and most likely will be done?

Mr. WILLIAMS. Yes, sir. We think the level of accountability for misconduct has substantially increased, so I would agree with that.

Mr. DAVIS OF ILLINOIS. Thank you.

On October 20, 2005, I, along with 58 of my colleagues, sent a letter to the Director of OPM supporting Medicare subsidies for the Postal Service. The Center for Medicare and Medicaid Services in December 2005, denied the request of the Postal Service for receipt of the Medicare Part D retiree prescription drug subsidy authorized under the 2003 Medicare prescription drug modernization law. The CMS stated that its denial was based upon its belief that OPM, as the administrator of the Federal employee health benefits program, was the sponsor of the Postal Service's retiree prescription drug plan, and that the Postal Service was not entitled to the subsidy.

The value of the prescription drug subsidy for the Postal Service is significant. It is approximately $250 million annually. Of course, it would help to reign in operating expenses, which are financed through postal rates.

I give that background information to ask this question: what requirements does the Postal Accountability and Enhancement Act impose on your office, and how are you prepared to meet those requirements?

Mr. WILLIAMS. Thank you, Mr. Chairman.

First of all, on the background material that you supplied, we were very much in agreement with your office and the other Congressmen. We think there was a basis, and we think that the Postal Service, in many ways, needs to and welcomes being thrust into an arena ruled by market forces, but we think that if they are not given an opportunity because their arms are pinioned at their side by regulation, we really don't have a chance. And so we did not feel that was a very positive finding on the part of OPM and my office.

With the coming of the act, we received several new responsibilities. Probably the one that is going to take the most of our time

is auditing data systems that produce figures used by the Postal Service and by the postal regulator to establish rates. There have been some problems with those in the past, and we are trying to focus on the ones that we know are problematic first. That is going to require a new body of work. There is a single audit on workplace safety and accident reduction that comes to us, and we also are looking at some reforms that were made to the administration of rate deficiency assessments.

Last, the responsibilities that come to our office are significant with regard to Sarbanes-Oxley. We will be joining with the external auditor in a substantial additional amount of work to bring us into compliance with section 404 of the Sarbanes-Oxley Act.

Mr. DAVIS OF ILLINOIS. Thank you very much.

I see that it was very timely, because my time has just expired.

Mr. McHugh.

Mr. MCHUGH. Thank you, Mr. Chairman.

Welcome to both of you. Thank you for being here.

Mr. Williams, just to kind of expand a little bit on what the chairman's last inquiry was directed toward that, is your new role under the new regulatory system. Do you have any concerns or complaints? I understand the challenges, as you describe them, both in response to the chairman and also in your testimony, but as you have taken your first steps into this new process what troubles you, if anything?

Mr. WILLIAMS. I have a high level of confidence. I would have been very troubled a couple of years ago. We have had some years to get ready. The act has some really beneficial provisions. We are anxious to play our part in that. I don't have any concerns about resources or the skill levels to address our portion, and we are anxious to begin.

Mr. MCHUGH. And so far so good. That is great.

Let me flip over here to your network optimization plan. do you have a time table for the implementation of that?

Mr. WILLIAMS. I believe the act requires that the Postal Service present a plan within 18 months.

Mr. MCHUGH. That is the limit.

Mr. WILLIAMS. Yes, sir.

Mr. MCHUGH. Are you configuring yourself within that, or is that what you plan to use?

Mr. WILLIAMS. I am uncertain as to what the Postal Service intends to do with regard to bringing a plan together. We are working daily in advance of that to conduct efficiency reviews, to look at one of the enabling studies for the plan is the area of mail processing plans. We have begun looking at those to try to examine how well they work and to make improvements to those as one of the primary tools to right-sizing the network. But I have not been advised as to the completion dates for their plan.

Mr. MCHUGH. OK. Thank you, sir.

Ms. Siggerud, the GAO has a long and very productive relationship with this subcommittee and with the process of postal reform, of which I know the chairman and all of us are greatly appreciative. When you placed the Service on your watch list, that was a big deal.

Ms. SIGGERUD. Yes.

Mr. MCHUGH. I have no doubt you did not go about that easily.

As I reviewed your testimony, the report at least by my reading seems awfully darned positive in that the concerns that you had seem for the moment to have been met. Was this a—this is not a good phrase to use in this town right now, but was this a slam/dunk decision in your view, or was it a position that you felt continues to concern you deeply?

Ms. SIGGERUD. Mr. McHugh, it certainly was not a slam/dunk. We had a lot of in-depth discussions internally in GAO before making the decision to take the Postal Service off the high-risk list.

Let me just mention a few things that tipped the balance for us. As I mentioned in my short statement, really an important purpose of the high-risk list is to galvanize action by the agency that is put on the list, as well as by the Congress, in paying attention to the issue. The fact that the transformation plan did happen and the Postal Service stuck to it was important action from the agency's point of view. Both the 2003 and the 2006 acts, which provided a different financial footing for the Postal Service, were also very important.

So the fact that we saw action, both by the Congress and by the Postal Service, along with a significant change in the financial situation of the Postal Service, for example, with regard to cash-flow and with regard to debt levels, along with the very important commitment that management made to reducing costs and improving productivity, that is what really tipped the level for us. However, we think there are a number of concerns that the committee needs to continue to provide oversight on, as I outlined in my statement. Certainly, if they continue or if financial problems do reappear, we would reconsider the decision.

Mr. MCHUGH. Thank you.

Maybe I can squeeze one more in here on the yellow light here. Your written testimony, on page 3, talks about the Service's plan to borrow $1.8 billion this year, which will push its outstanding debt to $4 billion. You didn't characterize that orally. Is that a concern? I mean, that is a lot of money and it is of concern—

Ms. SIGGERUD. Yes.

Mr. MCHUGH [continuing]. But would you consider that within the parameters of normal operating procedures, or is this a particularly troubling aspect for you.

Ms. SIGGERUD. It is a slightly troubling aspect. We do consider it generally within what the Postal Service can afford to borrow, but it is an issue to watch going forward as the Postal Service continues to, as the PMG so ably explained, face both revenue and cost challenges.

Mr. MCHUGH. Thank you both.

Thank you, Mr. Chairman.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. McHugh.

Mr. Sarbanes.

Mr. SARBANES. Thank you, Mr. Chairman.

This might have been a better question for the last panel or the ones to come, but if you were here you heard that I am intrigued by the role that the U.S. Postal Service can play in times of crisis, in terms of being part of a response effort. I mean, if you are the Department of Homeland Security you are looking around for a de-

livery system, a distribution system, a people-to-people system that can be there in a time of crisis. There it is, I mean, really, in a structure that you can't compete with, I mean, there is nothing else out there like that. I know that DHS and other departments are working with the Postal Service to get that kind of perspective forwarded.

I would just like to get your perspective on that, and I would like to get your perspective on, I mean, we talk a lot about how the rate structure needs to cover the cost and the Postal Service, but I would imagine that, as this other dimension of what the Postal Service can provide is more fleshed out, that there ought to be an expectation of resources that can be brought to bear. I don't know if that is something that you have talked about, thought about, have any reaction to, but I would be interested in the response.

Mr. WILLIAMS. There were a number of instances in Hurricane Katrina where the mail carriers were just on their own the lifeline for a number of residents that were isolated and terrified. Those were very all-American stories, and they did prove what a powerful set of muscles can be flexed by such a large distribution system, and one that is so familiar to the American public.

I know that there have been some discussions. I am unaware of whether some of them are classified or not with regard to the role that the Postal Service could play in the event of further natural disruptions or acts of terrorism, but it is a very good point and it is a very powerful recommendation.

Mr. SARBANES. Ms. Siggerud.

Ms. SIGGERUD. Yes, Mr. Sarbanes. We have looked at this issue from a couple of different perspectives. They are sort of narrow, but all might add up to an overall picture.

We did, in the course of preparing the Comptroller General for some overall testimony on Hurricane Katrina, look at what the Postal Service was able to do, both in preparation for the hurricane, and then in response to it, and I think that the Postal Service came out looking very good in that particular instance.

We have also looked at the Postal Service's role in responding to the bio-threat issues, the response to anthrax, as well as a recent attack that occurred. We have made some recommendations to the Postal Service in terms of improving both its training of employees and managers, as well as its response. The Postal Service has acted on those recommendations.

Our most recent work actually looked at a false anthrax attack that happened at the Department of Defense in 2005, and our report—to some extent the Postal Service was involved in that because it was believed that this anthrax had come through one of the processing plants right here in the District of Columbia. The Postal Service's response, when it did finally get that news, was timely, it was exemplary, and it was useful, put the Department of Defense to shame in comparison.

Mr. SARBANES. Thank you. My question is, in part, a caution because if, over time, the Postal Service and the employees of the Postal Service are viewed as offering an opportunity to be part of a kind of response network, then it is critical that not just be lain on top of the existing work force without the resources to support

it and the training. I am sure that the organizations who represent those employees will be quite insistent on that point.

Thank you, Mr. Chairman.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Sarbanes.

Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Ms. Siggerud, am I pronouncing that right?

Ms. SIGGERUD. Siggerud. Yes.

Mr. CUMMINGS. Siggerud. Ms. Siggerud, you note in your testimony that several unanswered questions remain with regard to the growing number of career employees that will be leaving, retiring in the next 5 years, 113,000.

Ms. SIGGERUD. Yes.

Mr. CUMMINGS. What do you recommend that the Service do to address that issue? That is a major issue?

Ms. SIGGERUD. Well, it is a major issue, and it is one that I will confess we haven't looked at in great detail, but I think it would benefit. I would be glad to work with the subcommittee on that issue.

I think the real opportunity to address it comes in the fact that the Postal Service must prepare a plan and provide it to the Congress within the next 18 months having to do with work force realignment issues. The Postal Service has a complement planning approach. It has a succession planning approach. I think that the plan will offer the Postal Service the opportunity to explain how it will use those tools, and perhaps other tools, to respond to the very issue that we raise in our testimony.

Mr. CUMMINGS. One of the things that our overall committee, Government Reform, has tried to address over the 11 years that I have been on the committee is how do we get young people to come into Government. We created a program where we pay back some of their student loans and just trying to figure it out. We offer those people who are within ridership distance of the Capital certain incentives, passes or what have you, to get to work, or whatever. But certainly we are talking about the entire country here.

I am just wondering, this is not going to sneak up on us, because we know it, but for some reason so often what happens in this country is we know so, and it still sneaks up on us, and then we are caught in a situation where we are just in bad shape. When I think about 113,000 people, that is a lot of folk.

Ms. SIGGERUD. Yes.

Mr. CUMMINGS. So I am just hoping that this will be like a super-top priority so that we can make sure that people are replaced, but there is another piece to that, too, and certainly that is retention, trying to make sure we keep folks.

I remember a few years ago there was a concern about the climate in our postal system that perhaps some postal employees did not find the climate to be one that made them feel happy. I can't think of a better way of saying it. I am just wondering if we have looked at those issues at all or if we are going to.

Ms. SIGGERUD. Some of my colleagues in the Government Accountability Office, specifically those who look at the Federal work force issues, have identified the very issue that you are talking about, Mr. Cummings. It has, on occasion, taken the Federal Gov-

ernment too long to hire young folks. It is complicated to hire the kind of young employees that you are talking about. I think that some of the glamour perhaps of Government service has waned in the last few years, and there are a number of efforts underway in agencies across the country to try to deal with those issues.

I will have to admit that I am not familiar with exactly how the Postal Service is dealing with those issues, but I would certainly be glad to submit some of those other reports that I mentioned to you and your staff to see if they are of use.

[The information referred to follows:]

United States Government Accountability Office

GAO

Report to Congressional Requesters

June 2005

HUMAN CAPITAL

Selected Agencies Have Opportunities to Enhance Existing Succession Planning and Management Efforts

GAO-05-585

June 2005

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Accountability·Integrity·Reliability

Highlights

Highlights of GAO-05-585, a report to congressional requesters

HUMAN CAPITAL

Selected Agencies Have Opportunities to Enhance Existing Succession Planning and Management Efforts

Why GAO Did This Study

As the federal government confronts an array of challenges in the 21st century, it must employ strategic human capital management, including succession planning, to help meet those challenges. Leading organizations go beyond a succession planning approach that focuses on replacing individuals and engage in broad, integrated succession planning and management efforts that focus on strengthening current and future organizational capacity.

GAO reviewed how the Census Bureau, Department of Labor (DOL), the Environmental Protection Agency (EPA) and the Veterans Health Administration (VHA) are implementing succession planning and management efforts.

What GAO Recommends

GAO made specific recommendations to enhance agencies' succession efforts. The Department of Veterans Affairs agreed with our recommendations. The Census Bureau agreed with two recommendations and in response to a third, stated that its existing monitoring approach is effective. However, without strengthened monitoring, the Bureau is at increased risk that it will not have the skills it needs for the 2010 Census. DOL did not take issue with our findings and will consider our recommendations. EPA did not comment on our recommendations. DOL and EPA provided technical comments.

www.gao.gov/cgi-bin/getrpt?GAO-05-585.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Eileen Larence at (202) 512-6806 or larencee@gao.gov.

What GAO Found

The Census Bureau, DOL, EPA, and VHA have all implemented succession planning and management efforts that collectively are intended to strengthen organizational capacity. However, in light of governmentwide fiscal challenges, the agencies have opportunities to enhance some of their succession efforts.

- While all of the agencies have assigned responsibility for their succession planning and management efforts to councils or boards, VHA has established a subcommittee and high-level positions that are directly responsible for its succession efforts. Also, VHA and the Census Bureau specifically mention succession planning and management as performance expectations in their executives' performance plans.
- The four agencies have begun to link succession efforts to strategic planning. For example, DOL plans to shift from a historical enforcement role to a compliance assistance and consulting role, requiring stronger skills in communication and analysis. To attract and retain employees with such skills, DOL launched the Masters in Business Administration Fellows program in 2002, which it considers one of its major succession training and development programs.
- Monitoring mission-critical workforce needs helps make informed planning decisions. DOL, EPA, and VHA have identified gaps in occupations or competencies, have undertaken strategies to address these gaps, and are planning or are taking steps to monitor their progress in closing these gaps. The Census Bureau could strengthen the monitoring of its mission-critical occupations more closely and at a higher level to ensure it is prepared for the 2010 Decennial Census.
- Effective training and development programs can enhance the federal government's ability to achieve results. All of the agencies' succession efforts include training and development programs at all organizational levels. However, in the current budget environment, there are opportunities to coordinate and share these programs and create synergies through benchmarking with others, achieving economies of scale, limiting duplication of efforts, and enhancing the effectiveness of programs, among other things. Performance measures for these programs can also help agencies evaluate these programs' effects on organizational capacity and justify their value.
- Finally, agencies have recognized the importance of diversity to a successful workforce and use succession planning and management to enhance their workforce diversity.

United States General Accounting Office

GAO

Report to Congressional Requesters

May 2003

HUMAN CAPITAL

Opportunities to Improve Executive Agencies' Hiring Processes

GAO-03-450

May 2003

GAO Highlights

Highlights of GAO-03-450, a report to congressional requesters.

HUMAN CAPITAL

Opportunities to Improve Executive Agencies' Hiring Processes

Why GAO Did This Study

Improving the federal hiring process is critical, as the number of new hires is expected to increase substantially. Federal agencies are responsible for their hiring processes, but must generally comply with applicable Office of Personnel Management (OPM) rules and regulations.

Congressional requesters asked GAO to identify federal hiring obstacles, provide examples of innovative hiring practices, and identify opportunities for improvement. To address these issues, GAO interviewed the human resources directors in 24 largest departments and agencies, analyzed the hiring practices of five federal executive branch agencies, and reviewed OPM's role in the hiring process.

What GAO Recommends

As a part of its ongoing efforts to improve federal human capital management, OPM needs to reform the classification process, assist agencies in automating their hiring processes, develop and help agencies develop improved hiring assessment tools; and review the effectiveness of selected hiring authorities.

OPM and the agencies we studied provided comments on a draft of this report. OPM generally agreed with the conclusions and recommendations. The report was revised to reflect the agency comments.

www.gao.gov/cgi-bin/getrpt?GAO-03-450.

To view the full report, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

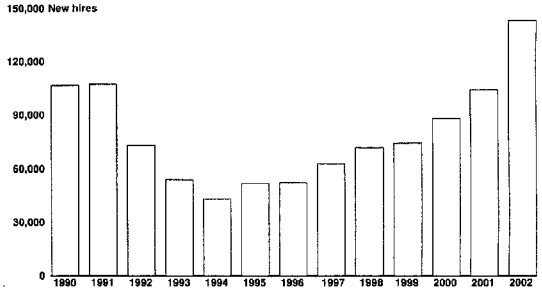
What GAO Found

There is widespread recognition that the current federal hiring process all too often does not meet the needs of agencies in achieving their missions, managers in filling positions with the right talent, and applicants for a timely, efficient, transparent, and merit-based process. Numerous studies over the past decade have noted problems with the federal hiring process. Nearly all of the federal human resource directors from the 24 largest federal agencies told us that it takes too long to hire quality employees. According to data compiled by OPM, the estimated time to fill a competitive service position was typically more than 3 months, with some human resources directors citing examples of hiring delays exceeding 6 months. The competitive hiring process is hampered by inefficient or ineffective practices, including defining a vacant job and pay that is bound by narrow federal classification standards, unclear job announcements, the quality of certain applicant assessment tools, time-consuming panels to evaluate applicants, and the "rule of three" that limits selecting managers choice of candidates. Equally important, agencies need to develop their hiring systems using a strategic and results-oriented approach.

GAO studied five agencies that human capital experts identified as having taken steps to improve parts of the hiring process—the U.S. Geological Survey, the Department of the Army, the U.S. Census Bureau, and the Department of Agriculture's Agricultural Research Service and Forest Service. Some of these practices might help agencies across government improve their hiring processes.

OPM recognizes that the federal hiring process needs reform and has a major initiative to study the federal hiring process. OPM's efforts will be most effective to the extent to which they help transform agency hiring practices from process focused to mission-focused hiring tools that are more closely integrated into agencies strategic plans.

Total Federal New Hires, 1990–2002



Source: OPM Central Personnel Data File.

Mr. WILLIAMS. In addition, Sir, my office does quite a bit of work with regard to concerns expressed about hostility in the workplace or hostile workplace or harassment occurring inside it. We try to evaluate those as best we can and then work to assure that management takes action and advises us of that action and we evaluate it.

When it is particularly serious, outside third parties are brought in to evaluate and to conduct a get-well plan, and it is typically that where it is serious we go in after that has had a time to work and assure that it has taken hold.

Mr. CUMMINGS. Do we ever get to a point where we figured out, I mean, was there ever a threat that sort of ran through these incidents since you have done some investigating and whatever? I guess I am looking more at certain things that you can't prevent, but certainly, I mean, did you ever conclude that maybe there were certain climates, certain specific work conditions, things of that nature that might bring about those kinds of incidents?

Mr. WILLIAMS. The ones that come to mind have not had a kind of golden thread that run through them. They have been personality based, and they have involved a senior manager, a set of senior managers that needed to either be removed or undergo very serious alterations in their conduct and behavior. There are instances in which very strong action was taken in response to those, but beyond that I haven't found anything thematic as I have heard about that have occurred before my arrival. I haven't seen evidence of anything since I have been there.

Mr. CUMMINGS. Mr. Chairman, I see my time has run out, but I just have one question.

My office receives quite a few complaints from woman and minorities about moving up.

Mr. WILLIAMS. Yes.

Mr. CUMMINGS. I am just wondering how we are doing, and how do you all monitor that. Just curious.

Ms. SIGGERUD. Mr. Cummings, we have done work with this committee in the past, but I will tell you that work is old and was toward the end of the 1990's, so I don't have updated figures for you.

Mr. CUMMINGS. In other words, you don't have them here today or you don't have them?

Ms. SIGGERUD. I am sure it is something that we could obtain. It is not something that we are doing current work on, so I don't have them.

Mr. CUMMINGS. I would appreciate it if you would get that information for me. The reason why I say that is we are in a diverse society.

Ms. SIGGERUD. Yes.

Mr. CUMMINGS. I want to make sure that something like the Post Office, that we have everybody at the table—women, minorities. How soon do you think you could get me something updated as to say where we are?

Ms. SIGGERUD. I am assuming we could request this information from the Postal Service fairly quickly, Mr. Cummings. I would want some time to analyze and make sure that we can understand it.

Mr. CUMMINGS. OK. Well, I would appreciate it if you would let me know when you can get it to us so that I can hold you to it.

Ms. SIGGERUD. OK. We will be in communication.

Mr. CUMMINGS. All right. Thank you.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Cummings.

I might just add that our next hearing on May 10th is going to be on diversity within the Postal Service, and so we will be looking with you for that information.

Mr. CUMMINGS. Would the gentleman yield?

Mr. DAVIS OF ILLINOIS. Yes.

Mr. CUMMINGS. Do you think we could get it by then, May 10th? That would be wonderful.

Ms. SIGGERUD. Mr. Cummings, we will do our very best. I believe that, in fact, the staff of the subcommittee has been in contact with other GAO staff who are part of this Federal work force issue to discuss this very issue, so what I would like to do is go back to my office and understand exactly what they are doing and what they have agreed to supply for that hearing.

Mr. CUMMINGS. Yes. Mr. Chairman, the only reason why I raise that is that when you have been around here for a while, what happens is you try to figure out how do you get the most out of these hearings.

Ms. SIGGERUD. I understand.

Mr. CUMMINGS. I would hate for that report to come, like, 3 days after the hearing, when we could have it in our hands. It may very well be that the things that are being provided may be the very items that we are talking about. I don't know.

Ms. SIGGERUD. I see the subcommittee staff nodding back here.

Mr. CUMMINGS. OK.

Ms. SIGGERUD. So my colleagues have been in contact with them about providing some information in preparation for that hearing.

Mr. CUMMINGS. All right. Thank you.

Mr. DAVIS OF ILLINOIS. Thank you very much.

Delegate Norton, did you have questions?

Ms. NORTON. Thank you, Mr. Chairman.

We have had huge issues that have come to light now that we have begun to do oversight as to contractors, huge and horrible issues raised apparently because nobody has figured out how to hold contractors accountable in the same way that you hold agencies accountable. If they could figure that out, maybe these controversies wouldn't continue to arise.

I actually have two questions. One has to do with this notion of contracting out letter carrying services. I need to know to what degree that is happening, whether we are going to get the same kind of complaints that we do about people working side by side in Federal agencies without cost accountability because they are contracted out and we don't do the same kind of oversight, at least no one has ever shown us that they do. To what extent is that happening that if it is a "new delivery area" it can be contracted out? I mean, that way I could see, with the way in which we build suburbs, you could contract out half the Post Office. What effect would that have on the continuing Postal Service that we now have? Is that what we are looking at now? Is that the way we are going to save money? That is one question.

The second question would be what I cannot figure out and what I hope somebody looks at, and that is what, at bottom, the real problem of the Post Office is. Is it the rapid increase in technology or does it have anything to do with rate increases that, of course, periodically occur?

First, would you educate us on contracting out? Is it now beginning of ordinary letter carrying services? To what extent? If it is to save money, how would accountability be built in so that this committee isn't faced with what the overall committee has been faced with? Where is it occurring? Who is looking at it? Who is keeping track of it? And who are the contractors?

Mr. WILLIAMS. The previous panel provided a lot of the statistics with regard to the current picture. It sounds as though there wasn't much contracting occurring to date with regard to letter carriers that delivered mail.

With regard to their accountability—

Ms. NORTON. Could I ask you, as experts, given the fact that we have seen the Federal Government claim that you save money by contracting out, all without any accountability on where the money is saved, with huge controversies concerning, in fact, the savings, I need to know whether or not the Post Office is headed toward—after all, it is in trouble. It has to find ways to modernize. Is it going the way of Federal agencies to do more and more contracting out, in your opinion, and would that, in fact, be one way the Postal Service might say it is saving money?

Mr. WILLIAMS. I think that is a very large topic. A good place to begin might be that I do believe that the cost for the small number of delivery contractors has been lower than the cost of careerists, but I believe that we are getting a false signal on that, because they are in very rural areas. I think that if we begin contracting in urban areas we would discover that much of that disappears.

Ms. NORTON. Mr. Inspector General, are you or anybody else keeping track of the actual cost of contracting out this service versus the cost of the in-house service?

Mr. WILLIAMS. We have reviewed the cost data, and it shows that, in the area that I just described, we are getting a reading that it is less expensive, but I believe most of that is accounting for the fact that they are in areas that are very rural and the cost of living is very low.

Ms. NORTON. So if, in fact, it were brought, let us say, to suburban areas around the District of Columbia where there are many new developments, where you could collar new development and contract it out, do you expect that there would be any differences?

Mr. WILLIAMS. We are operating in unknown territory with that regard. A contract has never been offered and responded to, but I am of the suspicion that the cost of living is going to cause a lot of the savings that we have seen disappear when it comes to urban areas.

Ms. NORTON. Do you have any opinion on that?

Ms. SIGGERUD. Ms. Norton, I think your first statement was exactly right. You said you are seeking facts, and what we have heard today from the Postmaster General is that this contracting out procedure is a routine business matter that provides important flexibility. But I have also seen the press from the employee organi-

zations saying that this contracting out concept is increasing and that there are certain negative consequences from it.

I think until we get in and actually look at those data and understand the extent to which this is happening and what the implications are, I can't provide you an overall view on this.

Ms. NORTON. Mr. Chairman, if I may say, this provides us with a rare opportunity before contracting out becomes a settled cultural matter to, in fact, ask the appropriate officials to report to us on the effect of it so that if it is to be done, contracting out is the way Government operates more and more, so I am certainly not here to say that the Postal Service, which already does a fair amount of contracting out, shouldn't do it. What I am here to say is that we have seen horrendous, horrific, once insight began to be done, information of waste of taxpayers' funds. And exactly what you said was said to us, it costs less, so what are you worried about.

One of the ways to, in fact, perhaps reform that process as it begins is to get regular reports on its accountability.

Finally, I just want to know. I worry about the Postal Service. I know it has to have rate increases in order to keep up with what is expected of it. I also see technology, and it is hard for me to understand how businesses can somehow stay ahead of the technology, and then I see businesses that are direct competitors of the Postal Service, and obviously more facile because they are private businesses, and wonder whether or not we are in a race against time with rate increases perhaps turning people in to other forms of communication, or if there is some real way to head that off so that they stand on at least the kind of parallel footing that the Congress would envision. Is technology the problem for the Post Office? Is rate increases the problem for the Post Office? Is there any way for the Post Office to truly compete with private business, which, in fact, rapidly gets a hold of this technology, or other people not even in the Postal Service business whose technology is then used by the general public while, of course, we insist and will always insist that the mail be delivered every weekday out there.

I just want your honest assessment if we are in a holding action here or whether this is the kind of service that can keep up with the changing technology.

Mr. WILLIAMS. I am fairly optimistic with regard to the ability of the Postal Service and the Postal Service working with its customers and unions and management associations to remain financially viable. I think the Congress has also done some to help that.

The greatest need we have now, in my view, is the right-sizing of the network. It is much too large. It is going to be complex to build down because it is a very changing environment, but a lot of promise in savings remain there.

With regard to technology, I think there is some very important technology that has been deployed and that is about to be deployed that is going to serve the bottom line in the Postal Service very well for the coming years.

I am not pessimistic, but I do believe that we do need to right-size the network, and that has begun. There has been some progress and some of it has been impressive, but it needs to continue and complete itself.

Mr. DAVIS OF ILLINOIS. Thank you very much, Delegate Norton.

Mr. MCHUGH. Mr. Chairman.

Mr. DAVIS OF ILLINOIS. Mr. McHugh.

Mr. MCHUGH. You have been very gracious with your time, and I was wondering if I may impose upon that grace.

Mr. DAVIS OF ILLINOIS. Yes.

Mr. MCHUGH. Ms. Siggerud, did I understand you to say that you are going to be looking at this issue of contracting out?

Ms. SIGGERUD. We do not currently have a request from a Member of Congress to do so, but would, of course, respond to one if we received one.

Mr. MCHUGH. Mr. Chairman, if I may, this is a very complex situation. I don't want to suggest I know the answer here, but you clearly have established highway contract routes. As someone who lives in an area where those are common, they are wonderful. Those folks do a great job. And to the extent those need to be expanded, I definitely think we should.

I think the issue here, though, is there is a new contracting out process, contract delivery services, and they are not always in the traditional less-urban areas. They may be fully justified. There are some, or at least one I know in New York City in the Bronx. I just think, as we have heard other panel members suggest, that it is an important issue. There are provisions in the contract, the basic labor agreement, which do apply to this and have been around for a long time, but maybe times have changed again.

I just think, if I may suggest respectfully, Mr. Chairman, in this subcommittee's oversight capacity it might be helpful to bring some clarity and perspective as to what the circumstances are, what, if any, new trends are out there, and what that means, so that we can conduct a proper oversight and so that decisions can be made that are the best for the postal customer, the best for the Postal Service, but I would argue, as well, serve the men and women that work so hard to make this Postal Service work appropriately, as well, if I could just suggest that, Mr. Chairman.

Mr. DAVIS OF ILLINOIS. Let me thank you for your recommendations and suggestions, Mr. McHugh. I think all of us recognize that this is a contentious issue and it is one that the committee will thoroughly explore. We looked at what has already been put into agreements relative to collective bargaining, relative to areas of work, and any time there is a new thrust, then I think that has to be scrutinized very carefully.

I am one of these individuals who believe that we all have certain kinds of rights, that labor has certain kind of rights, management has certain kind of rights, but I also believe that my rights end where the next person's rights begin, and that we have to do everything in our power to protect and promote those of all aspects of our society. I think that is what we will be doing as we wrestle with this issue. So I appreciate your comments and recommendations.

I have no further questions for this group of witnesses. I want to thank you very much for coming before us. We appreciate your being here. We will move to our next panel.

Mr. WILLIAMS. Thanks, Mr. Chairman.

Ms. SIGGERUD. Thank you.

Mr. DAVIS OF ILLINOIS. Mr. William Burrus, Mr. William Young—a lot of William's in this group—Donnie Pitts, and John Hegarty.

As we are switching places, I will proceed with the witness introductions.

Mr. William Burrus is president of the American Postal Workers Union [APWU]. The APWU represents the largest single bargaining unit in the United States, which consists of more than 330,000 clerk, maintenance, and motor vehicle employees working in 38,000 facilities of the U.S. Postal Service.

Mr. William Young is the 17th national president of the National Association of Letter Carriers, the 300,000 member union representing city letter carriers employed by the U.S. Postal Service.

Mr. Donnie Pitts is president of the National Rural Letter Carriers' Association [NRLCA]. He has over 37 years of experience with the Postal Service at both the State and national levels.

And Mr. John Hegarty was sworn into office as National Postal Mail Handlers Union [NPMHU], national president effective July 1, 2002, and was re-elected to that position by acclamation of the delegates to the Union's national convention in 2004. More than 10 years prior to becoming national president, he served as president of Local 301 in New England, the second-largest local union affiliated with the NPMHU.

Gentlemen, as you know, it is the tradition that we always swear in witnesses.

[Witnesses sworn.]

Mr. DAVIS OF ILLINOIS. The record will show that each witness answered in the affirmative.

Your entire statement will be included in the record. Of course, all of you have done this many, many, many times. We will begin with Mr. Burrus, and we would expect you to give a 5-minute statement, after which we will have time for questions and responses.

Mr. Burrus.

STATEMENTS OF WILLIAM BURRUS, PRESIDENT, AMERICAN POSTAL WORKERS UNION, AFL–CIO; WILLIAM H. YOUNG, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS; DONNIE PITTS, PRESIDENT, NATIONAL RURAL LETTER CARRIERS' ASSOCIATION; AND JOHN F. HEGARTY, NATIONAL PRESIDENT, NATIONAL POSTAL MAIL HANDLERS UNION

STATEMENT OF WILLIAM BURRUS

Mr. BURRUS. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, on behalf of the American Postal Workers Union, thank you for providing me this opportunity to testify on behalf of the more than 300,000 dedicated postal employees that we are privileged to represent.

I commend the committee, through your leadership, Mr. Chairman, fulfilling your responsibility of oversight of this important institution. We begin a new era in the long and proud history of a Postal Service that predates the founding of our country. Over the past 4 years we have debated the future of the Postal Service and

now the long struggle to achieve reform has been concluded. We now turn our attention to its implementation.

As you may recall, our Union opposed postal reform because we viewed it as a veiled effort to undermine collective bargaining through regulatory restrictions and rate caps. We did not prevail, but we now lend our best efforts to making it work.

In this new world of postal reform, each institution must now find its rightful place. You legislate, unions represent, managers manage. When these responsibilities overlap, and they sometimes do, the system can break, and more often than not service and workers suffer.

As inviting as it may be, when you are asked to intervene with legislative action in areas best left to the parties, I request that you resist the temptation to do so.

Let me be clear. I welcome your intervention in collective bargaining matters if you can assure me that your decision will be on the side of the workers in each and every instance. Of course, you cannot afford me that assurance. Therefore, to borrow a phrase from postal critics, we ask with deep respect that you stick to your knitting and leave collective bargaining to the parties.

In debate preceding the passage of postal reform, the record was littered with forecasts of gloom and doom for hard copy communication. Predictable rate increases within the CBI, coupled with regulatory oversight, were declared essential to save the U.S. Postal Service. After much legislative give and take, we are now proceeding with the implementation of a new business plan, but none of the uncertainties that were cited to justify postal reform have been resolved.

The gloom and doom scenarios were never reflective of reality, and the uncertainty that prompted these dire projections remain unaffected by reform. Although the record is closed and the bills are now law, on behalf of the APWU members I assert that we will never accept as fair the changes included in the legislation that limit compensation for injured postal employees. This was an injustice and our Union will not rest until it is reversed.

Your overview of the U.S. Postal Service is occurring at a watershed moment in the history of this vital institution. The Postal Service is now facing challenges, including working within the rate cap and finding a way to support itself by managing services that compete directly with private sector companies.

The Postal Service faces these challenges under rules that have yet to be written by the Regulatory Commission, a newly created body with awesome powers and responsibilities.

A recent decision by the Commission regarding the USPS request for rate adjustments is a positive sign. It indicates that the Commission intends to serve as an independent reviewer of the postal rate structure. Under the leadership of Chairman Blair, Commissioners gave careful consideration to the record, and they arrived at fair conclusions. I commend the Commissioners for their thoughtful and just decision to recommend the first class rate unburdened by excessive work share discounts.

The American Postal Workers Union is proud that we were the only intervener to propose a $0.41 first class stamp rather than the

$0.42 sought by the U.S. Postal Service, and we are pleased by the Commission's decisions.

The Board of Governors and the Commission are also commended for conceiving and approving the forever stamp. The very concept is a reflection of new and innovative thinking.

We applaud the Commission for rejecting the radical proposal referred to as "de-linking" which would separate the rate for single first class letters from the rate for first class work shared letters. This proposal, if adopted, would have set the stage for a continual decline in the uniform rate structure.

The Commission must also be watchful far into the future and resist demand to erode the very foundation of our mail system, universal service and uniform rates. The British postal system has recently announced a plan to begin zone pricing that could lead to higher rates for delivery to rural areas. Such a disparity would not be tolerated in America.

Throughout the debate on postal reform, the American Postal Workers Union was a vital critic of excessive work share discounts, and we applaud the recent recommendation of the Commission to initiate change. This is a start, and we hope to work with the Commission in the appropriate review to determine their relationship to the cost of what is standard.

My Union has a long history of engagement in the USPS effort to consolidate the processing network, and in communities throughout the country we have called upon the elected public officials to join with us. I am not aware of a single congressional representative who has rejected our appeals to require the Postal Service to seek meaningful immunity input prior to making a final decision.

The record is clear. With your help we have been successful in preserving service, protecting local postmarks, and defending community identity.

The APWU has also been a consistent advocate for postal efficiencies. We did not appeal for your assistance when postal officials engaged in massive investment in automation designed to enhance productivity. More than $20 billion has been invested in the automation of mail processing, and as a result of this investment the number of craft employees has been reduced by more than 80,000 employees. But there is a line between deficiencies and service. Highly publicized experiences in Chicago, Boston, and New Mexico demonstrate that postal management has not yet found the right balance. This chase to the bottom for savings cannot justify denying the American public a service that is required by law. Our Union and our Nation's citizens reject the Circuit City business model as one to be copied for mail services. We shall need your oversight to hold the Postal Service accountable.

APWU members are proud to be a part of the most efficient Postal Service in the world, and we intend to be a part of a team effort to preserve this legacy, including working with this committee.

In closing, Mr. Chairman, I want to take this opportunity to speak directly to the committee about a unique matter pending before the Postal Service and to seek the committee's assistance in its resolution.

For many years I have been advancing that the Postal Service issue a commemorative stamp honoring the millions of slaves

whose work in bondage contributed so much to building this country. I have made some progress in these efforts, and the Postal Service has agreed that a stamp will be issued in 2008 honoring those human beings who suffered so much for so little reward.

Unfortunately, we may be in disagreement over the image to be depicted. The Stamp Committee is proposing to depict the ship transporting slaves across the ocean, and I simply ask do we honor the oppressed or the oppressors. Tens of millions of human beings completed their life journey without notice, and this stamp presents an opportunity to display their image, to tell their story in a stamp. After 400 years, it is the right thing to do.

I thank you, Mr. Chairman, for your leadership and that of the members of this committee. As we embark on the future under a new business model, we shall need your attention and your wisdom. Thank you for your efforts.

I will be pleased to respond to any questions the committee may have.

[The prepared statement of Mr. Burrus follows:]

APWU CONGRESSIONAL TESTIMONY

American
Postal
Workers
Union,
AFL-CIO

Before The

SUBCOMMITTEE ON FEDERAL
WORKFORCE,
POSTAL SERVICE AND THE DISTRICT OF
COLUMBIA

TESTIMONY OF WILLIAM BURRUS

PRESIDENT

AMERICAN POSTAL WORKERS UNION,
AFL-CIO

(April 17, 2007)

1300 L Street, NW
Washington, DC 20005
202-842-4250
Fax 202-842-4297

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In this new world of postal reform, each institution must now find its rightful place. You legislate, unions represent, and managers manage. When these responsibilities overlap, and they do, the system can break, and more often than not, service and workers suffer. As inviting as it may be, when you are asked to intervene with legislative action in areas best left to other parties, I request that you resist the temptation to do so. To borrow a phrase from postal critics, we ask, with deep respect, that you "stick to your knitting."

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Although the record is closed and the bills are now law, on behalf of the APWU members, I assert that we will never accept as fair the changes included in postal reform legislation that limit compensation for postal employees – and postal employees only – who are injured in the performance of their work. This was an injustice and our union will not rest until it is reversed.

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I commend the commissioners for their thoughtful and just decision to recommend a first-class rate unburdened by excessive workshare discount subsidies. The American Postal Workers Union is proud that we were the only intervener to propose a 41-cent first-class stamp, rather than the 42-cent stamp sought by the Postal Service. And we are pleased by the Commission's conclusion.

The Board of Governors and the Commission are also to be commended for conceiving and approving the Forever Stamp. The very concept is a reflection of new and innovative thinking.

We also applaud the Commission for rejecting the radical proposal referred to as "de-linking," which would separate the rate for single-piece first-class letters from the rate for first-class workshared letters. This proposal, if adopted, would have set the stage for a continual decline in the uniform rate structure, culminating in one rate for major mailers – who have the capability to barcode, transport, and sort their mail – and another rate for individual citizens.

The Commission must be watchful far into the future and resist the demand to erode the very foundation of our mail system: universal rates and uniform service. The British postal system has announced plans to begin "zone pricing" that could lead to higher rates for the delivery of mail to rural areas. But this disparity is not one that we would tolerate in America.

Throughout the debate on postal reform, the American Postal Workers Union was a vocal critic of excessive workshare discounts, and we applaud the recent recommendation of the Rate Commission to initiate change. This is a start, and we hope to work with the Commission in the appropriate review of a whole range of discounts to determine their relationship to the cost-avoided standard.

My union has a long history of engagement in the USPS effort to consolidate the processing network, and in communities throughout the country we have called upon elected public officials to join us. I am not aware of a single congressional representative who has rejected our appeals to require the USPS to seek meaningful community input prior to making a final decision. The record is clear: With your help, we have been successful in preserving service, protecting local postmarks, and defending community identity.

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But there is a line between efficiencies and service. Highly-publicized experiences in Chicago, Boston, and New Mexico demonstrate that postal management has not yet found the right balance. This "chase to the bottom" for savings cannot justify denying the American public a service that is required by law. Our union and our nation's citizens reject the Circuit City business model as one to be copied for mail services. We shall need your oversight to hold the Postal Service accountable.

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In closing, Mr. Chairman, I want to take this opportunity to speak directly to the Committee about a unique matter pending before the Postal Service, and to seek the Committee's assistance in its resolution. For many years, I have been advocating that the Postal Service issue a commemorative stamp honoring the millions of slaves whose work in bondage contributed so much to building this country.

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I thank you, Mr. Chairman, for your leadership and that of the members of this oversight committee. As we embark on the future under a new business model, we shall need your attention and your wisdom. Thank you for your efforts.

I would be pleased to respond to any questions you may have.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Burrus.

We will proceed to Mr. William Young.

STATEMENT OF WILLIAM YOUNG

Mr. YOUNG. Thank you, Chairman Davis.

Before I begin, I want to thank you, Mr. Chairman, for your leadership over the past several years as Congress debated postal reform legislation. Thanks to the bipartisan partnership you and Chairman Henry Waxman established with Tom Davis and John McHugh, Congress enacted a reform bill in December that is largely positive and fair to all concerned.

I have submitted an extended statement for the record that touches on the need for additional reforms, but for the moment I want to focus on a single issue that I believe is a serious threat to the future of the U.S. Postal Service, the contracting out of letter carrier jobs.

In its dealings with the NALC and its management training programs, the Postal Service has signaled its intention to promote the out-sourcing of mail delivery to new addresses whenever and wherever it can. I am here today to sound an alarm on this penny-wise but pound-foolish policy and urge Congress to put a stop to it.

Contracting out an inherently governmental function like the delivery of mail is misguided and it is wrong. It runs counter to the Postal Service's basic business strategy, and it violates both the intent and the spirit of the Nation's postal laws.

The Postal Service's key asset is the trust and confidence of the Nation's mailers. Employing part-time, low-wage workers with no benefits will lead to high turnover and poor service over time. This will break the trust that Americans have developed with the Postal Service through their long-term contact with dedicated career letter carriers.

Out-sourcing core functions is rarely successful business strategy. Uniformed career letter carries and clerks are the public face of the U.S. Postal Service. They represent the brand, so to speak. Out-sourcing your brand might save you money in the short term, but it is sure to backfire over the long run. As the quality and trust in the system declines, mail volume and mail revenue are bound to fall, wiping away any real savings. Beyond that, the Postal Service's strategy to employ intelligent mail technologies in the future will require an even more dedicated and better skilled letter carrier, a need that will not be met through the widespread use of contractors.

Out-sourcing letter carrier mail also contradicts the basic policy outlined in the Nation's postal law, which specifically grants collective bargaining rights and calls on the Postal Service to place particular emphasis on opportunities for career advancement for its employees and to support their achievement of worthwhile and satisfying careers in the service to the United States.

Yet, the Postal Service appears to be dead set on a policy of out-sourcing new deliveries across the country. Although a very small percentage of total deliveries are contracted out today, with the addition of 1 to 2 million new deliveries each year, it will not be long before a two-tier system of delivery begins to undermine the trust and quality of the Postal Service.

Congress should act to stop the cancer of contracting out now, before it spreads and undermines the most affordable and efficient Post Office in the world. If this is not stopped now, in 10 to 15 years there could be tens of thousands of contractors out there. When your constituents begin to complain, they won't be calling me, they will be calling you.

Now, the Postal Service would have you believe that contracting out the final delivery of mail is nothing new and no big deal. I am sure you read the document sent to every Member of Congress last week, the paper entitled, "Contracting Out by the U.S. Postal Service, Not New." The central claim of this misleading document is simply not true. Yes, the Postal Service has long used contractors on so-called highway contract routes to transport mail between post offices and to do occasional deliveries en route in rural areas, but using contractors to deliver mail in urban and suburban settings is something totally new.

The fact is the Postal Service has embarked on a radical expansion of out-sourcing in the delivery area, following the same misguided practice used by many private companies to suppress wages and destroy good middle-class jobs, replacing them with lower-paid, contingent, and part-time positions.

In 2004 and 2005 Postal Service headquarters initiated an HCR—that is highway contract route—enhancement and expansion program. I have provided for the record a copy of the presentation used by postal management trainers to explain this new program. Its goal was to broaden and transform the use of HCRs to include not just the traditional transportation of mail but also the delivery of mail, as well.

Of course, the Postal Service knew that its new policy would be controversial. Look at the last slide on its training program. The Postal Service saw congressional influence as the No. 1 obstacle or barrier to success of that program. They had good reason to worry about congressional opposition. In the summer of 2005, the House of Representatives voted 379 to 51 to oppose an amendment offered by Representative Jeff Flake to the postal reform bill which was eventually adopted to experiment with the privatization and alternate forms of deliveries in 20 cities across the country. I note that the current members of this subcommittee opposed that amendment by a vote of 10 to 1.

In 2006, despite the express views of Congress, the Postal Service went even further. It began advocating contract delivery as a growth management tool and it introduced contract delivery service [CDS], routes for new deliveries in urban and suburban areas. Such routes are to be considered for all new deliveries. That is their training program. Of course, these CDS routes bear no relation to the traditional highway contract routes. Although the contractors do receive the same low pay and no benefits, their main duties involve delivery work, not mail transportation.

Why is the Postal Service doing this? According to another management presentation used recently in Seattle, which I have also provided for the record. Contract routes are "the most cost efficient, because they provide no health insurance, no life insurance, no retirement, and no tie to union agreements." They call that efficiency. I call it an assault on middle class living standards.

Mr. Chairman, what the Postal Service is doing is not business as usual. The CDS routes it has established in recent months in urban areas like the Bronx or suburban areas outside of Fresno, CA, or Portland, OR, cannot be truthfully described as "nothing new."

I urge this subcommittee to consider legislation to block the Postal Service from taking the low road that far too many employers in this country have adopted. The Postal Service should not contribute to wage stagnation and add tens of millions of workers without health insurance or adequate pension protection. Indeed, the Postal Service has been and should remain a model employer. It has combined decent pay and wages with ongoing innovation to keep Postal Service rates low and affordable. It does not need to join the race to the bottom with respect to employment standards, and it should not gamble with the trust and support of the American people.

Before I finish let me address one final issue. You may have heard from postal management that subcontracting is a bargaining issue and that Congress should stay out of labor relations that are currently underway. NALC, like the APWU, does not want Congress to get involved in our collective bargaining. However, what we do want is for Congress to ensure that there is collective bargaining for all postal employees who deliver the mail. By assigning new deliveries to contract workers, the Postal Service is seeking to avoid collective bargaining. Whether they out-source the core function of its mandate is a legitimate public policy issue. You can and should weigh in on this issue. You can start by enacting H.R. 2978, a sense of the House resolution to oppose postal out-sourcing.

I know that you did not work dozens of years on postal reform only to see the Postal Service turn around and throw it all away. Neither did I.

Thank you again, Mr. Chairman, and thanks to all the members of this committee for my opportunity to testify.

[The prepared statement of Mr. Young follows:]

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Congress of the United States

House of Representatives

Subcommittee on Federal Workforce, Postal Service, and the District of Columbia

Danny Davis, Chairman

Testimony of

William H. Young

President

National Association of Letter Carriers

April 17, 2007

Good morning, Chairman Davis, Ranking Member Marchant and other members of the sub-committee. Thank you for the opportunity to testify today in the first oversight hearing of the 110th Congress regarding the United States Postal Service. My name is William H. Young. I am the President of the National Association of Letter Carriers, a national labor union that is privileged to represent more than 300,000 active and retired city letter carriers across the United States. NALC was founded in 1889 to advance the well-being of the nation's letter carriers and to support the maintenance of affordable and universal postal services in America. It has served as the exclusive collective bargaining representative of city letter carriers since 1962.

I want to begin by thanking you Chairman Davis and Chairman Henry Waxman of the full Oversight and Government Reform Committee for reestablishing a sub-committee to monitor and oversee the United States Postal Service. The Postal Service is an important national institution whose health and viability is essential to the national economy and, indeed, to the country at large. It deserves the kind of attention a sub-committee can offer.

I also want to thank the Chairman for his leadership over the past several years as Congress debated postal reform legislation. Thanks to him and the bipartisan partnership he established with Chairman Waxman and Congressmen Tom Davis and John McHugh, Congress enacted a reform bill that is largely positive and fair to all concerned. It preserved affordable universal service financed by a limited postal monopoly, protected the collective bargaining rights of postal employees and stabilized the Postal Service's finances by securing tens of billions of dollars to eliminate the Postal Service's unfunded liability for retiree health benefits over the next 10 years. Thanks to this action, the Government Accountability Office has taken the Postal Service off its list

of financially endangered federal agencies. Thank you Mr. Chairman and thanks to all who worked to make postal reform a reality.

Of course, the reform bill, like all legislation, is not perfect and its passage will not solve all the Postal Service's problems. The Postal Service is still adjusting to the Internet age, and internal management decisions and the quality of labor relations will also be important to the long-term survival of the Postal Service. But the legislation is a good start and its enactment clears the way for further reforms in the future. Indeed, NALC looks forward to working with this sub-Committee in the years to come to advance further legislative reforms. Securing Medicare Part D funding for the Postal Service, now blocked by the Bush administration, and eliminating the transfer of postage ratepayer funds to the United States Treasury to finance FERS military benefits are among these needed reforms.

Today, however, I would like to focus on a very serious threat to the future of the quality and sustainability of the United States Postal Service. In recent years, the Postal Service has adopted a fundamentally misguided policy of outsourcing the final delivery of mail to new delivery points whenever and wherever it can. I am here today to sound the alarm on this "penny-wise but pound-foolish" business strategy and to urge Congress to put a stop to it. Contracting out an inherently governmental function like mail delivery, one of the few government services specifically mentioned in the Constitution, is wrong. Employing part-time, low-wage workers with no benefits will harm service over time. The inevitable high level of turnover among contract carriers will break the trust Americans have developed with the Postal Service through their long-term contact with dedicated, career letter carriers. Indeed, that connection has helped make the Postal Service the most trusted agency of the federal government according to a recent survey of

Americans concerning privacy rights. This trust is also essential to major mailers. Few enterprises, public or private, can contract out their core functions and survive. The Postal Service is no different. Uniformed letter carriers and clerks are the public face of the Postal Service; they represent the brand so to speak. Outsourcing your brand might save you money in the short term, but it is sure to backfire over the long run.

In fact, many of the leaders of the mailing industry who worked in coalition with us on postal reform legislation have told me directly that the introduction of Intelligent Mail will require even more dedicated and better skilled letter carriers in the future. In view of the importance of IM in the future, the widespread use of contractors is fundamentally inconsistent with the Postal Service's overall business strategy. It also contradicts the basic policy outlined in the nation's postal law, which calls on the Postal Service to "place particular emphasis on opportunities for career advancement" of its employees and to support their "achievement of worthwhile and satisfying careers in the service of the United States."

Yet the Postal Service appears dead set on a policy of outsourcing new deliveries across the country. Although a small percentage of total deliveries are contracted out today, with the addition of 1 - 2 million new deliveries each year, it would not be long before a two-tier system of delivery began to undermine the trust and service quality of the Postal Service. Congress should act to stop the cancer of contracting out now before it spreads and undermines the most affordable and efficient post office in the world.

Now the Postal Service would have you believe that contracting out final mail delivery is nothing new and no big deal. I have seen the document it distributed to every Member

of Congress last week. It is one of the most misleading pieces of paper I have ever read. It suggests that nothing has changed and that the Postal Service has always used contractors to deliver the mail. That is simply not true. Yes, it has long used contractors to transport mail between post offices and to do occasional deliveries en route in rural areas. Such contractors have long been authorized by the law. But using contractors to deliver mail in urban and suburban settings without any connection to the bulk transportation of mail is something totally new. Indeed, the Postal Service has embarked on a radical expansion of pure delivery outsourcing, following the same misguided tactics used by many private companies to suppress wages and destroy good middle class jobs, replacing them with lower-paid contingent and part-time positions. Personally, I find this blatant attempt to mislead the Congress infuriating.

In reality, the Postal Service's embrace of outsourcing delivery has evolved over the past several years. It began with the expansion of traditional Highway Contract Routes or HCRs in areas traditionally served by rural letter carriers and evolved into an expanded Contract Delivery Service (or CDS) now being rolled out in suburban and even urban areas. In many areas, the Service is contracting out new deliveries in established city delivery territory. It is worth examining the evolution of these contract routes.

Highway Contract Routes have been around for decades. They were typically used to transport mail between rural post offices and to serve extremely low density areas. Even today, the Postal Service will only convert a rural route to an HCR if delivery density falls below one delivery point per mile. Neither the NALC nor the National Rural Letter Carriers Association objects to these traditional HCRs. However, in 2003, the Postal Service deleted a provision in its Postal Operations Manual that HCRs be used in "sparsely populated areas." At that time, there were only 5,872 HCRs across the country.

This internal policy change seems to have opened the way for the extension of contract delivery to areas long served by career employees. Despite assurances made to NALC at the time that the change was not intended "to change the Postal Service's policy or practice in the establishment, extension or conversion of [HCR] routes," the Postal Service proceeded to add 1,257 new HCRs by the end of Fiscal Year 2004, an increase of 21.4 percent that raised the total to 7,129 contract routes.

In 2004 and 2005, the Delivery Programs Support unit at the Postal Service's L'Enfant Plaza headquarters initiated an "HCR Enhancement and Expansion Program." A copy of the slides used by management trainers is provided for the record. That presentation predicted a 34 percent increase in HCR routes over the next 10 years. By this time, the Postal Service knew that its new policy would be controversial. As the last slide of the training program indicates, there were a number of potential problems with HCR routes, which the USPS identified as "possible obstacles/barriers to success." You will note that number one on that list of obstacles was "Congressional Influence."

They had good reason to worry about Congressional opposition. In the summer of 2005, the House of Representatives voted 379 to 51 to oppose an amendment offered by Representative Jeff Flake to the soon-to-be passed postal reform bill (H.R. 22) to experiment with privatization and alternative forms of delivery in 20 cities across the country. I note that the current members of this sub-committee opposed the amendment by a vote of 10-1.

By 2006, despite the demonstrated opposition of Congress to outsourcing, the Postal Service was openly advocating contract delivery as a "growth management" tool. As an indication of its intent to further extend contracting out to urban and suburban areas, the

Postal Service introduced Contract Delivery Service or CDS routes, which bear no relation to traditional highway transportation routes. CDS contractors are to wear USPS-issued shirts and receive just six hours of training before performing delivery work. But they will receive the same low pay and no benefits afforded HCRs. Indeed, a management training presentation used in the Seattle District of the Postal Service outlines the factors that explain why "contract routes are more cost-efficient." Among the factors listed are: "no health insurance," "no life insurance," "no retirement" and "no tie to union agreements." I am not sure the erosion of middle class employment standards can ever be called "efficient."

We have seen the future of delivery as envisioned by the Postal Service and it is not pretty. Recent decisions to outsource hundreds of deliveries in new buildings in New York City and Oregon provide good examples and paint a depressing picture. The Postal Service has awarded a CDS contract to a man to deliver to a new condo building in the Bronx that is surrounded by buildings now served by city letter carriers. It pays the contractor $16,800 annually for one and a half hours of work per day. In this case, I am not even sure that qualifies as penny-wise, but it is certainly pound-foolish. In Beaverton, Oregon, a suburb of Portland, the Postal Service delayed mail delivery to a new 374-unit housing development for two months while it searched for a CDS contractor. It pays the son of a Beaverton Post Office manager $118 per day to serve 20 community mail boxes in the development. This is a far cry from a traditional HCR of yesteryear, the misleading claims of the Postal Service notwithstanding.

Mr. Chairman, what the Postal Service is doing is not business as usual. It is true that only 2 percent of all deliveries are now delivered by contractors. But the USPS has clearly signaled its intent to give as many new deliveries as possible to low-wage, no

benefit contractors. If this is not stopped now, a two-tier system of mail delivery will develop in this country. In 10 or 15 years there could be tens of thousands of contractors out there. When your constituents begin to complain, they will not call me. They are going to call you.

I urge this sub-committee to consider legislation to block the Postal Service from taking the low road that far too many employers in this country have adopted. The Postal Service should not contribute to wage stagnation and add to the tens of millions of workers without health insurance or adequate pension protection. Indeed, the Postal Service has been and should remain a model employer. It has combined decent pay and wages with ongoing innovation to keep postage rates low and affordable. It does not need to join the race to the bottom with respect to employment standards. And it should not gamble with the trust and support of the American people.

I know that you did not work a dozen years on postal reform only to see the Postal Service turn around and throw it all away. I didn't either.

Thank you again, Mr. Chairman and thanks to all the members of the committee for the chance to testify.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Young.

We will proceed to Mr. Pitts.

STATEMENT OF DONNIE PITTS

Mr. PITTS. Thank you, Mr. Chairman.

Before I start, I would ask that my remarks be included in the record, the written remarks that I have provided.

Mr. Chairman and members of the committee, my name is Donnie Pitts and I am president of the 111,000 member National Rural Letter Carriers' Association. I want to thank you, Mr. Chairman, for holding this oversight hearing.

Back in 1985 I had the pleasure of testifying before the House Ways and Means Committee as vice president at that time of the Alabama Rural Letter Carriers' Association. It is an honor to be invited to testify again before Congress, this time as president of the National Rural Letter Carriers' Association.

Rural carriers serve more than 75,000 total rural routes. We deliver to 37.4 million delivery points, driving a total of 3.3 million miles per day. We sell stamps, money orders, accept express and priority mail, collect signature and/or delivery confirmation pieces, and pick up registered, certified mail and customer parcels. Our members travel everywhere every day, serving America to the last mile.

Mr. Chairman, the most important issue affecting our craft at this moment is the contracting out of delivery service by the Postal Service. Delivery is a core function of the Postal Service, and outsourcing this function is contrary to the mission of the agency. The practice jeopardizes the security, sanctity, and service of the Postal Service. I ask that Congress fulfill its duty of oversight and take immediate steps to halt the continuation of this practice.

Delivery managers have been encouraged to favor CDS, or contract delivery service, using contract employees over delivery by city or rural letter carriers for all new deliveries based on cost savings. Contracting out is reported to save roughly $0.15 per delivery point, but at what cost. When the Postal Service started the contracting out of deliveries, they were still tasked with paying billions of dollars into an escrow account and covering the cost of postal employees' military pension obligation. With the passage of postal law 109–435, the Postal Service was relieved of both the $27 billion obligation for military pensions and $3 billion annual payment into the escrow account, and new laws allow the Postal Service to retain a profit, and a banking provision allows any unused rate authority to be saved for use at a future time.

There remains an opportunity to file one last rate increase under the old law. The Postal Service has not given the new law which this committee wrote and passed a chance. If the Postal Service had lived under the new law for 5 to 10 years and then found they were running huge deficits, perhaps we could understand cost cutting measures, but it has only been 4 months since the bill became law. Why does the Postal Service see the need for even more cost savings?

Security has become one of the most important concerns facing Americans today. Following the terror attacks on September 11, 2001, and anthrax attacks that fall, the White House, Department

of Homeland Security, and Department of Health and Human Services, working closely with the Postal Service, the NRLCA, and the NALC developed a plan to call upon letter carriers to deliver antibiotics to residential addresses in the event of a catastrophic incident involving a biological attack. Why us? Because citizens trust us. Star route carriers aren't even involved in this service, and now CDS carriers.

Many contractors subcontract their routes. Letter carriers are Federal employees who are subject to close scrutiny of their character, background, and criminal history, if any. What kind of scrutiny are subcontractors subjected to? Does a contractor take the same care in screening a subcontractor employee as the Postal Service takes?

Sanctity of the mail stream is one of utmost importance. Sensitive materials are mailed every day. Financial documents, credit cards, Social Security checks, medicine, passports, and ballots must pass through the mail.

A contract carrier in Benton, AR, stole a person's credit card identity, and he was caught by the police. A Bridgeport, PA, contract employee threw away 200 pieces of first class mail. His postal record indicated he should never have been hired. In Appalachia, VA, a contractor pleaded guilty in an election rigging scheme where absentee ballots were forged or votes were purchased with bribes. Are these the kind of people we want delivering the mail?

Service is the reason that USPS ranks as the most trusted agency in the Federal Government. Letter carriers are the most trusted part of that equation, according to customer satisfaction surveys. All new rural carriers are required to attend a 3-day training academy which instructs them on all aspects of their job. This training academy, staffed by experienced rural carriers, serves as a clearinghouse for the rural craft. There is a direct connection between our training academies and customer service satisfaction. Contract carriers don't have the training academies, and any training they may receive is inferior to the training developed by the Postal Service and the NRLCA.

There is a lack of accountability and no clear chain of command for supervision. Neither customers nor the Postal Service will know who is responsible for service problems or delivery concerns. The Postal Service sites as a general rule that public interest, cost, efficiency, availability of equipment, and qualification of employees must be considered when evaluating the need to contract. After evaluating contract delivery service, I ask is this cost savings worth the risk. The answer is obvious.

Mr. Chairman and members of the committee, I thank you for inviting me to testify today. If you have any questions of me, I will be glad to answer them.

[The prepared statement of Mr. Pitts follows:]

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Testimony of
Donnie Pitts, President
National Rural Letter Carriers' Association

before the

Subcommittee on Federal Workforce, Postal Service,
and The District of Columbia

April 17, 2007

Mr. Chairman, and members of the Committee, my name is Donnie Pitts and I am President of the 111,000-member National Rural Letter Carriers' Association. I want to thank you, Mr. Chairman, for holding this oversight hearing. Back in 1985 I had the pleasure of testifying before the House Ways and Means Committee as Vice President of the Alabama Rural Letter Carriers' Association. It is an honor to be invited to testify again before Congress, this time as President of the NRLCA.

Rural carriers serve more than 75,000 total rural routes. We deliver to 37.4 million delivery points, driving a total of 3.3 million miles per day. We sell stamps and money orders, accept Express and Priority Mail, collect Signature and/or Delivery Confirmation pieces, pick up Registered, Certified Mail and customer parcels. Our members travel everywhere, everyday, serving America to the "last mile."

There are two areas of great concern I would like to discuss today. The first is the newly-formed Postal Regulatory Commission's interpretation of the Exigency Clause, while the second, and more alarming, issue is the Postal Service's recent decision to begin contracting out delivery routes using Contract Delivery Service (CDS).

First, I would like to talk about our concern for the Postal Regulatory Commission's (PRC) interpretation of the Exigency Clause. At a symposium sponsored by the American University School of Public Affairs entitled "Postal Reform: From Legislation to Implementation," the PRC Chairman stated that it is clear the Exigency Clause is to be interpreted to mean that the Postal Service is only allowed to adjust rates above the Consumer Price Index (CPI) in the event of another 9/11, anthrax attack or other catastrophic event. This *is not* the intended meaning of the legislative language.

Mr. Chairman, the postal unions, employee organizations and members of the mailing community spent months negotiating exigency language on which both sides could agree. It was give-and-take between the groups. In the original Senate language, "unexpected and extraordinary," was too strict for the postal unions to support while the original House language, "reasonable, equitable and necessary," was not strict enough for the mailers to support.

The postal unions, employee organizations and members of the mailing community negotiated on and agreed to exigency language stating that "rates may be adjusted on an expedited basis due to either extraordinary or exceptional circumstances." We then presented it to Congress who graciously accepted our language. At the time of the agreement, this language was strict enough for the mailers to feel that every little shock would not result in increased rates above CPI, but accommodating enough to not limit a rate increase to only the most catastrophic events. Our argument for a looser interpretation of the Exigency Clause is that the Postal Service should not be held solely responsible in the event of an external shock beyond its control.

In support of this argument, I offer two examples. The first example is legislation. Currently there are 14 states that have introduced "Do Not Mail" bills, essentially prohibiting the sending of advertising mail pieces, or establishing a "Do Not Mail" registry based on the Do Not Call registry. What would happen if a number of our larger states such as California, Texas, Pennsylvania, New York, and Florida all passed legislation such as this? I ask this question because in 2005, for the first time ever, both Standard Mail and advertising mail volume surpassed first class mail volume. In fact, First Class mail volume has been gradually declining for the past couple years. How

would the market respond if all of a sudden a specific class of mail was immediately withdrawn from the system?

The second example is a hypothetical one concerning Iraq and the Middle East. What if the problems continue to escalate and all of the Middle East erupts into war, halting the delivery of oil? If gas prices were to rise to $4 or $5 a gallon, it should not be the Postal Service's responsibility to absorb these costs without the ability to raise rates above the CPI index.

The Postal Service must have the ability to raise rates outside of the most catastrophic events. It has been rumored that in the near future the banking industry will be consolidated into seven or eight huge national banks. What if the banking industry decides they can save money by having their customers do all their banking online, and charge higher banking fees to any customer who wishes to continue to receive a hard-copy statement? What if the insurance industry decides the same thing? What if the credit card industry charges a higher interest rate for anyone who doesn't pay their bills online?

Mr. Chairman, this is just a small list of exigent examples where the Postal Service would need to adjust rates above the CPI index. To have the PRC Chairman narrowly interpret the Exigency Clause to mean that only the most catastrophic events apply to exigent rate cases would be detrimental to the vitality of the Postal Service and put its future in jeopardy.

Mr. Chairman, now I would like to address the issue of contracting out delivery services by the Postal Service. Delivery is a core function of the Postal Service and outsourcing this function is contrary to the mission of the agency. This practice jeopardizes the security, sanctity, and service of the Postal Service. I ask that Congress fulfill its duty of oversight and take immediate steps to stop the continuation of this practice.

Delivery managers have been encouraged to favor CDS using contract employees over delivery by city or rural letter carriers for all new deliveries based on cost savings. Contracting out is reported to save roughly $0.15 per delivery point, but at what cost? When the Postal Service started the contracting out of deliveries it was still tasked with paying billions of dollars into an escrow account and covering the costs of postal employees' military pension obligation. With the passage of P.L. 109-435, The Postal Accountability and Enhancement Act, the Postal Service was relieved of both the $27 billion obligation for military pensions and the $3 billion annual payment into the escrow account. In addition to these cost savings, last year the Postal Service was granted a rate increase to cover the cost of the escrow payments, which no longer need to be made. The PAEA allows the Postal Service to retain a profit. Furthermore, a banking provision allows any unused rate authority to be saved for use at a future time. There remains an opportunity to file one last rate increase under the old rules.

The Postal Service has not given the new law, which this committee wrote and passed, a chance. If the Postal Service had lived under the new law for 5 to 10 years, and then found it was running huge deficits, perhaps we could understand cost cutting measures, but it has only been 4 months since this bill became law. Why then, does the Postal Service see the need for even more cost savings?

The Postal Service has long used contractors on what were called STAR Routes and Highway Contract Routes which delivered to sparsely populated areas with a density

of less than one delivery point per mile driven. Recently, the Postal Service changed the name Highway Contract Route to Contract Delivery Service and changed the definition of this service to include any new delivery point, regardless of its territorial location in urban, suburban or rural areas.

Postal Service communications regarding the establishment and extension of delivery services used to focus on existing service and preventing customer confusion. Now the Postal Service focuses on what is the cheapest alternative. It is turning delivery services into a patchwork quilt. Customer confusion will only be amplified with increases in contract routes. Customers will no longer know who delivers their mail as compared to their neighbors, let alone from one day to the next.

In so doing, the Postal Service is seeking to significantly increase the number of postal routes delivered by contractors. While looking to the bottom line it is jeopardizing the security, sanctity and service the Postal Service is known to provide.

Security has become one of the most important concerns facing Americans today. In the months following the terror attacks on September 11, 2001 and the anthrax attacks that fall, the government created a cabinet level agency to deal with homeland security. In 2004, the White House, Department of Homeland Security (DHS), Department of Health and Human Services (HHS), and the Postal Service, working closely with the NRLCA and NALC, developed a plan to call upon the letter carrier organizations within the Postal Service's direct control, to deliver antibiotics to residential addresses in the event of a catastrophic incident involving a biological attack. The Postal Service was approached to aid in this plan because the USPS is *the* most trusted government agency in the eyes of the public. Would a contractor have the same amount of trust and dependability in the eye of the public as a letter carrier would have? Would a contractor even be obligated to participate in this service?

In the fall of 2001 the mail was used as a biological weapon when the anthrax attacks killed five persons, including two postal employees, and threatened the safety of countless others. Since the time of the attacks, we have worked closely with the Postal Service to better protect the postal system and its employees through the installation of bioterrorism detection equipment and other measures. The perpetrator(s) of these attacks have still not been found and brought to justice. What if they are hired as contractors?

It is reported that many of these contractors sub-contract their routes to other employees. Letter carriers are federal employees who are subject to close scrutiny of their character, background and criminal history. Contractors are subject to this scrutiny as well, but it is not known what kind of security clearances their sub-contractors are subject to. There is no uniformity in hiring and screening practices done by contractors for their sub-contractors. How do we know who is really delivering our mail? How do we know the contract carrier is a trustworthy individual? How do we know that the contractor has taken the same care in screening the sub-contractor that the federal government would have taken?

Protecting the sanctity of the mail stream is of utmost importance. Sensitive material is mailed everyday. Contract carriers would gain access to financial documents, credit card information, Social Security checks, medication, ID cards, passports, election materials and ballots, etc. Are we willing to trust anyone with these materials? Residents in Benton, Arkansas found out the hard way that their contract carrier was not to be trusted. A contract carrier took a credit card application out of the mail and applied for a

card in that person's name. When the card was delivered, he took it from the mail before the victim found out about it. He was caught by police on bank surveillance video tape.

Another contractor in Bridgeport, Pennsylvania simply threw away about 200 pieces of mail after he walked off the job. This particular person had prior arrests for possession of drug paraphernalia, disorderly conduct and driving under the influence. It makes one wonder how he made it through the background check.

Finally, in Appalachia, Virginia, a contractor pleaded guilty in an election rigging scheme where absentee ballots were forged or votes were purchased with bribes. Are these the kind of people we want delivering the mail?

I have to question the security commitment of a federal agency that seeks out the lowest bidder to handle the responsibility of delivering sensitive items such as prescription drugs, utility bills and debit cards. The Postal Service views outsourcing as a good way to save money, but I doubt our customers would agree.

The service standards Americans have come to expect from the Postal Service are also at risk with Contract Delivery Service. No longer would Postal employees be delivering the mail. The Postal Service has long assigned a regular carrier and a relief carrier to deliver a particular route every day. With the advent of contracting and subcontracting, you might have a different carrier everyday. A workforce comprised of employees with low wages, no benefits and no pensions will cause turnover rates to skyrocket. This would most certainly lead to high rates of customer dissatisfaction.

Mr. Chairman, I also question the training requirements for contract carriers. There is more to being a letter carrier than putting mail in a box. As I mentioned in my opening statement, rural letter carriers are a post office on wheels. We offer all the services the counter of a post office provides. We sell stamps and money orders, accept Express and Priority Mail, Signature and/or Delivery Confirmation, Registered and Certified Mail and, of course, accept our customers' parcels.

Service is the reason the USPS ranks as the most trusted agency in the federal government. Letter carriers are the most trusted part of that equation according to customer satisfaction surveys. All new rural carriers are required to attend a three-day training academy which instructs them on all aspects of their job. This training academy, staffed by experienced rural carriers, serves as a clearinghouse for the rural craft. There is a direct connection between our training academies and customer service satisfaction. Contract carriers do not have training academies and any training they may receive is inferior to the training developed by the Postal Service and NRLCA.

In light of the fact that contractors would not be postal employees, we would see a lack of accountability and no clear chain of command for supervision. Postmasters would no longer be accountable for these carriers. Who is going to supervise these carriers to make sure they are performing their duties in the appropriate fashion? What happens when they decide to bring friends along on the route, or run their child's carpool at the same time? How do we guarantee the dependability of the Postal Service when nobody is accountable for the employees? Neither customers nor the Postal Service will know who is responsible for service problems or delivery concerns.

The Postal Service cites a general rule that public interest, cost, efficiency, availability of equipment and qualification of employees must be considered when evaluating the need to subcontract. After evaluating contract delivery service, I ask, is this cost savings worth the risk? The answer is obvious.

Mr. Chairman and members of the committee, I thank you for inviting me to testify before you today.

[redacted]

From: C[redacted] Cummings [ccummings@KATV.com]
Sent: Monday, April 09, 2007 5:17 PM
To: [redacted]
Subject: SALINE COUNTY ID THEFT SCRIPT

BNTON POLICE SAY COUNTLESS PEOPLE HAVE BEEN VICTIMS OF IDENTITY THEFT AT THE HANDS OF ONE MAN...INVESTIGATORS SAY SOME OF THE VICTIMS STILL MAY BE UNAWARE THAT THEIR PERSONAL INFORMATION HAS BEEN STOLEN.

[TAKE: DOUBLE BOX GRAPHIC]
{***DOUBLE BOX GRAPHIC***}
CHANNEL SEVEN'S ANNE PRESSLY IS LIVE TO EXPLAIN MORE. ANNE?

[TAKE: LIVE CNN SET]
{***TAKE LIVE CNN SET***}
[CG :39-5&6 2 LINE REPORTER\Anne Pressly\apressly@katv.com]
SCOTT, BENTON POLICE WERE ABLE TO MAKE AN ARREST AFTER THE DETECTIVE WORKING THE CASE SHOWED BANK SURVEILLANCE VIDEO OF THE SUSPECT TO ONE OF THE VICTIMS IN AN EFFORT TO IDENTIFY HIM. WELL, THE VICTIM RECOGNIZED THE SUSPECT, ALRIGHT...AS HER MAIL CARRIER.

[TAKE PKG]
{***TAKE PACKAGE***}
[Anchor:ANNE]
{***ANNE***}
[ReadRate:14]
AUTHORITIES SAY SOME RESIDENTS OF GARLAND AND SALINE COUNTIES HAVE NOT BEEN RECEIVING ALL OF THEIR MAIL LATELY.

[TAKE: PIC]
NOT SINCE GLYNN SMITH BEGAN AS A SUBCONTRACTOR FOR THE POSTAL SERVICE ABOUT 4-MONTHS AGO.

[TAKE SOT
INCUE: 01:47
OUTCUE: 01:55
DURATION:0:08]
{***TAKE SOT***}
[CG :19-5&6 2 LINE SUPER\Lt Lisa Wylie\Benton Police Dept]

<""Come to find out, Mr. Smith had gotten the info out of the mail and had applied for the card in that person's name and then when it was delivered, he took it from the mail before the victim found out about it.">

[Anchor:ANNE]
{***ANNE***}
[ReadRate:14]
LT. LISA WYLIE SAYS SMITH DELIEVED WORKED ONE DAY A WEEK--TUESDAY--IN PARTS OF THE CITY OF BENTON, IN ADDITION TO RURAL SALINE AND GARLAND

COUNTIES.

INVESTIGATORS BELIEVE SMITH TOOK CREDIT CARD APPLICATIONS MAILED TO THE LATE HUSBAND OF THE WOMAN WHO LIVES HERE...AND APPLIED FOR THEM IN THE DECEASED MAN'S NAME.

NOW...THE VICTIM'S NEIGHBORS ARE CONCERNED THEY TOO HAVE BEEN SCAMMED.

RAYMOND TAYLOR SAYS HE USED TO GET PRE-APPROVAL LETTERS IN THE MAIL FOR HIS LATE FATHER ALL THE TIME. NOT ANY MORE.

[TAKE SOT
INCUE: 13:07
OUTCUE: 13:12
DURATION:0:04]
{***TAKE SOT***}
[CG :19-5&6 2 LINE SUPER\Raymond Taylor\Victim's Neighbor]
<"I don't know if they just finally stopped sending them after all these years or maybe there's something else.">

[Anchor:ANNE]
{***ANNE***}
[ReadRate:14]
TAYLOR SAYS HE PLANS TO INVESTIGATE BOTH HIS LATE FATHER'S AND HIS OWN CREDIT TO MAKE SURE THERE'S NOTHING SUSPICIOUS.

[TAKE SOT
INCUE: 14:17
OUTCUE: 14:24
DURATION:0:07]
{***TAKE SOT***}
<"He always kept his credit excellent. When he passed away it was excellent, and that's the way he wanted it to stay.">

[TAKE: LIVE ON CAMERA TAG]
{***LIVE ON CAMERA TAG***}
[Anchor:ANNE]
{***ANNE***}
[ReadRate:14]
SMITH IS BEING HELD AT THE SALINE COUNTY JAIL. HE WILL NO LONGER BE ALLOWED TO DELIVER MAIL. AN INVESTIGATOR FOR THE POSTAL SERVICE TELLS CHANNEL SEVEN THAT CHARGES COULD BE FILED THROUGH THE U-S ATTORNEY'S OFFICE ONCE LOCAL INVESTIGATIONS ARE COMPLETE.

Former courier makes plea deal

By Brett Lovelace
Section: B
Page: B1
Intelligencer Journal (Lancaster, PA)

Published: March 31, 2007

LANCASTER COUNTY, PA - BRETT LOVELACE Lawyers involved in the case of a former mail carrier accused of discarding more than 200 pieces of mail at a Manheim carwash have reached a plea agreement.

Frederick S. **Reincke**, 30, of 64 N. Broad St., Lititz, waived a preliminary hearing Thursday before District Judge John C. Winters and is expected to plead guilty to obstruction of law enforcement and other government agencies.

Prosecutors agreed to withdraw a receiving stolen property charge provided **Reincke** pleads guilty to the obstruction charge, which is a second-degree misdemeanor. The receiving-stolen-property charge will be reinstated, Assistant District Attorney Robert Smulktis Jr. said, if **Reincke** does not plead guilty.

Reincke is free on $2,000 unsecured bail to await an April 25 arraignment in Lancaster County Court.

Smulktis and defense attorney David Dagle negotiated the deal.

Reincke was working as a postal carrier for Platinum Logistics, a contractor for the U.S. Postal Service. The company delivers mail for two of the county's 370 city and suburban routes.

The mail - all postmarked between Aug. 30 and Sept. 20 - was supposed to be delivered to homes in the Rosewood Terrace development in Bridgeport, East Lampeter Township.

Reincke, who has prior arrests for possession of drug paraphernalia, disorderly conduct and driving under the influence, is accused of dumping the mail in a garbage can at Manheim Car Wash, 240 S. Main St.

Carwash owner Robert Graybill found about 200 pieces of mail at his business Jan. 16 and contacted Manheim Postmaster Scott Cardin.

U.S. Postal Inspector Louis J. Dirienzo, a former Lancaster city police officer, took over the investigation.

Dirienzo determined the mail was supposed to be delivered to about 60 homes.

Most of the mail consisted of sales fliers, advertisements and other items commonly considered junk mail, Dirienzo said. There also were 77 pieces of first-class mail in the trash can, including three that contained checks.

Four opened greeting cards and a package marked undeliverable - also opened - were among the mail found in the trash. Dirienzo said **Reincke** may have checked the cards for cash.

Reincke quit his job at Platinum Logistics Sept. 22. He kept the undelivered mail in the trunk of his car for about four months before dumping it at the car wash, Dirienzo said.

Manheim Borough police Officer David J. Carpenter joined the investigation and used official records to trace the recovered mail to **Reincke**.

Carpenter charged **Reincke** Jan. 30.

The Postal Service sent letters of explanation - along with the missing mail - to the residents listed on the envelopes.

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Charges are in the mail

By Brett Hambright
Section: A
Page: A1
Intelligencer Journal (Lancaster, PA)

Published: February 8, 2007

LANCASTER COUNTY, PA - Police filed charges against a former mail carrier who allegedly discarded more than 200 pieces of mail intended for a housing development in East Lampeter Township. Frederick S. **Reincke**, 30, 64 N. Broad St., Lititz, disposed of the undelivered mail last month at a Manheim car wash months after leaving his job as a carrier, Manheim Borough police said.

The mail - postmarked between Aug. 30 and Sept. 20 - was supposed to reach nearly half of the 142 homes at Rosewood Terrace in Bridgeport.

Officer David Carpenter of Manheim Borough police said he filed two misdemeanor charges against **Reincke** - obstruction of law enforcement and other government agencies and receiving stolen property.

Reincke has been summoned to court, via mail, and police are waiting to hear from him, Carpenter said.

"We have not had a chance to talk to him," he said. "He hasn't been available to be contacted."

Bob Graybill, owner of the car wash, found the discarded mail last month in a trash can at his business.

He reported it to the postal service, which contacted its law-enforcement branch - the U.S. Postal Inspection Service. Authorities there contacted Manheim Borough police.

"We get complaints from people from time to time that their mail has been stolen," Carpenter said. "But never this many pieces."

Investigators said **Reincke** was a carrier for Platinum Logistics, a contractor for the postal service.

Platinum Logistics delivers mail to rural areas near Lancaster city, including Rosewood Terrace.

Police were able to identify the suspect when officials from the company "determined who would have delivered on that route," Carpenter said.

Reincke worked for Platinum Logistics until Sept. 22, when "he walked off the job, and they never saw him again," Carpenter said.

The discarded mail was intended for about 60 homes in Rosewood Terrace, police said.

A manager for the housing development said Wednesday she received no complaints from tenants for undelivered or lost mail.

The mail included more than 100 pieces of "junk mail" - such as coupon books and advertisements - and 77 pieces of first-class mail, investigators said.

Three of the first-class envelopes contained checks.

Carpenter said some letters were opened when Graybill found them.

Investigators suspect **Reincke** had the mail for months, until he cleaned out his vehicle at Graybill's car wash.

E-mail Brett Hambright at bhambright@lnpnews.com.

TRASHED: 200 pieces of mail

By Cindy Stauffer
Section: A
Page: A1
Lancaster New Era (PA)

Published: February 7, 2007

LANCASTER COUNTY, PA - When Bob Graybill saw the full trash can at his Manheim car wash last month, he thought, hmmm, that's odd. The can was filled with addressed envelopes, fliers and bundles of coupon magazines.

He looked further and said, "I saw what looked like somebody's possible bill from the hospital."

What Graybill had stumbled on was about 200 pieces of mail that police say was dumped there by a mail delivery contractor who walked off the job last fall.

Police have filed charges against Frederick S. **Reincke**, 64 N. Broad St., Lititz, of receiving stolen property and obstructing the administration of a governmental function.

Reincke, 30, who is not yet in custody, possibly faces other charges in the investigation, which is ongoing.

The mail was postmarked between Aug. 30 and Sept. 20, 2006, and was supposed to be delivered to people who live in Rosewood Terrace, a townhouse and apartment development located between Routes 462 and 340 in the Bridgeport area of East Lampeter Township.

Police and a federal postal inspector said the case is a rare one.

Manheim Borough Police Chief Barry Weidman said his department occasionally investigates incidents of possible theft of mail from mailboxes. But in his 28 years at the force he can't remember a case where hundreds of pieces of mail were involved.

Postal inspector Louis Dirienzo, based in Harrisburg, said his office more commonly investigates cases of identity theft that occurs through the mail.

That doesn't appear to be an issue in this case.

"It's all pretty intact," he said of the mail discovered at the car wash.

Reincke worked for Platinum Logistics, a contractor that works for the postal service. About two of 370 city and rural routes are delivered by contractors, said a spokesman for the postal service.

A Platinum official told police that the mail in question was from a route that **Reincke** delivered and that he had walked off his job around Sept. 22, according to the criminal complaint in the case.

Court records show that **Reincke** has had previous brushes with the law, including arrests in 2002 and 2003 for drug paraphernalia possession, disorderly conduct and driving under the influence.

Why **Reincke** held onto the mail for four months is somewhat of a mystery.

"It looks like he just didn't want to deliver the mail anymore," Dirienzo said. "It was just dumped. He probably was cleaning out his car."

The mail was supposed to be delivered to about 60 addresses, Dirienzo said. About three-quarters of the mail was fliers, advertisements and other items commonly considered junk mail.

But there also were 77 pieces of first-class mail in the trash can, including three that contained checks. There also were four greeting cards that were opened.

Dirienzo believes that **Reincke** may have been looking for cash in those. A package, marked undeliverable, also was opened.

People affected by the mail problem will receive letters, along with the mail that never made it to them last fall. Some of them may not know they were affected by the problem, as Dirienzo said he did not receive complaints from anyone on the route about missed mail.

The investigation will continue, he said.

"We take this very seriously," he said. "When this happens, we drop everything and put all of our resources into investigating the guy."

As for Graybill, he's still shaking his head over his unusual find at the Manheim Carwash, located at 240 S. Main St., Manheim. Weidman said he's glad that Graybill noticed it and took the time to contact authorities.

Graybill said he finds all kinds of items in the car wash trash cans, all the flotsam and jetsam that people clean out of their cars and trucks. Last weekend, there was a bloody tarp from a deer carcass.

"About the only thing I never found there was dead bodies," he said.

CONTACT US: cstauffer@LNPnews.com or 481-6024

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Ex-mayor pleads guilty to fixing election

Other Appalachia ex-officials also plead guilty in the scheme

BY REX BOWMAN
TIMES-DISPATCH STAFF WRITER
Friday, December 1, 2006

WISE -- A former mayor of Appalachia pleaded guilty yesterday to rigging a local election in a scheme exposed when one voter complained she was offered a bribe of pork rinds.

Culminating a scandal that has brought shame and ridicule upon the little town (pop. 1,839), Ben Cooper pleaded guilty in Wise County Circuit Court to 233 felony counts involving vote fraud during the May 2004 Town Council election. A judge also convicted Cooper of 10 additional counts to which he had pleaded no contest.

In the same courtroom, seven more people, including some of the town's most prominent residents, pleaded guilty to their roles in helping fix the election in Cooper's favor.

Cooper, who turned 64 yesterday, is to be sentenced Jan. 9. He faces more than $85,000 in court fees and, under state sentencing guidelines, up to 21 months in jail.

"I think he feels terrible about the whole incident," said Cooper's attorney, Patti Church, after the court hearing.

Judge Tammy McElyea sentenced none of the seven others to jail, giving them probation instead and ordering them to pay restitution ranging from $500 to $2,500. Two were sentenced to 60 days of house arrest each.

Those who pleaded guilty included a former town police captain, a leader of the local rescue squad, a former Town Hall employee and two uncles of a former town councilman who's charged with taking part in the election-stealing effort.

Seven more, including the former town councilman, still face charges. Four of them have agreed to plead guilty, and a prosecutor said yesterday that charges against the other three could be dropped, bringing an end to what has been one of the biggest public-corruption scandals in Wise County history.

After Cooper pleaded guilty, Church took umbrage with a prosecutor's description of Cooper as a mastermind in the mold of Boss Hogg, the cantankerous political chief from television's "Dukes of Hazzard." Cooper, Church said, was just one of many participants in the scheme to stuff the ballot box with forged absentee ballots.

"This is not really a case of Boss Hogg; it looks, really, like Larry, Moe and Curly," she said, referring to the Three Stooges.

Prosecutors have asserted that the election scheme's aim was to win election for Cooper and

candidate Owen Anderson "Andy" Sharrett III so that they could run the town to their liking. Both men won council seats during the election but stepped down after they were indicted in March. In between, Cooper was elected mayor by the council.

One part of the scheme involved bribing people to vote by offering them booze, cigarettes, prescription medication and snacks. The other part of the scheme involved forging absentee ballots. According to special prosecutor Tim McAfee, candidates persuaded people to apply for absentee ballots, and when the registrar mailed the ballots, they were intercepted at the post office.

Votes for Cooper and Sharrett were cast on the ballots, the voters' signatures were forged, and the voters' Social Security numbers -- available to Sharrett's mother, who worked at Town Hall -- were written in.

Of the numerous people indicted in the scheme, only one, former mail carrier Don Estridge, faced a jury. He was found guilty and is to be sentenced Jan. 11.

Those who pleaded guilty yesterday are: Belinda Sharrett, 53, who is Andy Sharrett's mother and a former employee at Town Hall; Dennis M. Sharrett, 47, and Kevin L. Sharrett, 38, both uncles of Andy Sharrett; Jamie Fritz, 32, a contract carrier with the U.S. Postal Service in Appalachia; Michael Varner, 49, a member of the local rescue squad; and Rex Bush, 73, brother of the councilman/mayor who was ousted in the May 2004 election.

Former Councilman Andy Sharrett, his brother Adam Sharrett and their father, "Dude" Sharrett, former parks and recreation manager in Appalachia, plan to plead guilty Jan. 25, according to court documents.

Contact staff writer Rex Bowman at rbowman@timesdispatch.com or (540) 344-3612.

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USPS Contracting Out Mail Delivery

PostalMag.com, 2/27/2007

According to feedback received at PostalMag.com, the USPS is becoming more aggressive in contracting out mail delivery to the private sector. This move by the USPS is going largely unnoticed in the postal world, though the National Association of Letter Carriers (NALC) has been fighting the encroachment behind the scenes, but to little avail. Reportedly, the contracting out issue doomed a recent NALC/USPS contract agreement.

The USPS is expanding the contracting out of mail delivery through the use of Highway Contract Routes (HCRs). In the past, HCRs were restricted to sparsely populated areas with a density of less than one customer per mile driven. However, the USPS revised its policies in 2003:

POSTAL BULLETIN 22110 (9-4-03)

Highway Contract Service

Effective September 4, 2003, the Postal Operations Manual (POM) is revised slightly to clarify language regarding Highway Contract Service. We will incorporate these revisions into the printed version of POM 10 and also into the online version of the POM.

532 Types of Service

532.1 General

Revise the last sentence of the paragraph by deleting the last four words, "in sparsely populated areas," to read as follows:

"Box delivery routes are similar to rural delivery service and provide home or business delivery of mail."

Having heard little on the subject ourselves, we asked readers of PostalMag.com what they knew. We immediately started receiving feedback from different areas of the country that the USPS is indeed using HCRs to contract out mail delivery. Here is some of the feedback:

WASHINGTON: "The USPS is putting contract delivery routes in cities like Puyallup, WA, population 35,690! The local NALC branch has been notified that 300 townhouses in one new subdivision will be delivered by a contract carrier. This is NOT a sparsely populated area. The streets have sidewalks and the townhouses are close together."

NEVADA: "Yes the post office is trying to contract out at least city deliveries in order to reduce the union (NALC) craft. The Postal Office say its only new address but they are doing it in the middle of a city, (supposedly 4 hrs or more) but this is not always true. This has always been city carrier (NALC) territory but the Post Office says there is nothing in our contract that prevents them from doing this. This is also the reason why we did not settle our contract because the Board of Governors did not want to agree not to contract out. I also feel that this is because we (NALC) was instrumental in getting Postal Reform passed which limits what the board can do. These routes are similar to HCRs in that anyone can bid on the routes. There was an instance in Las Vegas in which one person bid on the route, then sold it to someone else who sold it to someone else who never showed up to deliver the mail. City Carriers had to do so on overtime. Many more nightmares beside this all in the name of supposedly saving money but reduction in rates. The NALC is working on fixing this through our contract negotiations or through Congress if needed."

ARIZONA: "Just letting you know i am in a level 20 office in Maricopa, AZ one of the fastest growing cities in the U.S. All routes from now on in our office are becoming HCR. We are talking new communities with 1000 to 3000 new homes per community. Already talked to state steward they said there is nothing that can be done this is coming down from the national level. Hard to get new subs they see no future unless 1 of us retires."

FLORIDA: "I deliver mail out of the Hollywood, Florida area. Hollywood has 8 branches, which they deliver to the following cities, Hollywood, Pembroke Pines, Cooper City, and the Miramar area. Hollywood facilities have about 3 contract routes now. One of the contract routes which is out of the 33025 zip code, has had 3 carriers on there over the first 5 months. I think someone owns the route and hires the people to deliver the mail.

Also down in the Hollywood Beach area, they are building at least 8-10 building on the beach with around 600 apartments inside. All those are going to be contracted out.

Hollywood has around 152,000 residents, Miramar is growing so fast I could only guess (100,000), Cooper City has around 31,000 residents, and Pembroke Pines has 151,000 residents.

There is really no rural areas left, they have built all the way to the Everglades. All these cities are on the south end of Broward County FL."

LOCATION NOT KNOWN: "YOU BETTER BELIEVE they have started this crap. In my district the PM has to go to the district before any new developments get delivery. If it's over 40 units it is getting contracted out. I

know of one new development that should be rural delivery that is being contracted out. When finished this will have near 1,000 new deliveries. I understand it will be broken into 2 contracts.

Look for identity and mail theft to go through the roof. There is nothing to stop a contractor from "subcontracting" his route to some illegal and pay him as little as possible.

The public is clueless on this. Hopefully NALC will get congressional help to stop this travesty.

Every supervisor and PM I have talked to says this is a BAD IDEA."

WASHINGTON: "I've heard that a separate contractor for each box delivery route isn't working well. I'm almost certain the USPS wants ONE contractor per area (meaning facility or zip code) that then hires several individuals to work for him. That reduces the USPS Supply Dept's workload supervising contractors as there would be fewer of them.

Some contract box delivery routes are manned with couples (husband & wife, father & son, mother & daughter, etc). One drives on the left and one sits on the right stuffing mailboxes. Would city carriers like working in teams if they could? It would be like "Amazing Race" in each office.

Unlike city carriers, contractors don't have to set their brakes, turn off the ignition, lock their doors or turn their front wheels constantly. The manual they follow is Handbook P-5, Highway Contract Routes." http://www.usps.com/cpim/ftp/hand/p5/

- Don Cheney

OREGON:
Letter carriers protest plan for Beaverton-area contractor
"The U.S. Postal Service plans to hire a contractor to deliver mail in the Arbor Parc subdivision north of Beaverton, a move that is believed to be a first for the Portland area but is criticized by the letter carriers' union. In a letter to the union, Beaverton Postmaster John Lee said the agency thinks it can save $33,878 a year by using a contractor to serve the growing subdivision." Beaverton: Stop Contracting Out - Join The Picket Line March 15 (PDF) - Guest Opinion: Mail delivery shouldn't be contracted out

LONDONDERRY, NEW HAMPSHIRE: Rural Carrier: "We have 19 rural routes in our office, and until just a few weeks ago, no HCR'S. Ours is not your traditional HCR and that should scare all of us. We have a direct mailing company called Herrington. This delivery has ALWAYS been delivered by an RCA, and since about 2 years ago, they also took care of the Express by noontime pieces. They also in the evening did the collections in town. This was about an eight hour day for a sub, although it was a split shift type deal. This whole job has now been bid out and is an HCR of sorts. Not a real "route" but a lot of different jobs that gave subs hours. Now we have someone doing this Mon-Fri who hasn't a clue. There has been a grievance filed by both the NRLCA and the clerks union on this HCR."

PostalMag asked for clarification on several points in the above submission. The response:

"Yes, all the express we receive in the am is now delivered by the HCR. We only see it for second attempts.

All pm collection boxes and 2 postal stores (like mailboxes etc) are picked up by the HCR. Herrington is a large catalog company that has MANY parcel returns, sometimes as many as 4 full LLV's full (Mondays) The HCR person drives a new SUV and makes many trips everyday to this business. This is a Mon-Fri job for this person, usually 7 to 8 hours per day, money out of the RCA's pockets. I can't wait to see what happens the first time this person doesn't show up for work."

USPS memo indicates new growth in area will be contracted out to a CDS (Contract Delivery Service Route or Contract Delivery Supplier), which appears to be similar to an HCR:

"The most cost effective method of delivering mail is a CDS (Contract Delivery Service Route). The Postal Service has implemented that all new growth will be entered on CDS routes. Therefore Mid-America is going to comply. Below is Clarification for all future growth in Mid America. Postmasters, Station Managers and Supervisors are going to have to be pro-active and contact xxx xxxxx and xxx xxxxx when they need a CDS route established. Contact your city or county and get projected new growth, plat maps and addresses prior to development in your Delivery area/ZIP. If you have new subdivisions/phases/highrises/developments or substantial new future growth that will result in at least 1 hour within the next year, contact xxx xxxxx and copy xxx xxxxx. AMS will need to create a CDS (H000) route to put this future growth on in your office. Then you will need to send AMS at the address list, include the delivery mode, business/residential and cell size needed. A 4003 will then need to be created in order for xxx to send to the Area to request a contract for this route
New deliveries added to a CDS route do NOT need Area approval.
New deliveries added to existing HCR routes do NOT need Area approval
NEW ADDRESSES ON CITY OR RURAL ROUTES NEED TO BE APPROVED BY AREA- If you need to add single delivery points to a city or rural route, you must answer the following questions for each delivery point you request to add to a city or rural route.
1.Is this a single delivery point that is NOT part of a new subdivision/phases/highrise/development or substantial new future growth that will result in at least 1 hour within the next year?
2.Does the carrier already deliver this block range?
3.Is this in the carriers existing line of travel?
4.HOW MANY NEW DELIVERIES DO YOU ANTICIPATE IN YOUR DELIVERY AREA/ZIP WITHIN THE NEXT YEAR?"

(Source: Message by unknown person on a rural carrier message board.)

PostalMag.com note: The Mid America USPS district is located in Missouri. See these job notices posted at CraigsList.org
- Contract Delivery Supplier wanted by USPS in Kansas City, Kansas
- Contract Delivery Supplier wanted by USPS in Springfield, Missouri

If you have information on the subject please send to contact@postalmag.com. Thanks to the readers who responded with the information above.

Related Information:
- USPS - Contract Delivery Service
- Spokane, WA, Job Listing: Be an INDEPENDENT CONTRACTOR for the USPS

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United States Attorney's Office
Eastern District of Pennsylvania

UNITED STATES ATTORNEY'S OFFICE
NEWS RELEASE

January 12, 2006- PHILADELPHIA – United States Attorney Patrick L. Meehan today announced the filing of a one-count Information* charging **CHARLES LAWRENCE**, a former United States Postal Service contract carrier, with making false claims that resulted in overpayments to him in the amount of $120,468.56.

DEFENDANT	ADDRESS
CHARLES LAWRENCE	New Hope, PA

If convicted, defendant faces a maximum 5 years imprisonment, up to 3 years of supervised release, a $250,000 fine and a $100 special assessment.

The case was an investigated by the United States Postal Service, Office of Inspector General. The case has been assigned to Assistant United States Attorney Todd Schulman.

UNITED STATES ATTORNEY'S OFFICE
EASTERN DISTRICT, PENNSYLVANIA
Suite 1250, 615 Chestnut Street
Philadelphia, PA 19106

Contact:
RICH MANIERI
Media Contact
215.861.8525

***An Indictment or Information is an accusation. A defendant is presumed innocent unless and until proven guilty.**

Last Updated: 02/08/06 (SM)

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phillyBurbs.com Burlington County Times

Area postal worker charged Charles Lawrence, who delivered mail near New Hope, is accused of cheating the U.S. Postal Service of more than $120,000.

By: **Pamela Batzel**

THE INTELLIGENCER Date: January 14, 2006 **Page:** A1 **Section:** News

A former New Hope area postal worker doctored mileage reimbursement forms, cheating the U.S. Postal Service of more than $120,000, according to the U.S. Attorney's Office.

Charles Lawrence, 47, of Lahaska, altered his mileage 12 times between November 2001 and November 2002, resulting in his getting reimbursed for 35,900 miles instead of the 1,841 miles his supervisor approved, according to prosecutors.

As a contract carrier for the post office, **Lawrence** used his own vehicle. The reimbursement was to pay him for miles traveled in addition to his normal route.

On one occasion in the fall of 2002, he altered a mileage submission form after a supervisor signed it, receiving $13,282 in overpayment, the office charged this week.

In total, he received overpayments totaling $120,468.56, according to the office.

Lawrence could face up to five years in prison if convicted. He also could face a $250,000 fine and three years of probation, according to prosecutors. The charge was filed in Philadelphia U.S. District Court.

The Federal Defenders Office in Philadelphia is representing **Lawrence**. His attorney, Kai Scott, could not be reached for comment Friday.

Jim Holland, postmaster at the New Hope Post Office, referred all questions concerning the case to the U.S. Attorney's Office.

Pamela Batzel can be reached at (215) 345-3062 or pbatzel@phillyBurbs.com.

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Date: 4/18/2006

Cases: Numerous

Type of Incident: Mail & ID Theft by Mail Carrier

Location: Capitola Mall, Bonny Doon Area

Date/Time of Occurrence: March-April 9, 2006

Suspect information: Silva, Jeri Leann (AKA, Creyssels, Jeri), DOB 6/19/71,

Santa Cruz

Victims: Estimated to be 12 Bonny Doon home owners, Five currently established

Description of Incident:

On 04/07/2006, Santa Cruz County Sheriff's Deputy Shawna Brim began investigating a case of identity theft wherein Jeri Silva (34) was suspect in using a stolen credit card to purchase merchandise at the Capitola Mall on more than one occasion. The victim lived in the Bonny Doon area. It was later learned that Silva was employed with the U.S. Postal Service as a substitute highway contract driver, entrusted to deliver mail in the Bonny Doon area. On 4/9/06, Capitola Police met Silva at the Capitola Mall following her attempt to use another person's stolen credit card to purchase items. Found in Silva's possession were checkbooks, credit cards and bank statements belonging to 12 different persons, all who reside in the Bonny Doon area. Silva was arrested and taken to jail. The Santa Cruz County Sheriff's Office, Capitola Police Department and the U.S. Postal Service are working together in this investigation which involves contacting many victims. Five victims have currently been established. The U.S. Postal Service removed Silva as a letter carrier following her arrest. On 4/9/2006, Silva was released from jail. Further investigation into the total number of victims is ongoing to complete the investigation.

A suspect photo will be made available after formal charges are filed by the DAO.

THE ASPEN TIMES

Ex-carrier gets probation for tossing mail

By Rick Carroll
Aspen, CO Colorado
March 5, 2007

A former postal carrier who threw away nearly 1,500 items of mail intended for Aspen Village residents has been sentenced to one year of probation as part of a plea agreement.

Glenwood Springs resident Vickie Ann Walker pleaded guilty to "obstruction of mail," a federal misdemeanor, on Feb. 23. Last week, U.S. Magistrate Judge Boyd N. Boland gave Walker one year of unsupervised probation.

Walker had faced a maximum term of no more than six months imprisonment and a fine no higher than $5,000. But the plea agreement stated that "the United States Sentencing Guidelines do not apply" because Walker pleaded guilty.

"The parties believe the sentencing range resulting from the proposed agreement is appropriate," the plea agreement said, adding that "the defendant has no criminal history."

Walker was fired from her contract delivery job in June after allegations surfaced that she had been trashing mail. She was not a full-time postal carrier. The Aspen post office had hired Walker to deliver mail to Aspen Village, a neighborhood of some 150 residences in the Old Snowmass area.

Authorities learned about Walker after Aspen Village resident Ned Carter discovered 150 pieces of dumped mail. Further investigation by U.S. postal inspectors determined that from Dec. 29, 2005, to June 22, 2006, Walker had tossed 1,436 items of mail, including 91 first-class mailings, according to court documents.

Walker admitted she had thrown away mail but said she did not intend to toss first-class pieces, according to court papers.

"[Walker] stated that many of the mail boxes in the Aspen Village area had become full of mail because the addresses had not been regularly retrieving their mail from their mail boxes," the plea agreement said. "The defendant admitted that she threw away standard and bulk mail but indicated that she did not intentionally throw away items of first class mail.

"She acknowledged that the mail that had been thrown away by her should have been returned to the post office. When shown the items of first class mail that had been discovered in the trash can, she stated that she had not thrown the first class away knowingly. The defendant stated that the first class letters 'just got mixed in,' that she did not do it in purpose."

Walker, court papers say, also threw away some college books intended for delivery.

Walker could not be reached for comment last week.

Rick Carroll can be reached atrcarroll@aspentimes.com.

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You've Got Mail

But it isn't always the U.S. Postal Service delivering it.

BY CHRISTIAN GASTON

IMAGE: thomas cobb

Mail delivery finally came Monday to a west-side housing development after a two-month search for a private contractor by the U.S. Postal Service that even included posting a query on Craigslist. The Postal Service's hunt to outsource delivery for about 190 addresses north of Beaverton is part of what critics believe is a worrisome trend toward privatization. They question the security of a federal agency seeking the lowest bidder to handle the responsibility of delivering sensitive items such as prescription drugs, utility bills and replacement debit cards. "It's important to preserve the U.S. Postal Service as the nation's universal mail provider and not be tempted by risky privatization plans," says U.S. Sen. Ron Wyden (D-Ore.). Branch 82 of the National Association of Letter Carriers is planning an informational picket at 5 pm Thursday, March 15 at the Beaverton post office (4550 SW Betts Ave.) to protest the decision to outsource delivery in the Arbor Parc development north of Sunset Highway. Union officials are also planning to file a formal grievance against the decision by Beaverton Postmaster John Lee to contract for mail delivery in the development. And Branch 82 president L.C. Hansen predicts the privatization of delivery will move from suburban developments, like Arbor Parc in the Bethany area, to infill housing in Portland. The Postal Service views outsourcing as a good way to save money, as presidential appointees to the Postal Service's board of governors have pushed hard for more cost-cutting. In a Jan. 29 letter to the union, Lee wrote that he expected to save $33,878 a year by outsourcing mail service to Arbor Parc. "As we're establishing more delivery in these really high-growth areas all over the country, they're looking at establishing contract delivery," says Kerry Jeffrey, a spokesman for the Postal Service's Portland district, which includes Beaverton. "There may be some other parts of the country where they're being very aggressive," Jeffrey says. "But...we're just looking at new deliveries as they come online." Paul Price, national business agent for the letter carriers union, says there have been security breaches with outsourcing, including an instance in Florida where a felon was awarded a delivery contract using his 12-year-old son's name. Jeffrey refused to identify the contractor for Arbor Parc but could not point to any rule that precludes disclosing that information. The Craigslist posting said applicants had to be 21, have an acceptable driving record and be financially responsible. Jeffrey says contractors also go through a criminal background check. About 900 of the 200,000 addresses in Washington County receive delivery service from private contractors. Similar numbers weren't immediately available for Multnomah County. Arbor Parc resident Mike Montague doesn't like the idea of "any old person" delivering mail to his $300,000 townhouse. "You can trust the [Postal Service] guys to not rustle through your stuff,'" says Montague, who before Monday had to make a 10-minute drive to the post office at least twice a week to pick up his mail. "It's kind of a sacred service." Drew Von Bergen, spokesman for the letter carriers union, says contractors have been used nationwide since the 1970s to deliver mail to remote locations. But Von Bergen says it was employed only rarely, when a traditional mail route didn't make sense because it was "on top of a mountain or something." As Metro designates another 800 acres of rural land within the urban growth boundary to be developed into homes, opponents of outsourcing delivery fear those new suburbs will get contract delivery that was once reserved for the most rural parts of America. "If they choose to do it for Arbor Parc, there's another Arbor development coming along," says Mary Manseau, chairman of a Washington County planning committee that serves Bethany. "And then there's the other 800 acres after that."

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Going postal

Look what's in an already-controversial mail delivery contract.

BY CHRISTIAN GASTON

Message delivered. Letter carriers are protesting the increased use of contractors to deliver the mail. IMAGE: Photo courtesy of National Association of Letter Carriers

Beaverton Postmaster John Lee told the letter carrier's union in January that he was hiring a contractor for delivery in a Beaverton-area suburb because he thought it could save $33,878 a year ("You've Got Mail," *WW*, March 14, 2007). But that's hard to believe given that records show the contractor, Christopher Onuliak, is getting $12,279 for a four-month "emergency contract." That means Onuliak is netting $118 for each day of delivery to 20 mailboxes in the Arbor Parc suburb. "That doesn't sound cheaper than having a city carrier deliver those, which would take them about 15 minutes," says Linda Smith, secretary treasurer for Branch 82 of the National Association of Letter Carriers. "There's a letter carrier that drives right by there that should be making those deliveries." Kerry Jeffrey, Portland spokesman for the U.S. Postal Service, isn't sure of the current numbers of Arbor Parc deliveries but expects that number will expand and that the postal service will save money. He would not provide specifics of those savings. "It's kind of tough to do an apple-and-orange with a contract route and regular street delivery," Jeffrey says. "It might be a good deal [for the contractor] right at the beginning." The deal is also a family affair. Onuliak is the son of Mike Onuliak, a manager at the Beaverton post office. That's allowed as long as Christopher Onuliak is over 21 and not living at home, according to USPS internal purchasing guidelines. Records show Onuliak is 22 and with a different address than Michael Onuliak. "It really shocks me that a relative of that supervisor has that contract," says Paul Price, national business agent for the letter carriers union. Jeffrey says there's no conflict with the post office's nepotism rules. Contract negotiations were done in the USPS's Seattle office and Christopher Onuliak is a contractor who answers to different managers, not working directly beneath his father. "We all have relatives that work in different facets of the post office," Jeffrey says. "There's an old joke about providing full-family employment." Union officials are steamed over the contracted delivery in Arbor Parc because they see it as the first local occurrence of a nationwide push by the USPS to broaden outsourced mail delivery beyond its traditional use in remote locations. The union-management fight has escalated since the recent decision to outsource 10 routes in Reno, Nev., previously delivered by full-time carriers. Those routes were outsourced after management failed to receive bids from full-time employees. "What normally happens when a route does not get bid is they promote a part-time employee and make them a full-time employee," Smith says, "so for them to take routes that do not get bid and to contract them out is a major development." Smith says the union's Postal Operation Manual previously allowed outsourcing delivery only in "sparsely populated" areas. But the union says USPS took out that language, a decision that became apparent when more routes began being contracted out in late 2006. USPS's Jeffrey says the post office is trying to maintain its current service level by saving money when there are 1.2 million new delivery points each year. Jeffrey says the post office expects the contract in Arbor Parc to eventually include 370 addresses, and that postal officials are looking at new developments in Orenco as possible sites for more contract routes. "It depends on how much development goes on and the economy," Jeffrey says. "Ultimately it could be a few thousand deliveries."

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Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Pitts.

We now will proceed to Mr. Hegarty.

STATEMENT OF JOHN HEGARTY

Mr. HEGARTY. Good afternoon, and thank you, Chairman Davis and members of the subcommittee, for inviting us to testify.

The National Postal Mail Handlers Union represents almost 57,000 mail handler employees employed by the Postal Service. I have submitted written testimony and would ask that it be included in the official record.

There is one crucial and overriding point that I want to emphasize at this hearing. From all indications there is a subcontracting virus pervading Postal Service headquarters, and not just in delivery services. I will apologize in advance if some of my comments are similar to my colleagues', but I think those points need to be re-emphasized. This is extremely unfortunate, not only for mail handlers and other career postal employees, but also for postal customers and the American public.

From my perspective, contracting our work out to private employees who receive low pay and even lower or no benefits is effectively destroying any sense of harmonious collective bargaining and productive labor relations. The parties have freely negotiated wages and benefits for career mail handlers for more than 30 years. To subcontract out work solely to undermine the results of collective bargaining without any justification other than saving money is directly contrary to the purpose of those negotiations and to the policies set forth in various Federal statutes.

But subcontracting is even more dangerous and more unjustified when it is viewed from the perspective of the American public. We believe that privatizing the processing or delivery of mail jeopardizes the very core of the postal system that is the cornerstone of the American communication system. First, using subcontractors to process and deliver the mail jeopardizes the sanctity and security of the mail, raising important concerns about who is handling the mail and precisely what might find its way into the postal system. Especially after the terrorist attacks of September 11, 2001, and the anthrax attacks of October 2001, postal handlers and other career postal employees are better able to deal with the Homeland Security issues surrounding terrorism and other issues than privately contracted employees.

Mail handlers are hired after written exams, entry and background testing, and often with extensive experience in the military under veteran preference laws. Mail handlers are hired for a career job, and therefore have a greater stake in performing their job well and in the success of their employer.

Private employees certainly are not trained to protect the mail or the American public from the dangers of biohazards or mailed explosives, just to name two of many security concerns.

If maximizing our Homeland security is an important goal, then career mail handlers who are properly trained and experienced are better able to handle the potentially dangerous situations that may arise in and around the Nation's postal system.

Using private employees to process and deliver the mail also raises a host of other concerns that should give pause to any sub-

contracting plans by the Postal Service. To pose just a few items of concern that deserve the attention of this subcommittee, subcontracting will increase the dangers associated with identity theft. Subcontracting will defeat the very purpose of veteran preference laws and eliminate all of the benefits that are meant to accrue both to employees and to the Postal Service when the agency is encouraged, if not required, to hire our Nation's veterans. This is especially important today with our service men and women returning from Iraq, Afghanistan, and other duty stations.

Just to preempt a question that I believe comments that Representative Cummings discussed earlier, how do we get more young people hired into Government jobs? The first way that you do that is to have the jobs for them to go into in the first place.

There are more valid concerns, but there is no reason to belabor the point. The Postal Service's continuous attempt to subcontract our work to private contractors follows a disturbing pattern of privatization for privatization's sake and is not based on any enhancement of the product or services being provided.

The dangers of subcontracting have been confirmed by some recent examples. Approximately 9 years ago the Postal Service decided to contract with Emery Worldwide Airlines to process priority mail in a network of ten mail processing sites along the eastern seaboard. Today the work at those facilities has been returned to mail handlers, but not before the Postal Service suffered losses in the hundreds of millions of dollars.

At a meeting of the Postal Board of Governors, one Governor said publicly that the Emery subcontract was one of the worst decisions they had ever made as a Board.

A similar story can be told about the out-sourcing of the mail transport and equipment centers [MTECS]. Several years ago about 400 mail handlers were displaced from these facilities in favor of private sector employees working for contractors who passed their costs along to the Postal Service. The Office of the Inspector General audited these contracts and concluded that the Postal Service had wasted tens of millions of dollars in the inefficient use of these contractors, and that the same work, if kept inside the Postal Service, would have been performed more cheaply.

More recently, just 6 months ago in November 2006, management decided to subcontract the processing of military mail that was being performed by mail handlers employed at the New Jersey International and Bulk Mail Center. This is military parcels and other mail headed to Iraq and Afghanistan, as well as mail coming back to the States from our service members. Without exaggeration, this is one of the most outrageous subcontracting decisions that the Postal Service has ever made.

In May 2005, the joint military postal activity for the Atlantic area representing the U.S. Army, Navy, Air Force, Marines, and Coast Guard, issued a formal letter of appreciation to the career postal employees handling this military mail, stating that their professional work ethic and personal contributions from 2000 to 2005 significantly contributed to the morale and welfare of all of our service members. They stated, "Your dedication and honorable service is appreciated," and the letter said, "May God bless you and keep you safe."

One year later, in July 2006, representatives of the military attended a meeting onsite at the New Jersey postal facility and again took the opportunity to thank the mail handlers for their continued dedication, hard work, and support for the military. But only a few weeks later, in early authority, 2006, postal management informed the union that this operation would be contracted out and the work subsequently was transferred to private employees in November of last year.

If there is a rationale for this subcontracting, it has not been explained to the Mail Handlers Union. Rather, the career mail handlers whose dedicated service had ensured that this mail was being efficiently and timely handled on its way to our troops were slapped in the face by local postal managers who decided that saving a few dollars should override the views of the U.S. military and the needs of Homeland security.

Another recent example concerns the Postal Service's ongoing consideration of subcontracting for the tender and receipt of mail at many air mail centers and facilities. Once again, the Postal Service seems incapable of recognizing that career mail handlers are part of a permanent and trained work force, one that is particularly well suited to the additional security concerns that are presented in and near the Nation's airports.

The members of this subcommittee will remember that shortly after September 11th Congress insisted that security workers at the airports should remain Federal employees. We believe that a similar requirement should be imposed on postal employees who may be sorting and loading mail for transportation onto commercial airlines. In this day and age does the American public really want a series of low-bid workers handling packages and mail that is being loaded onto airplanes? Does Congress really want to allow the Postal Service to contract out this work simply to save a few dollars? To the Mail Handlers Union the answer should be a resounding no.

Again, thank you for this opportunity to testify, Mr. Chairman. If you have any questions, I would be glad to take them.

[The prepared statement of Mr. Hegarty follows:]

National Postal Mail Handlers Union

John F. Hegarty
National President

Mark A. Gardner
Secretary-Treasurer

Hardy Williams, *Vice President, Central Region*
Samuel C. D'Ambrosio, *Vice President, Eastern Region*
Paul Hogrogian, *Vice President, Northeastern Region*
Bruce Z. Miller, *Vice President, Southern Region*
Efraim Daniel, *Vice President, Western Region*

TESTIMONY OF

JOHN F. HEGARTY
NATIONAL PRESIDENT
NATIONAL POSTAL MAIL HANDLERS UNION

BEFORE THE

SUBCOMMITTEE ON
FEDERAL WORKFORCE, POSTAL SERVICE, AND
THE DISTRICT OF COLUMBIA

OF THE

HOUSE COMMITTEE ON
OVERSIGHT AND GOVERNMENT REFORM

OVERVIEW OF USPS OPERATIONS
AND BUSINESS PRACTICES

APRIL 17, 2007

National Headquarters: 1101 Connecticut Avenue, NW, Suite 500, Washington, D.C. 20036
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Good morning, and thank you Chairman Davis and members of the Subcommittee for inviting me to testify. My name is John Hegarty, and I am National President of the National Postal Mail Handlers Union (NPMHU), which serves as the exclusive bargaining representative for approximately 57,000 mail handlers employed by the U.S. Postal Service.

The NPMHU appreciates this opportunity to present its views to your Subcommittee. It has been a long time since we have had any meaningful Congressional oversight of the Postal Service, if only because postal reform legislation became the singular focus for postal-related hearings during the past few years. On that topic, let me note that the NPMHU also is very appreciative of the efforts made by you and by Representative McHugh, as well as many other members of this Subcommittee, to ensure that all postal stakeholders, including the NPMHU, were fully involved in that process.

As you know, mail handlers are an essential part of the mail processing and distribution network utilized by the Postal Service to move more than 200 billion pieces of mail each year. We work in all of the nation's large postal plants, where mail handlers are responsible for loading and unloading trucks, transporting mail within the facility (both manually and with powered industrial equipment), preparing the mail for

distribution and delivery, operating a host of machinery and automated equipment, and sorting and containerizing mail for subsequent delivery. Our members generally are the first and the last employees to handle the mail as it comes to, goes through, and leaves most large postal plants.

The majority of mail handlers are employed in large postal installations, including several hundred Processing & Distribution Centers, Bulk Mail Centers, Air Mail Centers, and Priority Mail Processing Centers. The largest of these installations, most often measured as those which utilize 200 or more bargaining unit employees, currently employ more than 90% of the mail handlers represented by the NPMHU, and close to 80% of mail handlers work in installations that have 500 or more postal employees.

Although mail handlers are located throughout the United States, we are not spread evenly across all geographic areas. For example, more than 40% of all mail handlers are employed in seven of the largest Consolidated Metropolitan Statistical Areas that are tracked by the Census Bureau – including New York, Chicago, Washington-Baltimore, Los Angeles, San Francisco, Philadelphia, and Boston. Thousands of other mail handlers are working in or near other large cities, including Buffalo, Cincinnati, Cleveland, Dallas, Denver, Detroit, Hartford, Houston, Indianapolis, Milwaukee, Pittsburgh, Providence, Richmond,

St. Louis, Minneapolis-St. Paul, Phoenix, Seattle, and Springfield, Massachusetts, where I started my postal career. The vast majority of mail handlers, therefore, work in the nation's twenty-five largest metropolitan areas, where the cost of living is generally higher than average.

Virtually all newly-hired mail handlers are employed in part-time flexible positions, with no fixed schedule and no guaranteed work beyond two or four hours (depending on the size of the facility) per two-week pay period. For this position, the current starting pay is $13.92 per hour. Even assuming that such a recently-hired mail handler is assigned work for 40 hours per week, at that hourly rate a new mail handler would earn base annual wages equal to $28,954 per year. Assuming that the mail handler continues to work for the Postal Service, after several years of part-time employment (although sometimes sooner), the employee generally would be converted to a full-time regular position with fixed days and hours. This fixed schedule usually includes work at night between the hours of 6:00 pm and 6:00 am (over half of all mail handler hours fall within this time frame) and often includes work on weekends. We process mail seven days a week. After thirteen or fourteen years of working for the Postal Service, the wage scale currently in effect provides for a mail handler hourly wage of between $22.53 and $23 per hour. This base wage remains the same, subject to future negotiated increases,

for the remainder of the mail handler's career, such that a mail handler who has dedicated 30 years or more of his or her life to the Postal Service currently earns that same base wage – approximately $47,000 per year.

There is one crucial and overriding point that I want to emphasize at this hearing, which is focusing on the Postal Service's operations and business practices. From all indications, there is a contracting-out virus that seems to be infecting Postal Service Headquarters. At a time when you would expect the top echelons of postal management to be focused in laser-like fashion on ways to improve service and volume, and to ensure proper implementation of the recently enacted postal reform legislation, management officials are spending an inordinate amount of money and time on schemes to privatize our work.

This is extremely unfortunate, not only for mail handlers and other career postal employees, but also for postal customers and the American public.

From the perspective of the NPMHU and the 57,000 employees we represent, contracting our work out to private employees who receive low pay and even lower benefits is effectively throwing a hand grenade into any sense of harmonious or productive labor relations. The parties have freely negotiated wages and benefits for career mail handlers for more

than thirty years. To subcontract out work solely to undermine the results of more than three decades of good-faith collective bargaining, without any justification other than saving money through a reduction in wage rates and benefits, is directly contrary to the purpose of those negotiations, and to the policies underlying both the Postal Reorganization Act of 1970 and the Postal Enhancement and Accountability Act of 2006. The NPMHU cannot think of a more unjustified attack on the postal workforce than a unilateral act by the Postal Service which effectively says that prior negotiations, conducted by the parties in good faith, have resulted in wage rates and benefits that are too costly, and therefore the Postal Service will be seeking non-career employees to perform the same work for lower wages and lower benefits.

But subcontracting is even more dangerous, and more unjustified, when it is viewed from the perspective of the American public. Simply put, for a wide variety of reasons, we believe that privatizing the processing or delivery of mail jeopardizes the very core of the U.S. postal system that was wisely included in the U.S. Constitution as a cornerstone of the American communications system.

First, using subcontractors to process and deliver the mail jeopardizes the sanctity and security of the mail, raising important concerns about who is handling the mail and precisely what might find

its way into the postal system. In the dangerous environment that all Americans must confront in the 21st century, especially after the terrorist attacks of September 11, 2001 and the anthrax attacks of October 2001, it is only reasonable to expect that postal mail handlers and other career postal employees are better able to deal with homeland security issues than privately-contracted employees. Mail handlers are subject to much greater scrutiny and supervision, both prior to hiring and while performing their work, than contracted employees who are not hired using the same rigorous standards or procedures followed by the Postal Service. Mail handlers are hired after written exams, entry and background testing, and often with extensive experience in the military under veteran preference laws. Mail handlers are hired for a career job, expected to last for many decades, and therefore have a greater stake in performing their job well and in the success of their employer and its mission than do temporary employees. Indeed, privately contracted employees who are hired into a temporary job, with absolutely no job security and much lower pay and benefits, certainly are not trained to protect the mail or the American public from the dangers of biohazards or mailed explosives, to name just two of many security concerns. To maximize our homeland security, the NPMHU is certain that career mail handlers who are properly trained and experienced are better able to handle the potentially dangerous situations that may arise in and around the nation's postal system.

Using private employees to process and deliver the mail also raises a host of other concerns that should give pause to any subcontracting plans by the Postal Service. To pose just a few questions that deserve the attention of this Subcommittee: Is it not obvious that using temporary, low-paid, untrained workers to process and deliver mail will increase the dangers associated with identity theft? Is it not obvious that allowing the Postal Service to subcontract mail processing and delivery to private contractors will defeat the very purpose of the veteran preference laws, and eliminate all of the benefits that are meant to accrue both to veterans and to the Postal Service when an agency is encouraged, if not required, to hire our nation's veterans? This is especially important today, and in the future, with our Service women and men returning from Iraq, Afghanistan, and other duty stations. Is it not obvious that the contracting out of career postal jobs will waste the valuable infrastructure on which the Postal Service has spent so much time and money, such as the development of skilled training instructors and facilities or the creation and implementation of job safety programs?

Even more questions could be asked, but there is no reason to belabor the point. The Postal Service's continuous attempt to subcontract our work to private contractors follows a disturbing pattern of privatization for privatization's sake, and is not based on any

enhancement of the product or service being provided. As Americans have seen with the rebuilding of New Orleans after Katrina, or the operations at Walter Reed Army Medical Center, or in many other recent attempts by the federal government to expand privatization, this is a formula for disaster, opening the door to unscrupulous or incompetent work in the name of "saving money."

Let me for a few moments look at some recent examples of subcontracting by the Postal Service that have directly and adversely affected the mail handler craft. Many of these subcontracts have been colossal failures.

Approximately nine years ago, for just one notable example, the Postal Service decided to contract with Emery Worldwide Airlines to process Priority Mail at a network of ten mail facilities along the Eastern seaboard. Today, the work at those facilities has been returned to mail handlers and other career employees, but not before the Postal Service suffered losses in the hundreds of millions of dollars. At a meeting of the USPS Board of Governors, one Governor said publicly that the Emery subcontract was one of the worst decisions that the BOG ever made.

A similar story can be told about outsourcing of the Mail Transportation and Equipment Centers, or MTECs. Several years ago,

about 400 mail handlers were displaced from these facilities, in favor of private-sector employees working for contractors who passed their costs on to the Postal Service. The Office of Inspector General has audited these contracts, and has concluded, once again, that the Postal Service has wasted tens of millions of dollars in the inefficient use of these contractors, and that the same work, if kept inside the Postal Service, would have been performed more cheaply.

More recently, in November 2006, the Postal Service decided to subcontract the processing of military mail for Iraq and Afghanistan that was being performed by mail handlers employed at the New Jersey International and Bulk Mail Center, in what is known as the 093 Contingency Operation. This is military parcel mail headed, as I noted, to Iraq and Afghanistan, as well as mail coming back to the States from our Service members.

Without exaggeration, this is one of the most outrageous subcontracting decisions that the Postal Service ever has made. In May 2005, the Joint Military Postal Activity for the Atlantic area – representing the United States Army, Navy, Air Force, Marines and Coast Guard – issued a formal Letter of Appreciation to the career postal employees handling this military mail, stating that their "professional work ethic and personal contributions [from 2002 through 2005]

significantly contributed to the Morale and Welfare of all our Service Members." To quote the Letter of Appreciation to these mail handlers, "your dedicated and honorable service" is appreciated, and "May God bless you and keep you safe."

One year later, in July 2006, representatives of the military attended a meeting on-site at the New Jersey postal facility, and again took the opportunity to thank the mail handlers for their continued dedication, hard work, and support for the military.

But only a few weeks later, in early August 2006, postal management informed our Local Union that the processing of military parcels in this operation would be contracted out, and the work subsequently was transferred to private employees in November of last year.

If there is a rationale for this subcontracting, it has not been explained to the NPMHU. Rather, the career mail handlers who dedicated years of their worklives to ensure that parcels were being efficiently and timely handled on their way to our troops in the Persian Gulf and in Southwest Asia were slapped in the face, by local postal managers who decided that saving a few dollars per hour should override

any other factors, including the views of the U.S. military and the needs of homeland security.

Another recent and ongoing example concerns the Postal Service's ongoing consideration of subcontracting for the tender and receipt of mail at many Air Mail centers and facilities. We are in the process of challenging this decision, which we have been told still has not been finalized, although many airport sites are at risk, including Baltimore (BWI), Charlotte, City of Industry (Ontario, CA), Denver, Detroit, Hartford, Humble/Houston, Indianapolis, Las Vegas, Los Angeles (LAX), Milwaukee, San Antonio, Seattle and St. Paul.

Once again, the Postal Service seems incapable of recognizing that career mail handlers are part of a permanent and trained work force, which is particularly well-suited to the additional security concerns that are presented in and near the nation's airports. Remember, shortly after September 11th, Congress insisted that security workers at the airports should remain federal employees, and we believe that a similar requirement should be imposed on postal employees who may be sorting and loading mail for transportation onto commercial airlines. In this day and age, does the American public really want a series of lowest bid workers handling packages and mail that is being loaded onto airplanes? Does Congress really want to allow the Postal Service to contract out this

work, simply to save a few dollars in wages and benefits? To the NPMHU, the answer should be a resounding no.

Allow me to address briefly one other issue. During last year's debate about postal reform, the NPMHU did not support the unfair inclusion of changes to the three-day waiting period for injured employees that found its way into the final legislation. Postal employees who are injured at work, usually through no fault of their own, should not be victimized twice by their employer.

We suggested last year that Congress should not single out postal employees for an adverse amendment to the federal workers' compensation system, and that Congress should at least study the issue through hearings and the development of evidence before making such a change. Congress nonetheless chose to lower workers' compensation benefits, and the NPMHU urges this Subcommittee to consider a return to the previous system.

Again, thank you for this opportunity to testify. If you have any questions, I will be glad to answer them.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Hegarty. I want to thank all of you for your testimony.

I am also pleased to note that we have been joined by our ranking member, whose plane had been delayed as a result of the severe weather that we have been having in some parts of the country. Before we go into the question period, I would like to ask Ranking Member Marchant if he has any comments that he would like to make.

Mr. MARCHANT. Thank you, Mr. Chairman.

I again apologize to the whole group of you. It has been a crazy couple of days on the northeast. They say that if anything happens in Dallas, anything that happens in Boston happens in Dallas about 5 minutes afterwards. My deepest apologies. I am very interested in this subject and share with the chairman in appreciation for all of your participation today.

I have some questions, but I will save them for later. Thank you, Mr. Chairman.

Mr. DAVIS OF ILLINOIS. Thank you very much.

We will begin with the questions.

Mr. Burrus, the Postal Service has set a goal of reducing work hours by 40 million this year. In an effort to improve efficiency and productivity, all of these things are really important and speak well from an efficiency, effectiveness, and cost containment point of view.

Do you think that this can be accomplished without causing real problems in some areas of service and delivery?

Mr. BURRUS. It is possible. With the introduction of technology, particularly in the mail processing network, the preparation of mail for delivery, that it does not require time in the office for preparation. There are a number of methods that the postal workers can undertake that they can achieve reductions of personnel. There is always friction, though. And where there is friction, we apply the provisions of our collective bargaining agreement. We don't come to Congress to seek your assistance. We apply the collective bargaining agreement. We have the option of going to arbitration over its provisions if we are not successful in negotiations, but there is always tension between the employer and the Union. The employer's responsibility is to achieve the maximum effectiveness at the reduced cost, and our obligation is the absolute reverse, so there is tension there, and the collective bargaining process is where we meet and resolve those differences, not always to our satisfaction. I don't suggest to you that we are always satisfied with the outcome. We have been wrestling over article 32 subcontracting issues not just recently, not just in the last year. For 35 years we have challenged the Postal Service.

I associate myself totally with all the remarks of my colleagues about the negatives of subcontracting, the impact on service. But we make those arguments in a different forum. We make those arguments in a forum where the Postal Service has the opportunity to respond, and if we are dissatisfied with that response we go to arbitration.

But yes, there is always tension between your employer and the union in terms of efficiencies, productivity improvements, reduction of personnel. We fight those as best we can using the tools avail-

able to us at the time, but we don't come to Congress and seek your assistance when we fail.

Mr. DAVIS OF ILLINOIS. Thank you very much.

Mr. Young, we heard Chairman Miller, we heard the Postmaster General vigorously and passionately defend this new notion of contracting out in a sense. We have also heard about the difficulty of maintaining service. We look at decline in first class mail as we look at the competitiveness of the mail industry in terms of other entities that deliver mail. So they pretty much indicated that there is a need to do this as a cost saving function. Are there other ways perhaps that the cost savings could occur without going to this new service contracting out that management is talking about?

Mr. YOUNG. The answer is yes, Mr. Davis. Look, I don't want to get into collective bargaining here, but, just as a for instance, I offered them a proposal that would save them $20 billion, $20 billion over the next 30 years. They rejected that proposal because they would rather have the current language in article 32 which allows them to contract out than the $20 billion in real savings in their pocket. So I get a little aggravated when they come up here. I listened to Jack Potter and I listened to Chairman Miller, and they suggest to you that nothing is new, they have done this forever.

Article 32, as Mr. Burrus said, has been in our contract I think from the very beginning. There was a need for it to be in the contract. Nobody quarreled with that. Our Union never grieved it, never appealed it, never tried to get rid of it because in rural America, the way they used it initially with highway contract routes, it made good sense. But now they are going too far, in our view.

Why I don't think this is collective bargaining, Congressman, I think this is public policy. The Members of Congress are going to decide for all of us that work there, all these people out here that use the mail, everybody else in America, you are going to decide what kind of a Postal Service do you want, what kind of services do you want to provide to the American public.

The risk they run with this contracting out itch of theirs is if they lose the confidence of the American public to deliver the mail they are gone.

Now, let me just give you one example. I heard what the Postmaster said, but he is not being truthful. In Orange, CA, right in the middle of one of the city letter carrier routes of people that I represent, they built a shopping center. The Postal Service decided, rather than letting the regular letter carrier absorb that shopping center in his route, that they would contract it out to a private delivery. For 6 weeks it appears as though the private contractor was performing its functions I guess correctly, because no complaints were in. Then 1 day he was told that he had to take a mailing, a full coverage circular mailing, out on his route. He got nasty with the boss on the workroom floor. I can't repeat in Congress what he said. If a letter carrier said it, believe me, they would have gotten a disciplinary notice, or a clerk said it, or a mail handler said it, or a rural carrier, they would have been immediately issued a disciplinary notice. But this guy got nothing because the boss said look, he's a private contractor, what do you want.

He started taking the mail home and not delivering it. Calls started going into the Postmaster in Orange, CA. What do you suppose he told the people that called? Nothing I can do about it. It is a private contractor.

What I am saying to Congress is this: when the American public loses faith in the ability of the men and women that currently are moving that mail from the factories to their homes, we will be out of business, Congressman. I think they risk that with this path that they now go on, which requires every—and I don't know why they won't tell you that. I gave you their training programs. They say it. Every new delivery must be considered for private contractor, not 2 percent, not 6 percent, not 1 percent, every single new delivery is being given consideration for private contracting.

I will tell the Congress so there is no mystery. Is it cheaper to use private contractor? The answer is yes. It is very much cheaper. Why? They don't get health benefits, they don't get retirement, they don't get annual leave, they don't get sick leave. There is about a 40 percent roll-up in the payroll for benefits in most modern companies in America. They are achieving the 40 percent savings by hiring private contractors.

Mr. DAVIS OF ILLINOIS. Thank you very much.

We will now go to Mr. Marchant.

Mr. MARCHANT. I think I would like to ask a couple of questions about the security issues that arise out of the contracting out and open that question to the panel.

Mr. YOUNG. If I could just put 2 cents in, when somebody put anthrax in the mail a number of years ago it was very difficult, and some of the Members of Congress have already recognized how bravely the postal employees reacted and behaved during that process. We still to this day, at least as far as Bill Young knows, we still don't know who did that. We still haven't gotten the person that put that deadly virus in the mail. We haven't brought them to justice.

Think how difficult that would be trying to contain that if—let's fast forward 10 years. Let's say Congress makes the decision we are not going to do anything to disrupt this current contracting out craze that is going on. Now it is 15 years from now we have 30,000 individual contractors out there, plus the network of whatever is left of us, the four of us that are sitting here, and we have to try and contain this virus somehow with all of these tentacles out there.

The members of my Union, Congressman, they volunteered to deliver vaccinations if, God forbid, we get a biological attack. We and the rural carriers signed an agreement with Homeland Security when Tom Ridge was the Director to do that. Does anybody in this room think private contractors are going to go to that extent? It isn't going to happen.

Mr. HEGARTY. The security issues are quite a few, from our perspective, especially with the two examples that I cited, the airport mail facilities and also the military mail.

If you are paying a private contractor who knows what, I agree with Bill it certainly saves money if they can hire people as cheaply as possible, but what type of commitment do they have to the job. And don't you think it would be pretty easy for a terrorist group

who wanted to harm our military members to infiltrate a low-paid private contractor and have some people working at that New Jersey bulk mail center and put some terrorist bombs or whatever they may decide to use in the military mail to be shipped over to Iraq and Afghanistan? It is just unconscionable to me that, for the sake of saving money, you would do something like that.

The delivery of mail, how do you know what these private contractors are doing once they walk out the door of the Post Office? Are they opening mail? Are they taking credit card applications and filling them out in someone else's name? That is the identity theft aspect of it.

The airport mail facilities, why would you possibly, with Homeland security—and let me just say this: we are not asking you to interfere with collective bargaining and we are not asking you to get involved in collective bargaining. At least I am not, from the mail handlers perspective. But it is a different Postal Service after 2001, it is a different world after 2001, and we are asking you to look at the ramifications of this subcontracting out in light of the security concerns.

One other point that I want to make. It came up earlier about the right to strike. The Postal Service yes, we are not allowed to strike. Our members have to perform their duties. What do you think would happen if a private company subcontracted, big on a network of airport mail facilities, and all of the sudden their employees became disgruntled? A strike by a private company is not prohibited, and they could shut down the Nation's airmail system. It is just ridiculous.

Mr. PITTS. I echo a lot of what a lot of my predecessors have said here. One of the big issues that I see is the accountability of who is carrying the mail. In our craft, the rural craft, you have a regular carrier, then you have a relief employee who backs that person up. On a day-in, day-out basis the Postal Service knows who is taking care of the mail. Whereas contractors get the contract, they subcontract to any and everyone to carry the mail. So I think there is a big risk out there with people handling valuable documents, as I said in my testimony, that there is no way you can pinpoint who was delivering the mail there on a given day, so it is a security issue and the sanctity of the mails. It is a big-time problem, and it could really get out of hand.

Mr. BURRUS. Security is a major issue with subcontracting, but I don't want this committee to misunderstand its scope. It is not just what's here today. All of the mail, most of the transportation of mail is done by contractors. All the airline transportation is by subcontractors, not by postal employees. So the mail is interacting with private citizens who are not responsible to the U.S. Postal Service every day. So I think it raises serious security issues. I agree that they are imbedded in the fact that the Postal Service does not control the individuals, and they have no allegiance to the system, itself. But it doesn't just begin and end with delivery. There is subcontracting in transportation, the processing, with the equipment, MTEC systems.

We have for years fought this issue in collective bargaining, in other forums where we could join with the Postal Service and address them jointly, and we have had some wins. Priority mail, they

contracted the entire system out to the private sector. We convinced the Postal Service to bring it back in. Now postal employees perform that function.

We looked at encoding systems, 25,000 jobs. We didn't come to Congress to ask your intervention on remote encoding. We went to an arbitrator, convinced the arbitrator that it was not consistent with our agreement, they brought the jobs back in.

There have been a number of hours reaching agreement with the U.S. Postal Service in 1996, 1998, somewhere in that general timeframe, to ban all contracts for a period of 2 years. We reached that agreement at the bargaining table. There would be no new contractual initiatives. That time has now elapsed and they are now contracting even more.

But my message is this has been done at the bargaining table. What I am afraid of, if you get the appetite to decide issues entirely in the Postal Service, issues that are mandatory subjects of bargaining, where does it end. Does another constituency come to you next year on an issue that I am opposed to an you entertain it because you have broken the egg, you started to get involved in the process, itself.

I don't want to come before you to defend my no lay-off cause, my cost of living adjustment, because somebody came and said ask the Congress to intervene for whatever reasons. They will dream up their own reasons. But I don't want you to put yourself in a position that now you have entertained involvement in the process. Where does it end? Does it begin and end with subcontracting? Fine. I am onboard if it begins and ends. But if you can't give me that assurance, I don't want to return here a year or 2 years from now where I am facing other issues that I have addressed in collective bargaining and you have a different view.

Mr. DAVIS OF ILLINOIS. Thank you very much.

Mr. Sarbanes, I believe you are next.

Mr. SARBANES. Thank you, Mr. Chairman.

I appreciate the testimony of all four of you. Thank you. And the issues you have raised are ones that are of deep concern to me.

The notion that contracting services out will lead to more efficiency is really a philosophy that has been embraced by the administration we have in place now and many of their friends. There is plenty of evidence that the efficiencies are not there. There is even evidence that the cost savings are not there, although, as you described, if you are going to hire through private contract and people don't have health insurance who are low-paid, who are temporary, etc., it is impossible not to get some cost savings from it.

One of the things that drives me crazy is that the failure to prove out the notion that private contracting produces more efficiency actually proves out or fulfills another prophecy that is at work, and that is to demonstrate somehow that good government and good government services or quasi-government services can exist in this world. There is a group of folks out there that want to debunk the notion of quality service coming from Government, governmental functions. So even if it doesn't work out that they can show that contracting out works better, that is OK, because if it works worse then they can say, see, Government doesn't function properly, so they get you coming and they get you going.

The issues you have raised about security, training, other reasons why it makes sense to have the work force of the Post Office, the traditional work force of the Postal Service in place I think are compelling.

As this Congress begins to look across the board at whether this compulsion to contract services out makes sense, I think it is very fair for you to push for the notion that the push back against that ought to start with an organization like the Postal Service, because I think it is unique. I think its relationship to the public is unique, and I think that there is a bond there and a trust, as you say, Mr. Young. Once that is eroded, it is very hard to get it back. So we have to be very vigilant about it.

My question is this: can you comment on the impact it has on the morale of the remaining work force to have these services contracting out, because that is relevant, too.

Mr. YOUNG. Yes, I can. Before I do that, I would just like to make two very brief, quick points.

Point No. 1, if I was successful in convincing this Congress to do what I have asked you to do this morning, put a ban against contracting out, I do not pick up a single job for the men and women I represent. The jobs would go to Donnie Pitts' organization because his craft works somewhat cheaper than ours, and when they do the cost analysis he will end up with this work. Bill Young will not end up with the work.

I disagree vehemently with Mr. Burrus. I am not asking you to get involved in collective bargaining. We are talking about public policy here now. The Postal Service is a Government function that is in the Constitution of the United States, and we are talking about how it is going to be conducted. In the same way as he has the right to go to Congress and say stop these big discounts, I don't think they are justified, we have the right to say is this the kind of Postal Service you want.

It has a tremendously negative effect on the men and women I represent. Let me show you how, Congressman, and thank you for asking.

Our Union has been a cooperative Union. When Postal Service announced that they were going to implement the sortation of delivery mail with machinery, we went in there and said let us be your partner, let us do it together, let us help you together, and we did. We negotiated a series of memos that established rules that we could use and we tried to make that process roll out just as easy as we could.

How do I now, knowing what I know in the Postal Service, what Jim Miller and Jack Potter is going along with for obvious reasons, what they want to do with the Postal Service, how do I now go to the men and women I represent and say help the Postal Service. They are trying to get rid of you. they want your job. They are going to contract out your job, but help them. Help them implement this new flat sorter that they have sort of over-estimated the savings on. And I will say it right here in this Congress, they will never achieve $900 million worth of savings with the flat sorter, not because we are going to stop them. They do the same thing every time. When they go to the Board of Governors to get approval of a large amount of funds—and it cost a lot of money to implement

those flat sorters—they overestimate the ROI, the return on investment, and then we and the managers that sit behind me are stuck trying to implement this policy and make it work.

Speaking of these managers behind me, there is going to be an other panel after ours, is there not?

Mr. SARBANES. Yes.

Mr. YOUNG. Please ask them what they think about contracting out. If this was an NALC issue, if this was just an employee issue, why would all these organizations be supporting us? And it is my information that each and every one of them support us and think that this path that the Postal Service is on for contracting out will not serve the Postal Service well in the future. But you get the information from them. I don't speak for them.

Mr. HEGARTY. If I could answer that, as well, for the mail handlers, I echo Bill's comments. We have several cooperative programs that we engage in with the Postal Service. One of the oldest is the quality of work life process, where mail handlers and managers get together in quality circles and work on problems, on the workroom floor to improve service, to eliminate redundancies in operations. That has been going on for 25 years.

Most recently, the voluntary protection program, which is a cooperative effort through our Union, the APW, OSHA, and the Postal Headquarters, we go into facilities, we make sure it is a safe place to work. We are saving the Postal Service millions of dollars and saving our members the heartache and the physical pain of getting injured on duty.

The same thing with the ergonomic risk reduction program. We have committed headquarters employees, and I know some of the other unions have, as well, to go out in the field and train in the field and put good practices into place in postal facilities so that our members are not injuring themselves in repetitive motion type injuries through ergonomic improvements in the workplace.

You asked how does it affect morale. This is the certificate of appreciation that the mail handlers received at the New Jersey International Bulk Mail Center for processing that military mail. If I got one of these certificates of appreciation back in 2005, I probably would have framed it and put it up in my office or in my home and been very proud of it. But when the Postal Service told me that they were subcontracting that operation, I probably would have taken it down and thrown it in the trash. That is how I think it affects morale.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Sarbanes.

Mr. PITTS. May I add something to it?

Mr. DAVIS OF ILLINOIS. Yes, go ahead, Mr. Pitts.

Mr. PITTS. Our craft, the rural craft, is a little unique in that we have career employees and relief employees who fill in, rural carrier associates, some PTFs. The rural carrier associates are not career employees; however, they do have the opportunity at some point to become a career employee. You talk about morale? That is where the problem is for us in our craft, because you have employees who are working diligently, hoping some day to become a career employee, and they see these new developments coming into play, and then what happens? The Postal Service is trying to contract out this work. It is territory that under normal circumstances

would be added to either rural delivery or seated delivery, but it impacts our craft in that morale to have some contractor working right beside them making a lot less money with no benefits, getting territory that would have been a route and a career position for those employees.

So it does have a big impact on morale inside the Post Office, as well as service to our patrons out there because, as a rural carrier, when you serve a route you have an extended family. That is the patrons that you serve out there. They know who you are, even the relief employees. They are there. They are dedicated. They work just about every week. But you earn a trust with those people, because they know you by name. They come to your house and visit you when your family is sick or when you have a death in the family. They are your extended family. So it is a big issue that we need to keep in mind when the contracting out arrives, because it is not for the good of the Postal Service. It is to the detriment of all of us.

Thank you.

Mr. DAVIS OF ILLINOIS. Thank you very much.

We will shift to Delegate Norton.

Ms. NORTON. Thank you, Mr. Chairman.

It was most interesting to see that this contracting out theme was, indeed, that, a theme in virtually all your testimony, when there might have been other things you might have spoken about. I think we have to take that seriously.

I am not sure that this committee has the answer to it, but I do want to note for the record, Mr. Chairman, the irony that maybe the Federal Government has discovered something about contracting out. This is this morning's business page of the Washington Post. I couldn't help but notice something that came up at me about OPM suggesting retirement reforms and suggesting something we certainly don't do in the Federal sector, whereas you might have thought that these jobs might have presented opportunity to contract out.

The kinds of things OPM, this administration, is suggesting is phasing in retirement rather than having the baby boomers desert the Federal Government all at one time because they are afraid of finding replacements. I recognize that the Postal Service is more like a private business than it is like the Federal Government, but understand who is the granddaddy of all users of contractors is the Federal Government.

Instead of saying here's an opportunity now to really go, here is OPM saying let's try to keep a Federal work force. And 60 percent of the Federal workers will be eligible for retirement in the next 10 years, and it doesn't say only the very skilled scientists, it says Federal employees, period. It says that they want to be able to counter job offers and to allow people to work on a limited basis and still retain their full pension. It is just most progressive and interesting, and it comes from an administration where you might think that this is an opportunity to do more contracting out.

Now let me say this: contracting out is not a Republican thing. We have seen that in Democratic and Republican administrations go full throttle. This is a very difficult issue now.

If it becomes a culture more than what seems to be a process already far along, at least in some parts of the postal service, then we are seeing another granddaddy of all contracting out controversies, because that is what has developed.

Now, first, Mr. Chairman, I am concerned about what I can only call the absence of candor in the management witnesses here. Did they not know that we would have Union? We always do. We always balance. I mean, did they think we wouldn't find out by calling it something else? I am very concerned about that, and I think we need to call them to account because if they are not even telling us about the contracting out that is going on we are already off on the wrong foot on the question of accountability, which is a primary concern of this committee when it comes to contracting out.

Now, I also would be very concerned, Mr. Chairman, if our reform legislation, which ultimately the Unions came to accept, was a cover for contracting out. If there is to be contracting out, hey, look, we are big boys and girls. We have seen the Government do a lot of it. Our major concern with it has been accountability. But we don't need people to think we don't know about it and then it springs up.

And when I say springs up, Mr. Chairman, I happen to have before me a document that surprises me, in light of the fact that we had very little detail from prior witnesses about contracting out of the kinds of Postal Services that are represented by these employee organizations. I am amazed to see that, as of the end of 2004, the number of routes—city, rural, all routes—242,342. I would think somebody would tell us about that. Number of deliveries, 142,319,788. Doesn't sound like a small number to me.

Apparently, like every important large business, the Postal Service is in the process of analyzing and expanding contracting, but it had very little to say about that to us, even to the point of discussing potential new routes.

Why do I have to get this document not from the witnesses on the first panel, but I will not tell you how I got it, but I got it. Why do I have to find out only when I can't cross examine them, Mr. Chairman, that current delivery routes in the city, for example, 518. Now, here is their document saying expected new deliveries in the next 10 years—now, understand the number, going from 518 to 4,940,000. That is just city. rural goes from 495 to 12,350,000, and it goes on. Very, very concerned, this first oversight hearing, Mr. Chairman, to find that out through a document that did not come as part of the testimony so that we could up front, just like I asked the question, hey, look, is this holding operation or is technology going to overtake us because no amount of raising the amount of stamps or other costs is going to do it. I need to know it so that we can think about it.

Now, I must say to you, gentlemen, I have a problem. The chairman raised some of it in the beginning. I talked about "right-sizing" and so forth. I mean, even the IG talked about right-sizing. And we know that there are planned retirements, and that is one good way, I guess of right-sizing, as long as you can keep doing the job, 113,000 or something retirements, assuming—and that is always a problem—that they will have people in the right place.

But I understand what Mr. Burrus says about two-tier systems, because the private sector is spawning them everywhere. The only real answer I see even coming kind of online is what some unions and truly large corporations are trying to do about health care. I mean, with the manufacturing sector of the United States going out of existence largely because of health care, people are finally understanding that if health care is related only to employment and those who happen to have good unions get good health care, to then be passed on as a cost of doing because, then that employer is disadvantaged, it would seem, with the private sector with whom you compete, and, of course, the unions can't be expected to say don't do health care. So now you finally have business getting together with unions trying to figure out a national health care system.

We need your advice. You have some difference among yourselves about how we should go at it, obviously, for contracting out as it exists now. That is, I take it, a collective bargaining issue. For new services, such as in the cities and the suburbs, I take it they have a free hand in that.

How has the Congress gone in this? Well, mostly not, but to the extent that we are now getting into it, we are concerned about the issue that the ranking member has raised. In a particular service are there new issues of security raised post-9/11 that we can deal with?

The second issue is one that we have never gotten a hold of, and we saw it boom into a hideous plant after the Iraq war, and that is accountability. The larger enterprise, the less the accountability that the Government itself is able to bring or that even the Congress can bring. Imagine, if you have somebody employed by you and you know what he is doing every day, he is accountable. But if, in fact, this unit is outside of you altogether, unless you are going to be doing the same thing that you would be doing if he was your employee, which is keeping track of him every day, then huge parts of what he does is nothing you are going to know anything about.

I do all that prefacing to say this: in light of the fact that I can only think about two security issues, one which has been raised by the ranking member, and I am not sure how they would deal with that one. In light of the "right-sizing issues" that even in the best of services—and Postal Service is doing much better now—you face, it does seem to me you have a run-away problem here.

I think we need to be informed of how the postal service and perhaps the unions, perhaps the unions by themselves, somebody has to think it through before it becomes a bigger hippopotamus in the room than it already is, because I do not readily see a way for us to control it or for you to control it, at least for new businesses, some of which you said is really quite terrifying here. After a while you are going to find people saying something is new that you never would characterize as new, so you are going to get into categorization.

I think the burden on us all is to say if not this, what, since the way the Congress is likely to go at it is accountability and security. Meanwhile, it continues to grow. If not this, if not off-loading benefits, racing to the bottom, which obviously has affects on the qual-

ity of workers, but who cares. The two-tier work force in the Federal Government has grown like nothing else. We have people sitting side by side. If not that, I think the burden on us all who have seen the monster of contracting out is to say then what, because if we don't have a then what I believe it is going to continue to grow.

Mr. DAVIS OF ILLINOIS. Thank you very much, Representative Norton.

Ms. NORTON. I would like to know if anybody has a then what, just before they go.

Mr. PITTS. I would like to say, Ms. Norton, I feel your pain because——

Ms. NORTON. You are going to feel it even more.

Mr. PITTS. Well, when you are talking about information from the Postal Service that keeps us up to date, we, too, struggle with that. Also, I think you heard earlier today comments made that the CDS routes were put into being because of postal reform. I am here to tell you that is not the truth. CDS routes have been here prior to postal reform issues, and you heard them say that I think the past 5 years the growth in highway contracts, CDS, is about 2 percent, but in the same sentence saying that in 2006 it grew from 2 percent to 6 percent, which is 4 percent, so there is a big issue there.

Also, I meant to say a while ago when I was talking about relief employees in our craft, do you know that the Postal Service is requiring our RCAs, our relief employees from the National Rural Letter Carrier Association, to go out and carry some of these contract routes because they don't have contractors on them and forcing them to do that, and we have a national level grievance on that. So they are saying you don't need the work, but we are going to use your employees.

So it is a big-time issue with us, as well as I know my counterparts up here, and we are here today to try to come to some kind of reasoning as to what we can do to stop this. It was never a problem. The almighty dollar is not the answer to everything. Service to our people is the big issue. It is appalling to me to have a letter sent from my home State of Alabama to Alexandria, VA, to take 10 to 12 days.

Mr. Davis, the letter that you sent to me about this committee meeting and testimony, I received it yesterday. It was dated April 5th. I received it on the 16th.

We have to put service back in the Postal Service. You give the people the product they want and the service they want, they will pay the price. Give us the service. That is what we need to focus on, and CDS is not the answer.

Mr. DAVIS OF ILLINOIS. Thank you very much.

We do have a couple of additional panels, and we are going to try to get Mr. Lynch in now.

Mr. LYNCH. I will try to be brief, Mr. Chairman. Thank you for the opportunity.

President Burrus, President Young, President Pitts, and President Hegarty, I sincerely wish I had as good a relationship with every president in Washington as I do with you folks. [Laughter.]

Let me just say an observation and then a quick question. One is I think that, as a Postal Service, as a service that provides such an important service to so many Americans, I think there is a higher standard that we should hold ourselves to, and I include the Postal Service in that. It is instructive when the officials from the U.S. Postal Service talk about the need to have workers not have health care and that in order to be competitive they want to pay people as low a wage as is humanly possible without any regard for the quality of life of those people, and that the ability to avoid paying pensions and benefits to those workers is the way to go.

I see what is happening in the Department of Homeland Security with our screeners where they are doing that, and I see a continual revolving door in those employees and the quality of service going down and down and down, and the morale in that area is just deplorable, and I see the pattern continuing here in the way the Postal Service is treating its employees. I think this country will be far worse off if that is allowed to proceed.

I, for one, will stand in the way and try to defend the rights of our workers to have a decent wage and decent retirements and decent health care.

I want to go to the hazmat issue. I was elected on September 11, 2001. That was my election day, the Democratic primary. After I got elected, we had the whole problem with the anthrax in our Post Offices, tragedy here in Brentwood. But I agreed to go and visit every single Post Office and every bulk mail facility in my District. It took a few months to do it. I had no idea how many facilities I had when I said that, but with the good help of a lot of my folks, some of whom are here today—I know Kathy Manson from the Norfolk and Plymouth Labor Council is here. She is a vice president of the AFL–CIO. Lola Poor with the Boston branch of the APWU is here. Don Sheehan, a great friend of mine from the Brockton—I represent the city of Brockton—the Brockton APWU; Bob Losey from the Mail Handlers; John Casioano from the National Letter Carriers—they took me personally from facility to facility and introduced me to all the workers, just trying to get a sense on what changes we could make to safeguard our employees.

So we went in there, and over the next couple of years we made some changes at the larger facilities regarding protection: safeguards first of all for our employees, safeguards that would protect someone in the event of an anthrax attack; detection methods at the big postal services, the GMF in Boston, where my sisters both work. We went and looked at that. There are also issues of quarantine in the event that there is an attack, making sure that employees don't go home and contaminate their families or other workers. And then, of course, decontamination and treatment.

I just want to know, you have all got workers in these facilities, and this is something that you are all, from the rural carrier to the city carriers to the mail handlers to the postal clerks to our supervisors and our Postmasters, you are all affected here, and so are the families that you serve.

What is the status right now in terms of that whole process in our cities and towns?

Mr. BURRUS. The comfort level of the employees is way advanced from what it was following 9/11. The Postal Service has imple-

mented some safeguards for the employees. The employees, themselves, are not aware of the holes in those safeguards. The employees really aren't 100 percent protected to day, but the comfort level of the employees, themselves, has increased dramatically. The employees no longer day to day think about poison in the mail.

Mr. LYNCH. Is that because of the passage of time, where people haven't had——

Mr. BURRUS. It is the passage of time and the equipment that has been installed to provide them some level of protection. It is not absolute, by any stretch of the imagination. We are still working at the national level trying to find ways of providing additional protections, but as far as the employees are concerned, they are much more comfortable than they were on 9/12.

Mr. HEGARTY. I'd like to thank Congress for approving the funding for some of the bioterrorism detection equipment that has been installed in the postal canceling machines in most of the large and mid-sized facilities so that when the letters come through this equipment is very highly able to detect chemical or biological agents.

I also would say that we have worked with the Postal Service at the headquarters level on a continuing committee called the Mail Security Task Force, and all of the unions and management associations have representatives on that task force. Some of their work obviously can't be shared with the public, because there are some security concerns.

But I believe the Postal Service has done a pretty good job developing protocols, training. We have had a number of stand-up talks, almost weekly, with employees on the workroom floor with the supervisors telling them what to do in case of an emergency, not just a biological but also suspicious-looking packages, parcels, etc., and have developed some tabletop exercises where they actually physically demonstrate what to do and what not to do in something like that happening.

That is a long way from the months or maybe even the first year after the anthrax attacks, when some powder would spill out on a table and the supervisor—there have been horror stories that he tasted it and said, "Well, that is not anthrax, don't worry about it. Go back to work." So we have come a long way since those days.

Mr. YOUNG. Mr. Congressman, I explain it just a little bit different. The men and women that I represent, Donnie said it, they kind of mesh with the community, and they realize that they live in the world that we live in. I think everybody's world changed on September 11th, maybe not as dramatically as yours. I didn't realize that was the day you were elected. Congratulations. But outside of that, not too much positive happened on that day, I might also say to the Congressman.

Mr. LYNCH. Thank you.

Mr. YOUNG. But, anyway, my point is simply this: the world changed when that event occurred. The men and women that I represent, they just take it as their responsibility, because they are meshed with those communities, to do their share in regard to that. So it is not like I had to talk people into going into work. It is not like I had to beg people to go to work. They got up and they went to work the next morning because they realized that seeing

our members out on the streets, seeing his members out on the street, seeing the clerks at the Post Offices brings a sense of normalcy to the American society. We just feel like we were just doing our part.

Are they scared? I am sure they are. Do they recognize it as a hazard? I am sure they do. But they are committed, dedicated people, which is one of the reasons why I wake up every morning and try to do my job, because that is my job, to represent them in a manner that shows favorably upon what they do for this country.

Mr. LYNCH. Thank you.

Mr. PITTS. And I think awareness is a lot better today than it was prior to 9/11. Even in our craft, especially in the rural areas with the pipe bombs that were placed in mailboxes, there is another problem, but the carriers are aware of situations and they know what to look for today. So I think overall awareness is a key to it.

But I again echo what Bill said: during the 9/11 crisis and the anthrax, the people of the Postal Service held this country together. They brought unity because they were the connecting person. And the Hurricane Katrina areas down there, you saw city carriers, you saw clerks, you saw mail handlers, you saw rural carriers all coming to the office. They may not have had an office, but they were there doing what they could. Did you see any contract people there? Probably not.

Mr. LYNCH. Let me just say in closing I don't think that the Postal employees have been ever properly thanked for the way that they responded to both those crises, and I just want to say that we in the Congress appreciate the work that has been done.

I yield back, Mr. Chairman.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Lynch.

I don't think I have any further questions. Mr. Marchant, do you have any further questions for this panel?

Mr. MARCHANT. No, Mr. Chairman.

Mr. DAVIS OF ILLINOIS. Then let me thank you gentlemen very much. We understand. I think we hear you. We hear the passion, we hear the concern that you have expressed relative to the contracting out. I can assure you that this committee will give ample attention to it, very serious attention to it, and we hope that we will arrive at a resolution, as I indicated earlier, that is, indeed, amicable.

Let me also just acknowledge, as you are leaving, the president of the Chicago APWU. I see my good friend Sam Anderson.

Sam, it is so good to see you.

Also, Mr. Hegarty, my good friend Hardy Williams asked me to say hello to you if I saw you today. I saw him on Sunday.

Gentlemen, thank you very much.

We will proceed to our next panel. Gentlemen, let me thank you for your patience and the fact that you are still with us.

Let me just introduce our witnesses. Mr. Dale Goff is in his 36th year with the Postal Service. He began as a postal assistant in New Orleans and has been a National Association of Postmasters of the United States [NAPUS], member and a postmaster for 26 years.

Mr. Charlie Mapa is president of the National League of Postmasters. He has been postmaster at Gold Run for 21 years and is currently on leave from that position to serve with the League.

And Mr. Ted Keating is the president of the National Association of Postal Supervisors [NAPS], which represents the interests of 35,000 postal managers, supervisors, and postmasters employed by the U.S. Postal Service. Mr. Keating assumed the presidency of the association in 2004 upon the death of President Vincent Palladino and was elected to continue serving NAPS in that capacity in 2006.

Gentlemen, we are delighted that you are here.

If you would rise and raise your right hands, we will swear you in and we can proceed.

[Witnesses sworn.]

Mr. DAVIS OF ILLINOIS. The record will show that each one of you answered in the affirmative.

We will begin with Mr. Goff.

STATEMENTS OF OSCAR DALE GOFF, JR., NATIONAL PRESIDENT, NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES; CHARLES W. MAPA, PRESIDENT, NATIONAL LEAGUE OF POSTMASTERS; AND TED KEATING, PRESIDENT, NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

STATEMENT OF DALE GOFF

Mr. GOFF. Good afternoon. I am Dale Goff, president of the National Association of Postmasters of the United States. I know that the hour is late, and I understand that my more-detailed statement will be included as part of the official hearing record, so on behalf of my 40,500 members I am honored to have the opportunity to summarize the key points of my submitted testimony.

I know that we have done so previously, but please include our Nation's postmasters among the many groups who have congratulated your diligence and success shepherding the new postal legislation to enactment.

The 2006 law will help steer the Postal Service on a new course which we believe will benefit the mailing community, the 9 million individuals who work within the postal industry, including our own postal employees, and the Postal Service, itself.

The keystone of our collective efforts will be the preservation, if not the enhancement, of universal mail services. This goal is predicated upon continued consumer confidence, residential and business, and the integrity of our national postal system. Postmasters are the linchpin in delivering this achievement.

The community-based Post Office is where the product meets the consumer, either through retail window service or through management of the countless city and rural routes throughout the country. Expected regular and universal postal services with appropriate community input have been the hallmark of our Post Offices. Failure to meet this criteria is a recipe for failure.

I must digress a little bit from my words here, but I have heard many times this morning about Hurricane Katrina. I lived Katrina. I know what the Postal Service did the day after Katrina passed and what we did for the customers back at home and how our employees responded.

Mr. Chairman and committee members, post offices and the vital services they provide will be condemned to mediocrity or worse without adequate staffing. Postmasters have been raising this issue for years. I must comment that this issue of staffing is not a local decision, as we heard this morning. Admittedly, in some instances upper level postal management has responded, more out of a sense of embarrassment and urgency than of responsibility. For example, please note the pressure it took for the Postal Service to take remedial actions in areas such as Chicago and Albuquerque. It should not be so difficult to make necessary staffing accommodations.

Postmasters with inadequate staffing are left few options: send carriers out after dark to deliver the mail or deliver the residual mail themselves, again after dark; close window service during the hours that may be most convenient for many of our customers; or reduce window service, resulting in long wait times.

Moreover, the excessive hours that postmasters dedicate to serving their customers adversely affects morale and productivity.

Postmasters believe that Congress has a vital role to play in ensuring that the intent of the new law, that quality mail service is fulfilled, and safeguarding the historic mission of universal, accessible, and affordable mail service.

The Postal Accountability and Enhancement Act will prove to be the success that most of us hope if we exploit the opportunities the new law creates, price and product flexibility, realized only if the Postal Service and the Postal Regulatory Commission, as they collaborate on implementing flexible rates and bringing innovative products to market. These actions will help generate new postal revenue.

Mr. Chairman and members of the subcommittee, when history renders its grade on Public Law 109–435, it will judge us on how well we continue to provide postal services which our constituents expect and demand, nothing more, nothing less.

Thank you. I will welcome some questions afterward.

[The prepared statement of Mr. Goff follows:]

NATIONAL ASSOCIATION OF POSTMASTERS
OF THE UNITED STATES

TESTIMONY OF

OSCAR "DALE" GOFF, JR.

NATIONAL PRESIDENT

BEFORE THE

HOUSE OF REPRESENTATIVES SUBCOMMITTEE ON

FEDERAL WORKFORCE, THE POSTAL SERVICE,
AND

THE DISTRICT OF COLUMBIA

APRIL 17, 2007

Mr. Chairman, Ranking Member Marchant, and distinguished Subcommittee members, I am Dale Goff, President of the 40,500 member National Association of Postmasters of the United States (NAPUS). I am also honored to be the Postmaster of Covington, Louisiana. Thank you for inviting me to testify, and I welcome the opportunity to share with you my thoughts regarding the new Postal paradigm, resulting from enactment of the Postal Accountability and Enhancement Act – Public Law 109-435.

The relentless efforts of the Members of this Committee and its Senate counterpart were decisive in securing the postal statute, and convincing President Bush to sign the legislation into law. Passage of the PL 109-435 was a defining moment in the 232 year history of this nation's signature mail operation. Indeed, the new statute ushers in a challenging, yet necessary era for postal consumers, postal-impacted companies, postal employees, and, obviously, the Postal Service itself. History will judge the success of our collective legislative efforts by whether the $900 billion- 9 million-employee postal industry thrives under postal reform or maintains its pre-reform death spiral. Except for misgivings of a select few, it became clear that the previous postal model was woefully obsolete, jeopardizing the capability of the government postal operation to safeguard universal affordable mail service. It also

became crystal clear that PL 109-435 offered this nation the best opportunity for continued postal viability.

Our Founding Fathers and their progeny recognized the need for a government-run postal operation that provides universal, accessible and affordable postal services. Ironically, in enumerating the powers of Congress, the U.S. Constitution lists the establishment of post offices prior to Congressional authority to declare war and to create the federal judiciary. Only a government owned and run postal operation could offer the United States a means of tying the disparate communities that comprise this country together through a universal hardcopy communications network. The value of a government run and government staffed Postal Service is ubiquity and security. American icons such as George Washington, Benjamin Franklin, Alexander Hamilton and James Madison recognized this fact as they crafted the U.S. Constitution. Present day Postmasters fervently believe that Congress continues to embrace the timeless wisdom of the architects of this government.

Consequently, the managers-in-charge of approximately 26,000 post offices throughout America appreciate our immense historical and current responsibility – to continue to deliver on the promise to provide nondiscriminatory retail and delivery services to your constituents,

whether they reside or conduct business in city center, in the suburbs, or in rural areas. Moreover, as the Postmaster of Covington, I uniquely understand the importance of a community post office – especially in times of crisis, such as in the wake of Hurricane Katrina's devastation to the Gulf Coast. My post office and those of adjoining communities were a sought-after symbol of continuity and a government presence.

Public Law 109-435 does not change the mission of the Postal Service: To "bind the nation together" with a universal letter, package and periodical communications system. Instead, postal reform renews this pledge to America. However, the law does so in new ways. Among the noteworthy aspects of the new law is a greater degree of price flexibility, an expedited rate-setting process, and relief from two unfair levies imposed on the mailing public by Public Law 108-18. Moreover, the legislation rejected attempts to relax the criteria for closing small post offices. Congress also set aside efforts to gut earned employee benefits. However, despite its well-deserved accolades, PL 109-435 is not a finished product. Since a Conference Report did not accompany the legislation, continuing clarification will be necessary regarding many of the provisions. Regulations need to be crafted that will implement the statute's provisions, the Postal Regulatory Commission will have to explore its enhanced authority, the first rate case subject to the new rules will have

to run its course, and the Postal Service will have to recognize, exercise and exploit its new opportunities.

As the Postal Service moves forward into this fresh period, it must do so with a sense of renewal. At the same time, the agency must resist the temptation to subordinate the expertise of its homegrown dedicated postal employees – the professionals who actually provide postal services – to green eye shaded gurus who declare that the bottom line is the only line. You cannot have a Postal Service without service – a high quality service for that matter. Unfortunately, this goal tends to be marginalized by financial connoisseurs who may never have touched U.S. mail, besides depositing a birthday card in a collection box. In addition, it appears that postal privateers have allied themselves with a cadre of postal operational personnel in a quest to squeeze the lifeblood out of postal facilities – large and small – and to privatize postal functions that are, in fact, inherently governmental in nature. From a business standpoint, it is unwise and reckless to contract-out your core product – the mail delivery network – particularly in areas where established professional carrier routes already exist. This ill-conceived scheme may save money, but at what price? Postmasters know that "you get what you pay for."

Postmasters believe that the growing post office staffing inadequacies will not be solved by hiring a private workforce to fill in staffing gaps, or assigning unqualified or ill-equipped upper level personnel to manage postal operations. Inadequate staffing, as well as unprepared staffing is degrading the quality services to which your constituents are entitled. Mr. Chairman, as you know so painfully well, inadequate staffing was a major factor in Chicago's current mail mess. Unfortunately, Chicago is not unique. Other areas have been plagued with insufficient staffing – and this negatively impacts the service provided to residential and business postal customers. As a Postmaster, let me state for the record that it is not only the number of employees assigned to particular post offices that is important; it is the number of employees who are available to do the job. Injured employees and workers assigned to reduced duties should not be included in the full staffing complement, because they cannot fully perform the requisite tasks of the position. Indeed, I am pleased that the Postmaster General recently announced the USPS will increase the number of letter carriers to serve the Windy City. I hope he will make the same commitment to other post offices that suffer from inadequate staffing.

The upshot of ignoring Postmaster staffing requests compromise mail quality and undermine consumer confidence in our postal system. It is a poorly kept secret that mail deliveries are encroaching on the evening

hours because there are not enough professional letter carriers. Upper level postal managers are leaving Postmasters with a series of bad choices: The Postmaster can make evening mail deliveries (i.e., after already putting in a full day of work), or the Postmaster can return letter carriers to the street to deliver the residual mail during the dark. Deferring mail delivery to the next day is not and should not be an option! Our customers rely on regular timely mail delivery. However, due to unmet postal staffing needs, this goal is becoming elusive.

An equally notable byproduct of the staffing inadequacies is that when a Postmaster fills the void, the time commitment reduces his or her ability to appropriately mange post office operations. While this problem could have been papered over in the past, PL 109-435 will make this problematic. The legal requirement that the USPS implement fully section 404 of the Sarbanes-Oxley Act could be compromised by Postmasters not having the resources to perform the requisite Sarbanes-Oxley functions. After all, a Postmaster's primary obligation is to get out and process the mail – that is the core mission of each post office. Inadequate staffing is a PL 109-435 compliance issue, in addition to a service issue.

Over the years, upper level postal management has asserted that it is not the number of employees; rather it is their location. The time has come to

acknowledge that the agency has had ample opportunity to distribute staff properly, reflecting the changes in postal operations and demography. Postmasters have time and time again requested adequate staffing on post office windows, in the processing area, and on the routes. However, Postmasters are finding more and more often that their requests are either rebuffed or simply ignored. Nonetheless, Postmasters are not demoralized by these slights and disregard for quality service. We believe that Postal customers will avail themselves to new tools that PL 109-435 created to hold the Postal Service accountable to particular service standards. Corporate mailers are already poised for the opportunity to turn to the Postal Regulatory Commission to complain about service problems, and it is conceivable that residential customers will do likewise. This is an adversarial proceeding that the Postal Service can and should avert – if only upper level management would listen to its Postmasters and grant postal facilities the necessary complement of employees to service its communities.

In sum, Postmasters are tasked with ensuring that their customers – your constituents – receive the postal services that they deserve and demand. The value of mail is directly related to the quality of their mail service. Irrational postal cost-cutting can and does sacrifice the very quality that is the hallmark of the Postal Service. The record productivity that has characterized postal retail and delivery services over the past

few years is attributable to frontline managers and their craft employees doing more with fewer resources. Yet, this stretch-to-the-limit strategy is taking its toll on the excellence and professionalism of the U.S. mail system. Postmasters perform the time-honored duty that began with Benjamin Franklin and continues to this day. We believe that PL 109-435 is not a panacea, but it provides opportunities. We must not squander those opportunities.

Thank you for this opportunity to share my views.

Mr. DAVIS OF ILLINOIS. Thank you very much.

We will proceed to Mr. Mapa.

STATEMENT OF CHARLIE MAPA

Mr. MAPA. Chairman Davis, Ranking Member Marchant, members of the committee, thank you for inviting us to appear before you today.

My name is Charlie Mapa, and I am president of the National League of Postmasters. I welcome this opportunity to appear before you today at this subcommittee's very first postal hearing. With your permission, I would like to submit my testimony for the record and then proceed to briefly summarize it.

At the outset, I would like to say how pleased I am that Congress has seen fit to reconstitute a Postal Service Subcommittee. Your work is very important, as you can see from the proceedings before we came onboard.

Mr. Chairman, the first thing I would like to do is to thank you and all the Members of Congress, including Congressman John McHugh, for passing the Postal Accountability and Enhancement Act of 2007. It will save ratepayers billions upon billions of dollars per year over the next decade.

The League is also pleased that the Postal Accountability and Enhancement Act did not negatively affect small, rural, or inner city Post Offices. Local Post Offices are icons in rural America and not to be tampered with.

While the long march toward postal reform is over, in some respects the most challenging task lies ahead. With the type of leadership we have at L'Enfant Plaza today, I am sure we will continue to make good progress. To this point, the critical issue in the future is going to be how top postal management manages its mid-level managers and its mid-level resources, including most postmasters.

As I detailed in my written testimony, I have two issues of concern. The first is the negative heavy-handed micro-managing climate that we see in many districts. As important as that is, I would like to skip, due to expediency and the fact that everybody has been here all day long, and talk about another issue that is very dear to my heart and I know to my colleague, Dale, in terms of the workload of postmasters. Many districts ignore the normal work week and expect postmasters to be at their Post Office 6 days a week, 8 to 10 and sometimes 12 hours a day, day after day, week after week, year after year, working 45 hours per week constantly is one thing. Working 50 hours a week constantly is another. Working 60 hours a week is yet another, and it is something that inevitably leads to burnout. Seventy-hour work weeks are even beginning to appear.

Why are postmasters working longer? Much of it is because of the critical staffing shortages that have become epidemic across our country, and these postmasters are doing the work of carriers and clerks, in addition to their own work. In the short term the Postal Service saves money; in the long term, once the burnout sets in, it does not.

If the Postal Service is going to reach the heights of higher efficiency that the new postal law envisions, this is going to have to change.

This concludes my oral testimony.
[The prepared statement of Mr. Mapa follows:]

TESTIMONY OF

CHARLES W. MAPA
PRESIDENT
OF THE NATIONAL LEAGUE OF POSTMASTERS

BEFORE THE

SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND
THE DISTRICT OF COLUMBIA,
OF THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

OF THE

UNITED STATES HOUSE OF REPRESENTATIVES

WASHINGTON, D.C.

April 17, 2007

TESTIMONY OF CHARLES W. MAPA

BEFORE THE SUBCOMMITTEE
ON FEDERAL WORKFORCE, POSTAL SERVICE, AND
THE DISTRICT OF COLUMBIA

APRIL 17, 2007

Chairman Davis, Ranking Member Marchant, members of the Committee, thank you for inviting us to appear before you today. My name is Charley Mapa and I am the President of the National League of Postmasters. I welcome this opportunity to appear before you today at this subcommittee's very first postal hearing.

At the outset I want to say how pleased I am that Congress has seen fit to reconstitute a Postal Service Subcommittee. The Postal Service, with its more than $70 billion in revenue is one of the largest, most important, and oldest institutions in the Federal Government. Its health is key to the well-being of our economy, and it deserves the attention of a separate subcommittee.

PRELIMINARY

Started in 1887 to represent rural postmasters, the League of Postmasters is a management association representing the interests of all postmasters. Although we represent postmasters from all across the country—from the very smallest to the very largest post offices–rural postmasters are a sizable portion of our membership. The League speaks for thousands of retired postmasters as well.

On a personal note, I was elected President of the League last August, and before that served in a variety of national, state, and local positions with the League. I am from Gold Run California, a small community of several hundred people, nestled in the foothills of the Sierra Nevada Mountains, between and Sacramento and Lake Tahoe. I have been postmaster at Gold

Run for 21 years and was privileged to have been named California Postmaster of the Year in 1998. Currently, I am on leave from my postmaster position to serve with the League, and I live here in Washington.

POSTAL REFORM

Mr. Chairman, the first thing I would like to do is to thank you and Chairman Waxman of the full Committee, as well as former Chairmen Tom Davis and John McHugh, for passing the Postal Accountability and Enhancement Act of 2007 (PAEA) at the end of the last Congress. The fact that the PAEA became law is going to be a very important element in assuring the continuation of the long-term ability of the United States Postal Service to provide affordable, universal mail service to every individual, home, and business in America.

The new law has shifted the responsibility for funding the military retirement of postal CSRS retirees back to the Treasury where it belongs, and also dissolved the escrow, freeing those monies so that they may be placed in a trust account to pay for retirement benefits of postal employees. These two provisions will save rate-payers billions upon billions of dollars per year over the next decade. Each billion dollars of savings equals one cent saved off the First-Class Stamp, with comparable rate savings on the other rates. These two provisions will also ensure that our retirement benefits are pre-funded.

The League is also pleased that the Postal Accountability and Enhancement Act did not negatively affect small rural or inner city post offices. As we pointed out many times during the legislative debate on postal reform, the cost of the 10,000 smallest post offices is less than one percent (1%) of the total budget of the Postal Service. Local post offices are icons in rural

America and not to be tampered with, for once a town's post office disappears, the town often shrivels up and dies.

THE FUTURE

While the long march toward postal reform is over, in some respects the most challenging task lies ahead. That task is turning the Postal Service into a more efficient and more productive delivery organization, an institution that is focused more upon serving its customers than upon "enforcing" the rules. That is a goal to which not only the League is committed, but to which I am personally committed.

From my perspective, I have seen many changes in the postal system over the last twenty years. Perhaps the biggest change has been in the attitude of the Postal Service towards its customers. From where I sit, the Postal Service is much more customer friendly than it used to be. That is a change in corporate culture that is extremely positive. I am sure we have a ways to go, but with the type of leadership that is coming from L'Enfant Plaza today, I am sure we will continue to make great progress.

To this point, a critical issue in the future is going to be how top postal management manages its mid-level managers and its mid-level resources, including most postmasters. In order for this new world to succeed, those postmasters and resources must be managed wisely. From the postmasters point of view, I know that our attitude on this issue is right on the mark, and we stand ready to do what we need to do to better help customers and the Postal Service.

In terms of postmasters relationship with top management, all three postal management groups began pay consultation talks with management last week. It is far too early to say how those are going, except to say that things got off to a pleasant start. In terms of how the Postal

Service is going to manage its mid-level managers and postmasters as the new postal order is created, it is also far too early to make any statements, much less draw any conclusions.

I do have two areas of concern. One concerns how the Postal Service manages postmasters. The other concerns the degree to which the Postal Service is increasingly having postmasters do other jobs in addition to their own, and the danger of massive burnout that this treatment is creating.

A. How the Postal Service Manages Postmasters.

The Postal Service's style of managing postmasters is becoming more and more one of intense micromanagement, with an overlay of fear and intimidation. That, it seems to me, is not good for the postmaster nor for the postal system. If you hire postmasters to manage, then let them manage. Most postmasters are quite competent. The Postal Service needs to understand that competence, embrace that competence, and put more trust in its postmasters.

Most of the problem lies in how the people who manage postmasters are trained and how they end up treating the postmasters that report to them. A postmaster's manager is called an MPOO (Manager of Post Office Operations) or a POOM (Post Office Operations Managers)—the title varies by region—and that person generally reports directly to the district manager. I will use the term MPOO throughout the rest of this testimony.

There is too often, far too often, a strong and very negative tension between a postmaster and his or her MPOO. I was lucky in my career, and had some of the best. Other postmasters are not so fortunate.

The problem is not that MPOOs tend to be bad people. They aren't. The problem is that MPOs are operations people who may have been trained on the technical side of the Postal

System, but who generally have not been sufficiently trained in either the art of leadership or how to properly manage people. MPOOs tend to be managers who get stuck in a slot, with numbers to make, and without the necessary management skills to help them get there. As a result, many MPOOs manage with a stick, and a heavy dose of intimidation. The result is often less than optimal. Those MPOOs who do well are those MPOOs who are natural leaders, and have figured out on their own that the best way to motivate people is through a professional attitude of trust, of respect, and reasonable goal-setting, the types of things that the private sector's basic and intermediate management training sessions focus upon. The MPOOs who don't do well are those who never figure that out. Unfortunately, many of the MPOOs who don't do well might have done quite well had they been given proper leadership training and some help in developing the skills necessary to effectively manage people.

If the Postal Service is to meet the expectations of greater efficiency that the PAEA envisions, and the expectations of the mailing community, it is going to have to train MPOOs in how to manage people well, and how to use positive motivation. If we can get to the point where most postmasters view their MPOO as a mentor, the Postal Service would be much improved, and much, much more efficient.

Related to this is an issue that concerns Postmaster Replacements (PMRs). A PMR is a person hired by the Postal Service to substitute for a postmaster when the postmaster is unable to function. PMRs are meant to be short-term place-holders, and generally are part-timers who are paid a bit more than minimum wage and receive no benefits. They usually have insufficient training, no career track, and no incentive to perform efficiently. Yet for cost reasons, some Postal Service districts are replacing postmasters more and more with PMRs when a postmaster slot opens up, and leaving PMRs in place to operate a post office for extended periods of time.

This practice shortchanges the community by depriving it of one of its leaders, shortchanges the PMR by not pushing him or her into a career track, and shortchanges the Postal Service by placing ill-trained people in key positions. It does not help develop the professionalism of the work force.

B. How the Postal Service Is Working Postmasters.

Mr. Chairman, generally, postmasters who are exempt from the Fair Labor Standards Act work more than the "normal" 40 hours per week and are not compensated for it, that just being what it takes to manage their offices. While all postmasters realize that their job is not tied to 40 hours per week, and realize the necessity of working longer than that, things seem to be beginning to spin out of control.

Every new change, every new report, every new program, and every new procedure adds more and more to a postmaster's day. None ever seem to take away from it. While every postmaster understands that the demands of a postmaster job go beyond the "normal" 40 hours, many districts simply ignore the normal and expect postmasters, especially exempt postmasters, to be there to work six days a week, eight to ten (sometimes 12) hours per week, day after day, week after week, year after year. This has to stop.

Working 45 hours per week, constantly, is one thing. Working 50 hours per week, constantly, is another. Working 60 hours per week, constantly, is yet another; and it is one that inevitably leads to burnout. One can simply not work ten hours a day, six days a week, week after week, without paying an enormous price. Postmasters are working at record levels and the 60-hour work week is becoming all too common. As difficult as it may be to imagine, 70-hour workweeks are appearing.

Although we do not have statistics, we are concerned that postmasters are beginning to burn out at a record rate. They certainly are retiring at a record rate, and much local institutional knowledge and efficiency is being lost with those retirees. That is not good. It is not good for postmasters and it is not good for the postal system. Burned-out managers tend to create burned-out workers. Burned-out workers are not going to create the more productive delivery system envisioned by postal reform.

Even for those postmasters that stay, hiring freezes and overtime rules are making more common scenarios in which the local postmaster makes less money yet works longer hours than the postal clerks or carriers that he or she is supervising. This creates the perverse incentive that, when a postmaster leaves and needs to be replaced, the best candidates for the job won't apply for they know that taking on the added responsibility of the postmaster means longer hours and less pay for them. And what rational man or woman wants to accept higher responsibility, longer hours, and less pay? In the private sector, promotion always means more responsibility, generally means longer hours, but it always means higher pay.

Why are postmasters working longer? Part of the problem turns upon the fashion in which higher postal management has been "keeping costs down." Rather than allocating resources to maximize efficiency—e.g., reducing them in some areas and increasing them in others—management has simply been calling upon postmasters to do several jobs at once and using them in place of a carrier or a clerk relief.

For instance, a postmaster might be forced to come in very early to sort the mail for a carrier who is sick. After finishing the sorting, the postmaster has to go out and actually deliver the route. Once that is done, he or she can come back to the office to finally start their "normal" duties. The time devoted to the normal business can be quite short, however, for postmasters

often have to go on window duty to compensate for the lack of clerk time available during peak demand. Once the window can be closed down, the postmaster gets to go back to his or her normal duties.

That means that, at the end of the day, when carriers and clerks have gone home, the postmaster gets to settle down and spend several hours finishing off much of his or her work. The pattern goes on and on until the postmaster goes home exhausted after as much as twelve hours of work, doing not only their own work, but also that of a carrier and a clerk. In the short term, the Postal Service saves money. In the long term, once the burnout sets in, it does not. There is even a formula, which varies by the level of a postmaster, for how much "craft" work a postmaster can do. There is no doubt in my mind that this formula is being widely ignored on almost a daily basis.

The problem with this management style is that it cannot work over the long term. Yet postmasters see no relief in sight. Congress and the mailing community should be concerned. The Postal Service needs to recognize the problem, and deal with it in a healthy and constructive fashion.

Finally, not all postmasters are exempt from the Fair Labor Standards Act. Some fall within the Act's wage and hour provisions, and are due overtime pay if they work more than 40 hours a week. Those non-exempt postmasters are feeling increasing pressure to work extra time, but not to report it. That is not only not healthy, it is illegal.

CONCLUSION

Thank you for passing the Postal Accountability and Enhancement Act of 2006. It is going to be critical to maintaining a healthy postal system. The Postal Service and its employees

now need to make it work. One item that will go a long way towards making the system work better is effective leadership and management training for MPOOs and POOMs.

The League is concerned about how many hours the Postal Service is now working postmasters and other mid-level managers, week in and week out, and how postmasters now are doing not only their own job but also that of a carrier and clerk—day in and day out. If the pace at which postmasters are working continues to escalate, serious burnout will occur. Already the demand for new postmaster spots appears to be diminishing, since experienced carriers and clerks know that becoming a postmaster means higher responsibility and longer hours for less pay. It is a perverse system that gives one more responsibility and longer hours, but less pay as one moves up the ladder. Something needs be done, and resources balanced appropriately.

Mr. Chairman, this concludes my remarks. I look forward to working with you, your staff, and other Members of this subcommittee this year. I want to thank you for this opportunity to appear before you today and would be pleased to answer any questions you have.

# # #

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Mapa.

We will go to Mr. Keating.

STATEMENT OF TED KEATING

Mr. KEATING. Thank you, Mr. Chairman. It is a pleasure to be here with you today and represent the 35,000 postal supervisors and managers throughout the country.

Rather than read a statement, since it is late in the day, I want to concentrate on two issues that we already discussed here today, the Chicago-type issues of operations and the contracting out issue.

Today it is Chicago that is in the limelight. A year ago it was California. Letter carriers in California were delivering mail at 9, 10, and 11 at night. The Post Office continued to deny there was a problem until Congress got involved. One year ago today I attended a convention in California where the vice president of the Postal Service at that time—he is now no longer with us—said in his opening remarks, "We are no longer going to delay mail in California. We are going to fill vacancies and hire where needed." Miraculously, when they did that all the problems in California went away.

The issue of staffing, which my colleague has addressed, is a major concern. I believe I, too, will be going to Chicago at their request. I believe that is part of the problem in Chicago, not the only problem, but it is definitely a part of it.

You have to trace it back to the source. Why would a manager, as was inferred today, local managers do not hire. Why would they do that? Why would they not hire when they have the ability? I think you have to look at our pay system. We have a pay for performance system in effect, which rewards good numbers. So if you don't hire, you carry vacancies, your numbers are going to be better. We are chasing numbers in a pay for performance system.

My members have benefited from pay for performance. We have gotten good payouts. But I would ask at what price. Service, in my opinion, has definitely suffered. What is happening in Chicago now is going to be somewhere else next month or 2 months from now. As I told the Postmaster General recently, there are more Chicago's out there; we just don't know about them yet.

I would ask you to look at the root cause of staffing and hiring in the Postal Service and relate that back to the pay for performance system that is in effect. One is really a direct cause of the other.

The other issue that has been discussed in quite length here is the issue of contracting out. Like my Congressman from Massachusetts, I, too, come from a postal family—three clerks, letter carrier, my father was a railway mail clerk. I am very proud of my service to the Postal Service. I am going to retire for 2 years now. I continue on as president because I love what I do.

I completely agree with the testimony you heard from the unions here today about the contracting out. It will be the death knell of the Postal Service.

The letter carrier is one of the most respected people out in the field. That is what the public identifies with. The idea of contracting that out to me, as a management person, is of heart. We need

your oversight into that issue, I believe, because it is not going to change through the collective bargaining or arbitration process.

I am glad to see these committees brought back. I hope you will continue the process. I spent most of my career in finance. When you are in finance you see a lot of things that go on behind the scenes in the Postal Service. Believe me, from my 40 years experience this is a company that definitely needs oversight, and I urge you to continue that role.

Thank you very much.

[The prepared statement of Mr. Keating follows:]

STATEMENT OF
TED KEATING, PRESIDENT
NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

UNITED STATES HOUSE OF REPRESENTATIVES

APRIL 17, 2007

Chairman Davis, Ranking Member Marchant and Members of the Subcommittee:

Thank you for the opportunity to appear on behalf of the 35,000 postal supervisors, managers and postmasters who belong to the National Association of Postal Supervisors.

As a management association of postal employees founded 99 years ago, NAPS throughout its history has sought to improve the operations of the Postal Service and the compensation and working conditions of our members. Today many of our members are involved in the management and supervision of mail processing and delivery operations. We also represent the interests of men and women engaged in every functional unit in the Postal Service, including customer service, marketing, human resources, training, corporate relations, law enforcement, and health and safety.

Today's hearing represents the first Congressional postal oversight hearing since the passage of the landmark Postal

Accountability and Enhancement Act in December of last year. I want to especially thank you, Chairman Davis and members of the Subcommittee, for your bold efforts in accomplishing the passage of this important legislation.

The sweeping reforms brought about by the new postal law, the first major change in over 30 years, will ensure a stronger future for the Postal Service and require greater financial, service and operational accountability. The new rate-setting system established under the law will provide for more stability and predictability for mailers and rate-payers, while ensuring universal service at affordable rates. These and other reforms would not have been possible, Mr. Chairman, without your steadfast leadership and the invaluable vision and perseverance of Representative McHugh and others over the course of the last decade.

I'm proud to say that the Postal Supervisors Association was the first postal employee organization to embrace the spirit of change and the legislative initiatives necessary to bring about postal modernization. Just as we engaged in significant advocacy to accomplish postal modernization in a thoughtful, balanced way, we remain committed to assuring that the implementation of the law itself now proceeds in a rational and measured manner.

The new law provides a statutory framework – with many details remaining to be filled in -- for assuring that America continues to be served by a world-class postal system. Significant co-equal responsibility for charting the future of the nation's postal system lies with the Postal Service and the Postal Regulatory Commission. The law

calls upon the Postal Service to become more entrepreneurial, accountable and transparent in the conduct of its business operations. The Postal Regulatory Commission similarly needs to assure that the Postal Service retains the flexibility to operate in a manner that preserves affordable and universal service. And Congress, in the spirit underlying this morning's hearing, needs to remain engaged in oversight that ensures that the USPS and PRC are fulfilling their mandates, and that further adaptations to the law are enacted as developments may require.

Apart from these thoughts about the new law, there is an additional issue that I want to bring to your attention this morning. The issue concerns what sadly is the Postal Service's disregard of veterans' preference laws. Reports of shoddy treatment of our nation's military veterans are not confined to Walter Reed Army Hospital. Simply put, the Postal Service is running roughshod over the spirit of veterans' preference.

Through new personnel rules that it has put into place, the Postal Service is preparing to deny employment protections to military veterans in management or supervisory positions when undertaking downsizing actions. The rules reputedly will allow the Postal Service to involuntarily transfer supervisors or other management employees to locations far from their homes, without the right of appeal, despite their veterans' preference status. This is clearly contrary to the spirit of government-wide personnel law and rules, and repugnant to the sacrifices that veterans have made to their country.

Under current law, the combination of veteran's preference employment laws and government-wide reduction-in-force rules assure military veterans certain job retention priority rights of appeal during the closure or consolidation of any government facility at which they work. However, the Postal Service rules attempt to circumvent these protections. The Postal Service "repositioning rules" ignore the application of veteran preference laws and RIF rules during the course of a downsizing action. They claim to allow the Postal Service to transfer its military veteran employees to jobs in areas far from their homes, without any right of appeal, in the course of the closing or consolidation of a post office or other facility at which the veteran is employed.

While no veterans have yet been involuntarily transferred in downsizing actions by the Postal Service, this is only because of the delay in the Postal Service's plans to undertake what could ultimately become potentially significant realignments in its processing and distribution network. When the time comes and those realignment initiatives do in fact begin, veterans preference-eligible employees clearly will suffer harm if the Postal Service repositioning rules are allowed to stand. There is no reason for Congress to wait for that harm to occur. Congress should repudiate the Postal Service's actions now, not tomorrow.

In response to the Postal Service actions, Rep. Stephanie Herseth (D-SD) has introduced the Veterans Reassignment Protection Act (H.R. 728), which prohibits federal departments and agencies, including the Postal Service, from involuntarily transferring a federally-employed

military veteran to another geographic location without the benefit of veterans' protection and reduction-in-force rules, which guarantee the right of appeal. This legislation has been referred to the Committee on Oversight and Government Reform, and I urge the Members of this Subcommittee to support the consideration and approval of this measure. The rights and protections of our nation's veterans, in light of their continuing sacrifice in Iraq, Afghanistan and other dangerous lands, should never be compromised or diminished.

Thank you for the opportunity to present these views. On behalf of the National Association of Postal Supervisors, I look forward to continuing to work with the Subcommittee in its oversight of the Postal Service and its mission. I am available to answer any questions you may have.

Mr. DAVIS OF ILLINOIS. Thank you, gentlemen, very much.

I will begin the questioning.

Mr. Mapa, as I listened to your testimony, you made it sound like the postmasters are working like politicians, 60 or 70 hours a week. I am sure that they are, indeed. But my question to you gentlemen is the same question that I asked Mr. Burrus earlier: the Service has set a goal of reducing work hours. I mean, they are talking about 40 million. How do they do that or how do we get that kind of reduction without creating other kinds of problems with service, with delivery? What is your take on this reduction?

Mr. KEATING. As far as reducing work hours, we say more power to the Postal Service. We want to operate more efficiently. However, if you look at what is happening with postmasters and supervisors, can you really say that we are saving work hours if you are calling a work hour an hour that is worked. If you are talking about paid hours, yes, you are reducing those, but in the case of the higher-level or medium-level postmasters and supervisors, what is happening is they are taking up the slack. They are stepping into positions where they are having to do the work of their rural carriers, their city carriers, and their clerks because they don't have the staffing. They are working off the clock. At 40 hours and 1 minute, they are not getting any more pay. Any of the craft employees that you listed to this morning, at 40 hours and 1 minute they are on overtime.

Postmasters don't mind some of that. What is happening is that the Postal Service is now depending on the fact that the postmasters are going to be taking up the slack, and so they just work it into their budget. And they are assuming that the postmaster will be there to make up for 5, 10, 15, 20 hours during the week. I know that my friends in the supervisor ranks are going through the same sorts of things.

Mr. DAVIS OF ILLINOIS. Mr. Goff, let me ask you if you would respond to that same question.

Mr. GOFF. Yes, Mr. Chairman. We heard a little bit this morning, too, in the testimony from Mr. Potter about the transformation, and we heard about what we did on the transformation. That $40 million equates to, if I remember right, 20,000 career positions in the Postal Service. Sir, I can tell you now we need those 20,000 positions to day. We are already short those 20,000 positions, and we are going to need those in the future as the deliveries grow.

Now, we can do everything we can, and we have for 5, 6, 7 years now, where we have saved money. We lived up to the transformation. We all buckled up our shoes, tightened our belts, and we did what we could. But eventually you can't transform any more. That transformation is starting to lead to mutation, and that is what is happening.

We can save money in many different ways. Let's look at some of the other areas that we could save, instead of cutting the positions where we have to serve our constituents back at home.

Mr. DAVIS OF ILLINOIS. Thank you very much.

Mr. Keating, I think you were very explicit in your testimony relative to your feelings about contracting out and also about performance based compensation. Do you think that performance based compensation can really work the way that some proponents say?

Mr. KEATING. My personal opinion is no. The Postal Service has proven that.

Can I expand on what your question to Mr. Goff was, too? During my 40 year career in finance it is always is this a budget year or is this a service year. That was always the joke in finance. You can't continue to reduce and cut and cut year after year without affecting service.

As we sit here this morning, and it is earlier in Oregon, I can guarantee you that postal supervisors and postmasters in Oregon, because of the contracting out issue, postal supervisors and postmasters are sorting mail and delivering mail because they will not give that to the NALC or the rural organization because if they do they will own it. They are holding it for the contractor. But in that lag time between when that contractor comes on board there is nobody left to deliver the mail other than the postmaster or supervisor.

Mr. DAVIS OF ILLINOIS. Well, thank you, gentlemen, very much.

I will yield to Mr. Marchant for any questions that he might have.

Mr. GOFF. Mr. Chairman, before you move on, on the contracting out issue, I have supervised contract routes for 27 years now, and I can tell you, to sum it up in one short phrase, you get what you pay for, and that is just what it is with the contract routes. You get what you pay for.

I have had contractors walk in on their first day and leave on the first day. I have had contractors stay 2 days and leave. But I have also had some great contractors that worked for me. I had one lady that worked 42 years as a contractor. When Aunt Mimi calls up and says, can Arlene bring me a gallon of milk, that looks favorable on the Postal Service. Fantastic person. She should have had a career with the Postal Service and not worked all her time carrying her babies until the day that they were born that she was delivering mail. But also I can tell you I have had some bad, bad experiences with the contracting.

Mr. DAVIS OF ILLINOIS. Thank you very much.

Mr. Marchant.

Mr. MARCHANT. Thank you.

I have a couple of questions, but what do you find the biggest challenge is in the past year that you have encountered since the postal act has been passed, in your day-to-day life?

Mr. GOFF. I guess, since I have been here, not being every day back at home in the office, one of the challenges that I see is that we are told that everything is changing because of the new law that was passed. I was here. I am one of the few that was here back in 1970 when the Postal Service was created. We survived that. We not only survived it; we got stronger. I look for that same vision with the new law that has been passed. We will survive this. We will get stronger as an organization. But it is just so many things that we are being told that, because of the new law, this is what we have to do.

I know the intent of us working with this bill for the last 10 or 12 years was not that when it passed that we would have this case on us all the time saying the new law says this, you have to do it this way, you have to do it that way. We have been doing our

job, and this new law is supposed to enhance that. That has been probably the most troubling part since the law has been passed.

Mr. MAPA. Now that law passed since I came here in August, and, like Dale, I have been coming back to Washington with the National League of Postmasters for 12 or 13 years trying to enact some law that covered postal reform. Everybody at this table supported postal reform from one extent to another. We are very happy to see that postal reform is here. It will supposedly open up and free the way that the Postal Service can do business.

We are looking forward to those sorts of things. Some of the restrictions that were on the Postal Service made it very difficult for them to compete, very difficult to come up with a new product, very difficult to move into the 21st century.

That being said, I don't know if anybody from this morning could have told you or can still tell you what is it going to really give us. We are anticipating that good things will come of it. We are hoping that we can minimize the things that we don't like. But something had to change, and we are very hopeful that postal reform is the way that we need to go.

Mr. KEATING. Well, I have been here 9 years, and you can't blame postal reform for some of the changes that are taking place. I think it is a convenient excuse. The staffing issues that we have been talking about have been here for 4 or 5 years. The issues in California that I talked about, they had nothing to do with postal reform. It is management. It is postal management throughout the country that needs to be changed, and that is what we are trying to do. We are talking to the Postal Service about what we see as the issues. I will give them credit. They are talking to us. We are trying to make some changes. But there is a lot of micro-management going on. Again, it is attributed, from my perspective, back to a pay for performance system that rewards those that get the numbers in this country, regardless of how they get the numbers.

Mr. MARCHANT. A question for Mr. Goff. In your testimony you mentioned problems with staffing items. Do you think complying with section 404 of Sarbanes-Oxley will be a problem?

Mr. GOFF. I would say that the more we get into the staffing shortages and the postmasters, as Mr. Mapa said earlier, we know they are out there delivering mail, they are separating mail in their office, and they are doing different things like that. That takes away their time from the administrative duties that they are supposed to do. So as they are doing more of that, yes, they get involved in the Sarbanes-Oxley and the things that we are supposed to do in our offices to comply with that. And I know that we are a small part of that law for the Postal Service, but it will affect us and it will affect on how we deal with that.

Our primary mission is to deliver the mail, and that is what we should be doing, and if we are doing that and we don't have the employees to take and deliver that mail and we are doing that job for them, then we don't have the time to do those administrative duties.

Mr. MARCHANT. And, just as a last comment, I represent a district that is about 15 suburban cities now that were all little farming communities before the Dallas-Fort Worth Airport was built. Now they are all 50,000 or 60,000 people in these towns. Now some

of them have hit their peak and are declining. As a Congressman, I deal with the issue. Just last Friday I was in the little town of Cedar Hill, and the mayor confronted me with the complaints that he as the mayor was receiving about the service in the Post Office, not the delivery out in the neighborhoods but the actual staffing and the workload that was taking place in the actual Post Office.

What we are finding is that, as our parents are getting older, they like to physically go to the Post Office. I mean, this becomes a part of their routine. It is part of their life, depending on when the mail is going to come to the house. So I think that even in the most regressive of districts, and I have that, I have growing suburban towns, the Post Office is something that our cities and communities need. They are putting new machines in. Some of the older people are afraid of the machines. They don't know how to use the machines. As Congressmen, we really are in this as a partnership, because when the Post Office is not living up to the expectations of the American people, the first thing they do is pick up the phone and call their Congressman.

I have had very good luck in sitting down with postmasters and management and letter deliverers and just sitting down and working through a couple of specific problems. I appreciate the willingness to do that. But as Congress looks at this problem, looks at the implementation of all this modernization, this Congressman still realizes that the Post Office is a very, very important part of the American culture. I don't know that my constituent will know what a contract person is or not, and I know as postmasters that this issue of a contract person not having a career, not being part of the organization, and yet his or her behavior begins to reflect on your behavior.

I am very open to these hearings, Mr. Davis. Mr. Chairman, I appreciate being included in them. I appreciate your patience today with all of this.

Thank you.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Marchant. I want to thank you for coming to participate. We all know the difficulty that you had getting here, but, nevertheless, you were able to make it before we ended.

I also want to thank not only this panel but all of our panelists.

I also appreciate the audience for your tremendous patience. This has been a rather lengthy hearing. We we also wanted to get a good overview and a good look at what is taking place in our Postal Service and what it is going to take to actually implement the new reform legislation that was passed last year.

I want to thank all of the witnesses and Members who attended the hearing today. We expect that we are going to have the dialog continuing.

The hearing record will remain open for 7 legislative days for any additional statements or comments.

I want to thank the staff for putting together all of the extensive information that we have had gathering all of the statements and for their preparation for the hearing, which has consumed all of our time up to this point. Now we are ready to go and do some other things for the rest of the day.

With that, the hearing is adjourned. Thank you all so very much.

[Whereupon, at 2:32 p.m., the subcommittee was adjourned.]

[The prepared statements of Hon. Wm. Lacy Clay and Hon. Janice D. Schakowsky, and additional information submitted for the hearing record follows:]

Statement of Wm. Lacy Clay

"The U.S. Postal Service 101"
April 17, 2007

Mr. Chairman, thank you for your leadership in passing the Postal Accountability and Enhancement Act and for holding today's hearing. The United States Postal Service provides a vital public service to all of our constituents and is an important part of our nation's infrastructure.

As the Postal service faces the challenge of successfully implementing the new reform law, your recent removal from GAO's High-Risk list is extremely encouraging. I am honored to represent over three thousand postal service employees in Missouri's 1st Congressional District. I am committed to protecting these employees' interests and ensuring that their customers have universal postal services, at affordable rates, for years to come.

Although the reform legislation is now law, there is more work to be done. It is essential that the Postal Service find innovative ways to compete effectively in our evolving economy. I welcome all of our witnesses and look forward to working with you to build a strong future for our Postal system.

Statement of U.S. Rep. Jan Schakowsky (D-IL)

Testimony Before the House Oversight and Government Reform Subcommittee on the Federal Workforce, Postal Service, and the District of Columbia

4/17/07

Chairman Davis, thank you for allowing me the opportunity to deliver this testimony on behalf of my constituents in Illinois. I applaud your leadership on the issue of postal reform, and I commend you for holding this hearing.

I hope this committee will continue to work to find ways to improve postal service. I know that the vast majority of postal employees are doing their best, but there are still significant problems. And I am concerned that these problems are on the increase.

For example, over the past 6 months, my office has handled over 150 postal cases for constituents in Chicago, mostly at the Uptown, Rogers Park, Northtown, Edgebrook, and Norwood Park Stations. My office has already handled over 80 new postal cases in 2007, which does not even count the constituents who are calling for a second or third time about mail service.

My office received a phone call from a constituent who is in the military serving in Afghanistan. He phoned my office from Afghanistan to ask for assistance in forwarding his mail from his residence in Rogers Park (60626) to his brother's house while he was deployed abroad. Apparently, he had tried to call the post office but no one would assist him.

Some of my constituents are "snowbirds" who spend their winters in Florida, Arizona, and other states with warmer climates. Many of these constituents were excited to hear about the new premium forwarding option available for a fee to ensure that their mail would reach them throughout winter. However, many were disappointed with the service after they did not receive the priority packages that they had paid to have sent. Although my office interceded for these constituents, it usually resulted in THEIR receiving only one package, and they had to contact my office again to get other packages. The most egregious instance of this was in Rogers Park (60626).

A constituent went to the Uptown Post Office to apply for her passport. She was told by customer service that regardless of her U.S. Citizenship, they would not accept her passport application because she did not speak English well enough.

Many local businesses and non-profits have contacted my office about bulk mailings being delayed or not delivered at all, which has been extremely detrimental to their work. This includes mailings from Chicago Alderman Mary Ann Smith (60640), Lincolnwood Jewish Congregation (60712), Local 6 UAW retirees, Creative Management Graphics on behalf of Chicago-Kent School of Law, and many more.

The Chicago Board of Elections sent postcards to voters prior to the most recent municipal election with information on where their polling places are located. Thousands of these postcards arrived after the election. The Church of Saint Ita sent a mailing announcing Holy Week services and events and the mailing was not delivered before Easter.

Many of my constituents complain about delayed delivery or non-delivery of mail. Their missing mail includes credit card statements, tax documents, condo assessments, disability checks, paychecks, electric bills, financial documents, stock certificates, property deeds, Social Security cards, insurance cards, and license plate stickers. Delayed delivery includes magazines, coupons, and invitations that necessitate prompt mail service. Many constituents have had to pay late fees as a result of late or missing mail.

One Uptown constituent recently received a parking ticket because his license plates had expired. This happened because he had not received the renewal letter that the Secretary of State had mailed him. One Lincolnwood constituent is missing two pension checks the VA sent to him. The pension checks have not arrived in his mail, they have not been forwarded to his niece's house, nor have they been returned to the Department of Veterans Affairs.

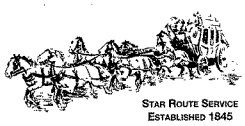
A Northtown resident (60659) advised me that it took over three weeks for her paycheck to arrive from the State of Illinois. By the time it arrived, she had already stopped payment on the check and had to wait an additional two weeks for a replacement check to be issued.

Many constituents contact my office regarding mail-order prescription drugs which do not arrive in the specified timeframe and endanger their health. The list of grievances seems endless.

Many constituents also express concerns about not having regular carriers on their routes. It is my understanding that these routes become split and carriers deliver parts of them after they have finished their regular routes. My constituents have advised my office that carriers are delivering late into the night and they are concerned about this. They are concerned the carriers can't read the mail because it is so dark outside at 9 or 10 PM. They are concerned the late night and unfamiliar carrier result in missed deliveries. They are also concerned for the safety and wellbeing of these carriers. One of my concerns is that the Postal Service is understaffed. I hope this committee will take a close look at employment issues.

Again, Mr. Chairman, I appreciate the opportunity to represent my constituents today. Your leadership on postal issues is a benefit to the State of Illinois and to the nation. I hope that your efforts in the 110th Congress continue to be a success.

National Star Route
Mail Contractors' Association
324 East Capitol Street, N.E., Washington, D.C. 20003–3897
(202) 543–1661 ❖ FAX (202) 543–8863
www.starroutecontractors.org



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Written Statement of

John V. "Skip" Maraney

Executive Director of

The National Star Route Mail Contractors

Association

Submitted to the

Subcommittee on Federal Workforce, Postal Service

And the District of Columbia of the

House Committee on Oversight and Government Reform

Of the United States House of Representatives

April 24, 2007

Chairman Danny Davis, Ranking Member Ken Marchant and other members of the Sub-Committee: My name is John V. "Skip" Maraney and I am Executive Director of the National Star Route Mail Contractors Association. The Association is comprised of small businessmen and women who contract with the USPS for the over the highway transportation and delivery of the mail. We ultimately represent some 17,000 contracts located in the States and some Territories of the United States. Of this total, approximately 7,600 are CDS contractors (formerly know as Box Delivery Contractors) who, for the most part, deliver mail in rural America. I will comment more on these routes later in this statement. The Highway Contract industry is the only dedicated industry with which the USPS contracts and over 85% of our contractors do nothing else but haul mail.

We, as others of our Postal friends have done, wish to thank you Chairman Davis as well as full Committee Chairman Henry Waxman, Representative Tom Davis, and Representative John McHugh for the Bi-Partisan effort in bringing Postal Reform to fruition in the last Congress. We also thank Chairman Waxman and you for establishing this Sub-Committee and for holding these oversight hearings.

As you have heard from the USPS and others who testified on April 17th, almost every aspect of the Postal Service these days is cost driven. It has been reported to you that the USPS is planning to borrow $1.8 billion this year which will push its outstanding debt to almost $4 billion to meet short-term cash flow needs that come at year's end (GAO, April 17, 2007). Our industry is not immune from these cost saving efforts as the USPS is in the throes of closing and/or realigning its facilities and streamlining its transportation network. For over the Highway Transportation routes the USPS has instituted 2 year flat rate contracts with no cost adjustments along with 4 year contracts that may be adjusted at the end of the 2nd year due to increased labor cost, insurance, tolls, etc. The USPS and its Highway Contractors are covered under the McNamara-O'Hara Service Contract act and the contractors are required to pay its drivers an area wide wage determination as published by the Department of Labor. This wage must be updated every two years and the USPS adjusts the contracts accordingly. It is the USPS' position also that it is assuming the risk of fuel costs as it pays for fuel used either by the use of a Voyager card issued to a contractor, the use of DOE regional fuel index to adjust contracts, or the reimbursement of fuel costs to contractors who purchase fuel in bulk. Thus, the USPS will state that it assumes the risk for 70% of the contractors cost. This leaves 30%of a contractors rate which is non adjustable and he must absorb operational cost increases over a 4 year period such as salary increase for mechanics and office staff, truck parts and other administrative costs. Indemnity provisions for contracts cancelled for the convenience of the Postal Service have also been eliminated.

The USPS and the Association has a Joint Policy Committee that meets three of four times a year to discuss issues which may improve the business process. We have an excellent relationship with USPS policy makers and it is through the works of this committee that we are hoping to restore some type of Cost of Living index to current non-adjustable items in the contract and return some type of indemnity payment. It is an uphill battle but we keep plugging away.

CDS contracts, formerly known as Box Delivery Contracts, deliver mail mostly in rural areas, driving millions of miles and they sell stamps, money orders, accept express and priority mail, collect signatures and/or deliver confirmation pieces, pick up registered, certified mail and customer parcels. These

contractors also travel everywhere everyday, serving America to the "last mile". As you may have noted, they provide the same services as rural carriers but save the USPS 15 cents per delivery unit (rural carriers testimony, 04/17/07), which is a huge amount of savings. These contractors are subjected to criminal background checks, including screening and fingerprinting, must provide satisfactory driving records and are scrutinized in detail by the Postal Inspection Service. As PMG Potter testified "... Any carrier whether a Postal Service employee or a Contractor who is involved in the criminal mishandling of the mail is subject to the same criminal penalties contained in Title 18 of the United States code".

In a verbal response on April 17th you heard one of the witnesses say that postmasters tell patrons that they can't do anything about contractor service deficiencies because they are contractors. This is simply not the case. The Postmasters have administrative control over their post offices, which include contractors and rural carriers. If a contractor exhibits service deficiencies, he is written up by the Postmaster through a 5500 report and the report is communicated to the contractor's Contracting Officer. If the deficiencies continue the contracting officer will hold the contractor in default, cancel the contract and resolicit the service. The Postmasters have much control over the CDS contractors and use this control every day. You heard testimony on April 17th from the Rural Carriers citing cases of contractor abuses, which I'm sure are probably true. However, one can find many similar abuses within their own ranks. Just ask the Inspection Service. Neither of our organizations has all members who are pristine perfect but you don't denigrate an entire industry by citing a few anecdotal cases, which are rare; the exception not the rule. Although similar instances occur within the letter carrier and the rural carrier ranks, the overwhelming majority of these carriers are honest and hard working Americans serving their country and the USPS with honor and dignity, as are the contractors. With respect to benefits, I have attached a CDS solicitation for service where you will note that on page three the contracting office tells prospective bidders that their bids should include benefits (health, welfare and vacation pay) costs. If these costs are included in the bid, the USPS is paying the benefits through the award of the annual contract rate.

In closing, Mr. Chairman, let me state that my research indicates that the 1st contract to haul mail was in 1785 with the Continental Congress to transport mail in New England with a contractor in Shrewbury, Mass. This was 232 years ago and before the Post Office Department was created. In 1845 the U.S. Congress passed the 1st law requiring the Post Office Department to solicit competitive Bid, from stagecoach companies to haul the mail. The USPS and its highway contracting industry have a long and storied past and we hope it continues well into the future.

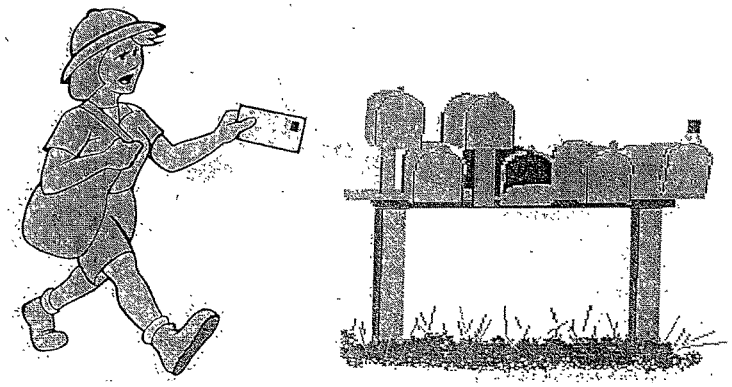
Thank you for permitting me to submit this statement and I will be happy to respond to questions.

Attachment

Distribution Networks
1745 Stout Street • Suite 500
Denver CO 80299-6200
Phone 303.313.5135 • Fax 303.313.5190

Contract Delivery Service

A Business Opportunity



Contract Delivery Service

Introduction

The United States Postal Service procures and establishes contract mail transportation services largely through the competitive request for proposal (RFP) process. Such highway transportation (post office to post office) and contract delivery service (CDS) contracts play a vital role in providing postal services to our customers.

Highway contract routes (HCR), both transportation and CDS, make up the largest single group of transportation service contracts procured by the US Postal Service. The contracts range in size from larger long haul tractor trailers operating between major postal facilities or stations to smaller CDS with owner operators using their own cars, operating out of small post offices. There are more than 6,400 CDS contract routes nationwide (including Alaska, Hawaii, and Puerto Rico).

All of the HCR contracts are legal binding, contractual agreements entered into between the US Postal Service and the private sector (that is, an individual supplier or private entity). Such contracts are not for career postal employee positions, but rather business opportunities as independent suppliers for these types of service.

CDS provides delivery service similar to those provided by rural or city carriers to roadside mail box receptacles, centralized units or building complex boxes, collections, etc. Services are provided according to a specified schedule and a line of travel outlined in the contract, along with other duties, terms and conditions.

The US Postal Service is committed to creating a supplier base that reflects the American business community, as well as mirroring the diversity of the Postal Service's customer base, and ensuring that all suppliers have the opportunity to compete for, and participate in, contracts with the Postal Service. Accordingly, the Postal Service continually seeks potential CDS Mail Suppliers to deliver mail in numerous delivery areas.

General Information/Requirements

(This handout is intended merely as a general overview of some of the contractual duties and responsibilities of CDS for interested potential CDS suppliers. You must refer to a given Solicitation for its Specific Requirements).

CDS duties may include (but not be limited to):

- Sorting of mail in delivery sequence for active boxes
- Loading sequenced mail and parcels into their delivery vehicle
- Delivering mail to customer boxes along an assigned line of travel
- Delivering mail to post offices along an assigned line of travel
- Dismounts may be required to deliver parcels, Express Mail, and other mail items
- Other administrative duties as required

Contract terms may be up to four years, with a renewable clause. Days of operation are usually Mondays through Saturdays (6 days per week), except holidays. The method of payment is by a lump sum payment direct deposit to your bank at the end of each calendar month. Training is provided to the supplier.

Submitting An Offer

Prior to submitting an offer for a contract proposal in response to a CDS solicitation, it is imperative that you conduct your own personal research to ensure that you thoroughly familiarize yourself with all of the route requirements in the solicitation. This should include, but not be limited to, contacting the postal administrative official of the route (which is specified in the solicitation) to obtain information of the services to be performed, as well as to the estimated weight and volume of mail to be cased and/or transported, and actually driving the route's specified (turn by turn) line of travel of the route.

When submitting an offer, you must include all of the cost elements and circumstances that may affect your own personal operations of the route without regard to what similar contracts may be operating at, so as to avoid any misapprehension or cause for complaint thereafter. Direct special attention to all of the requirements as specifically outlined in the solicitation.

Your costs should also include any operational, labor and miscellaneous expenses that you may expect to incur pertaining to this contract, in addition to all applicable federal, state, and local taxes. Some expenses may include, but may not be limited to:

(1) Any hired employee salaries (for example, a regular hired driver);
(2) Fringe benefits (health, welfare, and vacation pay) for regularly hired drivers;
(3) Maintenance of equipment (for example, oil changes, tires, vehicle repair);
(4) Replacement costs for your vehicle(s); and
(5) Salary, fringe benefits and profit for yourself as an owner operator.

For CDS, or combination CDS and transportation contracts (Combo), once the contract is awarded, adjustments to the bottom line contract rate can be made only in accordance with Management Instructions on Economic Adjustments. This includes rate adjustments for cost of living and fuel indexing for increases or decreases in fuel costs. If you have questions on this adjustment process, you may contact the office that issued the solicitation for an explanation prior to preparing your offer.

The following is applicable to all CDS:

Eligibility Requirements (for Suppliers)

Subject to the below exceptions, any individual 21 years of age or older, any partnership in which at least one partner is 21 years of age or older, and any corporation in which at least one of the officers is 21 years of age or older may hold mail transportation contracts. Requests for proposals (RFP) may establish other eligibility requirements as needed.

The following persons are ineligible to perform services under a contract:

- Persons on parole or under suspended sentence for commission of a felony.
- Persons with known criminal records which involve convictions for offenses involving moral turpitude or dishonesty.
- Persons who associate with convicted felons.

- Persons known to engage in the illegal use, possession, sale, or transfer of narcotics or other drugs.
- Persons who knowingly submit false data or conceal data for the purpose of gaining employment.
- Persons whose driving records indicate that their driving motor vehicles would be hazardous (applies only to drivers).
- Persons who through their abusive or disruptive behavior would pose a danger to fellow workers.

The Postal Service does not award contracts to (1) Postal Service employees, (2) their immediate families, or (3) business organizations substantially owned or controlled by Postal Service employees or their immediate families. A Postal Service employee is any Postal Service officer or any employee working on a full-time or part-time basis in a career or non-career position, specifically persons in temporary positions such as Postmaster replacements and rural carrier reliefs. Immediate family refers to the spouse of, minor child or children of, or other individual related by blood to an employee and residing in the employee's household.

No proposal for a contract shall be considered unless the offeror submitting it can assure either personal or representative supervision over the operation of the route and can be easily contacted in the event of emergencies (to give personal or representative attention to the problem at hand).

No contract shall be made with any offeror who has entered into or proposed any combination to prevent the making of any proposal for carrying mail or who has agreed, or given or promised any consideration, to induce another potential offeror not to submit an offer for such a contract. The Postal Service may terminate the contract of any supplier so offending and may disqualify such supplier from contracting for transporting mail under future contracts.

Eligibility Requirements (for Hired Employees)

As CDS contract schedules are generally required to be operated six days a week (Mondays through Saturdays, except holidays), the supplier is expected to have the services performed each of the scheduled days, no exceptions. Accordingly, CDS suppliers must prearrange for regular or relief employee(s) to cover such services in the event of any emergencies, or scheduled or unanticipated absences (vacations, illness, etc.).

Supplier employees engaged as drivers of vehicles with a GVW of 10,001 lbs. or more must be at least 21 years old. All other drivers must be at least 18 years old. No supplier, subcontractor or employee of a supplier or subcontractor may be allowed access to mail matter or postal operational areas unless he or she displays a valid identification card issued by the Postal Service. Unless they have been excepted ("exempted"), the Postal Service will not issue the identification cards described above to individuals until they have been screened to determine their suitability for that access. Forms and procedures for screening are as set forth in Handbook PO-508 and in any applicable Management Instruction.

In conducting operations under the contract, the supplier shall not employ any individual who is lacking sufficient ability to perform properly the required duties, not a reliable and trustworthy person of good moral character, or barred by law or Postal Service regulations from performing such duties.

DRIVER DISQUALIFICATIONS

General Disqualifying Factors

1. Applicant lacks adequate driving experience over the type of terrain and weather to be experienced on the route.
2. Applicant has a pending proceeding for suspension of driver's license, or has had license suspended for any moving violation within the last 3 years.
3. Applicant has had driver's license revoked within the last 5 years.

Specific Disqualifying Factors

	More than the indicated number of convictions within the last:	
Type of Violation	3 years	5 years
Reckless or careless driving.	1	2
Any driving conviction involving use of drugs, alcohol, or other controlled substances.	0 (none permitted)	0 (none permitted)
Any driving conviction involving drugs, alcohol, or other controlled substances while operating a vehicle under Postal Service contract.	0 (none permitted)	0 (none permitted)
At-fault accidents (i.e., accidents for which the driver was convicted of a moving violation).	2, or any at-fault accident resulting in a fatality.	2, or any at-fault accident resulting in a fatality.
Leaving the scene of an accident.	0 (none permitted)	0 (none permitted)
All other moving traffic offenses (includes speeding violations).	3 (or more than 1 in the last year)	5 (or 3 or more for same offense)

Notes:

For purposes of determining disqualifying violations, only offenses for which there was a conviction are considered.

Time frames for disqualification are measured from the date of the offense, not the date of the conviction.

The "3 years" column applies only if the 5-year driving record is unavailable.

Vehicle Requirements

The Supplier is required to provide the number and type of vehicle(s), as well as the minimum cubic feet of usable load space as specified in the solicitation.

Vehicle(s) cannot be more than five years old at the beginning of the contract term. A vehicle that becomes more than nine years old during the term must be replaced at the expense of the supplier. For purposes of calculation, a vehicle will be considered as one year old on December 31 of its model year. Offerors or suppliers should therefore arrange to set money aside for this purpose.

All equipment shall be presented for inspection at the location and time indicated by the contracting officer or authorized representative. Equipment used on the contract must at all times be maintained in a condition that reflects favorably on the Postal Service and is acceptable to the contracting officer or authorized representative for the full term of the contract and any subsequent renewals that might be negotiated.

Vehicles used on the route must be equipped with roof mounted warning light(s), visible from all directions. Strobe-type lights are recommended in lieu of flashing/rotating lights in areas where state or local law permits. The words "US MAIL" may also be displayed on the delivery vehicle at the option of the supplier or as required by law. Lights and signs may be temporary or permanently affixed to the vehicle. This requirement does not apply where prohibited by state or local law.

Cellular Phone
The supplier shall equip each vehicle or supply each driver with a cellular phone to enable the Postal Service or the driver to initiate two-way communications. The supplier/driver must observe all federal/state/local laws regarding the use of cellular communications. The vehicle shall not be in motion during communications.

Vehicle Insurance Requirements

The supplier shall establish and maintain continuously in effect a policy or policies of liability insurance for all motor vehicles to be used under the contract, providing as a minimum, the following coverage:

(1) Limit for bodily injuries to or death of one person: **$100,000.**

(2) Limit for bodily injuries to or death of all persons in any one accident: **$500,000.**

(3) Limit for loss or damage to property of others in any one accident: **$100,000.**
(other than mail)

In the alternative to (1), (2) and (3) above, a combined single limit (CSL) for bodily injury to, or death of persons and loss or damage of property per single accident: Minimum coverage of **$600,000.**

If greater minimums are required by State or Federal law or regulations, those minimums shall apply in place of the foregoing.

Appearance and Uniform Requirements

Suppliers and their employees are required to maintain a neat, clean, and professional appearance, reflecting a positive image while engaged in postal contract operations.

Suppliers and their employees are required to wear a certain set of uniform clothing to be purchased from a uniform vendor designated by the Postal Service. The supplier must purchase sufficient quantities of such clothing (outlined in the solicitation) for themselves and their employees. The first purchase must include at least six shirts. The outer garment must identify the supplier or employee as a US Mail Supplier. The supplier will be reimbursed up to $250.00 for the first year, and up to $125.00 for each year thereafter of the contract term and any renewals.

Rep. Clay's Questions

"The U.S. Postal Service 101"
April 17, 2007

Thank you all for being here today.

Panel I. - Mr. John E. Potter, Postmaster General

1. Mr. Potter, I understand that since 1998, the Postal Service has sold the Breast Cancer Research Stamp (BCRS) and been engaged in many local and national events to raise awareness of breast cancer. Since that time the sale of this stamp - the first semi-postal stamp ever issued in U.S. history - has enabled the Postal Service to gain community support to "Fund the Fight and Find A Cure" and strengthen ties with all of the organizations involved in finding a cure for breast cancer. I applaud you for your efforts in this fight.

According to your most recent sales figures, the American public has shown overwhelming support by purchasing 755 million stamps which has raised $52.3 million for breast cancer research.

Q: Could you take a moment to share with us your experience with administering and implementing this stamp program and talk about the challenges to the Postal Service in administering the program in 2 year increments.

Thank you. Having had family members diagnosed and survive breast cancer, this issue strikes a personal chord with me. I introduced HR 1236, in an effort to make the semi-postal Breast Cancer Stamp permanent. While Congress has already recognized the necessity for this stamp by reauthorizing it every two years, H.R. 1236 would remove the need for Congress' intervention. I encourage all of my colleagues to cosponsor this bill.

Panel II - Mr. David Williams, Inspector General, USPS

2. Mr. Williams, private corporations are increasingly adopting a strategy of outsourcing the performance of activities that are not among their core competencies, and keeping their core competencies in-house.

Q: What do you regard as the core competencies of the Postal Service that should not be contracted out?

Panel III - Mr. William H. Young, President, National Association of Letter Carriers

3. Mr. Young, bills to stop the sending of unwanted mail, modeled after do-not-call registries, have been introduced in nearly a dozen states; including Missouri.

Q: What effect would the passage of bills like this have on the Postal Service?

Mr. John Hegarty, National President, National Postal Mail Handlers Union

Q. Does opposition to the growth of advertising mail constitute a threat to the survival of the Postal Service, given that standard mail volume now surpasses that of First Class letter mail?

Panel IV - Mr. Keating, National Association of Postal Supervisors

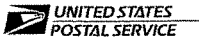
4. Mr. Keating, constituents have complained about late deliveries and non-deliveries of mail, apparently due to drastically understaffed offices. There are reports of over 200 staff being on light limited duty, where they can only fulfill a portion of their job, for over 20 years. This has created a dilemma in St. Louis where

offices haven't been able to hire full-time workers because there are so many people on light limited duty occupying the payroll.

Q: How long can staff stay on light limited duty and are they paid their full salary while on light limited duty?

Q: How often do light limited duty cases get reviewed and what is done after the reviews?

JOHN E. POTTER
POSTMASTER GENERAL, CEO



May 3, 2007

The Honorable Danny K. Davis
Chairman, Subcommittee on Federal Workforce,
Postal Service, and the District of Columbia
Committee on Oversight and Government Reform
House of Representatives
Washington, DC 20515-6143

Dear Chairman Davis:

This responds to your April 24 letter containing additional questions from Representative Lacy Clay to be included in the April 17 postal hearing record.

Representative Clay asked that I share with you my experience with administering and implementing the Breast Cancer Research Stamp (BCRS) program and to share with you the challenges to the Postal Service in administering the program in two-year increments.

The Breast Cancer Research stamp is the semipostal with the longest history. It is a very popular semipostal and has significant grassroots support throughout America. We are proud to be a part of this effort, and we would be happy to work with you to discuss the future of the stamp.

To maximize efficiency, we keep the stamp design the same from year to year, which saves on our printing costs. We also regularly include reference to the stamp on our literature that advertises available stamps to purchase. We have a good sales history with the stamp, and that gives us the necessary data to print and distribute the Breast Cancer Research stamp in sufficient quantities to Post Offices nationwide.

Representative Clay also makes reference in his documentation to be included in the hearing record, H.R. 1236, a bill which he introduced on February 28, 2007, to make the semipostal Breast Cancer Research stamp permanent. Permanent reauthorization for semipostals would likely lead to calls for permanent authorization for other semipostals to benefit a number of worthy causes. We would have many worthy causes competing for a limited pool of customers, and not all semipostals would have comparable levels of support. Therefore, I believe the current two-year time frame is the most appropriate one.

If you have any questions, please do not hesitate to contact me directly.

Sincerely,

John E. Potter

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-0010
www.usps.com

Q-Form #2

Question for the record (April 17, 2007 - Hearing on Postal Service: 101) from Congressman Wm. Lacy Clay (D-MO) to John Potter, USPS

Q. Mr. Potter, private corporations are increasingly adopting a strategy of outsourcing the performance of activities that are not among their core competencies and keeping their core competencies in-house.

What do you regard as the core competencies of the Postal Service that should not be contracted out?

A. The Postal Service exists to provide reliable, universal mail service at an affordable price for the American public. A core competency has been defined in the corporate world as something that makes a significant contribution to the final product and is difficult for competitors to imitate. Using that definition, I would say that the core competencies of the Postal Service are the planning, development, and management of an integrated, national system of mail collection, sortation, transportation, and delivery.

John E. Potter
Postmaster General
U.S. Postal Service

National Association of Letter Carriers

William H. Young
President

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Dale P. Hart
Director, City Delivery

Brian E. Hellman
Director, Safety & Hea th

Myra Warren
Director, Life Insurance

Timothy C. O'Malley
Director, Health Insurance

Ernest S. Kirkland
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Affiliated with the AFL-CIO &
Union Network International

May 3, 2007

Chairman Danny Davis
Subcommittee on Federal Workforce,
Postal Service, and the District of Columbia
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Chairman Davis:

Thank you for the opportunity to respond to Representative Clay's question regarding proposed legislation to create do-not-mail registries in several states throughout the country. The creation of a do-not-mail registry would be an extremely negative development for letter carriers, mailers, and postal patrons alike. In 2006, for the first time in our history we delivered more advertising mail or "direct mail" than first class mail. As a matter of fact direct mail now accounts for over 50% of mail delivery. While the revenue generated from direct mail is much less than that generated from first class mail, if the Postal Service were to lose that direct mail volume universal service and our six day a week mandate would be in serious jeopardy.

We appreciate the concerns of patrons who do not want to receive this mail, however, we distinguish mail from annoying phone calls usually made at dinner time, because patrons can deal with their mail at their leisure. In addition, with the introduction of intelligent mail the Postal Service will soon have the capability to identify patrons who do not want to receive certain mail and block that mail from delivery. Rather than risking universal service or six day delivery by passing do not mail legislation, we contend it is wiser to wait and utilize this new technology.

If I can be any further assistance to you or the members of the subcommittee on this or other issues please do not hesitate to call on me. Thank you.

Sincerely,

William H. Young

William H. Young
President

National Postal Mail Handlers Union

John F. Hegarty
National President

Mark A. Gardner
Secretary-Treasurer

Hardy Williams
Vice President
Central Region

Samuel C. D'Ambrosio
Vice President
Eastern Region

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Western Region

May 4, 2007

VIA FACSIMILE AND U.S. MAIL

The Honorable Danny K. Davis
Chairman, House Subcommittee on
Federal Workforce, Postal Service, and the District of Columbia
Committee on Oversight and Government Reform
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Chairman Davis:

Thank you for the opportunity to testify about the Postal Service during the hearings on April 17, 2007.

This letter also responds to the post-hearing question raised by Rep. Lacy Clay, who asks whether opposition to the growth of advertising mail constitutes a threat to the survival of the Postal Service, given that standard mail volume now surpasses that of first-class letter mail?

The simple answer is absolutely yes, because standard mail, including advertising mail, represents an important, integral contributor to the overall finances of the Postal Service (USPS).

The mail mix is changing; that fact is incontrovertible. First-class mail is diminishing as the use of electronic communications grows. Quite simply, the USPS needs to grow its business elsewhere to cover the loss in first-class mail. Most of that growth has occurred in advertising or other standard mail. If that growth does not continue, the revenues most likely would have to be generated by precipitously raising rates or drastically cutting services, putting the entire postal system in jeopardy of a death spiral of increasing rates, decreasing volume, and diminishing services.

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Advertising mail also has the secondary effect of being a valuable generator of business in this country. For example, catalogues save consumers time and assist in ordering on-line, via the phone or by mail. Catalogues also save trips to the stores or the shopping mall. The result is a decrease in gas consumption, air pollution, and other customer costs. Advertising through the mail has become essential to both the local and national economies.

Put another way, a reduction in advertising mail could mean higher rates, cuts in postal services, closing of local post offices, and the loss of jobs. It would serve no public purpose, but only would benefit the limited sector of private businesses (e.g., newspapers, internet-based portals) that seek to lure business advertising away from the Postal Service.

I trust that this is responsive to Rep. Clay's question. Please do not hesitate to contact me if I can provide you or the Subcommittee with additional information.

Sincerely,

John F. Hegarty
National President

Cc: Rep. Kenny Marchant, Ranking Member
Mark A. Gardner, NPMHU National Secretary-Treasurer

NATIONAL ASSOCIATION OF POSTAL SUPERVISORS
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May 8, 2007

Congressman Danny K. Davis
Chairman, Subcommittee on Federal Workforce,
Postal Service, and the District of Columbia
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Chairman Davis:

This will respond to Representative Lacy Clay's additional questions subsequent to my testimony before the Subcommittee on "The U.S. Postal Service 101" on Tuesday April 17, 2007.

"4. Mr. Keating, constituents have complained about the late deliveries and non-deliveries of mail, apparently due to drastically understaffed offices. There are reports of over 200 staff being on light limited duty, where they can only fulfill a portion of their job, for over 20 years. This has created a dilemma in St. Louis where offices haven't been able to hire full-time workers because there are so many people on light limited duty occupying the payroll.

"Q: How long can staff stay on light limited duty and are they paid their full salary while on light limited duty?"

A: An employee may stay in a limited duty assignment until he/she either returns to full duty, or reaches maximum medical improvement (MMI). USPS has some employees who have been in limited duty status for over 5 years because they are slowly improving. Once they reach MMI, USPS tries to find a permanent rehabilitation assignment that must be within the employee's medical restriction and meets OWCP approval. Employees in a limited duty or rehabilitation assignment are paid their full salary. If a person can only work a partial day, such as 4 hours, OWCP pays the employee compensation for the remainder of their work day. USPS does have people who work 4–7 hours a day and receive compensation for the rest of their work day.

"Q: How often do light limited duty cases get reviewed and what is done after the reviews?"

A: Limited duty cases are reviewed based on the individual case – primarily the medical condition of the employee. As an example, a broken leg would not require weekly checks by an injury compensation specialist. Based on the injury, the specialist would review this case based on medical documentation with the first review perhaps 3-4 weeks after the injury.

A dog bite claim would be handled differently. The specialist would review the case daily until the employee is back to full duty. There is no set formulae as each case is handled based on the nature of the injury. The injury compensation specialist works with the employee and the employee's supervisor during the recovery process to ensure that all the employee's issues are managed and the return to full duty process is completed.

I hope the above information has answered your questions. If I can be of additional assistance, please do not hesitate to contact me.

Sincerely,

Ted Keating
President

cc: Rep. Kenny Marchant
Ranking Member

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