THE FINANCIAL STATE OF THE U.S. POSTAL SERVICE

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 ELEVENTH CONGRESS

FIRST SESSION

MARCH 25, 2009

Serial No. 111–1

Printed for the use of the Committee on Oversight and Government Reform

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THE FINANCIAL STATE OF THE U.S. POSTAL SERVICE

WEDNESDAY, MARCH 25, 2009

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 10:17 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen F. Lynch (chairman of the subcommittee) presiding.

Present: Representatives Lynch, Chaffetz, Norton, Davis, Souder, Cummings, Bilbray, Kucinich, Turner, Clay, Connolly, Towns, and Maloney.

Staff present: Tania Shand, staff director; Marcus A. Williams, clerk/press secretary; Margaret McDavid and Jill Henderson, detailees; Tyler Pride, intern; Lawrence Brady, minority staff director; Charles Phillips, chief counsel for policy; Dan Blankenburg, minority director of outreach and senior advisor; Adam Fromm, minority chief clerk and Member liaison; Howard Denis, minority senior counsel; Jonathan Skladany, minority counsel; and Alex Cooper, minority professional staff member.

Mr. LYNCH. Good morning. The Subcommittee on Federal Workforce, Postal Service, and the District of Columbia's first hearing in the 111th Congress will now come to order.

I want to welcome Ranking Member Chaffetz, and members of the subcommittee, hearing witnesses and all those in attendance. Today's hearing will examine the financial stability of the U.S. Postal Service. The Chair and the ranking member and the 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.

Hearing no objection, so ordered.

I also want to note that Mr. Turner, not a member of the subcommittee, without objection and with unanimous consent, it will be agreed that he will participate fully in the hearing, without objection.

Mr. Connolly, you had a point of order?

Mr. CONNOLLY. Not a point of order, Mr. Chairman, I just want to make sure that on the previous vote, although it was not a recorded vote, that my statement was entered into the record.

Mr. LYNCH. Yes, you had submitted your statement and I made a motion to enter your submission into the record.

Mr. CONNOLLY. I am happy to support the previous motion. Thank you, Mr. Chairman.

Mr. LYNCH. OK, thank you, Mr. Connolly.

Welcome, Ranking Member Chaffetz and members and staff of the subcommittee and today's witnesses, as we hold the first subcommittee hearing of the 111th Congress. I would like to give a special welcome to the Oversight Committee chairman, Mr. Towns, who is with us this morning, and the ranking member, Mr. Issa, for joining us this morning.

This hearing on the financial stability of the U.S. Postal Service is not only timely but critical to the American expectation of affordable 6-day mail delivery. The subcommittee will now examine the nationwide economic downturn and technological advancements have produced declining volumes and revenues for the Postal Service.

With the Postal Service facing unprecedented budget shortfalls, the subcommittee will consider a number of options to restore financial stability to the Postal Service. We will also examine ways for the Postal Service to continue to operate without cutting services.

On March 20, 2009, the Postal Service announced new efforts to cut costs. Among these plans are, to close 6 of its 80 district offices; eliminate 15 percent of administrative staff positions across all districts; eliminate more than 1,400 mail processing supervisor and management positions; and offer voluntary early retirement opportunities to nearly 150,000 employees. These recent announcements and new reports of the Postal Service's dire financial condition are of concern to myself, the members of this committee and the American public.

I expect that today's witnesses will offer effective short and long term strategies to reduce costs and improve efficiency in order to help ensure financial viability of the Postal Service. In addition, to better understand compensation at the Postal Service, I will question the Board of Governors on executives' compensation packages.

Thank you and I look forward to a very informative hearing this morning.

At this point, I will yield to our ranking member, Mr. Chaffetz of Utah.

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

STATEMENT OF CHAIRMAN STEPHEN F. LYNCH

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

"Restoring The Financial Stability Of The U.S. Postal Service: What Needs To Be Done?"

Wednesday, March 25, 2008

Welcome Ranking Member Chaffetz, Members and staff of the Subcommittee, and today's witnesses as we hold the first Subcommittee hearing of the 111th Congress. I would like to give a special welcome to Oversight Committee Chairman Towns and Ranking Member Issa for joining us this morning.

This hearing on the financial stability of the United States Postal Service (the Postal Service) is not only timely but critical to the American expectation of affordable 6-day mail delivery. The Subcommittee will examine how the nationwide economic downturn and technological advancements have produced declining volumes and revenues for the Postal Service.

With the Postal Service facing unprecedented budget shortfalls, the Subcommittee will consider a number of options to restore financial stability to the Postal Service, and examine ways for the Postal Service to continue to operate without cutting services.

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Mr. CHAFFETZ. Thank you, Mr. Chairman and thank you for holding this hearing. It is critical in this time.

This is the first of our oversight hearings on the Postal Service and our first hearing overall. We are hear today to review the life blood issues involving the U.S. Postal Service. The U.S. Postal Service touches everyone. There are hundreds of thousands of employees and the postal industry generates hundreds of billions of dollars as the postal system and personnel process literally hundreds of billions of letters and packages. We all need the postal system to thrive. The task at hand is enormous.

In 2006, the Congress passed the Postal Accountability Enhancement Act marked up in this committee as H.R. 22. There is now another H.R. 22 before us which would change the way the Postal Service pre-funds retiree health care. The requirement that U.S. Postal Service pre-fund the employer's portion of its future retirees' health benefits while paying premiums for current retirees is seen as an unnecessary cost burden.

One thing is for sure: the U.S. Postal Service is in serious financial trouble. On January 28, 2009, the Government Accountability Office issued a significant study regarding the deteriorating postal finances requiring aggressive actions to reduce costs. We must continue to do our utmost to ensure that the Postal Service is managed responsibly, effectively and with the greatest integrity and that we are constantly looking for savings and other ways to be creative within the Postal Service to provide maximum service to the American people as it is articulated within the U.S. Constitution and making sure that we are providing a service that will allow our businesses, our friendships, the personal notes that will go through the Postal Service, and that system continues to thrive.

With that in mind, we must also inquire into the Postmaster General's compensation package, possible consolidation policies within the system itself and the relocation policy in force and other issues that will come before us.

With that, I look forward to the testimony, Mr. Chairman, and appreciate being able to participate today.

Mr. LYNCH. Thank you.

At this point, the Chair would like to recognize the full committee chairman, the gentleman from Brooklyn, Mr. Towns, for 5 minutes.

Chairman TOWNS. Thank you very much, Chairman Lynch.

Before starting my opening statement, I would like to congratulate you on becoming chairman of this important subcommittee, and thank you for your leadership and insight in holding today's hearing on the Postal Service.

I also would like to congratulate the gentleman from Utah, Mr. Chaffetz, who as a freshman has already taken on an important leadership role in the House by serving as ranking member of this subcommittee. Congratulations.

Today's hearing is fittingly entitled, "The Financial State of the U.S. Postal Service." What needs to be done? Charged with the awesome task of providing prompt, reliable and efficient universal mailing service to all communities, businesses and households throughout the United States in territorial areas. The U.S. Postal Service has certainly withstood the test of time. But the massive operational and financial challenges confronting the Postal Service are unlike any we have ever seen before. Having ended the last fiscal year with a net loss of nearly $3 billion, and that is B as in boy, the deteriorating economic condition of the U.S. Postal Service can no longer be ignored or deferred.

With electronic communications taking more and more customers out of the lobby of the post office, coupled with the enormous contraction of the U.S. economy, the Postal Service is struggling to remain a financially solvent and viable entity for both now as well as in the future.

Yet the question remains how exactly will such stability be regained and more importantly maintained in the new and evolving 21st century economy. As mail volume declines and costs from labor, energy and expansion in the delivery network continues to increase, the Postal Service, its union affiliates, the Congress and the country must make some difficult decisions to get us through difficult times.

So Mr. Chairman, it is my hope that today's witnesses will allow us to get at some of those answers and to help us determine what may have already been done to curtail costs, what innovations are currently in the works to reinvent and revive the Postal Service, and last what we in Congress may need to do to restore the Postal Service's financial standings and to ensure the Postal Service's extraordinary reliability and service.

Again, I thank you, Mr. Chairman, for holding such a timely hearing and I look forward to hearing from the witnesses. Thank you and I yield back.

Mr. LYNCH. Thank you, Mr. Chairman. It is an honor to have you here with us.

The Chair now recognizes the gentleman from Indiana, Mr. Souder, for 5 minutes.

Mr. SOUDER. I pass, thank you, Mr. Chairman.

Mr. LYNCH. The gentleman passes.

The Chair recognizes the gentleman from Ohio, Mr. Turner, for 5 minutes.

Mr. TURNER. Thank you, Mr. Chairman.

I would like to thank Chairman Lynch and the Ranking Member Chaffetz for allowing me to participate in today's hearing on the financial state of the U.S. Postal Service. I look forward to reviewing the testimony from all of today's witnesses. General Potter, I want to thank you for participating in today's hearing.

In the materials we have received in preparation for today's hearing, the Postal Service has increased their long-term debt from zero dollars in fiscal year 2005 to over $7 billion in fiscal year 2008. I, along with other members of this committee, am concerned about these figures and want to work with the Postal Service to find cost savings and measures that will help maintain the viability of the Post Office in the future.

With that said, as some of you know, DHL, which operated their North American operations within my congressional district, recently ceased their domestic express shipping business, leaving essentially UPS and Federal Express as private shippers in the U.S. domestic shipping market. I am concerned that this market consolidation will have an impact on costs in domestic shipping. I was hoping that during this hearing you could comment on how this development in the private shipping markets could impact the Postal Service's ability to remain competitive.

Given that the U.S. Postal Service actually contracts with private shippers for some of its delivery services, how might this consolidation in the market affect these contracts and how might these costs result in increases overall to the Postal Service?

Again, I look forward to working with you to find effective ways to helping the Postal Service remain competitive and am interested in your comments concerning the consolidations in the market. Thank you.

Mr. LYNCH. The chairman neglected to note at the beginning of the hearing that because we have five panels today in this committee, we will be here very late unless we adhere very strictly to the 5-minute rule. So Members will have 5 minutes to ask a question and have it answered. And when the time runs out at the end of the 5-minutes, when that light turns red, whoever is speaking may have the opportunity to complete their thought, but we are going to maintain a fairly strict 5-minute limit, otherwise we would be here, again, very, very late.

At this point, the Chair recognizes the gentleman from Illinois, Mr. Davis, for 5 minutes.

Mr. DAVIS. Thank you very much, Mr. Chairman. I want to commend you on your leadership and also thank you for this very timely hearing.

Last week, the Postal Service announced that it was closing offices and offering early retirement to nearly 150,000 employees, almost a quarter of its work force. The agency indicated this action was necessary because of sharply lower mail volumes due to the recession. Supported solely by mailing and shipping revenues, not taxpayers, the Postal Service is experiencing a short-term financial crisis. I believe that Congress can act to provide some immediate breathing room at no cost to taxpayers by supporting the bill that I have co-sponsored with Representative John McHugh of New York. Our bill, H.R. 22, removes an outdated retiree health benefit mandate designed for much happier times.

When we passed the PAEA, the Postal Accountability and Enhancement Act, the climate was a bit different then than what it is now. Times have changed. The national economy is in a recession and there is no place more reflective of that than the economic reality of the Postal Service, which has seen a steep decline in mail volume and revenue since December 2007. Despite declines in mail volume and revenue, the Postal Service, nevertheless, is obligated to cover the cost of operating an extensive network of facilities, delivery vehicles and personnel necessary to serve the Nation 6 days a week. Even with continuing extraordinary steps to cut costs, the enormous fixed cost of operating the national mail service threatens to overwhelm the ability of the Postal Service to operate.

The aggressive approach to pre-funding future retiree health benefits that appeared doable 2 short years ago is now untenable, in my estimation. I hope that this hearing will give us an opportunity to thoroughly explore the problems and difficulties being faced by what I considered to be one of our great national treasures, that is the Postal Service.

Actually, this time has been coming for quite some time. We have been putting off, delaying, deferring, not dealing with it, hoping that somehow or another the inevitable we would not have to face up to. But I think the time has now come. There is unequivocally no doubt in my mind that some serious reevaluation of our Postal Service must take place. I believe that evaluation will begin this morning. So I want to thank you for this hearing and certainly welcome Mr. Potter.

Mr. LYNCH. Thank you.

The Chair recognizes the gentleman from Maryland, Mr. Cummings, for 5 minutes for an opening statement.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. I thank you too, I join my colleagues in expressing our appreciation for this hearing.

We hold this hearing today at a time when our national economy is struggling and the U.S. Postal Service is not immune to that trend. Postmaster General John Potter, who will testify before us today, recently testified before the Senate Committee on Homeland Security and Governmental Affairs that the Postal Service operated at a $2.8 billion loss for fiscal year 2008. He said the loss can be attributed largely to two factors: the unprecedented decline in mail volume due to increased use of electronic communications and others factors; and the economic recession that is affecting all sectors.

Mr. Potter further outlined his plan for action to achieve fiscal solvency. In addition to raising postal rates, the Postal Service has been able to identify over $2 billion in cost reductions ranging from consolidation and modernization of plant operations and cuts in the city delivery options. Many tough decisions have had to be made, not the least of which is a cutback of 15 million work hours in the first 2 months of this year, in addition to the 50 million work hours saved in 2008 and the 36 million work hours saved in 2007.

The Postal Service's 600,000 career employees have had to face serious cutbacks to ensure the agency's viability and we commend them for their sacrifice. Still, this may not be enough. Mr. Potter indicated in his testimony before the Senate panel that the Postal Service may have to reduce delivery service to 5 days a week, rather than the current 6-day schedule. The headline-grabbing reality served as a wakeup call to the American public and to those of us in Congress who represent them.

The U.S. Postal Service is currently the most dependable, expansive mail delivery system in the world. Ours is the only system that guarantees timely delivery to every address in the country 6 days a week without fail. That is why we must do all in our power to ensure that it continues to thrive.

Some tough choices will have to be made, including both short-term solutions like that proposed by H.R. 22, which would allow the Postal Service to use its reserve to pay employee health benefits to more long-term decisions such as cutting back work hours and service delivery. I expect that the leadership of the Postal Service will have to make some sacrifices as well, including Mr. Potter himself.

I want to thank you, Mr. Chairman, and I yield back.

Mr. LYNCH. Thank you.

The Chair now recognizes the gentlelady from the District of Columbia, Ms. Norton, for 5 minutes.

Ms. NORTON. I thank you, Mr. Chairman.

This is perhaps the real moment of truth for the Postal Service and for the Congress of the United States. We have sat with you, Mr. Chairman, before you became Chair, in hearing after hearing where we noted the decline of the Postal Service through, frankly, no fault of its own. Even if it were the most efficient corporation in the United States, it could not have been the same Postal Service it was when all of us were children, given competition from private carriers, and particularly, and perhaps most importantly, competition from other forms of communication.

The decline in the so-called volume of postal volume now during what we are politely calling a recession which has taken out jobs in 50 States, has to be seen on top of what the Postal Service was already experiencing. The Postal Service had been driven into many economic efficiency moves by the factors I have named. Today, I will be interested in what further can be done in efficiency. It is very hard to believe that the Postal Service, given what it was already up against, hadn't exhausted efficiencies.

I do note that the Postal Service is like other large American corporations, having to deal with health care. And I also note that health care was a major element in the take-down of the American industry that literally created the American middle class, the automobile industry. I think that somehow everybody has to look at that when it comes to this particular corporation. There is no question in my mind it could take it down. The question becomes what do we do to keep that from happening. There may be some temporary things we can do. We have to watch out for what we do. Something has to give.

I don't blame the Postmaster for talking about 5 days a week service. I know he doesn't want to do more layoffs. But if something has to give, we have to find out what it is if we want to remain a country that has a national postal service.

I thank you, Mr. Chairman.

Mr. LYNCH. I thank the gentlelady. The Chair now recognizes the gentleman from Virginia, Mr. Connolly, for 5 minutes for an opening statement.

Mr. CONNOLLY. Thank you, Mr. Chairman. I am delighted to be here today, and welcome, Mr. Potter.

I just want to note that obviously the Postal Service is struggling in this economy like everybody else and is struggling to try to make itself a more solvent organization. I am pleased to be a co-sponsor of H.R. 22, which if enacted we believe would save as much as $2 billion in retirement payments this year for the Postal Service.

I do want to stress, however, Mr. Chairman, that just as we have seen concern about issues like bonuses in non-performing companies or companies that can't meet their financial goals, I think the Postal Service has to look to itself in that regard as well. I would hope this hearing will examine that.

I also, as somebody who until 9 weeks ago was the head of a very large local government, I think about my own jurisdiction. The Merrifield Post Office, which serves all of northern Virginia, or most of northern Virginia, hours got changed with almost no communication to local governments. So I would hope that as we explore in this hearing the operations of the Postal Service we can also talk about improving communication with our local officials, so that if there are changes contemplated, there is an advance notification and the opportunity for some kind of dialog before those changes are effectuated and having to be absorbed and explained by local officials who had nothing to do with those changes.

So I look forward to this hearing, Mr. Chairman. I may be in and out because we are marking up the budget today in the Budget Committee. But I want to thank you, Mr. Chairman, for hosting this hearing.

Mr. LYNCH. Thank you. The Chair now recognizes the gentlelady from New York, Mrs. Maloney, for 5 minutes for an opening statement.

Mrs. MALONEY. Thank you. I just want to welcome the Postmaster General and express my support for the Postal Service and H.R. 22. Likewise I am in a markup in another committee, but I wanted to note their bravery through the anthrax attacks and their efforts to get the job done in rural areas and all across our country, and my support for working with you in this hearing and for more solutions to make the Postal Service more efficient and to be supportive of the workers and their important contribution to our country.

Thank you.

Mr. LYNCH. Thank you.

The committee will now hear testimony from today's witnesses. It is the committee policy that all witnesses are sworn in. I invite Mr. Potter to please rise and raise your right hand.

[Witness sworn.]

Mr. LYNCH. Let the record show that the witness has responded in the affirmative.

Welcome, Mr. Potter. Mr. John E. Potter, Postmaster General and CEO of the U.S. Postal Service was named 72nd Postmaster General of the United States of America on June 1, 2001. He currently sits on the Postal Service Board of Governors and is vice chairman of the International Post Corp., an association of 23 national posts in Europe, North America and the Asian Pacific.

Welcome, Mr. Potter.

STATEMENT OF JOHN E. POTTER, POSTMASTER GENERAL AND CEO, U.S. POSTAL SERVICE

Mr. POTTER. Thank you, Mr. Chairman, and good morning, Congressman Chaffetz and members of the committee.

It is an honor to be here representing the hard-working men and women of the U.S. Postal Service to discuss the financial challenges facing our great institution. We are working hard to serve America and we are proud of our accomplishments.

For example, in 2008, service and customer satisfaction reached record levels. Employee satisfaction hit an all-time high, as workplace accidents were at an all-time low. For the 5th straight year, the Postal Service was rated the most trusted Federal agency and 1 of the 10 most trusted organizations in America. We reduced our costs by over $2 billion.

Let me assure you that we are concerned about the future and we are investing in the future. We are modernizing our Web site, adding new automated equipment, introducing next generation bar codes to improve efficiency. And we are using the pricing flexibility from the Postal Act of 2006 to grow mail volume.

But despite these positive efforts, a diversion of mail to electronic communications and a severe contraction of the economy have left the Postal Service in a very precarious position. Over the years, first class mail volume has declined due to the diversion to the Internet. This has been somewhat offset by the growth in advertising and other mail. However, ad mail produces less revenue per piece than first class mail. This, combined with a growing number of delivery addresses, has caused our entire organization to focus on productivity to close the revenue gap. We have taken billions in dollars of costs out of our base and we have done that for the past 8 years.

None of us, though, anticipated the dramatic downturn in the economy. By the end of this fiscal year, mail volume is projected to fall by more than 30 billion pieces from 2007 levels, the equivalent of $12 billion of lost revenue. Our people have responded heroically. We are working together with our unions and management associations. We plan to reduce costs by $5.9 billion this year alone.

To make this happen, we have instituted a nationwide hiring freeze. We are consolidating operations, using fewer machines on fewer work shifts and fewer facilities with fewer mail carriers. We are eliminating thousands of administrative and supervisor positions and we are offering voluntary early retirement to 150,000 employees.

Despite these unprecedented efforts and based on current volume projections, we will come up approximately $6 billion short of breaking even this year. Even with a cash carryover of $1.4 billion, and an ability to borrow $3 billion from the Treasury, we will still run out of cash with approximately $1.6 billion in obligations that we cannot meet this year.

I know that the House cares very much about the Postal Service. That is why I am urgently requesting that you enact H.R. 22, introduced by Representatives John McHugh and Danny Davis of this subcommittee, and co-sponsored by over 200 Members of Congress.

H.R. 22 would permit the Postal Service to pay its share of health benefit costs for current retirees from our retiree health benefit trust fund, which today has a balance of $32 billion. The Postal Service contributes more than $5 billion to that fund each year. H.R. 22 addresses our critical cash-flow.

But we also need to be prudent and look ahead. Mail has helped build this great Nation, but even with the decline in mail volume, we remain a conduit for a trillion dollars in commerce. And a strong Postal Service, we cannot put our Postal Service at risk. But our law limits our ability to act and adjust to changes in mail use when it comes to pricing, delivery frequency, the number of post offices and the types of products we can offer. These restrictions will put our post at risk if we don't step up and change them.

The time for change is now. That is why I am engaging all our stakeholders, consumers, mailers, industry and employee groups, the Congress, the PRC and others, in a dialog about how we can keep the Postal Service strong. It will require structural changes to match our service levels with the changing demand. The demand for mail delivery reached a peak of 5.9 pieces of mail delivered to each address in 2000. Today we are delivering 4.7 pieces of mail.

Given this trend, I believe the Postal Service Board of Governors needs the flexibility to change delivery frequency from 6 to 5 days. This would help us reconfigure our operation in line with today's demand, keeping rates affordable. We cannot lose sight of the fact that our customers pay the costs of our services. We are not funded by congressional appropriations. We have to find the right balance between service and affordability and we have to do all we can to avoid having the burden of long-term retiree costs fall on taxpayers.

By taking the necessary actions today, I believe we can accomplish both. There is a path to success. I remain bullish on the mail. I am convinced that mail volume will grow as the economy grows. The mail is important to America. I am convinced it is a key to helping the economy grow. A viable Postal Service requires change. We are pushing the boundaries of change within the Postal Service and with your support, we can modify the law to assure a strong and bright future.

Thank you, Mr. Chairman. That concludes my remarks.

[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

MARCH 25, 2009

Good morning, Mr. Chairman and members of the Subcommittee. I appreciate the opportunity to speak with you. The Postal Service, which has served America for 234 years, is experiencing a very serious financial crisis because of the downturn in the economy. Today, I will be telling you more about our financial situation. I will explain how the Postal Service is working to address it. And I will be asking for your help through legislative change in two areas.

The first would involve a change in how the Postal Service funds retiree health benefits. This would provide immediate and significant relief for our financial needs, with that relief extending well into the future. The second change I am requesting would provide the Postal Service with flexibility in the frequency of mail delivery. This would address structural limitations that limit our ability to reduce costs.

We need your help because our actions, by themselves, will be insufficient to offset a declining financial situation. Mail volume is running 12 percent below 2008 levels. The gap between revenue and costs has become a chasm, widening each day. We are facing losses of historic proportions. Our situation is critical. The Postal Service is doing everything possible to manage costs, pursue growth opportunities, and provide the best service possible for our customers. The sheer magnitude and velocity of the forces undermining our finances, however, are overwhelming.

The Postal Service's precarious situation is a reflection of the overall weakness in the general economy and is not indicative of any lessening in the actual or perceived value of the mail. A quick look at our results in the years just before the economic downturn illustrates this. Mail volume reached a historic high of 213 billion pieces in 2006.

As the nation's economy stabilizes, our business will stabilize along with it. But stability, by itself, cannot be our goal. A stability based on today's conditions simply means that we have halted the slide. Success demands more than that. It requires that we create an environment that allows us to move forward from a position of financial security when economic conditions do improve, prepared to grow, prepared to make up lost ground, prepared to pay down our debt, and prepared to meet the renewed needs of our customers. I am confident that we can do that.

Assuming that we achieve our planned $5.9 billion in savings, the Postal Service is still projecting a loss of $6 billion in 2010. This follows last year's loss of $2.8 billion, and, in 2007, a loss of $5.1 billion. Mail volume is expected to plunge to only 180 billion pieces by the time we close our books on 2009 at the end of September. Declines are possible beyond that point. Looking ahead, and considering projections for the overall economy, we do not expect any near-term improvement. We anticipate continued volume decline and a loss of more than $6 billion for next year, based on the latest forecasts from Global Insight.

The Postal Service is taking strong and focused actions to remove $5.9 billion from our cost base in 2009. Our plans call for reducing an additional $3.8 billion in 2010. These actions follow reductions of more than $2 billion from our base costs in 2008, and over $1 billion each year beginning in 2002.

Despite the scale of these reductions, they are simply not sufficient to close the expanding gap between a declining revenue base and the costs of financing a network that was designed to deliver mail to America's 150 million families and businesses six days each week. Even in an extremely soft housing market, our delivery network must continue to expand to reach more than a million new addresses each year, adding to our fixed costs as revenue continues to decline.

By taking the right actions now, we can make it possible for the Postal Service to effectively manage through today's dire economic environment and emerge on a firm financial footing. As I mentioned, the Postal Service's efforts -- despite their unprecedented scale -- will be insufficient, by themselves, for us to simply break even. They must be accompanied by changes in the laws that govern our operations.

Those decisions must be informed by an understanding of the three key factors -- structural and external -- that are shaping our business results today.

First: the terms of our funding requirement for retiree health benefits, established by the Postal Accountability and Enhancement Act of 2006, has placed an unbearable strain on our finances. We simply cannot afford the current method of funding these benefits -- without a change, we will exhaust our cash resources.

Second: our revenue base has changed, and will continue to change, as demand for our products changes. This is reflected in plunging mail volumes due to the recessionary economy, and an ongoing shift in the ratio between lower- and higher-revenue-yield products.

Third: current law does not permit us to adapt our service offerings to a changing business environment. The Postal Service, which does not receive taxpayer subsidies, is required to operate like a business, but the law constrains us from taking the businesslike actions necessary to fully and properly align our institutional cost base with reduced and evolving customer demand. Having the flexibility to change delivery frequency will overcome one of our structural barriers.

Based on the law, the Postal Service will pay almost $70 billion from now through 2016 for retiree health benefits. For 2009, this consists of a payment of $5.4 billion to cover our share of the cost of benefits that current employees will receive after they retire, as well as a $2 billion payment for the employer's share of benefit premiums for current retirees.

That combined total of $7.4 billion represents more than 10 percent of our operating revenue -- 10 percent of the price our customers pay for every package, letter, catalog, newspaper, or magazine they send through the mail. This is a prohibitive cost at a time when our revenue is expected to decline by almost eight percent. And it is a cost that will continue to increase -- by almost $400 million each year -- ballooning to payments of $10 billion in 2016.

In fiscal year 2007, the first year of this payment obligation, mail volume was at more than 212 billion pieces and operating revenue at its highest point ever, $75 billion. We would have posted a profit of $1.6 billion before factoring in the financial impact of the Act, which ultimately contributed to that year's actual loss of $5.1 billion. Similarly, in 2008 -- operating in a more difficult business environment, with mail volume down 4.5 percent, our profit would have exceeded $2 billion without this payment obligation, rather than our actual loss of $2.8 billion.

Our long-term obligation for health benefits for current and future retirees began in 1971 and will extend at least fifty years into the future. Such short-term funding for such a long-term obligation is a departure from normal practices in both the private sector and in the federal government.

The Postal Service is the only public or private entity required to prepay health benefit premiums at these extremely high levels.

The current method of payment is not based on any actuarial requirements; rather, it was created by a provision that helped to eliminate concerns regarding the budget neutrality of the Postal Accountability and Enhancement Act of 2006. Previously, the Postal Service paid for these benefits on a pay-as-you-go basis, just as they are paid by our retirees themselves -- after retirement. As an employee retired, we would begin paying the employer's share of the benefit premium.

The 2006 Act created a Postal Service Retiree Health Benefit Fund, which now contains a balance of $32 billion, to prefund the employer share of premium payments for current and future retirees. The Fund's balance will increase this year, through our payment of $5.4 billion for future retiree costs, just as it will increase through our payments in subsequent years.

On January 6, 2009, Representatives John M. McHugh and Danny K. Davis, members of this Subcommittee, both of whom have a wealth of knowledge and experience in postal issues, introduced H.R. 22, a bill that would significantly ameliorate the tremendous financial pressures now being created by this provision.

H.R. 22 would expand the purpose of the Fund by changing the method by which we pay health benefit premiums for current retirees. Rather than requiring a payment of $2 billion this year, with growing payments over the next seven years -- separate and apart from our payment to the Fund -- the bill proposes that this obligation be paid from the Retiree Health Benefit Fund itself. The bill still requires that we continue our contributions to the Fund at the levels currently required by law. The fund will continue to grow to reach $71 billion through 2016.

We are grateful for the leadership of Representatives McHugh and Davis on this issue. We also appreciate the co-sponsorship of other members of this Subcommittee and over 200 members of the House of Representatives. This approach would allow us to narrow the gap between our revenue and costs by $2 billion this year, relief that is desperately needed. We fully endorse H.R. 22 as a reasonable and pragmatic response to a cost burden that, when combined with the other structural and situational challenges we are facing, inadvertently contributes to conditions that threaten to undermine the financial viability of the nation's postal system.

At the same time, by simply reallocating payments that we have already made, we can address a critical cash-flow issue without jeopardizing the benefits our employees have earned through a lifetime of service. Through the approach of H.R. 22, we can do that without any additional costs to our employees or to the American people. I ask each of you for your support of this important legislative initiative.

The second key driver of our trying financial situation is the changing demand for our products. Some of the change is short term and some is longer term. The most visible short-term change is the steep and rapid decline in mail volume as a result of the economic downturn. Businesses and consumers are spending less and mailing less. Industries that have been particularly hard hit by the recession, such as the financial, credit, and retail sectors -- including online and catalog sales -- have been, historically, among the largest generators of mail volume.

Our results so far this year dramatically illustrate the punishing business environment in which we are operating. By the time we end this fiscal year, mail volume will have fallen 32 billion pieces below 2007's figures. With average revenue of 38 cents per piece, that represents more than $12 billion in revenue decline.

In the first quarter of this fiscal year -- traditionally our strongest, due to the holiday mail surge -- volume was down 5.2 billion pieces from the same period last year. This was one of the few times in our history that we experienced a decline in holiday volumes. Quarter-one financial results show that revenue was down approximately $1.3 billion – 6.3 percent – from the same period last year. This drove a quarterly loss of $384 million.

In the first two months of Quarter 2, we experienced a net loss of $1.4 billion as a result of a volume decline of almost 17 percent compared to the same period last year. As we enter the third quarter of our fiscal year, consistent with the economy, we will have experienced nine consecutive quarters of accelerating volume declines.

Over the last decade, we have also been faced with more subtle, longer-term demand changes, no less significant than those being driven by the dynamics of today's economy. A revolution in communications has structurally changed the way America uses the mail. Despite many of the predictions on this subject, which held that electronic communications would almost completely supplant the use of the mail, the trend through most of this decade was strong and growing mail volume. This growth, which was significantly reversed only by a faltering economy, masked the gradually building financial pressure resulting from lower mailer demand for our most profitable products and higher mailer demand for our less profitable products.

Since 1998, there has been a steady erosion of First-Class Mail -- one of our highest-margin products -- as billings, payments, statements, and personal and business correspondence shift from the mail to electronic communications.

Over most of the same period, there was strong growth in our Standard Mail product -- one of the most effective advertising and sales channels in America. In 2005, Standard Mail volume grew to exceed that of First-Class Mail. Yet, while it continues to exceed First-Class volume, lower-cost Standard Mail produces only about half the revenue, overall, as First-Class Mail, and it is extremely sensitive to fluctuations in the economy. Standard Mail volume would have to double to generate the same revenue as First-Class Mail. The growth it has experienced, however strong, has been affected by the chill pervading virtually all corners of the marketplace.

The economic premise of our system, envisioned by the Postal Reorganization Act of 1970, was that ever-growing mail volume would produce the revenue necessary to support a mail processing and delivery network that must continually expand to serve a growing nation.

Even in an extremely soft housing market, our delivery network grew to reach more than a million new addresses last year alone. For more than three decades, that business model was at the core of the development of a self-supporting postal system, one that satisfied the statutory mandate that it break even over time, and one that has not received an taxpayer subsidy since 1982.

With a fundamental and continuing change in the mix of mail products used by our customers, it was clear that, in the long term, revenue growth would be unable to keep pace with fixed system costs and the new costs of necessary system expansion. Change was necessary. Congress, working closely with the entire range of postal stakeholders, enacted legislation in late 2006 that was intended to provide the Postal Service with product and pricing tools that would provide the flexibility needed to operate successfully in a more dynamic, competitive communications market.

By December 2007, barely one year into our efforts to implement the complex provisions of the Postal Accountability and Enhancement Act, this longer-term structural issue was eclipsed by the more immediate issue of volume losses of a magnitude we have not experienced in the 75 years since the Great Depression.

This leads to the third factor that has drastically undermined our financial well being: the very real limitations -- driven by law, tradition, expectation, and experience -- that prevent us from adjusting our service offerings to reflect today's significantly changed use of our products. We can no longer afford business as usual. That is why we are requesting a change in the law to provide us the flexibility to adjust our delivery frequency.

In asking for your support for this issue I recognize the very real need to engage our stakeholders -- consumers, mailers, and employees -- in the process of change. It is their Postal Service. They must understand why we are seeking this level of flexibility. They must understand not only how it may affect them, individually, but how it will help us to build a stronger and more secure mail system for all mail users, collectively. It is just as important that we listen closely to them, so we can continue to provide the best service possible.

This is a critical conversation and I have already begun to meet and talk with our stakeholders. I will continue and expand this effort. Today's hearing, in examining the precarious financial situation of the Postal Service -- and how we can address that situation -- is an important part of that communication effort.

The effects of the mail-volume loss on our network costs have been dramatic. In fiscal year 2000, our carriers delivered an average of 5.9 pieces of mail per day to every address they served, about 36 pieces per week. This year, that has fallen to 4.7 pieces, about 30 pieces per week -- a decline of about 17 percent. Over the same period, our delivery base has expanded by more than 11 million addresses. We are delivering less mail to more addresses, resulting in less revenue per address served.

Adjusting the number of delivery days from six to five would have the net effect of returning to an average daily volume of six pieces per delivery. With the same volume spread over a five-day service week, our fixed network costs could be reduced by almost 17 percent.

This level of potential savings is not possible within today's constraints. Through January, we have made tremendous progress in aligning our resources with a reduced workload. With mail volume down 11 percent, we reduced mail processing workhours by 13 percent. We have reduced retail workhours by 11 percent -- and we have done that without the need for across-the-board reductions in retail service hours.

We have not been nearly as successful in the delivery area, where workhours have been reduced by only 5 percent. That is because delivery workhours, unlike those of other operations, are predominantly fixed. Carrier travel time -- from the Post Office to the route, between addresses on the route, and back to the Post Office -- does not change in relation to mail volume. In fact, with most mail placed into delivery sequence before the carrier leaves the Post Office, the time spent making a particular delivery may vary little based on the number of pieces delivered to an individual address.

Delivery is one of our most labor-intensive activities. Unlike mail processing, it does not lend itself to technological substitution. Nor does it lend itself to staffing adjustments based on mail flow peaks and valleys or to fluctuating levels of customer demand during the course of a single day, a single week, seasonally, or over longer periods of time. Delivery remains our largest, single cost center. And with revenue per delivery continuing to decline -- due to fewer pieces per address and a change in the mail mix to lower-cost products -- our overall delivery costs grow proportionately larger. In effect, we are financing a level of service that exceeds a declining demand.

Recent independent polling suggests that our customers are generally amenable to a five-day delivery week. A USA Today/Gallup survey found that 57 percent of respondents see this as a preferred solution to the Postal Service's financial difficulties. Similarly, a Rasmussen Reports survey found that 69 percent of Americans indicated that they would prefer five-day-a-week service to other alternatives. The Postal Service is the only carrier that offers regular Saturday service -- and at regular prices.

Reducing delivery by one day per week could reduce costs by $3.5 billion annually. This offers a significantly higher cost benefit than any other single option for operational cost reductions. If we reject this approach, we rule out our largest cost-management opportunity at this time when we are facing such staggering financial pressures.

The demographics of our employee base also underline the importance of pursuing this option. Today, 162,000 of our employees are eligible to retire under regular rules. Within the next four years, that number will grow to 291,000. After that time, the number of employees becoming retirement-eligible will fall dramatically. There is no better time to reconfigure our service offerings and avoid a situation in which new workforce growth -- and its associated costs -- exceed current and anticipated future system needs.

Although the financial situation of the Postal Service is grave, it would have been even more untenable if it were not for the aggressive actions we have taken to protect the organization's viability. We recognize that, despite the sources of our financial distress, the Postal Service itself has the primary obligation to bring costs in line with revenue to the extent possible. We have been doing that and we will continue to do that. Those actions began long before we began to see the effects of today's economic distress.

For more than 200 years, the Postal Service had been a tradition-guided, rule- bound, risk-averse organization. With a monopoly based both on law and the practical fact that there was no real alternative to hard-copy postal mail delivery, there was no compelling need for the organization to change its approach.

That world ended as we neared the 21st century. By 1999, understanding that the old way of doing business would, ultimately, be unsustainable in a new, wired world, the Postal Service embarked on a journey of transformational change. The velocity of that change has increased every year as we pushed the limits of the possible within the constraints of law and regulation.

Over time, the effects of the structural shift in communications became increasingly apparent, requiring an acceleration of our cost-management activities. By 2002, we had embarked on a program that ultimately reduced our base costs by more than $1 billion annually. That included reducing our career workforce by some 140,000 positions – through attrition.

We set our sights on achieving previously unimagined efficiency in our operations. This resulted in eight consecutive years of strong productivity gains, resulting in billions of dollars of cost avoidance, and surpassing total productivity growth over the previous thirty years. These gains were disrupted only by the current, worldwide economic recession -- which slammed the brakes on our progress in building an even-more-financially sound postal system.

Our experience over many years has shown that mailing activity is a leading indicator of changes in broader economic cycles. Gauging the level of the economy's deterioration as we moved into 2008, we anticipated an extended weakness in our sales. With that in mind, we acted quickly to adjust our financial plans, doubling already aggressive cost reduction goals to $2 billion – a goal we not only met, but exceeded. This included a reduction of 50 million workhours, substantially mitigating our loss.

We have intensified our efforts this year. Throughout the organization, we are implementing plans that will eliminate another $5.9 billion in costs. We will build on that base, increasing it by $3.8 billion next year.

These initiatives include the reduction of an additional 100 million workhours in 2009 by pursuing even greater efficiencies in every corner of our organization. Our people -- in Post Offices, sorting plants, administrative offices, vehicle maintenance facilities, and on delivery routes -- understand what is at risk and they are doing an outstanding job of contributing to the goal of protecting the future of the mail system for the people they serve.

We have halted the construction of new postal facilities. The limited funds that are now available will be directed only to those sites with the most critical needs. This includes buildings badly damaged or destroyed by natural disasters, locations where we have lost our lease, or sites with safety deficiencies that cannot be abated by repair or alteration.

Working with the National Association of Letter Carriers, we recently concluded a historic agreement that helps us to improve the efficiency of our operations in the face of declining mail volume. The interim agreement establishes a new process for evaluating and adjusting delivery routes, resulting in a quickly implemented one-time adjustment to reflect workload loss, helping to achieve operational savings sooner than ordinarily possible. Ultimately, it will involve the evaluation of 90,000 city delivery routes. This agreement complements the savings that we will experience through adjustments to rural delivery routes through a separate process. These adjustments, however helpful and welcome, will still be insufficient to address the level of change necessary to our operational infrastructure.

Contracts with the two unions that alone represent almost 75 percent of our 652,000 career employees – the American Postal Workers Union and the National Association of Letter Carriers – do not expire until late 2010 and late 2011. We cannot wait until then to address what are pressing needs for change in the way we operate today. I know that our unions share our goal of a financially sound Postal Service and I have proposed to their leadership that we begin talks to create needed levels of workforce flexibility now, when they are so desperately needed.

We are also addressing administrative and management costs. We have reduced the authorized staffing complement at national headquarters by 15 percent. We are taking similar actions in the field, reducing authorized complement at our nine Area offices by 19 percent and by 15 percent at our District offices.

We are eliminating 6 of our 80 District offices, with their duties to be absorbed by surrounding Districts. We are eliminating more than 1,400 supervisory and management positions at nearly 400 facilities throughout the country. Affected employees will be reassigned to other vacant positions or they may take advantage of voluntary early retirement authority. We have also frozen executive pay at January 2008 levels.

Improved fleet management and better transportation and delivery routing will result in reduced fuel usage. With more than 200,000 vehicles, we will also benefit by the reduction in fuel prices from their record-high levels in 2008. We are reducing the number of vehicles that are used primarily for administrative purposes. We are also expanding energy efficiency to reduce energy use throughout our facilities. The drop-back in fuel costs has also had a positive effect on other prices that contribute to the consumer price index. This will result in far more moderate cost-of-living allowances for our union-represented employees.

The Postal Service, with a physical presence in communities from coast to coast, including 37,000 facilities, spends almost $15 billion on supplies and services each year, from air transportation to building rental, from motor vehicles to computer systems, from processing equipment to Priority Mail envelopes in our lobbies. We are working to renegotiate contracts with our suppliers to reflect our reduced needs and to obtain even better value for each dollar we spend. Across the organization we are also constraining spending in every area possible.

We are moving ahead with needed efforts to consolidate some duplicative mail-processing operations while maintaining service. The bulk of these operations occur at 400 large mail processing plants. These are separate and distinct from our network of local, retail Post Offices.

The first step in this effort involves the review of processing needs and capacities to determine which processing operations from multiple locations can be combined at a single, central facility. This helps to maximize operational efficiency and capitalize on the economies of scale offered by automated mail processing equipment. In most cases, consolidation involves only the relocation of some elements of the work performed at a particular sorting facility, with other operations unaffected.

Over the last several years, changing transportation and operational requirements have made it possible to withdraw operations from 60 of our 79 specialized Airport Mail Centers. Another 10 will be phased out this year. Closing these facilities avoids the high costs of leasing buildings on airport grounds.

The need for these facilities was reduced as new air transportation contracts placed more mail on the flights of dedicated shippers rather than commercial, passenger carriers and more mail was placed on less-expensive ground transportation. Throughout this initiative, whether moved on the ground or in the air, mail continues to achieve record service performance.

In seeking even greater operational efficiency through facility consolidations, we share information with our customers, our unions, our suppliers, and the communities potentially affected. We consider the effect on our employees and work through the contractual provisions that govern these activities. It is important that our decisions consider the interests of our stakeholders and represent a realistic response to the extreme financial pressures affecting us.

The primary interest of our stakeholders is a viable Postal Service capable of serving them not only today, but long into the future. Our consolidation activities contribute to this goal. Congress, in enacting the Postal Accountability and Enhancement Act, was clear in its expectations that the Postal Service operate in a more businesslike way than ever before. The Act underlines those expectations through provisions that address and encourage the creation of a more efficient network.

There is consistent, overall stakeholder agreement on the general issue of improved postal efficiency. However, that often weakens considerably when a specific change is proposed for a specific location. As we move forward, I ask for your understanding and your support of necessary actions that promote efficiency. Help us to build a stronger Postal Service able to serve our customers today and long into the future. We must have the latitude to manage effectively to achieve these expectations.

There are two ways of looking at our bottom line. One is to consider what has been lost and act to stem that loss. The other is to recognize the possibilities that have been created by that loss and work to achieve it. We see a silver lining where others see only clouds. That is why our plans go far beyond simply managing costs. Revenue growth that is based on business growth – not simply price increases – is a key element necessary for our long-term viability. This was one of the key purposes of the Postal Accountability and Enhancement Act. Its innovative provisions have altered, for the better, the way we develop, price, and market our products and services.

The recession may have interrupted our growth projections, as it has for so many other businesses, but the value of the mail is as strong -- and in some ways stronger -- than it has ever been. As we adjust our systems to take advantage of the opportunities created by the new law, we are increasing its value even more. Our customers may have pulled back in their spending for mail -- as they have in almost all areas -- but that is driven by reduced spending by their customers. When conditions do improve and they are ready to increase their investment in the mail, we will be ready to show them how we've changed, and how that change can work for them.

Consider this. While mail volumes have fallen -- across the board -- that has overshadowed another, more-encouraging development. We are seeing market-share growth in some product categories in both our mailing and shipping services.

Advertising mail, in particular, has been a strong performer in this regard for the last two years, steadily increasing market share as overall spending in advertising -- no matter what the medium -- has fallen by 20 percent. Advertisers are looking for a sure thing when their reduced budgets are expected to produce more.

Ad mail is targetable and measurable, like nothing else. That makes it effective and that gives it an edge. The same edge will position direct mail and other marketing mail for renewed growth. That will give the Postal Service an edge as the advertising sector begins to recover.

We have seen a similar, encouraging sign in our shipping services, where the Postal Service's products offer world-class levels of reach, performance, and reliability -- at some of the best prices in the business. While all package delivery companies have seen their business projections offset by a weaker demand for their services, preliminary data indicates that market share for our Priority Mail Service increased as we began our second quarter. Overall volume for this product is still down, but our strategy of value pricing -- pricing to sell -- is the right one.

And even though our First-Class Mail product will continue to experience erosion to other channels, there is real opportunity for growth above today's diminished volumes. As economic activity begins to return to more normal levels, we will also see First-Class Mail return to levels far higher than today's.

The Postal Service will not only benefit from the economic recovery, we will participate in the recovery. I am not suggesting that conditions will change overnight. We have a long, hard road ahead of us. But I am confident that when the economy does begin its recovery, the mail will be extremely well positioned to help our customers make the most of it. We have operated through the peaks and valleys of every business cycle since the earliest days of our nation. We understand perseverance, and we will be there for our customers.

That is why we are continuing to develop and implement focused and creative plans to build our business. They are based on the advantages offered by having a broad and well-differentiated product line and an entirely new approach to product development, pricing, and marketing.

Our approach includes discount prices for commercial users of Express Mail and Priority Mail, and a new pricing feature for larger users of these premium products. We streamlined our international products, aligning them more closely with our domestic products. Ease-of-use and value have been our watchwords in these efforts.

We created a new Mailing and Shipping Services group to develop and roll out new product and new pricing initiatives quickly and effectively. That's never been as important as it is now as competition for market share heats up in response to reduced customer spending.

When DHL reduced United States operations, we began a strong outreach effort to make the Postal Service the shipper of choice for former DHL customers. A dedicated sales force is promoting our expedited shipping services, which offer exceptional customer value.

A new pilot program with UPS offers consumers a convenient, new option to return UPS-shipped merchandise. With the new UPS service, a postal carrier picks up a customer's return package and brings it to the Post Office, where it's collected by a UPS driver. This builds on our popular-priced Parcel Return Service, which relies on the Postal Service's unparalleled "first-mile" network.

Similar arrangements with UPS and other shippers benefit from the Postal Service's "last mile" advantage, relying on the reach, the performance, and the price of our Parcel Select product for the last leg of many residential deliveries.

We are improving our website, *usps.com*, making it easier for online customers to access our service -- quickly, easily, and conveniently. A clean new look, easy-to-navigate features, and expanded functionality will make *usps.com* a more valuable growth channel than ever.

In January, we adopted a new price-adjustment schedule for shipping services –which includes domestic and international Express Mail and Priority Mail. This aligns our price adjustments for these products with the standard industry practice of annual, January price changes. All shippers can benefit by having every carrier's price information available at the same time each year.

In May, we will implement regular, annual price changes for our mailing services -- First-Class Mail, Standard Mail, Periodicals, Package Services, Special Services, and single-piece International Mail. Price increases will be capped at an average of 3.8 percent, at the class level, tracking growth in the Consumer Price Index, consistent with the provisions of the Postal Accountability and Enhancement Act.

Our cost growth has far exceeded the CPI during the relevant 12-month measurement period, with huge costs that are not directly reflected in the CPI. But because we cannot raise our rates beyond the cap, this will provide our mailers with a small cushion as they, too, struggle to do more with less. This element of our revenue gap will require us to stay even more-intensely focused on our cost-management program, but it can make it easier for some mailers to maintain levels of mail use that would not have otherwise been possible.

The Postal Service is a unique institution. While it must operate like a business, competing in a marketplace that includes some of the world's most respected and successful businesses, it must also fulfill an important public service role. That is a role we embrace.

We must serve every customer and every community. Rich or poor, from the biggest cities to the smallest towns, we must provide the same high level of service. We must provide the same access. We must make our services available – in both easy-to-serve locations and locations so remote they can only be reached by mule, by swamp boat, or by bush plane.

The Postal Service is today, and has always been, the link that connects every American – no matter who, no matter where – to every other American, for only the price of a stamp and an address. We cannot put this at risk

We are doing our best to manage through the immediate crisis. We have been adapting quickly as mail volume falls, matching workhours to a declining workload, and reducing costs in every operating and administrative unit. Doing the right things today will serve us well tomorrow. While they have embraced new communications technology, Americans still rely on the mail, and they trust it like nothing else -- more than 500 million times each day.

They expect us to be there for them -- and we will be. Without the mail, a vital piece of our nation's infrastructure, our nation would be the poorer. We cannot let that happen. That is why we are turning to you for help.

I come before you today with only one agenda – asking your support in preserving an effective, affordable Postal Service, capable of serving every American in every community, and one that remains an important economic driver for many years to come.

These are extremely challenging times – for the nation and for the Postal Service. As I have explained, we have done a great deal to preserve the future of our nation's mail system. But there is more to be done and we must do it together.

I have a tremendous amount of faith in our business. In my 31 years with the Postal Service, I have seen the conventional wisdom confounded time and again. Anybody who counts us out is making a mistake. I have seen the resiliency of our employees. I have seen their determination in the face of adversity. I have seen their pride in serving our great nation.

And I see, every day, the difference the mail makes. I see it strengthen the bonds among members of far-flung families, in good times and in bad. I see it connect people -- people of all backgrounds and people of all experiences -- through their common interests. I see it help build new and struggling businesses. I see it strengthen established businesses. I see mail as an important part of our shared future, just as it is an important part of our collective heritage.

With your help, we will return to the path of profitability, a path we were diverted from only by the gale-strength forces that pushed the strongest economy in the world off course. Your support of the Postal Service's requests I made will help us to create the firm financial base necessary to respond to customer needs that are very different today than they were a generation ago. I look forward to working with Congress and our stakeholders to do this.

Mr. Chairman, we may be down, but we are far from out.

I appreciate your time. I appreciate your consideration. And, on behalf of everyone who relies on the United States Postal Service, I appreciate your efforts to strengthen America's postal system. I would be pleased to answer any questions you may have.

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Mr. LYNCH. Thank you, Mr. Potter.

Let me begin the questioning. Before I do, we have invited Members to submit their questions in writing, for those who are unable to attend. I would like to enter into the record the questions for the record on behalf of Representative Jose Serrano before this committee. With unanimous consent, I will enter those into the record.

[The information referred to follows:]

QUESTIONS FOR THE RECORD ON BEHALF OF

REPRESENTATIVE JOSE' SERRANO

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

HEARING

"Restoring the Financial Stability of the U.S. Postal Service: What Needs to be Done?"
Wednesday, March 25th @ 10:00 a.m.
2154 of the Rayburn House Office Building

QUESTIONS FOR POSTMASTER GENERAL POTTER:

(1) In order to help move this country toward oil independence and help the USPS develop new cost savings and profit centers, and assuming that you receive adequate funding, is the Postal Service willing to conduct pilot tests for substantial numbers of fully electric delivery vehicles in 4-5 locations around the country? If these tests prove successful, will you be prepared to begin converting your fleet to electric LLVs?

Follow up/Alternative version: If you received funding from DOE or Congress, would you be willing to begin the process of replacing or converting your delivery fleet with electric vehicles?

(2) Has the Postal Service prepared any studies on the costs, maintenance and fuel savings, design issues, potential profit centers, appropriate geographical regions, additional green jobs, and a time frame for moving to electric LLVs?

(3) Could you please provide the Committee a report on those issues in the next 30 days?

(4) Has the Postal Service prepared any studies that quantify the carbon footprint of its last mile delivery network?

(5) Could you provide the Committee a copy of the updated study in the next 30 days? We'd also like to know what you foresee would be the challenges and opportunities for the Postal Service if a price were put on carbon, such as through the adoption of a cap and trade system.

(6) In October 2008, you started a "go green" campaign to "reduce energy use 30 percent by 2015" and said that the Postal Service was conducting detailed energy audits of 500 buildings. "More than 1 trillion BTUs of potential energy reductions already [had] been identified." Have you been able to implement those energy reductions?

(7) Can you get back to us about what kinds of changes can be made in Postal Service buildings and how much they would cost?

(8) The Comprehensive Plan says that the USPS is postponing replacement of LLVs by 7 years. Does the Postal Service have a plan for replacing LLV vehicles? Can we see it? What are the safety and maintenance considerations in extending the life of the vehicles?

II. QUESTIONS FOR USPS INSPECTOR GENERAL DAVID WILLIAMS:

(1) Has your office conducted studies in the past or is it conducting studies now on environmental issues, such as the efficacy of USPS' alternative fuel vehicles?

(2) So from your prior experience, are infrastructure and network planning important considerations in developing pilot tests for alternative fuel vehicles?

(3) Will you be sure to provide your input to the Postal Service for a report on electric vehicles, if Postmaster General is able to provide one for us? And also to follow up with us?

III. QUESTIONS FOR CHAIRMAN GALLAGHER OF THE USPS BOARD OF GOVERNORS:

(1) In order to help move this country toward oil independence and help the USPS develop new cost savings and profit centers, and assuming that the USPS receives adequate funding, is the Board of Governors willing to have the Postal Service conduct pilot tests for substantial numbers of electric vehicles around the country? If these tests prove successful, will you be prepared to approve the conversion of the USPS fleet to electric LLVs?

Follow up/Alternative version: If you received funding from DOE or Congress, would you be willing to begin the process of replacing your delivery fleet with electric vehicles?

Mr. LYNCH. Mr. Potter, let me get right to one issue that is probably uncomfortable for you and for myself as well, and that is the matter of your salary and compensation, let me broaden that out. There have been some reports in the press that when you dig into the facts, that there is not necessarily reflective of an accurate assessment of your compensation. But we in our districts, myself with a heavy postal population in my district, have been confronted with this, well, I will tell you exactly.

I was at the Stop and Shop the other night and an older gentleman, a retiree of the Post Office, confronted me, as my constituents are sometimes known to do, and said, let me get this straight, Congressman. You paid CEO Potter $800,000 to lose $3 billion last year. Couldn't we get somebody to do that job for less? That was basically how they laid it on me.

I tried to explain our position and yours, but I want to give you a full opportunity to do that. Given today's environment, and I am sure you are aware of the whole situation with AIG and bonuses and going to Merrill Lynch. In this environment, in these difficult financial times, can we justify, can the Postal Service justify your compensation package, which I would like you to clarify? I am sure it has been exaggerated, I have already looked at the numbers here. But I want you to basically tell us what your compensation package represents and how it is broken down. I want you to inform the committee of at least your side of the story.

Mr. POTTER. Thank you, Mr. Chairman.

First, let me talk about elements of this $800,000 plus number. The first element that I believe probably shouldn't be there in terms of compensation is the fact that I have a security detail, which is attributed as a revenue to me, or a pay to me, of some $66,000. That service is performed by the U.S. Postal Inspection Service. So that is an element of my pay.

My base pay as prescribed by law is up to 120 percent of the Vice President's salary. Prior to the Postal Accountability and Enhancement Act, it was much less.

Mr. LYNCH. Postmaster General, is there an historic reason why your pay was tied to the Vice President of the United States. I don't see any similarity in responsibilities. Not to reflect poorly on either one of you.

Mr. POTTER. I am just describing what it is. The rationale was the Congress's, not mine. I was not imploring people for a pay raise. The Board of Governors had asked the Congress for additional flexibility to hire and retain talent in the Postal Service. So again, by law my pay is $263,575.

Since, and as a result of me being a career employee at my age, every year that I stay I get 2 percent additional credit in the Civil Service Retirement System.

Mr. LYNCH. How long have you been in that system?

Mr. POTTER. I have been in that system since 1978. So almost 31 years. So each year that I stay, I get an extra 2 percent in my pay. In addition to that, since I am not 55 yet, every year I stay that is 2 percent of a penalty that would incur if I were to leave early. So automatically every year that I stay, there is a 4 percent growth in terms of my pension.

And the other thing that drives the pension is a 3-year high for employees. They take an average of your top 3 years' pay. And since I got such a steep increase in pay as a result of the law, it produces in terms of pension over the course of my life a value of some $300,000 plus.

Mr. LYNCH. I only have about 30 seconds left, and I have to hold myself to the same rule. The bonus. You have a statute that I reviewed that says your pay is basically equal to, your salary is equal to the Vice President's, $263,000 or something like that, and then I see you get $130,000 something in a bonus. Quite frankly, last year, the Post Office lost $3 billion.

Mr. POTTER. That was an incentive payment. It was tied to goals agreed to between myself and the Board of Governors. The things that drove the incentive pay were service performance was a major element. And obviously we set record levels. Employee satisfaction, accidents at record low, employee satisfaction at record high, customer satisfaction at record levels. And I think there was a recognition by the Board of Governors that I wasn't in control of the economy and that we did eliminate 50 million work hours.

Mr. LYNCH. All right. I am going hold myself to the same rule and I am going to yield and recognize the ranking member, Mr. Chaffetz, for 5 minutes for questioning.

Mr. CHAFFETZ. Thank you, Mr. Chairman, and thank you, Mr. Potter, for being here. My congratulations and hats off to the entire postal community for the great savings and efficiency that were accomplished under your watch and with the great work of literally thousands and thousand of others. So congratulations for that.

Obviously this Committee is Oversight and Government Reform. While we need to talk about some of the huge massive changes that need to happen in order to put the Postal Service back into the black, I do feel compelled to ask you about a report that was brought to my attention just a very short time ago. I need to ask you about this. On March 19, 2009, there was a report done by the Republican committee here that said, Friends of Angelo is the name of this report, "Friends of Angelo, Countrywide's Systemic and Successful Effort to Buy Influence and Block Reform." On page 38, paragraph 3 it says, "Fees were also waived for Postmaster General John Potter. Potter benefited from an encounter with Mozilo in 2003. Potter was in the process of arranging a 'complicated' bridge loan when he 'coincidentally' ran into Mozilo. Mozilo instructed Countrywide's Kay Gerfen to 'let Potter know that we/CW,' which I take to be Countrywide, 'will take care of it.' Mozilo instructed Perry to 'take one point off' Potter's rate and to charge 'no extra fees.' Potter was referred to Mozilo and/or the VIP program by former Fannie Mae Chief Executive Jim Johnson."

In an email that was written on May 21, 2003, sent by Kay Gerfen of Countrywide, it says "Coincidentally, Angelo just into Mr. Jack Potter (Postmaster General) and Mr. Potter will be calling on Friday. Angelo wanted to make sure you were given a heads-up to 'let Mr. Potter know we/CW will take care of it.' Also per Angelo, 'take one point and no extra fees, deal a little complicated, bridge loan . . .' Please let Angelo know as soon as you hear from Mr. Potter. Thank you."

In light of this, I need to ask if you knew about this, did you accept the loan and do you feel like you were given favor by Countrywide through this encounter?

Mr. POTTER. First, I do have a loan from Countrywide. I believe that the terms of my loan were the result of a good credit history and of my financial position and the fact that I was buying and purchasing a home and putting over half of the money down in cash. And the discussions were strictly between myself and Countrywide, they were all about the loan. There was no linkage to any expectations of official acts or anything to do with a relationship with any elected officials.

Mr. CHAFFETZ. My understanding is the Inspector General has started an investigation. Are you willing to cooperate with the investigation as completely as possible by turning over all documents, consent to an interview or deposition with the Inspector General's investigators, and are you willing to help and assist with making other people with knowledge of the terms of the loan available to the Inspector General's office?

Mr. POTTER. Yes.

Mr. CHAFFETZ. How much did you save by taking a discounted loan?

Mr. POTTER. Again, I think the terms of my loan were consistent with my credit history.

Mr. CHAFFETZ. What was the nature of your actually coming in contact, in fact, you were referred to Countrywide's VIP program by former Fannie Mae CEO Jim Johnson, correct? How did that come about?

Mr. POTTER. Well, at the time, Jim Johnson was the co-chair of the President's Commission on the U.S. Postal Service. So Jim Johnson was working with us as chairman of that committee during that period of time.

Mr. CHAFFETZ. And did Johnson indicate to you that you should expected preferential treatment and discounts from Countrywide?

Mr. POTTER. No. Johnson indicated to me that because I had, he and I had a discussion, he had overheard me having a discussion with somebody and he basically came up to me and said, congratulations, you are buying a house. I had told him at the time of the discussion that I hadn't closed yet, that I had made an offer. He told me that, we had a long discussion about how long I was going to work as Postmaster General, how long I anticipated being in the home. He suggested to me that I consider a 7/23 loan. He also suggested to me that I consider using Countrywide, which is a group that provided him with a loan.

Mr. CHAFFETZ. And you will cooperate fully, then, with the Inspector General's investigation?

Mr. POTTER. Yes.

Mr. CHAFFETZ. Thanks, Mr. Chairman.

Mr. LYNCH. The Chair now recognizes the gentleman from Illinois, Mr. Davis, for 5 minutes.

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

While I appreciate your purchasing a new house, let me try to get down to the Post Office and what we might be able to do about it. We know that we have serious problems. And we have gone over and over those. I appreciate the cost cutting approaches that you have developed within the system. I appreciate the proposals that have been made. I appreciate the approaches to streamlining the operations.

Of course, I still get people who complain that they don't get what they would hope that they could get, which leads me to the point of recognizing that whatever it is that we get, we have to pay for it one way or another. I am reminded of Frederick Douglass, who said he knew one thing if he didn't know anything else, and that is that in this world, we may not get everything that we pay for, but we most certainly will pay for everything that we get.

I am trying to, some of us believe that H.R. 22 is one way of effectuating some short-term fix for some of the problems that currently exist. Let's say if we for some reason were not as successful in passing this legislation, within the next 2 years what would you predict the Postal Service would be forced into or would have to do to try and make ends meet?

Mr. POTTER. Congressman, that is a very difficult question. The key for us right now is volume. I believe that we have to pull out all the stops when it comes to growing volume. I think that we have lost, for example, 20 percent of our advertising now in each of the last 2 months. I believe that is going to come back, because if you look at advertising in general, it is down.

So what we need to do is we need to get past this downturn in the economy, we need to understand how much of mail volume will come back. There is no doubt that some of the mail lost will not come back. We will have to step up our efforts to save money. We plan to save $5.9 billion this year. We have a plan to save another almost $4 billion next year. The reason that we can't do it all at once is because of the fact that it does take time to make adjustments in staffing.

I do think that we face, the most critical thing we face this year is we are going to run out of money. So we are going to have to decide which bill not to pay. I intend to pay the salaries of our employees. We may have to forego paying the Treasury part of what we owe for the retiree health benefit trust fund. We would then be faced with, again, the thing that we have put on the table is the notion that we can only cost cut but so much. Moving from 6-day to 5-day delivery is because our costs are, there is a variability in costs that we can manage. Fixed costs we cannot.

So this year we have volume that is down some 12 percent year to date. We have taken out 15 percent in our mail processing costs because of the variability in that operation. We have taken out 12 percent in our post office costs to match the decline in volume. But we cannot and have not been able to take it out of delivery costs. Because if you have the cost of going to every door every day, it is in a sense fixed. The only variable is how much time the carrier spends casing mail.

So that is the dilemma. And that is why we proposed and think we need to explore how do you take and make structural changes that will have minimal impact on the American public and the users of the mail but at the same time, enable us to lower our costs.

Mr. DAVIS. Let me just say that I appreciate your optimism, relative to the ability to grow volume. I just don't see how you are going to be able to do it. As a matter of fact, we are increasing the use of electronic communication as opposed to decreasing it. I wish you well.

Mr. LYNCH. I am sorry, the gentleman's time is expired.

The Chair now recognizes the gentleman from Indiana, Mr. Souder, for 5 minutes.

Mr. SOUDER. Thank you, Mr. Chairman.

Let me first ask a quick question on the, separate from the structural problems, isn't it, as far as the deficit that you are running in the relationship to income and so one, hasn't it always been true in the Post Office that the money is made right after a postal rate increase and you show profits and then toward the point where you are going to do a next postal rate increase you tend to show losses? Isn't that the historic pattern?

Mr. POTTER. That was the historic pattern. It was addressed in the Postal Act of 2006. The change that was made was we went to annual price increases, smaller annual price increases versus we were on a 3-year cycle of very large increases. So the law addressed that. A lot of customers are very concerned about what you just described, the fact that we had these peaks and valleys and there was major impact on the use of the mail in a year when we had double-digit price increases.

Mr. SOUDER. So, you are saying that the loss that you currently have is predominantly somewhat structural, but also the reason it is more severe is because you couldn't annually adjust because business dropped so fast?

Mr. POTTER. Well, exactly. And if you think about us as a service institution, versus manufacturing, in manufacturing, when demand goes down, what you end up with is a lot more inventory, a lot of cars in lots that were produced in the same productivity. In the service sector, you can't adjust service because the demand changes on any given day. And so we have been trying to chase the decline and demand and adjust service to those lower levels of demand. And so it created a gap. It is a productivity gap. We are constantly trying to bring that in line.

Where we have not been able to do it, as I said, is delivery.

Mr. SOUDER. I just wanted to make sure that the record understands that the correlation between income and loss is not exactly the same as it is in the financial institutions or in others because of what you just described, which is somewhat of a change. Right?

But there is a structural problem that Mr. Davis just referred to, and that is the whole change in the way people communicate and so on. I have two specific things I want to quickly run by you. One, probably the most, other than limiting a day of delivery, closing smaller post offices. It seems to me, which is also a jobs question, window access, but also a prestige question, coming from a small town myself. It seems to me, in the age of computer technology, as we look at the centers like in Fort Wayne, IN, where I am from, they are very automated, that we ought to be able to program to keep people's identity. Small towns are losing their schools, they are losing everything else. And this is just unbelievably political pressure, at least for the identity of smaller communities who get absorbed. I just would like your comment on that.

The second question is that as we watch daily newspapers collapse at an amazing rate right now, and as a former retailer myself, if you pull Saturday delivery and we lose daily newspapers, for example, R.R. Donnelly has a huge facility in my district. How do they get things to people in a timely fashion when weekends are the biggest sales period? It seems to me that as you structurally look at this, somehow merging some delivery systems, communications systems, if that means you have to deliver in the morning rather than later in the day, do newspapers have to adjust from a Sunday to a Saturday? Habits are nice and patterns are nice, but the technology is changing so much we could watch you getting hammered and restricted tremendously at the same time newspapers are going out. How we communicate and keep our structure moving is how we move goods in the United States.

Mr. POTTER. First let me address the question of community. Our systems, our zip code based code systems are strictly geography based. It is usually a five-digit zip code, geography based. But we have changed our systems to allow numerous names for cities, towns or geography within zip codes. So there is flexibility within our system to allow that. It is more rigid when it comes to zip codes, because of, we don't have an infinite amount of zip codes. We have to be careful when it comes to that.

Mr. SOUDER. Seven-digit wouldn't allow you to expand that?

Mr. POTTER. Well, there is the discussion. Right now we have nine-digit zip codes.

Mr. SOUDER. That is what I was thinking about.

Mr. POTTER. We could literally carve pieces of that out. As a result of that, we have enabled communities to use their community name as an alternate to what might be the name of the formal town. So we allow multiple names within a geographic area. But there are segments of the country where we are out of zip codes.

Now, regarding delivery, as I said earlier, we are reaching out to everybody, all the stakeholders. It is not a fact that we would eliminate Saturday. But we do need to have flexibility.

Mr. LYNCH. The gentleman's time is expired. The Chair recognizes the gentleman from Maryland, Mr. Cummings, for 5 minutes.

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

Mr. Potter, we recognized that there were certain delivery routes, such as those in more rural areas, we realize those apparently had to be contracted out. We are concerned with the more widespread implementation of that practice. Has the Postal Service expanded its contracting out of letter carriers, and if so, can you prove that it has resulted in cost savings?

Mr. POTTER. Congressman, we can prove that contracting out of delivery is less expensive than using Postal employees. We do have and have stopped contracting out delivery in city areas and in most rural areas. The reason is not because it is less expensive, but because of this downturn in the economy and the lack of volume. The bottom line is, right now we are in a position where we have too many folks.

Mr. CUMMINGS. In other words, you had too many folks that you were contracting out to?

Mr. POTTER. No, we have too many Postal employees. So today, we still have, despite the fact that we have a downturn in the economy, we have a growth of about a million addresses a year, over a million addresses a year. Those new addresses are largely being delivered to by career employees. We have an excess number of employees that we are downsizing. So it would make no sense in this time to begin contract out or expand contracting out.

Mr. CUMMINGS. Talk to me about this whole doing away of, we have talked about this before, doing away with delivering on Saturday. Is that something that is real? I have heard it before. Then it seems like everybody gets upset, and then you are going to hear about it for a while. Talk to me about that. I know before the Senate you again advocated for that change.

To be frank with you, and you know this, the public wants Saturday delivery, and what can we do to maintain it?

Mr. POTTER. First of all, let me assure you that being a career employee and coming from a Postal family, I did not make that request lightly. I took it very seriously. I am very concerned about the future health of the Postal Service. We are working very hard with our unions and management associations to try and streamline our operations. The real key here going forward is, do we have enough source of revenue to support the post. And we are looking at all options. We have been looking around the world to see how they are doing it.

Some places, posts are banks, and that is how posts are earning money to help pay for the services that are provided in terms of hard copy delivery. But we are precluded by law from exploring other forms of revenue. So I think if we put everything on the table, everything there is, including product choices, how we run our plants, that we might find a way to get there.

But the key, the overall key is that there is a decline in mail volume. If that continues, whether it is next year or 5 years from now, we are going to have to face the need to structurally change something. And the most obvious place, unfortunately, is in delivery.

Mr. CUMMINGS. What have you done to try to increase revenue? Anything?

Mr. POTTER. We have a number of things. One is, we have offered rates, and we have opened up our system to others to use our system for delivery. So our biggest, believe it or not, package customers are UPS and FedEx. Basically we will give them access to our system. We have click and ship, where people can get online at home, pay for postage, print out a label, put it on their package, we pick it up. We are offering pickup now service with FedEx, we have an experiment to do that.

In the ad category, ad mail area, we are offering and working with customers to come up with new pricing schemes to incent volume growth. Bottom line is we are making our products much more effective than they have been. We are adding a bar code, we are introducing a new bar code on mail.

Mr. CUMMINGS. Let me ask you this last question, because I want to obey the chairman's orders. This H.R. 22, do you consider that to be a solution? Is it a long-term solution? And what do you like so much about it?

Mr. POTTER. It is a short-term solution.

Mr. CUMMINGS. H.R. 22?

Mr. POTTER. H.R. 22. It is a short-term solution for us. It won't overcome the longer term issue that I just described. I like the fact that it is an 8-year bill and that we can plan for 8 years what our costs are going to be for retiree health benefits.

Mr. CUMMINGS. Thank you, Mr. Chairman.

Mr. LYNCH. The Chair recognizes the gentlelady from the District of Columbia, Ms. Norton, for 5 minutes.

Ms. NORTON. Thank you, Mr. Chairman.

Mr. Potter, the GAO, and I am going to read to you what it said, noted that you had made, you and the Postal Service had made unprecedented cost cuts over the years. But then it went on to say, given the growing gap between revenues and expenses, the USPS's business model and its ability to remain self-financing may be in jeopardy. I want to ask you now rather than later, because this creeping problem could creep the Postal Service out of existence, do you believe that the Postal Service should totally rethink its business model? Have you given any thought to that and the form it would take? And do you believe the Postal Service can sustain itself as a self-financing entity as the 1970 statute made the Service?

Mr. POTTER. Congresswoman, I believe that we can do that, that we can be a self-sustaining organization for a long time to come.

Ms. NORTON. On the present business model?

Mr. POTTER. Not on the present business model. I believe that we are going to have to make changes, whether that is the frequency of delivery, whether that is the type of products that we can offer. I think that everything has to be on the table, including the mix of our work force. We are not in a position today looking forward where we can sit still. The sooner we act, the better off we will be and the more viable we will be.

The biggest trap I think we have is that we don't act quickly enough and we create a financial burden——

Ms. NORTON. If I might ask, Mr. Potter, that is my problem about quickly enough. So you suggested we may have to go from 6 days to 5 days. It sounds like an incremental approach rather than a business model approach. If one looked at the entire business model, it might be that you came out not with, for example, going from 6 to 5 days. Who knows. But if everything is on the table, my question is, is it on the table, who is doing the rethinking of the business model? When can this subcommittee expect to get some evidence of thinking on a new business model?

Mr. POTTER. If that is an invitation we will gladly fill it.

Ms. NORTON. If not you, you surely wouldn't want people who are not ensconced in the business of the Postal Service like ourselves to be the first to come forward and take a hack at it. I use the word hack very advisedly. Because the moment anything gets cut, every Member of Congress, including those who most don't want to spend money on anything, will say, you sure can't do that in my community.

I looked at your press release. I asked you about 6 to 5 days, because again, that seems to me to be more of the same. Thinking it through in that way it seems to me dismembers parts of the body piece by piece rather than looking at the body and its core and seeing what can be left standing. In your press release of March 20th, you talk about aggressive steps to cut costs. You talked about offering another round of early retirement.

And then you spoke about positions that you expect to save funds from. Now, staff positions at the district level nationwide, 1,400 processing supervisor and management positions. Are these positions, are these layoffs? Will layoffs occur? Have they occurred?

Mr. POTTER. There will be a reduction in force, according to OPM.

Ms. NORTON. So there will be layoffs?

Mr. POTTER. At the end, there could be. But we hope to be able to offer everyone a job.

Ms. NORTON. Let me ask you about early retirement. Have Postal employees been quick to take early retirement when they see the condition of the Postal Service?

Mr. POTTER. We have had, I believe, some 9,000 people take advantage of the early retirement.

Ms. NORTON. How many were offered or expected to take early retirement?

Mr. POTTER. That was a little bit above what was expected. It was well over 100,000 people who were offered.

Ms. NORTON. It does seem to me if one is talking about big reductions that could come given the business model, let me just ask you, is there another round of early retirement that might be offered? If so, what kind of cost does that entail relative to keeping these people onboard?

Mr. POTTER. We have just opened up voluntary early retirement to all Postal employees through the end of this year. So when people are being told that their positions are eliminated, they have an opportunity to either seek a different position and/or they have the option of retiring if they are eligible.

Ms. NORTON. I think that is a very important thing you are doing in that way. I do think people know how to take care of themselves and they can see the business model just like we can and they know that you have been trying. If it is not done one way, it may do another way that really hurts the Postal Service. We have to keep as many people employed as we must have in order to deliver the mail.

Thank you, Mr. Chairman.

Mr. LYNCH. Thank you.

The Chair now recognizes the gentleman from Missouri, Mr. Clay, for 5 minutes.

Mr. CLAY. Thank you, Mr. Chairman, and thank you for conducting this hearing.

Mr. Potter, thank you for being here today. I understand that you are looking at a huge deficit within the Postal Service in the coming years. I understand the proposal to reduce service from 6 days to 5. What would be the savings to go from 6 days to 5? How much would that save?

Mr. POTTER. $3.5 billion.

Mr. CLAY. Annually?

Mr. POTTER. Annually.

Mr. CLAY. Annually. Is that right? OK.

How have your, in industries like the auto industry, labor and management have found a new-found friendship or relationship.

How is that relationship with the management and labor in the Postal Service? Does everybody, has everyone come to the table and said, OK, we know we are going to have to do some belt-tightening? Is that a pretty healthy relationship?

Mr. POTTER. I have always had a healthy relationship with our unions and management associations. We have been meeting on a regular basis now that we face this crisis. Everything is being discussed. It is on the table. We have made a number of changes. Probably the most prominent example is in delivery. We worked with the NALC to expedite changes in routes with the rural carriers. We have a count that is going on right now.

We have talked, at our last meeting, which was last Friday, we had a discussion and we were talking about enabling people to move from job to job more easily, because we have some pockets of need and some places were over-staffed. So we are working through to try and get at both efficiency as well as making sure we are accommodating employees.

Mr. CLAY. So the labor community understands what the Postal Service is confronted with and they are willing to work with you?

Mr. POTTER. Without a doubt.

Mr. CLAY. Wonderful. Are there any advances in technology on the horizon for the Postal Service to help reduce costs, and are there any new ideas to grow the business?

Mr. POTTER. We are deploying, as we speak, the next generation of flat-sorting equipment, which will enable us to put mail into walk sequence, flat mail, catalogs, magazines and over-sized envelopes into walk sequence for delivery. That will make that operation much more efficient. We are also introducing a next generation of bar code, which will enable us to actually count mail as it is sorted as opposed to accepting it. And again, it eliminates some steps and makes the mail more efficient for us to handle. And it will be more transparent to customers, so they will have a window into how we are processing the mail.

So there are a lot of innovations in terms of, that are on the table that are being implemented to get the Postal Service into the 21st century.

Mr. CLAY. Let me hear what you, if you could, is your wish list for a long-term fix to the retiree health benefit? What would that be?

Mr. POTTER. Well, if it was my wish list, I would like to just revisit this whole notion of the pace at which we pay into the retiree health benefit trust fund. There is no other organization I am aware of in America that has the requirement that we have. If we were under GAAP principles we would not be paying into this trust fund.

I understand the need to do it. But at a time when we are financially strapped, if this was the private sector, we would not make that contribution this year, we would pass on it. The payments that we are making on that fund are not tied into an actuarial kind of analysis. It was really kind of a holdover from payments that we were making into the Civil Service Retirement Fund.

So I would much prefer, I love H.R. 22, and I want it to pass. But if you had to step back, I think we should re-think the way we are paying into this and there would be more of a benefit for the Postal Service in the short run if we did.

Mr. CLAY. And your costs are higher than other Federal employees, about 10 percent higher?

Mr. POTTER. No, they are about the same, but we are the only ones that have that pre-funding mechanism.

Mr. CLAY. I see. Now, just as an informal survey that I conducted among Postal Service employees, they indicate to me that they would prefer to have the day that you eliminate the service would be Saturday and not Monday. I have to share that with you.

Mr. POTTER. I like my weekends off, too. [Laughter.]

Mr. CLAY. Thank you, Mr. Chairman.

Mr. LYNCH. I thank the gentleman.

Mr. Potter, because of the interest in all of the issues here, we are going to ask you to stay for one more round of questioning. Let me begin that by asking you, we are hearing your plan, which is, we are going to slash service possibly from 6 to 5 days at a significant burden to the customer. We are going to close post offices, we have already closed six administrative facilities. We are going to get rid of 150,000 employees. And then after all that, you are projecting we are going to lose $6 billion.

If that is the future here, if that is the future next year, do you think you deserve a bonus for that performance?

Mr. POTTER. My incentive is based on performance parameters that are agreed to with the Board of Governors at the beginning of the year. Based on where I stand year to date in terms of our financial position, I would not get a performance bonus this year or incentive payment this year.

Mr. LYNCH. OK.

Mr. POTTER. And I am working very hard, because I would just like to mention that all of our administrative employees, our managers, our supervisors, are tied into a national performance assessment program. Their pay, whether they get a raise or any kind of an incentive pay in any year is tied to the bottom line of the Postal Service. So I don't want to be cavalier about this, it is extremely important that we work hard to do well so that not that I can earn a performance incentive, but that those folks on the front line actually get a pay increase. I think that is a great motivating tool for our institution.

Mr. LYNCH. I understand. Just wanted to be clear on that.

Mr. POTTER. Thank you.

Mr. LYNCH. H.R. 22, I mean, the fact that it is sponsored by Mr. Davis of Illinois and Mr. McHugh of New York, two guys who I admire greatly and respect their opinion, I am inclined to be receptive of that. But I also looked at numbers that said if we do that, if we pay the premiums out of the trust fund rather than putting $5 billion a year into the trust fund, that down the line, not very long, 2017, we end up with $75 billion in unfunded liability for health benefits for my postal employees. I don't want to face that.

So are we on the same impression, that is what is going to happen under this scenario?

Mr. POTTER. H.R. 22 will have us continue to pay $5.4 billion to $5.4 billion into the trust fund each of the next 8 years. It relieves us of the burden of paying for retiree health benefits directly in each of those 8 years. The moneys come out of the trust fund. The trust fund will grow in each of those years.

After that point in time, there will be a determination around the requirements, the future requirements of the fund are. And those costs will be amortized, I believe, over a 40-year period of time. So I believe that the mechanism that is laid out in the current law and the proposal that is put forth by H.R. 22 has the double benefit of protecting our people as well as giving us short-term relief.

Mr. LYNCH. All right. Let me just say for the record, I am not there yet. I am open to it. I have seen some numbers that concern me about what is going to happen to my postal employees in 2017. And I don't want to be holding the bag to the tune of $75 billion for the health benefits stone cold, in 2017, looking at that problem.

Mr. POTTER. I would appreciate the opportunity to come back and talk about that.

Mr. LYNCH. Let's do that. The last thing is, I do have some familiarity with the Postal Service. I recognize that in your last early retirement incentive, it had no incentive, it was just an early out, voluntary early retirement. And you are looking to get rid of 150,000 people. That is not going to happen if you have the same plan you had the last time. You almost added employees in your early retirement program with no incentive.

Is there going to be any incentive for—look a the economy. Look at the economy. Do you think people are going to go out the door when everything is so precarious? I am just wondering, are you going to offer any type of incentive to any of these employees? I realize you have some employees who would not be eligible because of the importance of their positions. But will there be any attempt to offer any incentive to get people out the door?

Mr. POTTER. It is under consideration. But we have over 120,000 people who are currently eligible to retire. We also have 150,000 who will be offered voluntary early retirement. When we say that we are going to reduce 150,000 people, it is the equivalent of 150,000 people. That includes overtime. We have employees, non-career employees who we can let go. Today, as we speak, we are 30,000 fewer career employees than we were this time last year, 10,000 non-career. So we have the flexibility to do that. We have the flexibility to take our part-time flexible employees and only work them 4 hours every 2 weeks.

Believe me, there is enough flexibility in our system to accomplish what you describe. But that is not to say that every option isn't on the table and we wouldn't consider bonuses, incentives to go some time in the future. But we don't know that today.

Mr. LYNCH. OK, I am violating my own rule. The Chair recognizes the gentleman, Mr. Chaffetz, for 5 minutes.

Mr. CHAFFETZ. Thank you, Mr. Chairman.

A few years ago, the President's Commission on the U.S. Postal Service made a number of recommendations. One of those recommendations was to a postal network optimization commission, somewhat similar to a sort of a BRAC commission that was done on military bases. Is this something you are supportive of, something you want to see done? Why wasn't it done? With 34,000 postal facilities, is this something we should be doing and where is it on your list of priorities?

Mr. POTTER. The BRAC commission concept, as I understood it back then, was focused on our mail processing plant network. And it also probably could apply to our post office network.

The thing that makes us a little different than the approach in the BRAC Commission is that we have to serve every community in America. So we have to be in every location. Our plants have to be within a reasonable reach of each of our post offices. So there is, by its very nature, a network that exists. And it doesn't lend itself, in my opinion at the time, did not lend itself to some analysis at a national level.

So in effect, you could have it at the State and local level with State and local politicians. But not necessarily something that really made sense to me at the time.

Mr. CHAFFETZ. So do you think we are at the optimal level now or do you see——

Mr. POTTER. I think we are going to continue to evolve. I think there are a number of discussions that were talked about here today when it comes to the future of delivery. Well, to me, delivery is tied to demand. So if the demand today means that we go to every house 6 days a week, fine. Or if it is lowered, it goes to 5, at some point it might go to 3. I do think we need to evolve. I think our plant network has evolved and will continue to evolve. And we do and have been consolidating operations.

I am open to, if it is a BRAC commission or some other group coming in, taking a look at the data and making recommendations. We would look at them.

Mr. CHAFFETZ. So you are not doing anything internally right now to look at the consolidation?

Mr. POTTER. We are constantly looking at that.

Mr. CHAFFETZ. Constantly looking at that?

Mr. POTTER. Constantly looking at that. We are constantly closing facilities. As I said earlier, we are consolidating, moving mail from one facility to another facility where it makes sense. For example, less mail is put into mail boxes every day. So we have fewer facilities today that cancel mail and sort mail for the world than we did 10 years ago.

Mr. CHAFFETZ. Time is short here. You mentioned there are 150,000 employees nationwide that were given the opportunity to take early retirement. How many do you expect would actually take advantage of that opportunity?

Mr. POTTER. I would expect maybe in the neighborhood of 10,000 to 15,000.

Mr. CHAFFETZ. 10,000 to 15,000.

Mr. POTTER. But you also have 120,000 people who are eligible to retire and who will retire over time.

Mr. CHAFFETZ. Are you suggesting, are you taking a firm commitment to say, we are making a recommendation to move to 5-day service or are you just saying that is on the table at this point?

Mr. POTTER. What I am saying is that given what I know today that we have to make a structural change. The one that makes the most sense to me is to give the Board of Governors the flexibility to move from 6-day to 5-day delivery. I think that they will exercise their judgment on whether or not we need to move to that in its entirety, whether we would do that—as I said at the Senate, I had proposed to do that during our light volume periods. And that is where this whole thing began. One of the Senators asked me, does that mean that you are only asking for the summer period? I said, no, we want to have the flexibility given to the Board of Governors, people who are Presidentially appointed, Senate-approved, to make that change as necessary to assure the financial stability of the Postal Service.

Mr. CHAFFETZ. Do you believe that will be a permanent change?

Mr. POTTER. I think once made it would be, yes.

Mr. CHAFFETZ. Thank you, Mr. Chairman.

Mr. LYNCH. Thank you.

The Chair recognizes the gentleman from Illinois, Mr. Davis, for 5 minutes.

Mr. DAVIS. Thank you, Mr. Chairman. I won't take 5 minutes, because I don't believe that you can actually get blood out of a turnip.

Mr. POTTER. Am I a turnip? [Laughter.]

Mr. DAVIS. I think that you can slice it, you can dice it, you can puree it, you can saute it, you can squeeze it and you can tease it and you still end up with turnip juice.

But we were about to explore for a moment your optimism relative to the ability to grow volume. And I was saying that it was difficult for me to see any room or any possibility.

Mr. POTTER. Let me just say that the Postal Service is in a number of markets. One of the products that we have is an advertising product. When I say grow, I am talking about growing from where we are today. If 20 percent of advertising mail went away, which it has, and by the way, it is reflective of what is going on in the marketplace for advertising, if people now want to make investments in advertising, I think that mail is going to be a channel that they are going to consider. Prior to this downturn in the economy, our market share of advertising dollars, total advertising dollars that was spent on mail, had been growing. Why? Because people were looking to have the ability to target different customers. And they wanted measurability. And mail is very measurable.

So my belief is that as the economy comes back, advertising mail will grow again. Will it get back to the levels it was before the economy went down? I hope so. But I know it is going to grow beyond where it is today.

Likewise packages. Our package business is down. When I do a comparison of where we are versus the competition and look at the impact of the downturn in the economy on their revenues, we are very comparable. I don't think there is anyone in this room who doesn't think that as the economy comes back, our competition's packages and their volume won't grow. So I have faith that our market share will be maintained as volume grows.

The one area that we have a real problem is first class mail. It is transactional in nature, it is bill presentment, bill payment. Once someone goes online and begins to pay bills online, they are not going to come back to the Postal Service, because of the very nature of, once you have that happen, you are not going to do it. So when I talk about growth, that is what I am talking about, I am talking about those categories of mail where we have a natural strength in the marketplace. I believe that we will bounce back in those areas. Even first class mail, we were declining in first class mail about 3 to 5 percent per year in terms of volume. But we are down over 10 percent. And I believe that the difference between 3 and 5 and 10 is largely driven by the economy. When the economy comes back, we may seen an uptick in first class mail. So that is what I am talking about, growth. And I am talking about competing in certain sectors and growing our market share.

Mr. CUMMINGS. Well, let me thank you very much, because I, like Chairman Lynch, don't want to be left holding the bag in 2017, even if it is a mail bag. So I hope that we are indeed able to make these ideas work. I thank you very much, Mr. Potter, for your testimony.

Mr. LYNCH. I thank the gentleman.

The Chair recognizes the gentleman from Maryland, Mr. Cummings, for 5 minutes.

Mr. CUMMINGS. I am sitting here, I am thinking, I am just listening to you. And I am trying to make sure I am making heads or tails of this. Let's go to your salary. I am not going to beat you up on your salary, you don't have to worry about that. But the 66, you are telling me that $66,000 of your, what they say is your compensation, it is security, is that right?

Mr. POTTER. Yes.

Mr. CUMMINGS. What are they securing you from? Do they worry about you? Is that mandated?

Mr. POTTER. I can tell you when it started. It started when we were, after we came under attack from anthrax. And I was somewhere and my chief inspector got a call from someone and I think it might have been the Secret Service.

Mr. CUMMINGS. But certainly you don't pay taxes on that?

Mr. POTTER. No, but it is considered, for some reason, compensation.

Mr. CUMMINGS. And give me the other pieces of your compensation.

Mr. POTTER. The other piece is the salary, and then the other piece is I am a 31-year postal employee, and my 3-year high is going up because I got a salary increase. That is almost half of the money they are talking about, because they are projecting at my age I will live to 80 something, and here is how much money you will get over those years.

Mr. CUMMINGS. Let me go back to this. When we look at all the methods of communicating today, over the Internet and what have you, clearly, and you testified to this, that has cut a substantial amount of your business. Are we using, Mr. Potter, are we taking full advantage of our advances in technology within the Postal System? Are there things that we could do to cut our costs further? That is No. 1.

And No. 2, when we look at the whole idea of this Saturday service, and I can tell you, I would bet everything I have that is not going to happen, this cutting the Saturday service. So you might want to take that off the table.

But let me ask you this. Have we figured out which part of that is, I mean, how do you figure out your savings? In other words, is most of your savings from people actually going, our delivery people delivering the mail? I am thinking if the volume is still the same, I am trying to figure out, while they may be delivering Monday through Friday, if the volume is still the same, there is certain manpower that goes into preparing the mail to be delivered. I am just trying to figure out, how do you make that divide? What percentage? Do you follow my question?

Mr. POTTER. I understand exactly what you are saying. Today, over 90 percent of the mail that a carrier brings on the street, letter mail, is sorted by a machine into walk sequence. So they don't come into the office any more and case every letter. So we are down to the point where less than 2 hours of a carrier's day is spent in the office preparing mail to go out on the street. So that is the letter side.

We are automating the flat side. That is coming next. So when you look at the savings associated with not delivering mail on any day of the week, it is having over 200,000 people leave an office and go out on the street, driving to their delivery and then spending the day on their route.

We do recognize that some sorting that would have gone on the morning of the day that we eliminate will have to move to the next day. So we account for the fact that occurs. We also account for the fact in our cost savings that rural carriers, on the 6th day, the rural routes, excuse me, are covered by rural carrier relief folks, who make less money than our career people. So we recognize that the career people are the ones working 5 days a week.

Now, part of what drives us is what does the American public think. And there have been a number of surveys of the American public. When it comes to the future in mail, really we should be responding to the American public. What they are saying by the Rasmussen Poll and the Gallup Poll is that they would much prefer to have lesser frequency of delivery than they would pay additional postage, pay for the fact that our costs are going up because we are so labor-intensive.

Ultimately, that is who I think we have to respond to. So believe me, I don't take that step lightly at all. Again, I grew up in a postal family. I am not popular these days because I am out there talking about it. But if the choice is mail delivery in the future or no mail delivery, I think you have to say, let's make the changes so we can assure that we reach every home in America.

Mr. CUMMINGS. Thank you, Mr. Chairman.

Mr. LYNCH. The gentleman's time is expired. The Chair now recognizes the gentlelady from the District of Columbia, Ms. Eleanor Holmes Norton.

Ms. NORTON. Mr. Potter, I am particularly interested in the health care costs. I note again that you have proposed that over an 8-year period the statutory mandate that we imposed a few years back to pre-fund annuitants' health care should be relieved. Now, the GAO says that it would prefer 2 years but that either option, neither option may do much for the Postal Service. In what way do you think this would fix the problem, the overall problem of the Postal Service? And if not pre-fund it, how would you make up for the funding of the annuitants?

Mr. POTTER. Let me clarify again. This year, right now we are prepared to pay $7.4 billion into retiree health benefits. That is well over 10 percent of the revenue that we take in. So the relief that we are seeking is the $2 billion. We will continue to pay, according to that, and that is more money going into the trust fund that would come out to pay for the $2 billion that would come out.

Ms. NORTON. So you don't think it would have any effect then?

Mr. POTTER. I think the effect would be that the obligation for the Postal Service in future years, beyond 2016, will be greater for contributory retiree health benefits, than it is today. But I would say that we are paying too much today, that we are not paying a fair share, that we are paying much too much. So I think what is offered is——

Ms. NORTON. The GAO says 2 years so that we can rethink this notion. This goes back to my business model question. Do you think that we all need to sit down and think the entire model before jumping to one big cut like that, one big change like that?

Mr. POTTER. Personally, I believe that H.R. 22 has the short-term benefit of getting us through the year and enabling us to pay our bills. And it helps us in subsequent years to do that. I do think that you are on a parallel path, though, that we need that as well as the discussion that you just described about, we need to look at all our options, we need to come up with a plan and we need to execute it. Again, I think in timing, the timing of when we execute it is based on the anticipated demand for postal services.

Ms. NORTON. And I know we can't predict the future, and incremental death is a pretty terrible death. So again, I am looking for a way to deal with the problem, that is to say, short-term, yes. But then to look at its consequences. I hear what you are saying and understand it.

How green is the Postal Service? You do a lot of, perhaps as much as anyone in the country, traveling by motor. Would you tell us how you are conserving, if you are conserving fuel and how you are conserving it?

Mr. POTTER. First, when it comes to fuel, right-hand drive, we have changed our delivery routes to make sure that we have as many right-hand turns in there as possible.

Ms. NORTON. How often do you buy new vehicles?

Mr. POTTER. Well, we haven't bought vehicles in some 17 years.

Ms. NORTON. You haven't what?

Mr. POTTER. We haven't bought, we have a fleet, our fleet of vehicles is some 17 years old. We are very anxious to take that fleet, modernize that fleet and——

Ms. NORTON. So if one goes down, it is just down and you don't replace it?

Mr. POTTER. We have aluminum-body vehicles. We have added some vans to that fleet as deliveries have grown. But we bought a special vehicle——

Ms. NORTON. What fuel are those?

Mr. POTTER. Right now they are gasoline?

Ms. NORTON. Why?

Mr. POTTER. Because of the fact that, well, there are a number of reasons. But one of the reasons is that up until last year, we were limited in terms of alternate fuel vehicles that we could consider. Hybrids and the like we were not given credit for from the Federal Government. That law has since been changed.

Ms. NORTON. We are not giving credit for—what do you mean by not giving credit for?

Mr. POTTER. We were required to have a certain percentage of our fleet be alternate fuel vehicles. The definition of what is an alternate fuel vehicle was very narrow. We worked with the Department of Energy and with the folks up here on the Hill, Congressman Davis and others, to get that definition expanded so that we could consider other types of vehicles.

Right now we are testing, as we speak, hydrogen-fueled vehicles, gas-powered vehicles, natural gas vehicles. We are testing a number of different alternatives.

Ms. NORTON. Mr. Chairman, could I ask you if you would allow this witness to submit to you an inventory of the complement of vehicles they have now, based on precisely what form of fuel they use, so we can get a sense of that?

Mr. POTTER. I would also be proud to submit with that, Congresswoman, all of our activities in terms of going green. Because we have a very good racket, and I would like to do it justice by submitting that as well.

Ms. NORTON. Thank you very much.

Mr. LYNCH. I think we can work that out. I know that you did present a vehicle count inventory, but I don't think it was broken down as Ms. Norton would like. So perhaps you can jus look through that and get the information to the committee as soon as possible.

Mr. POTTER. We will be happy to do that.

Mr. LYNCH. OK, Mr. Potter, I have no further questions. I want to thank you for your attendance here and I wish you good day.

Mr. POTTER. Thank you.

Mr. LYNCH. As you probably heard, we have some votes currently on the floor. I understand there are at least three in this series. Which probably means we will not be back for about, at a minimum, a half hour, probably a little bit longer. Everybody is welcome to stretch your legs, and we will be back in about 30 to 40 minutes.

[Recess.]

Mr. LYNCH. This subcommittee hearing will now come to order. I want to welcome Ms. Gallagher and the Honorable Dan Blair as witnesses. It is the committee policy that all witnesses are to be sworn in. Could you please rise and raise your right hands?

[Witnesses sworn.]

Mr. LYNCH. Let the record show that the witnesses have responded in the affirmative.

The committee is pleased to welcome Ms. Carolyn Gallagher, chairman of the Board of Governors for the U.S. Postal Service. Carolyn Gallagher was named Governor of the U.S. Postal Service by President George W. Bush in November 2004. She currently serves as chairman of the Compensation and Management Resources Committee, and is vice chair of the Audit and Finance Committee.

The Honorable Dan Blair is chairman of the Postal Regulatory Commission. Mr. Blair serves as the first chairman of the 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 in December 2006 by the U.S. Senate and was designated chairman by President George W. Bush during the same year.

The committee would now welcome opening statements. Ms. Gallagher.

STATEMENTS OF CAROLYN GALLAGHER, CHAIRMAN, BOARD OF GOVERNORS, U.S. POSTAL SERVICE; AND DAN G. BLAIR, CHAIRMAN, POSTAL REGULATORY COMMISSION

STATEMENT OF CAROLYN GALLAGHER

Ms. GALLAGHER. Good afternoon, Chairman Lynch, Ranking Member Chaffetz and members of the subcommittee. Thank you for inviting me. It is an honor to be here.

The current economic downturn has hit our country with a speed and a depth that the Postal Service, like most other businesses, could not anticipate. The dramatic decline in mail volume over the past 18 months is simply outpacing the rate at which we can reduce our costs, given the tools available to us.

Adding to this unprecedented financial challenge is the requirement passed in the Postal Law of 2006 that the Postal Service make payments of $5.4 billion or more per year to fund future retiree health care obligations. If not for this payment, the Postal Service would have earned a profit of $2.8 billion in 2008, an exceptionally challenging year.

The Postmaster General and his team are responding quickly and decisively to these challenges. They are undertaking a range of efforts, including the elimination of work hours, major reductions in administrative overhead, and aggressive network consolidations that will eliminate almost $10 billion in the next 2 fiscal years.

Yet even with our best efforts, we will still come up short. Under current law, we cannot close the widening gap between revenue and costs and still finance today's service levels for this fiscal year. Despite our aggressive plan to reduce costs over the next 2 years, our projections show that we will still lose another $13 billion over that period.

The Postal Service has been a self-funded Government entity for more than 30 years, and we plan to remain so. Today, we respectfully request your urgent attention in providing the Postal Service, not with financial assistance, but with the flexibility needed to better align our resources and our responsibilities. Our first request is for a change to fund our retiree health benefit premiums from the retirement health benefits fund rather than from operating revenue. The Postal Act of 2006 requires an extraordinary obligation that no other Federal agency or private sector company has to meet. Maintaining the current accelerated payment schedule for future obligations and having to borrow money to do so when we cannot make ends meet today puts the Postal Service in an unnecessarily perilous position. It is like planning to add a new room to your home when the house is on fire.

We greatly appreciate the efforts of Representatives John McHugh and Danny Davis, who introduced H.R. 22, which would allow this funding change and save at least $2 billion per year for 8 years. We ask all members of this subcommittee to support this legislation. But even if H.R. 22 is enacted, we still forecast a loss of $9 billion over the next 2 fiscal years.

Therefore, additional and immediate action is needed. The Board agrees with management and believes that going to 5 day per week delivery is the best option for restoring our financial health and ensuring our long-term future. The volume of mail we are delivering no longer produces enough revenue to cover the costs of 6-day delivery to 150 million households and businesses. We need to adapt our network to reflect the changing demand for our products and services. Going to 5-day delivery, once fully implemented, could reduce costs by $3.5 billion per year and can be achieved without substantial impact on our customers and our employees. In fact, two recent public opinion polls show that the American people prefer the option of 5-day delivery over a significant increase in stamp prices.

Another critical element ensuring the long-term financial health of the Postal Service is strong and effective leadership. On this matter, the Governors are certain that the Postal Service has the right leader in Jack Potter. I welcome your request to address the issue of the Postmaster General's compensation package.

Our board formed a compensation and management resources committee 3 years ago, because we know how important it is to attract, retain and develop outstanding leadership for the Postal Service. Congress recognized this when it enacted a law requiring that executive pay at the Postal Service be comparable to jobs with similar responsibilities in the private sector.

In 2008, the Postmaster General's salary was $263,575, the amount permitted by Congress. In addition, based on his outstanding leadership in a very difficult time, the Governors awarded Mr. Potter a performance incentive of $135,041, which is deferred and will be paid in 10 annual installments after he leaves Postal Service employment. The balance of his compensation package includes the cost of Mr. Potter's security detail provided by the Postal Inspection Service and the estimated change in the future value of his Federal pension through the Civil Service Retirement System, based on his 31 years of service.

Mr. Potter has earned the compensation he received. The Governors believe his achievements in 2008 were both remarkable and unprecedented. Last year, the Postmaster General and his team reduced costs by over $2 billion, more than double what was planned, while still providing record levels of service to the American people.

The Governors have complete confidence in Mr. Potter. We need his leadership now more than ever to lead us through the crisis we face.

In conclusion, Mr. Chairman, I want to emphasize that our current financial situation is dire. The legislative changes we are requesting will not cost the Federal Government anything or require an appropriation by Congress. But they will allow us much-needed flexibility to meet our obligations and to adapt the Postal Service to a changing business environment.

Thank you, Mr. Chairman and members of the subcommittee. I would be happy to answer any questions.

[The prepared statement of Ms. Gallagher follows:]

BOARD OF GOVERNORS

UNITED STATES
POSTAL SERVICE

STATEMENT OF
CAROLYN GALLAGHER, 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

MARCH 25, 2009

Good Morning, Chairman Lynch, Ranking Member Chaffetz, and Members of the Subcommittee: Thank you for inviting me today. It is a great honor to be here representing the Board of Governors. We take our fiduciary responsibility and stewardship role very seriously and recognize that protecting the long-term financial viability of the Postal Service is our primary task. We welcome your assistance in achieving this important goal, especially now, when our entire national economy has been shaken, resulting in previously unimaginable reversals in mail volume and revenue.

As a result of this dramatic loss of volume and revenue over the last year and a half, the Postal Service is now facing a financial crisis. Today, I would like to discuss how the leadership of the Postal Service is working to respond to this challenge and ensure that we maintain our invaluable service to the American public and economy. I also want to address the legislative assistance we need from you and your colleagues to make sure the Postal Service has the operational flexibility it needs to be successful in regaining its financial footing for the future. Finally, I will explain the details of the Postmaster General's compensation package, as you have requested.

For 234 years, the United States Postal Service has served its mission of binding the nation together by providing universal service at affordable rates. Indeed, the Postal Service is a vital engine of our nation's economy. We are the leader of a mailing industry that represents close to 7.5 percent of America's gross national product and creates eight million jobs across the nation in thousands of large and small businesses, including printers, publishers, advertisers, logistics companies and many more. The mail is the conduit for approximately $1 trillion in commerce annually. In short, the mail drives American commerce and, in turn, America's commerce drives the mail.

Yes, Americans are gradually changing the way they communicate and use the mail, but that is a change we have predicted and have been addressing head on. Over the past seven years, the Postal Service has reduced certain costs by more than $1 billion annually in order to align our resources with the changing demand for mail. However, the current economic downturn has hit our country with a speed and depth that the Postal Service, along with most other businesses, could not anticipate. The dramatic decline in mail volume over the past 18 months is simply outpacing the rate at which we can reduce our costs, given the financial and operational tools currently available to us.

Adding to this unprecedented financial challenge is the requirement passed in the Postal Accountability and Enhancement Act of 2006 that the Postal Service make payments of $5.4 billion or more per year to fund future retiree health care obligations. In fact, if not for this payment, the Postal Service would have earned a profit of $2.8 billion in 2008, an exceptionally challenging year.

The economic recession first hit the Postal Service in the first quarter of fiscal year 2008, causing mail volume to plunge by almost 10 billion pieces that year, the largest drop in our history up to that point. At the same time, many of our costs rose significantly, led by increases in fuel and record cost-of-living adjustments to our union represented employees' wage rates. Fortunately, the Postmaster General and his team responded quickly and decisively to these challenges. They eliminated 50 million additional work hours, the equivalent of 25,000 employees, and reduced costs by over $2 billion, more than double their initial plan.

Most remarkably, while making these changes, the Postal Service was able to achieve a number of significant milestones. Last year, the agency reached all-time highs in customer service, employee satisfaction and employee safety. Last year, 93 percent of our customers rated the Postal Service's overall performance as good to excellent and we recorded 97 percent on time delivery for First Class Mail and set new records across all mail classes. And for the fifth straight year, the Postal Service was rated as the most trusted government agency by the Ponemon Institute.

Yet all of our projections indicate that last year's staggering loss of mail volume will be eclipsed in 2009 and possibly again in 2010. Mail volume peaked at 213 billion pieces in 2006. This year, mail volume is running at an annual rate of 180 billion pieces. That is a staggering decline of 15 percent or 33 billion pieces of mail, impacting all mail categories. Unless the rate of decline stabilizes soon, we would not be surprised to see annualized volumes as low as 175 or even 170 billion pieces in the next 12 months. To put this in perspective, each drop of 1 billion pieces generally amounts to a loss of $380 million in revenue.

I can assure you that the Board of Governors is working closely with management to identify every possible action to reduce costs further, including the elimination of significantly more work hours, major cutbacks in administrative overhead, aggressive network consolidations, and other measures that far exceed any changes we have ever made in such a short period of time. As far as the Board is concerned, nothing is "off the table." Extraordinary times call for extraordinary actions and Mr. Potter and his team are undertaking a range of efforts – which we strongly support -- that will reduce costs by $5.9 billion in FY 2009 and another $3.8 billion in FY 2010. The Postmaster General provided you with a more detailed review of these actions in his testimony.

Everyone at the Postal Service is pitching in and doing their share to help and I would like to express my deep appreciation to our employees, the hundreds of thousands of men and women who are doing what is necessary to continue to fulfill our mission during these trying times. Their dedication has proven, time and time again, to be the backbone of the Postal Service.

Yet even with the best efforts of the management and employees of the Postal Service, I am compelled to tell you that we will still come up short. We now need, and respectfully request, your urgent attention in providing the Postal Service with the operational flexibility needed to better align our resources and our responsibilities. The Postal Service has been a self-funded government entity for more than 30 years and we plan to remain so. But we need greater operational flexibility, not financial assistance, in order to do so.

Within the limits of existing law, we cannot close the widening gap between revenue and costs and still maintain today's service levels for this fiscal year. Despite our aggressive plan to reduce cumulative costs over the next two years, our projections show that we will still lose another $13 billion over that period.

Today, on behalf of the Board of Governors, I join the Postmaster General in asking Congress for specific legislation that will allow us to undertake operational adjustments that would help relieve our financial situation.

Our first request is for a change to pay our retiree health benefit premiums from the Postal Service Retirement Health Benefits Fund, rather than from current operating revenue. The Postal Act of 2006 calls for the Postal Service to amortize most of a long-term liability for retiree health care over a period of only 10 years. This is an extraordinary obligation that no other federal agency or private-sector company has to meet. Maintaining the current accelerated payment schedule for future obligations, and having to borrow money to do so when we cannot make ends meet today, puts the Postal Service in an unnecessarily perilous position. This is like planning to add a new room to your home when the house is on fire.

I am personally familiar with the history of this provision, having served on the President's Commission on the United States Postal Service, where it originated, although with an important distinction. Our final report, "Embracing the Future," which was the basis for many elements of the Postal Act of 2006, recommended that the Postal Service consider funding a reserve account for unfunded retiree-health-care obligations, but only to the extent that its financial conditions allow. The Board of Governors is in full agreement with that recommendation.

We are extremely appreciative of the efforts of Representatives John M. McHugh and Danny K. Davis of this Subcommittee, who introduced H.R. 22, which would allow the Postal Service to pay its share of contributions for current annuitants' health benefits out of the Postal Service Retiree Health Benefits Trust Fund. Passage of that measure would save us at least $2 billion per year for an eight-year period. We ask that all members of this Subcommittee give H.R. 22 their full support.

But, I am sorry to have to say that this alone will not be enough to ensure the Postal Service can continue to serve the American people for years to come. Even if H.R. 22 is enacted and we are fully successful in implementing our cost-savings initiatives, we forecast that the Postal Service could still lose $9 billion over the next two fiscal years. Therefore, additional and immediate action is needed.

The Postmaster General also requested that Congress eliminate the appropriations rider requiring the Postal Service to deliver mail six days per week, allowing us the flexibility to move to five-day delivery. The Board of Governors fully supports that request and believes structural change is absolutely necessary to return the Postal Service to financial health and ensure our long term viability.

Adjusting our delivery network makes good business sense given the falling demand for our products and services. On a daily basis, the Postal Service is delivering fewer pieces of mail to each address we serve. The reality is that the reduced volume no longer produces enough revenue to pay for the cost of six-day delivery to the 150 million households and businesses that make up our delivery network. And we are certainly not alone in this approach. Other transportation and delivery companies are actively managing their own networks to align resource use with changes in customer activity and demand. For our organization, this change, once fully implemented, could reduce costs by $3.5 billion per year and better balance delivery costs with mail volume.

As the Postmaster General said in his testimony, this action would also have the support of our customers, the American public. Two recent public opinion polls both demonstrate that the public supports this change, preferring this option to a significant increase in stamp prices. In fact, a survey conducted last month by Rasmussen found that 69 percent of our citizens support five-day delivery if needed to ensure financial viability.

And indeed, when properly planned and communicated, the change could be implemented without substantial impact on our customers and our employees. The Postmaster General has already started this discussion with our stakeholders and we will continue to listen to their concerns and develop a plan that will support the Postal Service's financial health and our customer's needs.

I can assure you that the Board of Governors does not take this request lightly. But we believe that, given the current crisis and the long term more structural change to the way Americans are using the mail, going to five-day per week delivery is the best option available to restore our financial health and ensure our long term future. So, at this pivotal moment in our history, we respectfully ask that you provide the Board as soon as possible with the flexibility to proactively align our delivery network to reflect the changing demand for our products and services.

Certainly another critical element in ensuring the long-term strength of the Postal Service is strong and effective leadership. And on this matter the Governors remain steadfastly assured: the Postal Service has the right leader in Jack Potter, and he is singularly qualified to face the incredibly challenging landscape before us.

I welcome the opportunity to address the issue of the Postmaster General's compensation package, as you have requested. Our Board formed a compensation and management resources committee three years ago because we know how important it is to attract, retain and develop outstanding leadership for the Postal Service, especially in these turbulent times. Congress knows this as well and, in fact, enacted a law that requires that pay for executives at the Postal Service be comparable to jobs with similar responsibilities in the private sector for precisely this same reason.

We have worked hard to develop a compensation plan that we strongly believe is in the best interest of the Postal Service, its customers and the American people. The Governors' compensation philosophy is simple: there should be a strong connection between individual executive compensation and performance on a number of dimensions, including reliable service, productivity, net income and customer satisfaction. Therefore, a portion of the compensation should be "at risk" and should be set to motivate continuous and long term improvement based on objective goals.

In 2008, the Postmaster General's salary was $263,575, the amount permitted by Congress in the Postal Accountability and Enhancement Act of 2006. In addition, based on his outstanding leadership in a very difficult time, the Governors awarded Mr. Potter a performance incentive of $135,041, which will be paid in ten annual installments after he leaves Postal Service employment.

The balance of Mr. Potter's compensation package includes the estimated change in the future value of his federal benefits through the Civil Service Retirement System based on his 31 years of service with the Postal Service, and the cost of Mr. Potter's security detail provided by the Postal Inspection Service.

Although we Governors are a diverse group with varying views on some things, we all agree that Mr. Potter has earned the compensation he has received. His achievements in 2008 were both remarkable and unprecedented given the magnitude of the challenges the Postal Service faced. When the effects of the economic downturn began to be felt in early 2008, Mr. Potter reacted quickly to the sharp and unexpected downturn in mail volume and revenue. The Postmaster General and his team reduced costs by over $2 billion, more than double what had been planned, while still providing record levels of service to the American people.

Mr. Potter has been an outstanding leader since his tenure began in 2001. He led the Postal Service through the events of September 11th, 2001 and the anthrax-related tragedies that followed a month later. After sharp declines in mail volume in the months after those events, he restored the public's confidence in the mail and led the Postal Service back to financial health, while continuously improving service. The Governors have complete confidence in Mr. Potter and we need his leadership now more than ever to lead us through the crisis we again face today.

I want to emphasize again that our current financial situation is dire. I assure you that the leadership of the Postal Service is doing everything within their control to reduce costs while maintaining service. However, without the immediate help of Congress, we will not have enough revenue to cover our costs and still provide the same level of customer service we are providing today. The legislative changes we are requesting will not be an expense to the federal government or require an appropriation by Congress, but they will allow us much needed operational flexibility to meet our obligations and to adapt the Postal Service to a changing business environment.

Despite the difficult situation we face today, I share the Postmaster General's faith in our business and his confidence that the Postal Service can return to profitability. The legislative changes we seek -- combined with the aggressive steps we are taking to match resources with workload, streamline operations and grow our business -- will position the Postal Service well for the future. With your help we can survive this crisis and evolve into an even stronger organization that is better positioned to continue to serve the needs of the American public far into the future.

I would like to thank this committee, and the many stakeholders of the Postal Service, who contribute their time, energy and interest on behalf of the organization. Thank you, Mr. Chairman and Members of the Subcommittee. I would be happy to answer any questions you might have.

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Mr. LYNCH. Mr. Blair, please proceed.

STATEMENT OF DAN G. BLAIR

Mr. BLAIR. Chairman Lynch, Ranking Member Chaffetz, Mr. Davis, thank you for this chance to testify this afternoon.

Today the Postal Service is facing dire financial difficulties. They are likely to worsen before they improve. The current economic crisis has substantially impacted Postal Service volumes and revenues.

The first quarter of fiscal year 2009 showed volume declines for all classes. First class mail declined an additional 7.3 percent and standard mail declined 11 percent. In all, total volume in the first quarter declined 9.3 percent.

This trend is continuing in to calendar year 2009 at an accelerated rate. Total mail volume in January 2009 is 16 percent below levels reported in January 2008. The Service reported it lost almost three quarters of a billion dollars in January as well.

We expect it to report a further deteriorating condition for February, with continued dramatic volume decreases as well as a significant decrease in revenues. Should double digit volume and revenue declines continue, Commission analysis shows a cash shortfall could be expected by the end of the fiscal year. Based on information given the Commission, the Postal Service projects a $12.4 billion net operating deficit for the fiscal year.

To address this situation, the Postal Service has identified internal cost savings, reductions of $5.9 billion for fiscal year 2009. However, further reductions are needed if the Service is to meet its payroll and other expenses.

To address this, the Postal Service has asked Congress for authority to reduce delivery days from 6 days a week to 5. Based on the Commission's universal service study, we estimate potential annual savings of almost $2 billion. However, this action carries the risk that customers may be harmed and some mailers may choose to mail loess or leave the mail stream altogether.

The Service has also sought relief in seeking suspension of its retiree health premium payments. This is the approach taken in H.R. 22. For fiscal year 2009, those payments would be almost $2 billion. However, more relief may be required to meet the Service's cash-flow needs this year, should current trends continue.

Determining the amount of needed relief begins in viewing the Service's debt ceiling and borrowing authority. Over the last 3 years, the Postal Service has increased its long-term debt from zero dollars in fiscal year 2005 to $6.5 billion through the first quarter of fiscal year 2009. The Postal Service has a $15 billion debt ceiling and may increase their debt load no more than $3 billion in any 1 year.

Borrowing against its debt ceiling and suspension of the retiree health benefit premium will likely prove insufficient to make up for the cash shortfall. Congress should review the required $5.4 billion payment required to pre-fund retiree health benefits. This payment could be suspended in part or adjusted in an effort to the Service remains financially viable.

The Postal Service can raise additional revenues from rate adjustments. Last week the Commission approved the Service's rate increase request to adjust postal rates by 3.8 percent. These adjustments will take effect May 11th. This amount is an inflation-based increase as intended by the Postal Accountability and Enhancement Act. Should current inflation trends continue, the price adjustment for 2010 will likely be less than 1 percent.

Other cost reduction measures must be considered as well, but these impact difficult policy areas where Congress has expressed, at least in years past, a desire for the maintenance of the status quo.

The Commission's role is to provide transparency in the postal financial operations. I hope today's testimony sheds some light on the tough choices in helping the subcommittee evaluate the Service's financial situation.

[The prepared statement of Mr. Blair follows:]

Postal Regulatory Commission Chairman Dan G. Blair

Statement before the House of Representatives

Subcommittee on the Federal Workforce, Postal Service,

and the District of Columbia

Wednesday, March 25, 2009

Chairman Lynch, Ranking Member Chaffetz, and members of the Subcommittee, thank you for the opportunity to testify at this timely hearing. Today's hearing is intended to examine the U.S. Postal Service's financial stability along with strategies to reduce costs and improve efficiency. The Postal Regulatory Commission serves as the Postal Service's primary regulator and our role is to provide transparency on financial operations, pricing policies, and delivery performance to Congress, stakeholders and the general public.

Today, the Postal Service is facing dire financial difficulties that are likely to worsen before they improve. The current economic crisis has substantially impacted Postal Service volumes and revenues. For example, the financial sector, which has suffered serious dislocation due to the recession, accounted for approximately 15 percent of the U.S. Postal Service operating revenues according to the Postal Service's *2008 Annual Report*. The economic downturn comes on the heels of continued diversion of single-piece First Class Mail to e-mail and electronic bill payments. The cumulative result of these events has been the most severe volume declines since the Great Depression and significant financial losses for the Postal Service. Postal Service data show volume declines for every domestic class of mail in FY 2008 with First-Class Mail volume declining almost 5 percent. The first quarter of FY 2009 showed continuing volume declines for all classes. First-Class mail declined an additional 7.3 percent and standard mail declined 11.0 percent. In all, total volume in the first quarter declined 9.3 percent.

This trend is continuing into calendar year 2009 at an accelerated rate. Total mail volume in January 2009 was 16 percent below levels reported in January 2008. Further, the Service reported it lost three-quarters of a billion dollars in January 2009. We expect further deterioration in February with continued dramatic volume decreases as well as a significant decrease in revenues. While the Service has taken action to curtail workhours dramatically, it is expected to report a substantial operating deficit for February.

Should double digit volume and revenue declines continue, Commission analysis shows a cash shortfall could be expected by the end of the fiscal year.

The Postal Service has indicated to the Commission that it would suffer a net loss before cost savings of $12.4 billion by the end of this Fiscal Year. To address this situation, the Postal Service has identified internal cost savings of $5.9 billion in FY 2009, leaving a net loss after cost savings of $6.5 billion. Just last week, the Service announced it will close six out of 80 district offices, eliminate 521 management positions across the country, and offer early retirement to nearly 150,000 employees nationwide. Administrative staffing will be reduced by 15 percent in the remaining 74 districts and more than 1400 mail processing management positions will be eliminated in nearly 400 facilities around the country. The Postal Service has said these difficult steps are necessary to address this fiscal crisis. However, these reductions alone are insufficient if the Postal Service is to meet its payroll and other expenses.

The Postal Service announced last month its intent to seek legislative authority to reduce mail delivery to households from six to five days. In the Commission's *Report on Universal Postal Service and the Postal Monopoly,* issued in December of 2008, we determined that if the Postal Service were to make this service reduction, it could save a potential $1.9 billion annually.

Reductions in service, however, carry potential risks. The Commission's Universal Service Report recommended that the Postal Service assess how major mailers might react to such a change in service before the Postal Service implements this type of reduction.

Current annual appropriations language prohibits the Postal Service from reducing mail delivery from six days a week. Therefore, any proposals to change the frequency of mail delivery must be approved by Congress. The appropriations language also places restrictions on the closing of small and rural post offices. In years past, Congress has expressed support for maintaining the status quo in other areas where potential cost savings could be realized. Congress may want to revisit these legislative limitations if it determines that delivery and service reductions are necessary to ensure the future financial viability of the Postal Service.

Congress may also wish to consider raising the Postal Service's total debt limit as another means of addressing the Service's financial situation. However, additional debt would have to be paid back with interest. Currently, the Postal Service has a $15 billion debt ceiling and may increase its debt load no more than $3 billion in any one year. Over the last three years, the Postal Service has increased its long term debt from zero in FY 2005 to $6.5 billion at the end of the first quarter of FY 2009. If the Postal Service utilizes its full borrowing authority for an additional $3 billion this fiscal year, the outstanding shortfall would be $3.5 billion.

In considering strategies to address its financial viability, the Service is seeking legislative relief through an adjustment to its retiree health benefits premium payments. Unlike other federal agencies, the Postal Service is required by law to fund the cost of health benefits premiums for both current and future retirees. The Postal Accountability and Enhancement Act (PAEA) requires the Postal Service to pay into the Postal Service Retiree Health Benefits Fund regularly scheduled payments through 2016. As of September 30, 2008, this fund had a positive balance of $32.6 billion.

The total payment for FY 2009 for retiree health benefits is estimated at approximately $7.4 billion. This includes the scheduled payment of $5.4 billion, as mandated by the PAEA, and an estimated $2 billion for current retiree health benefit premiums.

Given the serious financial difficulties facing the Postal Service, an adjustment to the Service's health benefit payment schedule would appear to be the most pragmatic approach in providing relief for the short term. In principle, prefunding these liabilities is good public policy. However, meeting current obligations and payroll must take precedence.

Options for relief can be fashioned by considering two variables – the dollar amount and duration of the relief.

Representative McHugh's legislation, H.R 22, takes the approach of suspending the retiree health benefit premium payment for current employees for eight years. H.R. 22 has 195 cosponsors. If Congress grants the Postal Service authority to suspend its $2 billion payment in FY 2009 for current retiree health benefit premiums, the resulting savings still would not completely resolve the Service's immediate problem. A potential cash flow problem could result at the end of this Fiscal Year and the outlook for FY2010 is even bleaker.

In light of the continuing deterioration of Postal finances, a broader approach, such as adjusting or suspending in part the scheduled payment of $5.4 billion into the health benefits fund, should also be considered.

At a January hearing before the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, I testified that a two-year relief approach should be considered. The two-year approach provides Congress the oversight opportunities to re-examine progress made by the Postal Service in addressing its financial condition and the need for continued relief.

If Congress were to adjust or suspend the scheduled payments, it would need to ensure the sustainability of the fund to address the long-term health benefit liabilities.

Another possible approach would be increasing the direct appropriation from Congress to cover additional operating expenses. The Postal Service is supported almost exclusively by ratepayers and generated nearly $75 billion in ratepayer revenues in FY 2008. Last year, the Service received $103 million through direct appropriations, covering free mail for the blind, overseas voting, and a reimbursement of prior revenue foregone authorized by the Revenue Forgone Reform Act of 1993.

This challenging financial environment comes at a time that the Commission is working diligently to implement key provisions of the PAEA. The statute directed the Commission to develop a modern system of rate regulation implementing the inflation-based rate cap system and we issued that order establishing the new system in October 2007. The statutory framework contemplated the Service seeking annual adjustments for market dominant products with the increase for each class of mail kept equal to the rate of inflation, as determined by the Consumer Price Index.

In February 2009, the Postal Service filed with the Commission its plan for rate adjustments, effective in May, subject to the inflation-based rate cap. As the members of this Subcommittee know, a key goal of the 2006 Act was striking a balance between the Postal Service's need for additional flexibility with the public and mailing community's need for increased rate stability.

Last week, the Commission issued its review of these price adjustments and found that the increases for market dominant products were on average, within the applicable 3.8 percent price cap for each class of mail. The rate adjustment includes a 2 cent increase in the price of the First-Class stamp, from 42 to 44 cents. Should current inflation trends continue, the price adjustment for 2010 would likely be less than one percent.

In addition to inflation-based adjustments, the Act allows the Postal Service to file an "exigent" rate case to address revenue shortfalls. This authority allows the Postal Service to raise its rates for market dominant products higher than the CPI-based rate cap imposed by the PAEA if it can demonstrate "extraordinary or exceptional circumstances." The Postmaster General has indicated his desire to avoid filing such a case for fear that raising rates above inflation would likely drive more mailers from the system and further diminish future postal volumes and revenues.

Other strategies for improving the Postal Service's financial outlook include examining ways to grow volume and position the Postal Service to take advantage of market opportunities once the economy begins to recover. The Act granted the Postal Service additional flexibilities in seeking negotiated service agreements, as well as new and experimental products. In our FY 2007 compliance determination, the Commission found that NSAs contributed $2.5 million in net benefit to the Postal Service's finances.

At a January hearing before the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, I raised the Commission's strong concern about the lack of publicly available, monthly financial reports by the Postal Service. The Act granted the Commission new regulatory power to ensure the financial transparency of the Postal Service. The law also requires the Service to comply with Securities and Exchange Commission-like reporting requirements.

During this time of financial difficulty, timely and sufficient - as well as accessible information on operating results - is crucial. Publicly available monthly reports - to Congress and the Commission - will help keep postal stakeholders abreast of changes in trends and allow prompt reaction to changing circumstances. I firmly believe that, given the tenuousness of the Postal Service's financial situation, more – not less – financial transparency is called for.

I am pleased to report that the Postal Service publicly filed with the Commission its Integrated Financial Plans for Fiscal Years 2008 and 2009 on February 27. The Integrated Financial Plans detail the operating budget for the fiscal year, including the economic assumptions used to develop the budgeted data. Also included are the Capital Investment budget and the fiscal year's financial plan for operations and capital investment.

Additionally, on March 3, the Postal Service filed with the Commission a monthly financial statement for January 2009, which is now available on our website. The monthly report contains basic income statement information and compares the current month data with their operating plan and with the same period last year. It also reports the same information on a year-to-date basis. In addition to an income statement, the report also presents volume information by class, a breakdown of expenses by category, and a report on total workhours used. While we recognize that the information provided in the monthly statement is not audited and can be subject to revision, we feel it will provide stakeholders a clearer and more current picture of the Postal Service's financial status. We will continue to discuss with the Postal Service additional reporting requirements on some of the backup account data for the monthly statements.

Let me also take this opportunity to update you on other Commission activities. For 2009, the Commission's regulatory agenda remains very active. We have finalized or are about to finalize three orders in rulemaking proceedings designed to implement important provisions of the PAEA. The Commission recently issued a second notice of proposed rulemaking to implement procedures governing the degree of confidentiality to accord information filed with the Commission by the Postal Service and third parties. In the next few days, we expect to adopt rules addressing the efficient and expeditious processing of complaints and to approve final rules prescribing the form and content of periodic reports the Postal Service is required to file with the Commission under the law.

The Commission is wrapping up its review of the Postal Service's Annual Compliance Report (ACR). The Commission's review of this report will address compliance of rates and fees under applicable standards, as well as whether service standards in effect during the period covered by the Fiscal Year 2008 ACR were met. This determination focuses on activities of the prior Fiscal Year. The Commission's Annual Compliance Determination will be posted on our website March 30.

This concludes my written statement and I appreciate this invitation to testify. I welcome the opportunity to answer your questions.

Mr. LYNCH. Thank you very much for your testimony.

Let me begin, I am going to recognize myself for 5 minutes.

Ms. Gallagher, let's start off with Mr. Potter's compensation. I understand you are the chair of the compensation committee, is that correct?

Ms. GALLAGHER. I was chair of that committee until I became chair of the board.

Mr. LYNCH. When did that happen?

Ms. GALLAGHER. In February, early February.

Mr. LYNCH. OK, so with respect to Mr. Potter's previous salary, the 2008 salary, you were?

Ms. GALLAGHER. I was chair of the compensation and management resources.

Mr. LYNCH. I have been reviewing Mr. Potter's record. He has had some good years. I just want to point out, in 2007, the Post Office lost $5 billion. In 2008, they lost $2.8 billion. And now, based on testimony here, in 2009, we should expect losses somewhere in the range of $9 billion to $10 billion unless we do something drastic and bite into those losses with significant cuts in service.

Now, there are a couple of statutes that bear on the compensation of the Postmaster General. One is an earlier statute that ties his compensation to the salary of the Vice President of the United States. He is to earn no more than 120 percent of what Joe Biden earns.

There is another statute that you referred to passed in 2006 that indicates that the salary should be comparable in some way with those in the private sector. Can you tell me how we ended up paying all this money to Mr. Potter in 2008 when, what was the thinking of the compensation committee when we lost $3 billion and we gave Mr. Potter an entire package, now, I understand some of that is his pension, of about $800,000?

Ms. GALLAGHER. I would be happy to, Mr. Chairman. First, Mr. Potter's salary, the amount that he actually was paid in 2008, was $263,000. That was the limit that was set by Congress in the Postal Accountability Act of 2006.

In addition, the board did award Mr. Potter a performance incentive award of $135,000, based on what we believed was remarkable and unprecedented achievement. In the face of a very difficult year, falling volumes because of the recession, Mr. Potter reacted quickly and decisively. He and his team reduced work hours by 50 million work hours. They saved the Postal Service over $2 billion, more than double what was originally planned.

While doing those changes, they also were able to provide record levels of service to the American people. We believe that is a remarkable accomplishment.

I also believe that when you look at Mr. Potter's compensation, you have to consider the size of the job. The Postmaster General is running one of the largest organizations in the country; indeed, the world. The Postal Service has 650,000 employees, about the amount of Federal Express and UPS combined, with $75 billion in revenues. We would be in the top tier of Fortune 100 companies if we were on that list. We have 37,000 facilities and retail outlets.

We do have a statute that says we should pay the executives comparable to their peers in the private sector. Yet based on an outside consultant, who specializes in executive compensation, Mr. Potter and his team make a small fraction, only 15 percent, of what people running similarly sized organizations are making. We believe we are lucky to have a Postmaster General the caliber of Mr. Potter. And we believe that he earned every penny that he was paid.

Mr. LYNCH. Understand the frustration in the public, though, when they take the whole picture here. They are looking at the prospect of 5-day delivery, they are looking at the prospect of the post office closing, they are looking at the prospect of 150,000 employees retiring or going away from the post office, regional centers closing down and their rates going up, I might add. And we are giving the gentleman a $135,000 bonus. And I understand the idea of comparable salary.

However, I don't agree with the premise that just because AIG or Merrill Lynch is giving people bonuses for driving the company into the ground that we should emulate that. That is certainly not the idea here, right? We are trying to reward positive performance. Like I said, 2007, we lose $5 billion, 2008, $2.8 billion we lose. Then now we have the prospect of losing somewhere in the area of $10 billion in 2009 with all of this pain. It just defies logic to me.

And we are not talking about a 10 percent or 20 percent bonus. We are talking about 50 percent of the gentleman's salary. I know it is not taxpayer-funded, this is from revenues generated by the Postal Service. But still, given the need in the system, I question the wisdom of this. I don't know, when exactly did you determine his salary?

Ms. GALLAGHER. Well, first, Mr. Chairman, I have to take exception at the comparison of the U.S. Postal Service to AIG. The Postal Service is the most trusted Government agency and has been for the past 5 years. It is one of the most trusted organizations in the country. Mr. Potter and his team saved billions of dollars, $8 billion over the last 7 years, $2 billion last year for the Postal Service. He has been a dedicated public servant for 31 years. He has been one of the most successful Postmaster Generals in the history of the Postal Service.

Mr. LYNCH. Well, you know, what I would say is this, I compared the practice of giving bonuses in the financial services industry to people who were losing money to the practice of giving bonuses to executives at the Post Office at a time when they are losing money. I think that is the comparison. I am not comparing the U.S. Postal Service to AIG. However, there is this comparability language in the statute, and I just want to make sure that we are comparing apples to apples and that the practice that we are trying to emulate in the private sector is, when they do a good job and get a bonus, we will use that example at the Post Office and not reward performance that is less than satisfactory.

I am violating my own rule here, so I am going to allow Mr. Chaffetz from Utah, the ranking member, to ask questions for 5 minutes.

Mr. CHAFFETZ. Thank you, Mr. Chairman, and thank you both for being here. I appreciate your dedication and commitment to public service.

I also appreciate what Mr. Potter and the whole organization. I wouldn't give Mr. Potter all the credit, certainly he has a talented team and men and women at all levels who are performing great work and have accomplished many things, the reduction in overtime hours and such. It really is, no doubt, a team effort.

Nevertheless, I have some deep concerns. You may have a football team that is fighting and doing everything they can and you want to pat some people on the back, but if you are losing the game and you come up in the red, I just don't see any room to at some point say, we just can't be handing out bonuses to the coach. And so my question is, and I also hear you talk and express a concern that he is under-compensated, in your view, in many ways, for his base salary. To try to compare it to a $10 million salary for a comparable private sector job, and maybe we should revisit that whole scenario.

But is this $135,000 bonus just a way to run around the statute and give him extra compensation that you feel is deserved? At what point do you actually cut it off and say, we lost money? And we are either going to have to go to the taxpayers or we are going to have to continue to suck it up until we get into the black.

Ms. GALLAGHER. Congressman Chaffetz, I think there is a very important distinction here, and that is that the Postal Service would have made a profit of $2.8 billion in 2008 if it were not for the requirement passed by Congress that we pre-fund our retiree health care obligation. We had to make a payment of $5.6 billion in 2008. If not for that payment, the Postal Service would have made a profit of $2.6 billion, despite the fact that our volume had the biggest loss in the history of the Postal Service.

The fact that Mr. Potter and his team were able to offset that volume loss and reduce head count or work force by 50 million work hours and save the Postal Service $2 billion while maintaining the best service levels we have ever had is truly remarkable. And I do believe that he earned more than we are able to pay him as a public servant.

Mr. CHAFFETZ. So you would have actually compensated him more than what you did?

Ms. GALLAGHER. No, I believe that he was paid fairly as a public servant. But I think the work that he did and the accomplishments that he made for the Postal Service were worth more.

Mr. CHAFFETZ. Just my own personal belief, I do think there is a difference in the rank and file and them accomplishing the goals set forward by executive management. But in this case, I am so concerned that we are taking a special effect on somebody who has to deal with everything by the ifs. You can't just say if, if. The reality is it lost money. And now we are coming to the point where we have to make some dramatic changes. Dramatic changes. And this is somewhat symbolic of the challenges that we face.

If we adjust Mr. Potter's compensation package, that is not going to have a material effect on the overall. But he is the leadership. He is the CEO. He is the leader there. Do you have any plans or inclination or anything in the works to actually change the way executives are bonused out?

Ms. GALLAGHER. Absolutely not. We believe that the achievements of the Postmaster General and his team have been remarkable, given the challenges they are facing, that we are lucky to have a team the caliber that we have who are willing to work at a small fraction, only 15 percent of what their peers or what they could make in the private sector.

We believe that they have saved billions of dollars while providing record levels of service and that they are earning every penny that they are paid.

Mr. CHAFFETZ. He certainly wasn't the only person to get a bonus, correct? What is the total amount, the total dollars that were paid out in bonuses to the executive level in the Postal Service overall?

Ms. GALLAGHER. Congressman Chaffetz, that was fully disclosed in our 10K.

Mr. CHAFFETZ. I just don't know what the answer is, then.

Ms. GALLAGHER. I don't have those facts and figures but I certainly will get them to you.

Mr. CHAFFETZ. Is it in the millions of dollars?

Ms. GALLAGHER. No, sir. The incentive payment for Mr. Potter was $135,000.

Mr. CHAFFETZ. No, I meant for the executive level Postal Service employees, what is the total?

Ms. GALLAGHER. I am sorry, I jus don't have that. But I would be happy to get it to you. It was fully disclosed, I just don't have the facts and figures in my hands.

Mr. CHAFFETZ. Yes, I would appreciate it if you would submit that in a somewhat timely fashion.

Last question in this round here, you expressed "complete confidence" in Mr. Potter. In light of this investigation that is now going to move forward, does that taint or have any bearing on how your concerns about Mr. Potter?

Ms. GALLAGHER. No, sir, not at all. Jack Potter is one of the most successful Postmaster Generals in the history of the Postal Service. Soon after taking office in 2001, he was hit with the events of 9/11 and then the anthrax tragedies that followed soon after. He restored the public's confidence in the U.S. mail, returned us to financial health. He has saved the Postal Service billions of dollars, he and his team, while providing record levels of service. We are very lucky to have a Postmaster General the caliber of Mr. Potter. And the board has complete confidence in him. He is uniquely and singularly qualified to lead us forward through the situations we face today.

Mr. CHAFFETZ. Thank you, Mr. Chairman.

Mr. LYNCH. Thank you.

The Chair recognizes the gentleman from Illinois, Mr. Davis, for 5 minutes.

Mr. DAVIS. Thank you very much, Mr. Chairman, and Ms. Gallagher, Mr. Blair, it is good to see you both.

Let me begin with you, Mr. Blair, and ask you, the Postal Service is not a private corporation, or is it? It is not a Government agency. Or is it? What is it?

Mr. BLAIR. It is an independent establishment within the executive branch. It is wholly owned by the Federal Government. Employees of the Postal Service receive benefits just like any other

Federal employee does. So in many respects it is treated like a Federal agency.

I think the two overriding distinctions is its governance structure. The Postmaster General is appointed by the Governors as opposed to being a Cabinet level member, such as he was in 1970. And the revenues that pay their operating expenses are generated through the sale of goods and services, unlike most Federal agencies.

Mr. DAVIS. So it is not exactly a Government agency but it functions in many ways like a Government agency?

Mr. BLAIR. I think generally, yes.

Mr. DAVIS. It is not exactly a private corporation but it functions in many ways like a private corporation. So I guess I am wondering whether or not there is any possibility that sometimes there could be mixed signals, for example, if Congress directs the Board of Governors to compensate postal executives in a comparable way similar to what takes place in private corporations or private industry, would that appear to be what the Board of Governors may have been intending?

Mr. BLAIR. I think oftentimes legislation sends some mixed signals. I think that is just part of the balancing factor that public servants have to undergo and evaluation. It is told to operate and act like a business, but it has substantial public service mandates. We outlined a number of those mandates in our universal service study. One of the most significant of those mandates is providing 6-day a week delivery.

Mr. DAVIS. There is a culture in corporate America in relationship to executive compensation that many people now are taking a hard look at, and not just the Postal Service, not just pseudo-governmental agencies. But people are taking a real hard look at the culture that has developed relative to executive compensation in corporate America. And Ms. Gallagher, my question is, given this look that is taking place, has the Postal Board of Governors had discussions reviewing any of its policies in relationship to response to the public outcry that we are currently experiencing relative to this issue?

Ms. GALLAGHER. Well, first, let me say, Congressman Davis, that the board did struggle greatly to try to balance two competing statutes and come up with a compensation that we felt like was the best balance between the two. However, we still believe firmly that the compensation for Postmaster General and his team is more than fair, given the achievements and the challenges that they are facing and the actions they are taking to try to keep the Postal Service financially sound in this crisis.

So we have full confidence in what they are doing and we believe they are paid fairly.

Mr. DAVIS. So the Board of Governors is in fact cognizant and displays sensitivity to the increasing concern about the issue?

Ms. GALLAGHER. Of course.

Mr. DAVIS. We have heard Mr. Potter talk about his optimism in relationship to the ability of the Postal Service to grow volume. And of course, I am trying to rationalize in my own mind the ability to do that. How does the Board of Governors feel in relationship to that?

Ms. GALLAGHER. We certainly share the Postmaster General's confidence in the future viability of the Postal Service, with help, obviously, from Congress as we have requested. There are opportunities for us to grow this business. We do have new flexibility that was given to us under the Postal Accountability Act, especially in terms of pricing our shipping products. And we want to take full advantage of it. We are trying to take full advantage of it, and in fact, we are growing market share in our expedited mail products. And we are very proud of that.

As the Postmaster General discussed this morning, we are making technological investments that we think will add value to the mail, intelligent mail bar code being the best example of that.

So we think there are opportunities. That being said, there is a structural change in the way Americans are communicating, and the Postal Service needs to change with it. We need to make sure we match our resources and adjust our resources with the changing demand for our products and services.

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

Mr. LYNCH. Thank you.

Ms. Gallagher, we have sort of a parade of horribles that are rolling out here in 2009. We are looking at the possibility of losing $10 billion unless we do something drastic. We are looking at post office closings and cuts in service, perhaps, major cuts in service. Not only that, but we are looking at the possibility of bumping up against the debt limit, the statutory debt limit for the post office as well, depending on how things go.

In that environment, looking at 2009, when I asked Postmaster General Potter about the possibility of him getting a bonus in 2009, he said, based on where we are, I am paraphrasing here, this is not a quote, but words to the effect, I don't expect a bonus in 2009. I am just asking you, is that in line, as someone who sat at one point on the compensation committee, what are your views on that in 2009?

Ms. GALLAGHER. Mr. Chairman, it is too early to know what his compensation will be. It is a decision for the full board. Mr. Potter was right, it is a very difficult year for us and he has very difficult and challenging goals. But the full board has not discussed that yet. And it is a decision for the full board.

Mr. LYNCH. Well, I think something you should chew on is that if you do end up bumping up against your statutory debt limit, you are going to have to come to Congress to have that increased. And it would be very difficult for Members of Congress to approve a system or provide support to a system that they thought was not being fair in terms of leading by example. If you are going to ask the American people to absorb pain and closings and increased debt, there needs to be some type of reflection in the management team that acknowledges we are in some tough times. It cannot be business as usual or business as we hoped it to be. We need to be in this together.

Ms. GALLAGHER. Mr. Chairman, I would like to say that I believe increasing our debt limit was the last thing we should do. By the end of this year, we will have $10 billion in debt. Any additional debt will just put further financial pressure on the Postal Service.

It will increase our current costs, because we will have more interest costs.

I think it will make it very difficult for the Postal Service to return to financial health, perhaps even impossible for the Postal Service to return to financial health. We have laid out a plan, a very aggressive action plan, that we are taking to reduce costs while maintaining service. We have asked for your assistance in two areas, one to help us restructure our retiree health care payment and one to give us the flexibility to go to 5-day delivery, which we believe will help us match our resources to our changing demand for our products. With those two changes, we are firmly in belief that the Postal Service will return to financial health and be viable for the future.

Mr. LYNCH. I understand the prospects of H.R. 22, and again, I have great respect for both of the sponsors, both Mr. Davis who is here and Mr. McHugh, who is not. I regard them very, very highly on this as well as other matters. We are going to have to look at that. In the out years, I have already expressed, about 2017, about having $75 billion in unfunded liability. That is problematic. But let's go forward. I am open to it, I am just not completely convinced at this point.

Ms. GALLAGHER. And we are happy to share more information, because we don't believe that will happen. And we are happy to share that.

Mr. LYNCH. The other concern I have with respect to going to a 5-day delivery is that you are in a competitive work out there. If you are saying now we are going to have a 2-day market for your competitors, people are going to rely less on the Post Office, I think there is a downside as well as an upside. I think there is a certain loss of market share when you become a 5-day delivery post office instead of a 7-day delivery post office. I recognize that might be the reality of the situation, that may be what we have to do.

It is not my first option, though, and I frankly think that we have some other things we have to look at. That might involve looking at some of these areas that have high density placement for our post offices. I am not talking about our rural areas, but we have some of our big cities in America who have a post office in every high rise. They had the volume at one time to justify all those, but we may have to look at some of those things.

I would like to look at the least disruptive measures to reduce costs than simply leaping to 5-day delivery. But you are right, I think time is growing short, we have to fish or cut bait. We are going to be limited in our options with the passage of time. So I certainly agree with you that we are at a critical point here.

Again, obviously we have gone to a second round of questioning. I yield 5 minutes to the gentleman from Utah, Mr. Chaffetz, for 5 minutes.

Mr. CHAFFETZ. Thank you, Mr. Chairman, I appreciate it. And Governor, I guess I am still mystified, and perhaps we will have to clarify this later, but I recognize the series of indicators along the way of the remarkable progress that has been made within the Postal Service. But to try to categorize as one of those goals the financial health, that was the quote that I wrote down, financial health, while it may be better, I don't think it is healthy. I think it is very difficult, when you have a reduction in overtime, when you have the good men and women, rank and file, the person who is out there delivering the mail, brunting the bulk of what has to happen in order to make these adjustments, to see somebody at the very top take a bonus.

In my opinion, it gets strikingly close, if not over the line, of just trying to run around the basic compensation package and trying to say, we are going to subvert this because we think it is too low, we are going to get a performance bonus and that is how we are going to get it. You can make the case, I think, to say that the overall compensation for someone who is running the second largest employer in the United States of America, $260,000 some odd dollars is too low. I think that is another discussion that perhaps we have to have.

But I worry that bonus is so striking and so offensive to a lot of people that I would hope and encourage you to revisit that. Because at the end of the day, it was in the red. And we are going to have to make some much more dramatic challenges, and we are asking people to potentially go back to 5-day service as opposed to 6, and yet we are handing out bonuses. It just doesn't add up. That is my concern.

My question to you, Governor, and then I actually do have one for Mr. Blair, if we can get to it, the relocation assistance policy is something I have seen some reports on that seems to be troubling. The huge, massive dollars and numbers of homes that are going through this process, what kind of trajectory, what kind of numbers are behind this? What is your sense of where this program is?

Ms. GALLAGHER. Well, first of all, the Board of Governors was concerned when we heard the same stories that you did. Management is reviewing the policy. We will look at it, the board will look at it when he has completed that review, or they have completed that review.

Mr. CHAFFETZ. When do you think we will have that back?

Ms. GALLAGHER. I know they are in consultation with the management associations. I am not sure how long that process is. But we don't just buy these homes, we also sell these homes.

Mr. CHAFFETZ. Do you know how much money the Government or the Postal Service put in? There was a real cost to this, was there not? It wasn't something operating in the black.

Ms. GALLAGHER. Congressman, I actually don't know.

Mr. CHAFFETZ. I guess I would ask that at some point, that the report be given back to us specific to that program, how much it costs to actually execute on that program. And in the essence o time, Mr. Blair, I do have just a quick question. It is more of a clarification.

I thought I heard, and maybe I am wrong here, I thought I heard Mr. Potter talk about a $3.5 billion savings by going to a 5-day week. You had talked about a $2 billion savings. What is the actual number? Maybe I just heard something wrong here, so my apologies.

Mr. BLAIR. Our projections at the Commission would be that there would be a $2 billion savings. I believe the Service's projections did not take into account any volume declines that would result from reducing 1 day a week of delivery. Ours projected a 2 percent volume decline. So that is how we determined our cost savings.

Mr. CHAFFETZ. OK, so I did hear Mr. Potter correctly at $3.5 billion, but you are saying you think it will actually be close to $2 billion?

Mr. BLAIR. We projected it at $2 billion. The Service did acknowledge that there would be volume reductions, it just didn't factor them in because they didn't know what they would be at that point.

Mr. CHAFFETZ. Is there any sort of blended analysis? There was some discussion about maybe limiting service on some of the days in the summer when it is the middle of July and there is not much mail delivered, as opposed to, say, the end of December when you have huge surges in the amount of mail that has to be dealt with?

Mr. BLAIR. I think that is a good point and that is a question I wanted to raise as well, is that I would strongly recommend that Congress, should it grant the Postal Service that ability to reduce 1 day a week delivery that it ask the Service for a more detailed plan on what this exactly looks like. We heard today from the Postmaster General that it would likely be Saturday but I have heard other days being touted like possibly Tuesday or Wednesday. I think a more concrete plan, is this going to be nationwide or is it just going to be for selected areas of the country or even selected zip codes? I am under the impression it would be nationwide, but again, I don't want to presume anything.

There are just a lot of unanswered questions. Given the reduction of the scope has such an impact on the brand of the U.S. Postal Service, I would hope that Congress would ask the Service for a more detailed plan along these lines.

I think one missing question is what is going to be the impact on volume, what is going to be the impact on major mailers. We would hope the Postal Service could produce for us what would be seen as a, what their best estimate would be on the reduction in volume and the impact on mailers.

Mr. CHAFFETZ. Thank you.

Mr. Chairman, I hope this is something that we continue to explore, that we look at the differences between urban areas and rural areas, that we look at potentially a sliding scale where there are certain times of the year. And as you said, look at the reduction in volume as well, because obviously that will play a major impact. The number between $2 billion and $3.5 billion is a big enough number that it meets that threshold. Usually a billion dollars is just a rounding error in this body, but it meets that threshold. So let's dive into it, and thank you, Mr. Chairman.

Mr. LYNCH. Thank you.

The Chair recognizes the gentleman from Illinois, Mr. Davis, for 5 minutes.

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

Mr. Blair, let me ask you, let's assume that we do all of the things that Mr. Potter talked about earlier in terms of streamlining, staff reductions, but let's also assume that we do not pass H.R. 22. How long do you think it would be before we would be back talking about another rate increase?

Mr. BLAIR. Well, the Postal Service, the Commission last week gave its approval of the Postal Service's request for an inflation-based adjustments. Those rates are going to come into effect in May, provide annually, from what we understand, probably about a billion and a half dollars in additional revenue.

The other option open to them at this point would be an exigency rate case, in which the Postal Service would propose to go above the inflation-based cap based on extraordinary and exceptional circumstances. That proposal lies in the hands of the Postal Service. Whether or not that would generate sufficient revenues to offset the potential cash-flow problem is a good question. But I think that this committee would be back, we would be convened back before this committee before that would happen, because Postal Service's finances would continue to go south.

Mr. DAVIS. Do you think there is ever any danger that we could price ourselves out of the market?

Mr. BLAIR. I think in some marketplaces you definitely could. I think that was the intention behind the Postal Act of 2006, that keeping generally within the class, or generally inflation-based rates would be a good thing, it would add to the predictability and stability for mailers to stay in the system.

Mr. DAVIS. Ms. Gallagher, let me ask you, one of the criticisms that I have heard of the Postal Service in relationship to its efforts to grow volume has been sort of an internal isolation relative to the community of ideas that the Postal Service sort of does its thinking internally, and that external entities that come with ideas that these generally are not received too well or viewed too positively.

How open do you think the Postal Service is to listening to other market experts and individuals who think they have ideas? As elected officials, everybody comes to us with everything. And sometimes these things can get vetted, sometimes they don't. Sometimes they get looked at sometimes they are given short shrift. How open is the Board of Governors in relationship, and the Postal Service to looking at these kinds of options and ideas that people come with?

Ms. GALLAGHER. Congressman Davis, I don't think we can afford not to listen to any option, given the situation that we are in. I think the Postal Service has a long history of communicating with stakeholders, all our stakeholders. The board is of course very open to hearing ideas. In fact, we are having lunch with the mailing community next week.

So we are very open to hearing ideas. And certainly given the situation we are in, any ideas would be helpful.

Mr. DAVIS. Well, let me just say, I don't envy the position that you are in, in actuality, because I do realize that there are no simple solutions to very complex problems and very complex issues. I do appreciate the efforts that the Postal Service is making. I appreciate the leadership that Mr. Potter has been providing and the efforts of the Board of Governors.

I thank you very much and I yield back, Mr. Chairman.

Mr. LYNCH. Thank you.

Let me ask, I want to go over the area of housing relocation within the Postal Service. There was a story a few weeks back, I think it was CNN, that ran a story about the excessive costs that were being incurred by the Postal Service for relocating their employees. There were some homes there that were excessive, well, the employees were excessively reimbursed for relocation expenses. I know I have some information that the Post Office provided to the committee that indicated that the relocation program costs at the U.S. Postal Service in 2007 was $72 million for the relocation and then expenditures specific to homeowners were $34 million. So it was a total of $106 million in 2007. And then similarly, in 2008, it was $71 million for the relocation program in 2008, with a reimbursement to the homeowners of $108 million.

So these are sizable programs. Ms. Gallagher, I know you mentioned that there is a Board of Governors review going on here. Has the Inspector General for either the Post Office or the Postal Regulatory Commission, have they been invited in or asked to conduct an investigation yet?

Ms. GALLAGHER. Mr. Chairman, the board is not reviewing the policy, management is reviewing the policy.

Mr. LYNCH. Just management?

Ms. GALLAGHER. Yes. The board is waiting to see how the policy is revised. We have full confidence in Mr. Potter that he will address it appropriately.

I do think the fact that we have a relocation assistance policy is standard among Federal agencies and certainly the private sector. We do have a policy that you hire the best person for every job, so that is going to require moving people around. And with 650,000 employees, sometimes those are going to be big numbers.

So we have confidence that Mr. Potter is reviewing the policy, that he and his team will show the board a policy that is appropriate.

Mr. LYNCH. Yes, well, there are a lot of opportunities, and sometimes the differentiation between employees, when you are talking about a pool of 650,000 people, sometimes all things being equal, they can be very similar. Very talented employees at the Post Office. So I am just concerned about this. It is a pretty large expense, over $100 million.

I am aware that management is considering adopting a new rule where they don't reimburse for a house over $1 million. Which leads me to believe the policy before allowed them to go above $1 million. I am not sure how much above. And even though CNN has pointed out some, I would call them egregious examples, I want to know, is this the rule or what have we here? I have a bulk number of $71 million for housing relocation in 2007 and then a little bit more than that in 2008. I really need the numbers. I need the breakdown on home by home what region they were moved from and to. I need all that information. Could you make sure that is available to the committee?

Ms. GALLAGHER. We will certainly supply that. The policy that we are reviewing is looking at taking it down to $800,000, not $1 million. But management is reviewing it and we will get you that information for the record.

Mr. LYNCH. That would be great. And I do intend to ask, we have the Inspectors General coming up and I will ask them about that as well.

I am told that we are about to have votes on the floor. Why don't we swap out? I want to thank you both for your willingness to come before the committee and to testify. You have been very helpful and we thank you for your testimony, we wish you a good day.

And why don't we, if we have the next panel, please take their seats, that would be great.

Mr. Williams and Mr. Herr, we appreciate your appearing before the committee. It is the committee policy that all witnesses are sworn in. Could I ask you to please rise and raise your right hands?

[Witnesses sworn.]

Mr. LYNCH. Let the record show that the witnesses answered in the affirmative.

Welcome, gentlemen. Mr. David Williams, Inspector General, the Office of the Inspector General for the U.S. Postal Service, was sworn in as the second independent Inspector General for the U.S. Postal Service in August 2003. Mr. Williams has served as IG for five Federal agencies. He was first appointed by President George H.W. Bush to serve as IG for the U.S. Nuclear Regulatory Commission from 1989 to 1996. President William Clinton next appointed Mr. Williams Inspector General for the Social Security Administration from 1996 to 1998 and then as Inspector General for the Department of the Treasury in 1998.

Mr. Phillip Herr is Director of Physical Infrastructure Issues, U.S. Government Accountability Office. He is the Director of the Physical Infrastructure team at the Government Accountability Office. Since joining GAO in 1989, Mr. Herr has managed reviews of a broad range of domestic and international programs. His current portfolio focuses on programs at the Department of Transportation and the U.S. Postal Service.

Welcome, gentlemen, and the committee invites opening statements. Mr. Williams.

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

STATEMENT OF DAVID C. WILLIAMS

Mr. WILLIAMS. Thank you. Mr. Chairman, Mr. Chaffetz and Mr. Davis, the Postal Service's current financial condition is fragile and the future is uncertain. The Postal Service lost $2.8 billion in 2008 and may lose $6 billion this year. Yet these losses should be placed in context. Without payments to pre-fund retiree health benefits, the Postal Service would have earned $2.8 billion in 2008, and its anticipated net loss for 2009 would have been $1 billion.

Mail volume has declined for the last eight quarters and the rate of the decline is accelerating. Single piece first class mail volume continues to give way to the Internet, as expected. New declines in business and advertising mail are closely connected to the condition of the hardest hit sectors in this historic economic crisis. The Postal Service must make eight more annual payments, averaging $5.6 billion each to pre-fund retiree health benefits. The Postal Service's annual borrowing of $3 billion may not be enough to cover the gap between revenue declines and cost-cutting measures. This could cause the Postal Service to run short of cash to pay all of its bills.

As a near-term strategy, the Postal Service is chasing revenue declines with cost costs to limit losses. For example, even before the recent volume losses, the Postal Service had reduced its work force through attrition by more than 134,000 career employees since 1999. This year, the Postal Service has set a challenge of reducing the equivalent of 48,000 full-time employees. The Postal Service has streamlined its network operations, closing airport centers, annexes and remote encoding centers. It is increasing its effort to consolidate processing facilities. However, if staff reductions are not coordinated with facility reductions, the Postal Service runs the risk of having protracted anemic staffing within an oversized network.

Working with city and rural carriers, the Postal Service has started restructuring the delivery routes to reflect declining mail volume. The Postal Service has reduced authorized staffing at headquarters and at area and district administrative offices. Through a new rapid negotiation program, the Postal Service plans to work with its contractors to cut $1 billion from its existing contracts.

But cost reductions must be done carefully. One concern is that the Postal Service may cut costs so rapidly and broadly that it will be difficult to monitor the changes and guard against unintended consequences. Aggressive cost reduction in the short term could adversely affect service, productivity and the Postal Service's ability to offer innovative products, and, paradoxically, reduce its profits in the long term.

Even if the Postal Service achieves its desired cuts, there will still be a gap between costs and revenues of as much as $6 billion if the current estimates hold. Action beyond the Postal Service's authority may be needed. The Postal Service has requested limited pre-funding relief. I support its requests. Moreover, in this current economic climate, it may be appropriate to skip the mandated pre-funding payment for 1 year or to restructure the payments. The large pre-payments greater than the Postal Service's annual net income in its very best years.

The Postal Service is forced to borrow to meet this aggressive payment schedule and borrowing today to set aside money for a debt that will not be due until the future is an unusual practice. Removing the annual $3 billion debt limit should be considered. The current limit of $3 billion per year may encourage unnecessary borrowing to retain cash as a hedge against future needs.

Beyond the current crisis, the larger issue that must be explored from an elevated vantage point is the unfolding information revolution. New social dynamics and technological innovations such as the Internet are bringing great changes to the use of shipping and mailing services. Other sectors, such as newspapers and periodicals and telecommunications are also being transformed. Close monitoring and in-depth analysis are needed to ensure that the essential roles of these industries are fulfilled, and that the needs of all Americans, including those in rural and poor urban areas continue to be met.

The Postal Service, along with its stakeholders, must focus strategically on its future to discover viable options and find its place with other information age industries. Change, however, beneficial, is disruptive, and my office is very cognizant of the fact that more than 700,000 families directly depend on the Postal Service for their livelihoods. However, these families are at risk of becoming the first casualties if the Postal Service is unable to adapt rapidly to this new and changing environment.

Thank you, sir.

[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

OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Oral Statement
On the
Financial Stability of the Postal Service

March 25, 2009

David C. Williams
Inspector General
United States Postal Service

Mr. Chairman and members of the subcommittee, the Postal Service's current financial condition is fragile, and the future is uncertain. The Postal Service lost $2.8 billion in 2008 and may lose more than $6 billion this year. Yet these losses should be placed in context. Without the payments to prefund retiree health benefits, the Postal Service would have earned $2.8 billion in 2008, and its anticipated net loss in 2009 would be $1 billion.

Mail volume has declined for the last eight quarters, and the rate of decline is accelerating.

- Single-piece First-Class Mail volume continues to give way to the Internet as expected.
- New declines in business and advertising mail are closely connected to the condition of the hardest hit sectors in this historic economic crisis.
- The Postal Service must make eight more annual payments averaging $5.6 billion each to prefund retiree health benefits.
- The Postal Service's annual borrowing limit of $3 billion may not be enough to cover the gap between revenue declines and cost cutting measures. This could cause the Postal Service to run short of cash to pay all of its bills.

As a near term strategy, the Postal Service is chasing revenue declines with cost cuts to limit losses. For example —

- Even before the recent volume losses, the Postal Service had reduced its workforce through attrition by more than 134,000 career employees since 1999. This year, the Postal Service has set a challenge of reducing the equivalent of 48,000 full-time employees.
- The Postal Service has streamlined its network operations, closing airport mail centers, annexes, and remote encoding centers. It is increasing its efforts to consolidate processing facilities. However, if staff reductions are not coordinated with facility reductions, the Postal Service runs the risk of having protracted anemic staffing within an oversized network.
- Working with the city and rural carriers, the Postal Service has started restructuring its delivery routes to reflect declining mail volume.
- The Postal Service is reducing authorized staff at headquarters and area and district administrative offices.
- Through a new "rapid negotiation" program, the Postal Service plans to work with its contractors to cut more than $1 billion from existing contracts.

But cost reductions must be done carefully. One concern is that the Postal Service may cut costs so rapidly and broadly that it will be difficult to monitor the changes and guard against unintended consequences. Aggressive cost reduction in the short term could adversely affect service, productivity, and the Postal Service's ability to offer innovative products, and paradoxically reduce its profits in the long term.

Even if the Postal Service achieves its desired cuts, there will still be a gap between costs and revenues of as much as $6 billion if current estimates hold. Actions beyond the Postal Service's authority may be needed:

- The Postal Service has requested limited prefunding relief. I support its request. Moreover, in this current economic climate, it may be appropriate to skip the mandated prefunding payment for 1 year or restructure the payments. The large prepayments of more than $5 billion a year are greater than the Postal Service's annual net income in its very best years. The Postal Service is forced to borrow to meet this aggressive payment schedule. Borrowing today to set aside money for a debt that will be due in the future is an unusual practice.

- Removing the annual $3 billion debt limit should be considered. The current limit of $3 billion per year may encourage unnecessary borrowing to retain cash as a hedge against future needs.

Beyond the current crisis, the larger issue that must be explored from an elevated vantage point is the unfolding information revolution. New social dynamics and technological innovations such as the Internet are bringing great changes to the use of shipping and mailing services. Other sectors such as newspapers, periodicals, and telecommunications are also being transformed. Close monitoring and in-depth analysis are needed to ensure that the essential roles of these industries are fulfilled and that the needs of all Americans, including those in rural and poor urban areas, continue to be met.

The Postal Service, along with its stakeholders, must focus strategically on its future to discover viable options and find its place with other information age industries. Change, however beneficial, is disruptive, and my office is very cognizant of the fact that more than 700,000 families directly depend on the Postal Service for their livelihoods. However, these families are at risk of becoming the first casualties if the Postal Service is unable to adapt rapidly to this new and changing environment.

Mr. LYNCH. Thank you.

Mr. Herr.

STATEMENT OF PHILLIP HERR

Mr. HERR. Thank you, Chairman Lynch, Ranking Member Chaffetz, Congressman Davis.

I am pleased to be here today to participate in this oversight hearing on the financial condition of the U.S. Postal Service. As requested, my statement addresses the Postal Service's financial condition and outlook and options to help it remain financially viable in the short and long term.

First, regarding the Postal Service's financial condition. Updated projections for this fiscal year suggest the magnitude of the challenges ahead. Mail volume could decline by 22 billion pieces, a record 11 percent over fiscal year 2008. While much of this decline is related to the housing market downturn, the credit crisis and lower retail sales, mail volume is expected to decrease for the foreseeable future as businesses, non-profits, governments and households continue to move to electronic alternatives. Its net loss is projected to be $6.4 billion, if it cuts almost $6 billion in costs, which would be unprecedented. Further, it faces a cash shortage of about a billion and a half dollars.

Mr. Chairman, turning now to short and long-term options, no single action will assure the Postal Service's short and long-term financial viability. The Service has high overhead costs that cannot be changed quickly, including 6-day delivery and retail services at 37,000 facilities. Compensation and benefits for almost 650,000 employees and about 100,000 non-career employees generate close to 80 percent of its costs.

Several options have been discussed to assist the Postal Service through its short-term difficulties, some of which would require congressional action. The Postal Service has proposed that Congress give it an immediate financial relief by reducing payments to the Postal Service retiree health benefits fund by an estimated $25 billion over the next 8 years. This would decrease the available balance in the fund by approximately $32 billion, including interest charges, in 2017.

Another option would be for Congress to provide the Postal Service with 2-year relief for its fund payments, totaling $4.3 billion, which would provide immediate financial relief and have much less long-term impact on the fund. We believe this option is preferable. This would allow Congress to revisit the Postal Service's financial condition in 2 years, while assessing actions taken in the interim to improve its financial viability. In other words, this approach would keep pressure on the Postal Service to make needed changes. However, it is no clear that either of these options will be sufficient to prevent a cash shortfall from developing this year or next.

Looking to the longer term, progress will be needed in many areas to reverse the growing gap between Postal Service revenues and expenses. In January 2009, the Postal Service asked Congress to eliminate the longstanding statutory provision mandating 6-day delivery. In doing so, it provided little information on where it would reduce delivery frequency and the potential impact on costs, mail volumes, revenues, mailers and the public. Stakeholder input could be provided through an advisory input from the Postal Regulatory Commission. Major changes in universal service should also be done in close consultation with and approval from congressional stakeholders.

Controlling wage and benefit costs will also be critical. One option will be for the Service and its unions to agree on changes during upcoming negotiations in 2010 and 2011. The Postal Service has alternatives to provide lower cost retail services at places other than traditional post offices, such as selling stamps at supermarkets, drug stores, by telephone and over the Internet. In the mail processing area, the Postal Service has closed most of its airport mail centers in recent years, but only one of over 400 major mail processing facilities. Closing facilities would be controversial, but it is necessary to streamline costs. Options also exist to reduce postal transportation and delivery costs.

In closing, Mr. Chairman, accelerating declines in mail volume means that the Postal Service could run out of cash this fiscal year, thus short-term relief is urgently needed as well as comprehensive action to maintain the service's financial viability.

This concludes my prepared statement. I would be pleased to answer any questions you or other Members have.

[The prepared statement of Mr. Herr 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

Escalating Financial Problems Require Major Cost Reductions to Limit Losses

Statement of Phillip Herr, Director
Physical Infrastructure Issues

GAO
Accountability * Integrity * Reliability

GAO-09-475T

GAO Accountability • Integrity • Reliability

Highlights

Highlights of GAO-09-475T, a hearing before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

When Congress passed the Postal Accountability and Enhancement Act in December 2006, the U.S. Postal Service (USPS) had just completed fiscal year 2006 with its largest mail volume ever—213 billion pieces of mail and a net income of $900 million. Two years later, USPS's financial condition has deteriorated. Mail volume declined by a record 9.5 billion pieces (4.5 percent) in fiscal year 2008, leading to a loss of $2.8 billion—the second largest since 1971. According to USPS, this was largely due to declines in the economy, especially in the financial and housing sectors, as well as shifts in transactions, messages, and advertising from mail to electronic alternatives. Declining mail volume flattened revenues despite rate increases, while USPS's cost-cutting efforts were insufficient to offset the impact of declining mail volume and rising costs in fuel and cost-of-living allowances for postal employees. USPS's initial fiscal year 2009 budget expected that the turmoil in the economy would result in more mail volume decline and a loss of $3.0 billion.

This testimony focuses on (1) USPS's financial condition and outlook and (2) options and actions for USPS to remain financially viable in the short and long term. It is based on GAO's past work and updated postal financial information. We asked USPS for comments on our statement. USPS generally agreed with the accuracy of our statement and provided technical comments, which we incorporated where appropriate.

To view the full product, including the scope and methodology, click on GAO-09-475T. For more information, contact Phillip Herr at (202) 512-2834 or herrp@gao.gov.

March 2009

U.S. POSTAL SERVICE

Escalating Financial Problems Require Major Cost Reductions to Limit Losses

What GAO Found

USPS's financial condition has continued to deteriorate in the first 5 months of fiscal year 2009 and USPS expects its financial condition to continue deteriorating for the rest of the fiscal year. Key results include:

- accelerating declines in mail volume after the first quarter, with a total decline of about 11 billion pieces, and
- accelerating losses after the first quarter, with a total loss of about $2 billion.

USPS's updated fiscal year 2009 projections suggest the magnitude of the challenges it faces:

- mail volume will decline by a record 22.7 billion pieces (11.2 percent),
- a record $6.4 billion net loss and an unprecedented cash shortfall of $1.5 billion, assuming that cost-cutting targets of $5.9 billion are achieved, and
- plans to increase outstanding debt by $3 billion (the annual statutory limit) to $10.2 billion, or two-thirds of the $15 billion statutory limit.

In addition, USPS projects its financial difficulties will continue in fiscal year 2010 and result in an even greater cash shortfall. USPS's most immediate challenge is to dramatically reduce costs fast enough to meet its financial obligations. USPS has proposed that Congress give it financial relief of $25 billion over 8 years by changing the statutory mandate for funding its retiree health benefits. GAO recognizes the need for immediate financial relief, but prefers 2-year relief so that Congress can determine what further actions are needed. It is not clear that either option would be sufficient because USPS projects it will operate on a thin margin, risking a larger cash shortfall if it does not meet its ambitious cost-cutting goals, mail volume declines more than projected, or unexpected costs materialize, such as fuel cost increases.

Although USPS is taking unprecedented actions to cut costs, comprehensive action beyond USPS's current effort is urgently needed to maintain financial viability. Given the growing gap between revenues and expenses, USPS's business model and its ability to remain self-financing may be in jeopardy. Action is needed to streamline costs in two difficult areas: (1) compensation and benefits, which generate close to 80 percent of costs and (2) mail processing and retail networks, which have growing excess capacity. Closing postal facilities is controversial, but necessary, because the declining mail volume and growing deficits indicate that USPS cannot afford to maintain such an extensive network. Information will be critical to determine what other actions are needed, including options to cut costs as well as their impact on mail volume and mail users. It is also imperative to review mail use, what future postal services will be needed, and what options are available in many areas, including universal service, workforce costs, retail services, mail processing, delivery, transportation, and USPS's business model.

Chairman Lynch, Ranking Member Chaffetz, and Members of the Subcommittee:

I am pleased to be here today to participate in this oversight hearing on the financial stability of the U.S. Postal Service (USPS). As requested, my statement addresses the following:

1. USPS's financial condition and outlook.
2. Options and actions to help USPS remain financially viable in the short and long term.

My statement is based on our testimony in January on USPS's financial condition,[1] other prior work, and updated information on USPS's financial condition and outlook. We reviewed USPS's budget for fiscal year 2009 and information on results for the fiscal year to date, including preliminary data for January 2009, and met with senior USPS officials. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

USPS's Financial Condition and Outlook Are Deteriorating

USPS's financial condition has continued to deteriorate in the first 5 months of fiscal year 2009 and USPS expects its financial condition to continue deteriorating for the rest of the fiscal year, including:

- accelerating declines in mail volume after the first quarter, with a total decline of about 11 billion pieces; and
- accelerating losses after the first quarter, with a total loss of about $2 billion.

USPS has updated its projections for fiscal year 2009, projecting

- a mail volume decline by a record 22.7 billion pieces (11.2 percent) from fiscal year 2008;

[1]GAO, *U.S. Postal Service: Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs*, GAO-09-332T (Washington, D.C.: Jan. 28, 2009).

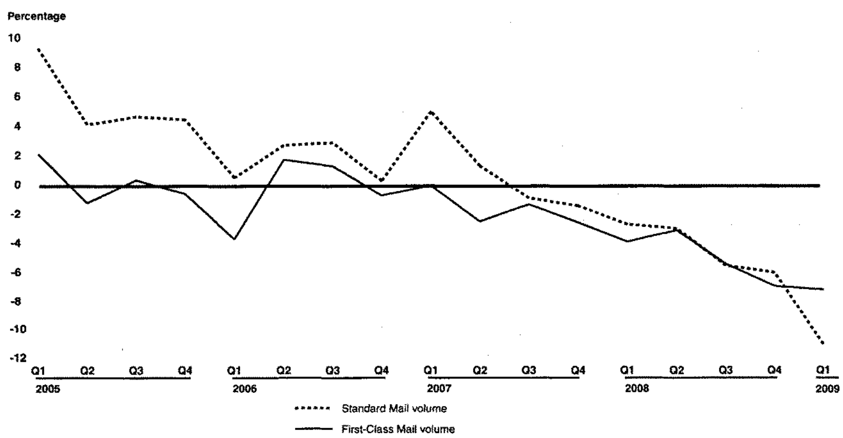
- a record $6.4 billion net loss,[2] and an unprecedented $1.5 billion cash shortfall (i.e., insufficient cash to cover expenses and obligations), assuming cost-cutting targets of $5.9 billion[3] are achieved; and
- plans to increase outstanding debt by $3 billion (the annual statutory limit) to $10.2 billion, or two-thirds of the total $15 billion statutory limit.

USPS attributes much of its net loss this fiscal year to the economic recession that has resulted in unprecedented declines in mail volume and decreased revenues. Thus far in fiscal year 2009, First-Class Mail volume (e.g., correspondence, bills, payments, and statements) dropped about 9 percent, while Standard Mail volume (primarily advertising) dropped about 15 percent. According to USPS, the housing market downturn, the credit crisis, and lower retail sales have contributed to these volume declines. The financial and housing sectors are major mail users, mailing bills, statements, and advertising such as credit card, mortgage, and home equity solicitations. Volume declines have accelerated for both First-Class Mail and Standard Mail, as shown by quarterly data (see fig. 1) and results for January 2009 (see app. I).

[2]USPS lost $2.8 billion in fiscal year 2008—its second-largest annual loss since 1971.

[3]USPS previously reported on Feb. 23, 2009, that it had set a cost-cutting target of $5.9 billion over 2 years (fiscal years 2009 and 2010).

Figure 1: Quarterly Changes in the Volume of First-Class Mail and Standard Mail, Fiscal Year 2005 through the First Quarter of Fiscal Year 2009



Source: USPS.

Note: Quarterly changes are from the same quarter of the prior fiscal year. First-Class Mail volume does not include international First-Class Mail.

In addition, USPS projects its financial difficulties will continue in fiscal year 2010 and result in an even greater cash shortfall at the end of that fiscal year, despite plans for additional cost-cutting and additional borrowing of $3 billion, which would bring USPS's total debt to $13.2 billion. Thus, USPS's immediate problem is to generate sufficient cash to remain financially viable in fiscal years 2009 and 2010.

Cost-Cutting Efforts and Rate Increases Have Not Fully Offset the Impact of Volume Declines and Other Factors that Increased Costs

USPS reports reducing expenses by $773 million in the first 5 months of fiscal year 2009 (compared to the first 5 months of fiscal year 2008), primarily through reductions of 50 million work hours that USPS made as it adjusted to declining mail volumes and workload. USPS reduced overtime and captured additional work hour savings as it reduced the size of its workforce through attrition and implemented other cost-saving initiatives. However, these savings and added revenue from rate increases were insufficient to fully offset the impact of declines in mail volume and rising costs from cost-of-living allowances (COLA) provided to postal employees covered by union contracts, as well as rising workers' compensation and retirement costs. Also, although almost 8,500 employees accepted USPS's early retirement offer during the first quarter of fiscal year 2009, the resulting savings to date have been limited because the effective dates for the majority of these retirements were December 31, 2008 or later.

USPS has high overhead (institutional) costs that are hard to change in the short term, including providing 6-day delivery and retail services at close to 37,000 post offices and retail facilities. Compensation and benefits for USPS's workforce, which included about 646,000 career employees[4] and about 98,000 noncareer employees in February 2009, generate close to 80 percent of its costs. Collective bargaining agreements with USPS's four largest unions include layoff protections and work rules that constrain USPS's flexibility, as well as semiannual COLAs linked to the Consumer Price Index (CPI) and employee benefits including health and life insurance premium payments. Under these agreements, which expire in 2010 or 2011:

- USPS paid 85 percent of employee health benefit premiums in fiscal year 2007, about 13 percent more than the share for other federal agencies. USPS's share is decreasing annually to 81 percent in 2011 or 80 percent in 2012, depending on the agreement.
- USPS pays 100 percent of employee life insurance premiums, about 67 percent more than most other federal agencies.

USPS pays 100 percent of both employee health benefit premiums and life insurance premiums for its Postal Career Executive Service, which included 724 executives in fiscal year 2008. Executives at comparable grades in most other federal agencies do not receive such benefits.

USPS's Outlook Is Worsening, and USPS Projects a Cash Shortfall at the End of the Fiscal Year

USPS's financial outlook has continued to deteriorate during fiscal year 2009. USPS has increased its estimate of losses in total mail volume in fiscal year 2009 to 22.7 billion pieces (11.2 percent). As a result, USPS now projects a net loss of $6.4 billion for fiscal year 2009, despite increasing its cost-cutting target to $5.9 billion for the fiscal year. Based on these projections, USPS expects cash from operations and borrowing will be

[4]USPS career employees, most of whom are full-time, have permanent positions.

insufficient to cover expenses at the end of the fiscal year, with the shortfall projected to be $1.5 billion. This projected net loss and cash shortfall assumes USPS will meet its cost-cutting target and factors in USPS's plans to borrow $3 billion.

USPS's Chief Financial Officer told us on March 16 that achieving USPS's target to eliminate 100 million work hours this fiscal year will be critical to achieving its goal of reducing costs by $5.9 billion. He expressed guarded optimism that USPS can reach this ambitious cost-cutting target, explaining that the target is difficult, but achievable. He noted that USPS plans to continue efforts to reduce work hours as it responds to mail volume declines, including reductions in overtime and additional work hour savings achieved through attrition and other initiatives. Additional USPS cost-saving efforts include:

- Implementing a service-wide hiring freeze and reducing staffing levels for managers and other employees not covered by union agreements by 15 percent at headquarters and 19 percent at the nine Area offices.
- Evaluating more than 93,000 city delivery carrier routes (more than half of all city routes), eliminating about 2,500 city routes, and adjusting many other city routes, which USPS expects will result in saving about 3.2 million work hours in fiscal year 2009. An agreement between USPS and the National Association of Letter Carriers to expedite evaluation and adjustment of city delivery routes enabled this progress.
- Consolidating excess capacity in mail processing and transportation networks, including consolidating operations at some mail processing facilities, moving some mail processing employees from the day shift to evening hours, and streamlining transportation.
- Halting construction starts of new postal facilities.

To increase its revenues, USPS has increased rates, including a January 2009 increase for competitive products (e.g., Priority Mail and Express Mail), and a planned May 2009 increase for market-dominant products (e.g., First-Class Mail, Standard Mail, Periodicals, and some types of Package Services). USPS has also introduced volume discounts, negotiated service agreements, and added some enhancements to competitive products since the Postal Accountability and Enhancement Act of 2006 (PAEA) was enacted in 2006. However, these products generated only about 11 percent of USPS's revenues and covered about 6 percent of its overhead costs in fiscal year 2008. USPS is considering alternatives to try to increase First-Class Mail and Standard Mail revenues.

USPS Recently Reported on the Service Quality of Many Market-Dominant Products

USPS will be challenged to achieve and maintain high-quality service as it works to implement unprecedented cost-cutting measures. USPS recently reported for the first time on the service quality of many market-dominant postal products; thereby making important progress in improving transparency and meeting the requirements of PAEA. USPS has cautioned that limitations have affected the quality of new measurement data and said that it will work to improve data quality. As table 1 shows, on-time delivery of all major types of market-dominant products in the first quarter of fiscal year 2009 fell short of USPS's targets for the full fiscal year.

Table 1: USPS Service Results Did Not Meet Targets in the First Quarter of Fiscal Year 2009

	Percentage on time		
Type of market-dominant mail	**Target**	**Result**	**Shortfall**
First-Class Mail: single piece[a]			
1-day delivery standard	96.5	95.6	0.9
2-day delivery standard	94.0	91.9	2.1
3- to 5-day delivery standard	92.7	85.7	7.0
First-Class Mail: bulk[b]			
1-day delivery standard	96.5	91.2	5.3
2-day delivery standard	94.0	87.8	6.2
3- to 5-day delivery standard	92.7	84.2	8.5
International First-Class Mail: single piece[c]	94.0	86.2	7.8
Standard Mail[d]			
Destination entry	90.0	87.4	2.6
End-to-end (i.e., not destination entered)	90.0	77.2	12.8
Periodicals[e]	91.0	69.8	21.2
Package Services[f]	90.0	64.7	25.3

Source: USPS.

[a]Single-piece First-Class Mail was primarily measured by the External First-Class Measurement System (EXFC), administered by a USPS contractor. EXFC measures when test mail pieces (including letters, postcards, and large envelopes) are deposited in collection boxes and post office lobby chutes and received at various addresses. EXFC has been expanded to cover the entire country but does not cover remittance mail.

[b]Bulk First-Class Mail (i.e., mailings of at least 500 mail pieces sent via First-Class Mail) was primarily measured by scanning barcodes on letters deposited at some USPS mail processing facilities and received at various addresses.

[c]Single-piece international mail, including outbound and inbound mail, was primarily measured by an outside entity.

[d]Standard Mail was primarily measured by scanning barcodes on letters deposited at some USPS mail processing facilities and received at various addresses. Destination entry mail was entered at a USPS mail processing facility that was generally closer to where the mail was delivered.

[e]Measured periodicals included 46 publications that were mainly weekly publications.

[f]Measured package services included single-piece Parcel Post, Media Mail, library mail, and bound printed matter.

Note: For more information on the data and its limitations, see USPS targets at http://ribbs.usps.gov/index.cfm?page=targets and USPS results at http://www.usps.com/serviceperformance/.

To put these results into context, the timeliness of mail delivery is an important part of USPS's mission of providing affordable, high-quality universal postal services on a self-financing basis. USPS has stated that service is at the heart of its brand and the key to increasing its competitiveness and profitability.

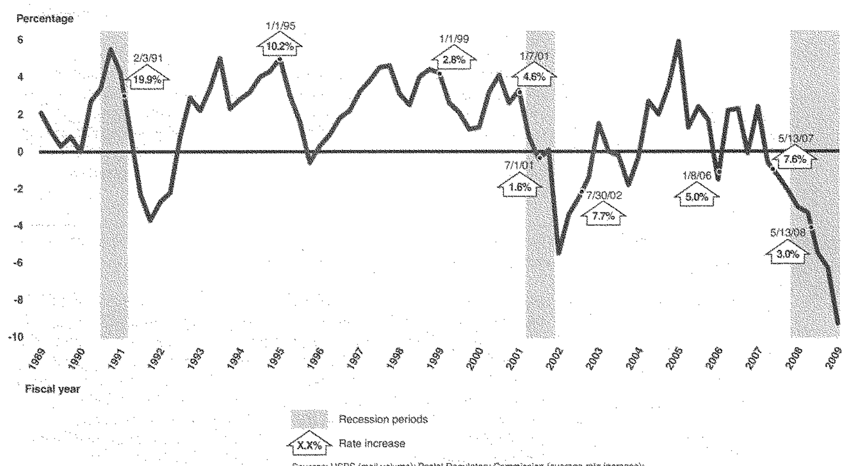
Action Is Needed on Options to Preserve USPS's Financial Viability

Action is needed on various options, as no single action will be sufficient for USPS to remain financially viable in the short and long term. The short-term challenge for USPS is to cut costs quickly enough to offset the unprecedented volume and revenue declines so that it does not run out of cash this fiscal year. The long-term challenge is to restructure USPS's entire operations and networks to reflect the changes in mail volume, mailer preferences, and USPS's capacity to cover its costs. Based on USPS's poor financial condition and outlook, the time to take action is relatively short, and USPS's business model[5] and its ability to remain self-financing may be in jeopardy.

A key factor in determining USPS's financial viability is whether mail volume will rebound sufficiently once the economy improves, as volume has done in the past, so that USPS revenues will cover costs (see fig. 2).

[5]Under its current business model, USPS can earn profits to remain self-supporting from postal revenue, which historically has grown with rising mail volume to help offset rising costs and help keep postal rates affordable. Mail volume has declined since fiscal year 2006, calling into question the assumption that volume growth and productivity increases will help sustain USPS's business model.

Figure 2: Quarterly Changes in Total Mail Volume, Fiscal Years 1989 through 2009



Sources: USPS (mail volume); Postal Regulatory Commission (average rate increase); National Bureau of Economic Research (recession periods).

Note: Quarterly changes are from the same quarter of the prior fiscal year.

As the Postal Regulatory Commission (PRC) noted in December 2008, current pressures from declining volume and revenue do not appear to be abating, but rather, seem to be increasing. During the economic downturn, there has been accelerated diversion of business and individual mail to electronic alternatives, and some mailers have left the mail entirely. An economic recovery may not stimulate the same rebound in mail volume as in the past, because of changes in how people communicate and use the mail. Specifically:

- First-Class Mail volume has declined in recent years and is expected to decline for the foreseeable future as businesses, nonprofit organizations, governments, and households continue to move to electronic alternatives, such as Internet bill payment, automatic deduction, and direct deposit. USPS's analysis has found that electronic diversion is associated with the growing adoption of broadband technology. As PRC reported, the availability of alternatives to mail eventually impacts mail volume.

- It is unclear whether Standard Mail will grow with an economic recovery. Standard Mail now faces growing competition from electronic alternatives, such as Internet-based search engine marketing, e-mail offers, and advertisements on Web sites. The average rate increase for Standard Mail is limited by the price cap to the increase in the Consumer Price Index, but future rate increases will likely have some impact on volume.

Options to Assist USPS through Its Short-Term Difficulties

Options to assist USPS through its short-term difficulties—some of which would require congressional action—include:

- *Reduce USPS payments for retiree health benefits for 8 years:* USPS has proposed that Congress change the statutory obligation to pay retiree health benefits premiums for current retirees from USPS to the Postal Service Retiree Health Benefits Fund (Fund) for the next 8 years. This proposal would also reduce USPS's expenses through 2016 by an estimated $25 billion—with $2 billion in fiscal year 2009, $2.3 billion in fiscal year 2010, and the remaining annual expenses increasing from $2.6 billion to $4.2 billion over the remaining 6 years. This proposal is poorly matched to alleviate USPS's immediate projected cash shortfalls. In addition, this proposal would reduce the Fund balance by an estimated $32 billion (including interest charges) by 2016,[6] so that in 2017, the remaining current unfunded obligation would be an estimated $75 billion (rather than $43 billion) to be amortized for future payments. This large obligation would create the risk that USPS would have difficulty making future payments, particularly considering mail volume trends and the impact of payments on postal rates if volume declines continue. USPS's proposal also would shift responsibility for these benefits from current to future rate payers.

- *Reduce USPS payments for retiree health benefits for 2 years:* Another option would be for Congress to revise USPS's statutory obligation so that the Fund, not USPS, would pay for current retiree health benefits for only 2 years (fiscal years 2009 and 2010), which

[6] USPS would continue making required annual payments of $5.4 billion to $5.8 billion for future retiree health benefits for fiscal years 2009 to 2016. For the schedule of retiree health benefit payments for current and future retirees, see table 1 of GAO-09-332T.

would provide USPS with $4.3 billion in relief. We support this option because it would have much less impact on the Fund and it would allow Congress to revisit USPS's financial condition to determine if further relief is needed and review actions USPS has taken in 2009 and 2010 to improve its viability. Relief from retiree health premium costs is no substitute for aggressive USPS action—beyond current efforts—to dramatically reduce costs and improve efficiency.

It is not clear that either of these options would be sufficient, because USPS projects it will operate on a thin margin. This means that even if such relief is provided, a cash shortfall could develop in either fiscal year 2009 and/or 2010 if USPS does not meet its ambitious cost-cutting goals, mail volume declines more than projected, or unexpected costs materialize, such as unexpected increases in fuel costs.

One option that would not require congressional action would be for USPS and its unions to continue their dialogue and agree on ways to achieve additional short-term savings, such as by modifying rules to facilitate reducing work hours. Such labor-management cooperation is critical to USPS's ability to make immediate changes in order to achieve cost reductions.

Other available options, based on statutory provisions, could include (1) seeking PRC approval for an exigent rate increase[7] and (2) increasing USPS's annual borrowing limit. First, USPS could request PRC approval for an exigent rate increase that would increase rates for market-dominant classes of mail above the statutory price cap. Mailers have voiced strong concern about the potential impact of such a rate increase on their businesses. In our view, this option should be a last resort. It could be self-defeating for USPS in both the short and long term because it could increase incentives for mailers to further reduce their use of the mail. Second, Congress could temporarily raise the statutory $3 billion annual limit on increases in USPS's debt, which would provide USPS with funding if needed. This option would be preferable to an exigent rate increase. However, it is unclear when USPS would repay any added debt, which would quicken USPS's movement toward its $15 billion statutory debt limit. In our view, this option should be regarded only as an emergency stop-gap measure.

[7]An exigent rate increase is a rate increase for market-dominant products that exceeds the price cap due to extraordinary or exceptional circumstances.

Comprehensive Action Is Urgently Needed on Options to Keep USPS Viable

Although USPS is taking unprecedented actions to cut costs, comprehensive action beyond USPS's current efforts is urgently needed to maintain financial viability. Given the growing gap between revenues and expenses, USPS's business model and its ability to remain self-financing may be in jeopardy. Progress in many areas will be needed so that USPS can cover operating expenses and maintain and modernize its infrastructure.

I want to emphasize that action is urgently needed to streamline USPS's costs in two areas where it has been particularly difficult—compensation and benefits and the mail processing and retail networks. We have reported for many years that USPS needs to right size its workforce and realign its network of mail processing and retail facilities. USPS has made some progress, particularly by reducing its workforce by more than 100,000 employees since 2000 with no layoffs and by closing some smaller mail processing facilities. Yet, as USPS recognizes, more needs to be done. USPS no longer has sufficient revenue to cover the cost of maintaining its large network of processing and retail facilities. Closing postal facilities would be controversial, but is necessary to streamline costs. Congress encouraged USPS to expeditiously move forward in its streamlining efforts in PAEA, and its continued support would be helpful to facilitate progress in this area. We recommended that USPS enhance the transparency and strengthen the accountability of its realignment efforts to assure stakeholders that realignment would be implemented fairly, preserve access to postal services, and achieve the desired results. USPS has taken steps to address our recommendations and, thus, should be positioned to take action.

In addition, it is imperative for USPS and Congress to take informed action to review mail use, what future postal services will be needed, and what operational and statutory options are available to provide those services. Key areas with options include:

- *Universal Postal Service:* A recently completed PRC study identified options for universal service and trade-offs involving quality and costs.[8] When USPS asked Congress in January 2009 to eliminate the long-standing statutory provision mandating 6-day delivery, it provided little information on where it would reduce delivery frequency, and the

[8] PRC, *Report on Universal Postal Service and the Postal Monopoly* (Washington, D.C.: Dec. 19, 2008).

potential impact on cost, mail volume, revenue, and mail users. Because the number of delivery days is fundamental to universal service, Congress should have more complete information before it considers any statutory changes in this area. A mechanism to obtain such information would be for USPS to request an advisory opinion from PRC, which would lead to a public proceeding that could generate information on USPS's request and stakeholder input.[9]

- *USPS workforce costs:* USPS's ability to control wage and benefit costs will be critical to cost-saving efforts. One option would be for USPS and its unions to negotiate changes to wages and benefits that apply to employees covered by collective bargaining agreements. USPS will begin negotiating next year with two of its major unions, whose agreements will expire in November 2010, and the following year with its other two major unions, whose agreements expire in November 2011.
- *Retail postal service:* USPS has alternatives to provide lower-cost retail services than in traditional post offices, such as contract postal facilities, carrier pick-up of packages, and selling stamps at supermarkets, drug stores, and by telephone, mail, and the Internet. USPS's retail network has been largely static, despite the expansion of alternatives, population shifts, and changes in mailing behavior. We have reported that USPS could close unnecessary retail facilities and lower its network costs.[10] It is important to note that large retail facilities—generally located in large urban areas where more postal retail alternatives are available—generate much higher costs than the smallest rural facilities and may, therefore, potentially generate more cost savings.
- *Mail processing:* USPS has several options for realigning its mail processing operations to eliminate growing excess capacity and associated costs, but has taken only limited action. In 2005, we reported that, according to USPS officials, declining mail volume,

[9]When USPS determines that there should be a change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis, it is required to submit a proposal to the PRC that requests an advisory opinion on that change within a reasonable time period prior to the change. PRC is required to hold a hearing on the proposal before issuing its written opinion. 39 U.S.C. § 3661.

[10]GAO, *U.S. Postal Service Facilities: Improvements in Data Would Strengthen Maintenance and Alignment of Access to Retail Services*, GAO-08-41 (Washington, D.C.: Dec. 10, 2007).

worksharing, and the evolution of mail processing operations from manual to automated equipment has led to excess capacity that has impeded efficiency gains.[11] USPS has terminated operations at 58 Airport Mail Centers in recent years, but has closed only 1 of over 400 major mail processing facilities.[12] As USPS consolidates its operations, it needs to consider how it can best use its facilities, if it is cost effective to retain ones that are underutilized, and take the actions necessary to right size its network.

- *Transportation:* Various options exist for reducing USPS's transportation costs beyond its current streamlining efforts. For example, a joint USPS-mailer workgroup has identified a destination entry discount for First-Class Mail as an option that could reduce the need for USPS to provide long-distance transportation and some mail processing.[13] USPS could publicly provide its analysis of the potential savings and the impact of such a discount.

- *Delivery:* USPS has various options for reducing delivery costs by continuing to realign delivery routes, implementing efficiency initiatives, and making more fundamental changes to delivery operations, such as delivering mail to more cost-effective receptacles, including cluster boxes.

- *USPS's business model:* We will discuss options to change USPS's business model in a report that PAEA requires us to issue by December 2011.

Given USPS's projection that it faces record losses and cash shortfalls, it is important for USPS to continue providing Congress and the public with timely and sufficiently detailed information to understand USPS's current financial situation and outlook. Such information is essential to help congressional policymakers understand USPS actions and plans to

[11]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, 2005).

[12]GAO, *U.S. Postal Service: USPS Has Taken Steps to Strengthen Network Realignment Planning and Accountability and Improve Communication*, GAO-08-1022T (Washington, D.C.: July 24, 2008).

[13]Destination entry involves mailers depositing mail at a USPS facility that is generally closer to the final destination of the mail, bypassing some USPS transportation and processing activities.

Appendix I: Preliminary U.S. Postal Service Mail Volume and Revenue for January 2009 and the First 4 Months of Fiscal Year 2009

(Volume and revenue data in thousands)

Type of Mail	Jan. 2009	Jan. 2008	Percentage change	FY 2009 through Jan. 2009	FY 2008 through Jan. 2008	Percentage change
First-Class Mail						
Volume	7,641,364	8,546,159	-10.6%	30,350,690	33,030,574	-8.1%
Revenue	$3,182,690	$3,477,810	-8.5%	$12,836,527	$13,656,481	-6.0%
Standard Mail						
Volume	6,566,304	8,451,862	-22.3%	31,174,125	36,086,078	-13.6%
Revenue	$1,374,231	$1,749,154	-21.4%	$6,501,587	$7,493,397	-13.2%
Periodicals						
Volume	652,330	753,782	-13.5%	2,777,442	2,955,817	-6.0%
Revenue	$160,629	$193,016	-16.8%	$725,531	$796,818	-8.9%
Package Services						
Volume	69,018	80,885	-14.7%	284,318	316,020	-10.0%
Revenue	$159,220	$171,474	-7.1%	$659,364	$697,026	-5.4%
Subtotal, Market-dominant products[a]						
Volume	14,968,479	17,880,497	-16.3%	64,771,862	72,790,013	-11.0%
Revenue	$5,167,465	$5,910,707	-12.6%	$21,927,980	$23,905,935	-8.3%
Competitive products[b]						
Volume	112,015	131,041	-14.5%	512,535	578,773	-11.4%
Revenue	$634,730	$668,827	-5.1%	$2,974,829	$3,051,239	-2.5%
TOTAL						
Volume	**15,080,494**	**18,011,538**	**-16.3%**	**65,284,397**	**73,368,786**	**-11.0%**
Revenue	**$5,802,195**	**$6,579,534**	**-11.8%**	**$24,902,808**	**$26,957,175**	**-7.6%**

Source: U.S. Postal Service.

Note: January 2009 data are preliminary. For data limitations, see http://www.prc.gov/Docs/62/62499/PFI-Jan2009-MV-MR-Jan2009-PE-Jan2009-PW-Jan2009.pdf. Subtotals for market-dominant products are greater than the types of market-dominant mail in this table because data for some market-dominant mail (U.S. Postal Service mail and Free Mail for the Blind) are not shown.

[a]Market-dominant products primarily include First-Class Mail—domestic and international single-piece mail (e.g., bill payments and letters) and domestic bulk mail (e.g., bills and advertising); Standard Mail (mainly bulk advertising and direct mail solicitations), periodicals (mainly magazines and local newspapers), some types of package services (primarily single-piece Parcel Post, Media Mail, library mail, and bound printed matter). Market-dominant revenues also include revenues from services such as post office boxes and Delivery Confirmation.

[b]Competitive products primarily include Express Mail; Priority Mail; bulk Parcel Post, which the Postal Service calls Parcel Select; and bulk international mail. The Postal Service did not report separate data for each competitive product, which the Postal Service considers to be proprietary.

maintain its financial viability in both the short and long term, particularly in view of proposals to give USPS financial relief from some retiree health benefit costs. Recently USPS took steps in this direction by providing monthly financial information to the PRC, which then made this information publicly available.

We asked USPS to comment on a draft of our testimony. USPS generally agreed with the accuracy of our statement and provided technical comments, which we incorporated where appropriate.

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

Contact and Acknowledgments

For further information regarding this statement, please contact Phillip Herr at (202) 512-2834 or herrp@gao.gov. Individuals who made key contributions to this statement include Shirley Abel, Teresa Anderson, David Hooper, Kenneth John, Emily Larson, Joshua Ormond, Susan Ragland, and Crystal Wesco.

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Mr. LYNCH. Thank you very much, both of you.

As you may have heard, we have a couple of votes, just two votes on the floor. I expect we should be back here in about 25 minutes. Again, I apologize to all of you. Thank you.

[Recess.]

Mr. LYNCH. Again, I apologize for the slight delay there and being called there for votes. That is the nature of the best, I guess. And again, thank you for your testimony, Mr. Williams and Mr. Herr.

Let me ask, you touched on earlier on, Mr. Williams, an issue that we have been discussing with previous panels regarding the request in H.R. 22 for relief from the current contribution plan into the trust. And I am interested in this idea that you have proposed about, instead of going with the 8-year plan as had been envisioned by Mr. Potter and others, looking at a 2-year window and then I believe reassessing at that point.

Could you expand on that a little bit? I think it has some value. I haven't heard the other argument about why we shouldn't do that, but if you could.

Mr. WILLIAMS. Actually, we are fortunate enough to have GAO, and that was their proposal, that it either stopped or paused after the 2-years. So I am going to ask Mr. Herr to——

Mr. LYNCH. Mr. Williams, you did mention it though, right?

Mr. WILLIAMS. We did not.

Mr. LYNCH. No, you did not. OK, Mr. Herr, I am sorry.

Mr. HERR. That is fine, no problem.

Mr. LYNCH. I give you great credit, then, I am sorry. [Laughter.]

Mr. HERR. The reason that we think that it is important to do the 2-years is one, we recognize that immediate financial relief is warranted. We think given the financial situation the Postal Service is in, the amount that would be covered would be $2 billion and $2.3 billion next year. So we think that would help them overcome the cash shortfall that they are anticipating for this year.

But we also think over the longer term it is important to ensure the sustainability of the fund, to ensure that those retirees and their families are covered, to have some certainty that benefit will be there for them.

The thought behind the 2-year idea that we are sympathetic to is that it provides also the Congress with the opportunity to come back, take a look at this in 2 years, to see whether or not the Postal Service has made the kinds of changes that are needed to help it become, really thinking about its business model, becoming more financially sustainable. So that keeps your option open to come back, see whether or not you would want to do this again, to provide two more or you would go after the additional 8. It doesn't forego that, it just simply gives you more options in terms of policy.

Mr. LYNCH. OK. Well, I am going to go back and forth a couple of times with that idea, back to the proponents and see where we come out here.

Let me jump to another issue which is the housing relocations. Mr. Williams, we did have a couple of stories in the press, I know one by CNN, about somewhat exorbitant prices being paid for relocation of Postal Service employees. A fairly large amount, it looked like over $100 million in 2007, 2008 for relocation purposes and for employee reimbursements, I guess. Have you looked at this issue in particular?

Mr. WILLIAMS. We have just received, actually, when CNN first broke the story, we began, Senator Grassley called us and we worked out a request for an audit of the area. We have commenced the audit. Then Senator Collins joined the request and expanded on its parameters a bit. So we have just begun looking at that specific issue. We were very pleased to work with your staff as well and have at least had discussions about it.

We are trying to look at the instant case and we are trying to find other cases like it, and then we are trying to look at best practices employed by others. We hope to in a timely fashion provide light on it in time for this look that Chairman Gallagher referred to in hopes that we can affect its outcome and make sure that we have informed the debate on both sides and allowed enough information to be present to alter the policies.

Mr. LYNCH. OK. If it helps, we would make a formal request to join with Senators Grassley and Collins as a House entity interested in that issue. So whatever is required of us to get involved and included in that loop on information, the committee would greatly appreciate it.

At this point, I would like to yield to my colleague, Mr. Chaffetz, of Utah for 5 minutes.

Mr. CHAFFETZ. Thank you, Mr. Chairman. I too had questions about the relocation assistance policy, so it is good to know that you are moving forward on that.

Mr. Williams, can you give us any insight and confirmation that there is indeed an investigation regarding Mr. Potter specifically as it relates to this possible sweetheart deal that he got from Countrywide?

Mr. WILLIAMS. There is a very broad-based investigation going on involving Countrywide being conducted by the U.S. Attorneys Office. It is in early stages and we are cooperating because of the incident that you explored and reported on earlier.

We have done as much work as we can until records begin to arrive in response to a subpoena that was issued by the Department of Justice. They are mostly concerned with instances where there was a clear quid pro quo on their end. But there are going to be, there are other loans, including the one that you brought up and discussed with the Postmaster General, that also need to be examined. A light needs to be shed on those.

Mr. CHAFFETZ. Is that something you will specifically be looking into?

Mr. WILLIAMS. We are. It is under the direction of the larger investigation and that also is going to dictate a bit of the pace of it. But knowing of your interest, of course, we are going to make you aware of that.

Mr. CHAFFETZ. Thank you. I appreciate that.

My understanding is, and I want to see if you are aware of the two postal employees in Elkridge that were recently arrested for stealing more than $600,000 in stamps and selling them on eBay. Do you have any reason to believe that this is a widespread problem and do you have an other light on this specific instance?

Mr. WILLIAMS. That is a very large instance. There have been other instances of both the theft and diversion of postage. It is postage and cash are of course are commonly dealt with. They can also be concealed. They can be moved from machine to machine and the Postal Service has a very good policy of how to keep track of that and close out timely. But policies aren't always followed. And in this instance, that is precisely what happened. It had been a long time since those had been audited. When they were audited we confirmed that the losses were quite large.

Mr. CHAFFETZ. Are there mechanisms being put in place to deal with it so that it doesn't happen even on a small scale?

Mr. WILLIAMS. They are doing their best to assure that the policies that are in place for accountability and rapid closeouts are being conformed with.

Mr. CHAFFETZ. Thank you.

Mr. Herr, this idea of 2 years versus 8 years, I just want to explore that. Would that give them sufficient time in order to maybe develop a more long-term plan?

Mr. HERR. I think that would be one of the benefits you could see. As I mentioned in my oral statement, we think that would also allow Congress to keep an eye on how things are evolving in terms of the financial situation. One thing I would like to point out about how the payments are structured over the 8 years, they start off at $2 billion, but then by 2016 they actually go up to $4.2 billion. So much of the relief is front-loaded, if you will. So that 2-year period would allow Congress to look for a plan, look for what some of the options would be going forward. We outline some of those in my testimony as well.

Mr. CHAFFETZ. Very good. Last thing, Mr. Chairman.

Again, going back to the President's Commission that was executed a couple of years ago, this idea of a postal network optimization committee to look at the closing of facilities, is that something you have taken an opinion on or want to state an opinion on?

Mr. HERR. It is something I think in the past that has come up previously . I think part of it would be a question of how something like that were to be structured. Obviously, closing postal facilities anywhere is an issue that is difficult for the Service, I think partly because of interest from a number of different parties. So it may be important to provide——

Mr. CHAFFETZ. Do you see anything formally underway at all?

Mr. HERR. Not that I am aware of, no, sir.

Mr. WILLIAMS. There is a great deal of activity with regard to examining the possible combinations and reduction of this oversized network that we have. But it is not a national effort. There is a great deal happening at the local level. And then the job of the national effort is to make sure that big highways that the mail moves on and so forth are not disrupted by local decisions.

But there have been a lot of closures already. There have been 60 air mail centers and 52 annexes, 10 remote encoding centers. There have been 10 of these successful local efforts, there are 16 on the horizon now and deeper into the process there are the beginnings of as many as 40 more. That is another way of engaging in this without a BRAC-type of effort. But the BRAC-type of effort does have merit.

Mr. CHAFFETZ. Thank you, Mr. Chairman.

Mr. LYNCH. Thank you.

Mr. Williams, I don't know if you were here for the testimony of Postmaster General Potter and Ms. Gallagher, who was formerly on the compensation committee. In looking at the framework that the compensation committee uses to determine the CEO's salary here for the Postmaster General, there seem to be a couple of balancing statutes. One is a statute that I believe in 2006 requires the salary to sort of be pegged to the Vice President's salary, 120 percent of that as a maximum.

Then there is another part of the statute I believe, it might have been PAEA, that says the salaries to the degree possible, should be comparable to private sector. Those seem to be, at least in this case, at odds. In terms of the process they used in arriving at the salary and then applying the bonus and the whole package, did the compensation committee operate within the legitimate framework? I know they had the same struggle in terms of the testimony of Ms. Gallagher, she said they sort of struggled with the two statutes and perhaps it is Congress' fault for entering into an area of considerable ambiguity in the statute, trying to get people to follow two directions that are not necessarily going in the same direction.

But your own opinion of the job they did?

Mr. WILLIAMS. Some clarity with regard to the two references and the two directions would be useful. I know that what we tried to do when we became aware that deferred compensation had been paid, we tried to work with both your staff and then we also worked on the Senate side to try to draw together all of the legal references and assure that there was a legal basis for both the bonuses and then for the usage of deferred compensation, which I was not familiar with.

We worked with OPM as well, and they are telling us that this situation that occurred here was the one for which their opinions had been formulated, that if a salary and a bonus goes over the cap, whatever that cap is, that it may be paid in deferred payments. Then we asked them had it ever been done. In my knowledge, we had driven off the map at that point. They said 23 departments had done it and there were 81 individuals that had been given deferred payments for this.

There does seem to be a legal basis for both of those, for the bonuses and you gave some of the citations. They are a bit fragmented and there are a number of them. And then for the deferred payment, we rely upon Title V in OPM. Actually, GAO has done some legal opinions with regard to abuses of deferred compensation, and it does not appear that what happened here——

Mr. LYNCH. Let me just sort of refine my question a little bit, then. The deferred compensation aspect of this, you have a current year cap and it seems to me that they exceeded that cap by putting the money into the next year, or not necessarily the next year, but future years. It looked to me, as someone who worked for 20 years for a fixed wage, per hour, it seemed to be a way of getting around the cap by putting the money in other years, which I thought at least at first blush contravened the intent of Congress in putting in a yearly cap. Am I wrong on this, or how usual is this? Is it a function of, Mr. Potter, using his example, has been an employee for 31 years. And so obviously, over those years, and these are his latest years, going into year 31, obviously he has built up some value in his pension fund.

I guess what I am asking, is it a function of that, that he is in the latter years of a long, long length of service in the post office and now what he has there, the corpus of his retirement is compounding rapidly now because he is at the end of his career, is that it or was there a conscious decision by the compensation committee to inject something, make a contribution into something that actually exceeded the statutory cap?

Mr. WILLIAMS. The deferred payments were not a result of the accrual and increasing in value of his pension, as far as we could determine. It looked as though that they arrived at his salary and they did use consultants to do that, as Chairman Gallagher said, and then they had the two bonuses, the one for the PFP and the one for the contract that Governor Gallagher was describing. Those went over the cap and so it defaulted to this OPM decision and process for when that happens, then that is to pay it in the next year for which you are eligible and have not reached the cap.

So in most instances what that means is after retirement, and in all likelihood, that is what is going to occur with regard to the Postmaster General. So it was the bonus.

Mr. LYNCH. Yes, a windfall, then.

Mr. WILLIAMS. I am sorry, sir?

Mr. LYNCH. It was a windfall.

Mr. WILLIAMS. I am not sure if that is precisely the word I would have used. They knew that they had gone over the cap. And then they defaulted to the direction of OPM and that was the applicable statute.

Mr. LYNCH. All right, I am sure I have exceeded my time limit. Are you OK?

Well, let me ask you, what would you suggest as a remedy? We can't have this situation where you have a cap, I mean, do you think it would be worthwhile for Congress to consider clarification of the statute and then cap everything, plug these holes and address that whole year to year deferment situation?

Mr. WILLIAMS. Because my jurisdiction sort of ends at the Postal boundary, I have not found out what caused OPM to develop this system of deferred payments. That would be a good thing to learn and to discover. We have some idea, but I would like to have a much better understanding of that. The only reason that we are having this committee examine this is because it was disclosed by the Postal Service. Apparently it has happened in 81 instances in 23 departments. This is a very large issue and I don't understand why it was created. It could have some merit, but I just don't know its origins.

Mr. LYNCH. All right, that is a fair answer. If you are the Inspector General and you don't know, then we all have a problem. And I am sure you are being very diligent on the issue. Maybe it is something the committee needs to look at separately and apart from this one instance that might be clouded because we keep referring to Mr. Potter. Maybe it is better to look at it as sort of a statutory issue, take the personal politics out of it.

Mr. Potter indicated that he thought the only way back to viability is really through mail volume, increase in mail volume. Technology does not support that trend, however, with the use of emails and folks paying their bills online. It is becoming, as the computer-savvy generation gets a little bit older, it is usually old folks like me that use the mail for paying their bills. So I don't see that situation getting any better.

Do you think the facts out there and the trends support Mr. Potter's assumption that things could get better on that end and that we can balance, we can get this system back into viability on volume?

Mr. WILLIAMS. I am not sure all the mail is going to come back when the good times return. I do believe that the end of this crisis is going to come and that some of the mail will return. I think a better option are the ones that Mr. Davis and Ms. Norton were talking about, a new model and a new plan. There are a lot of options for viability out there for us. I think it is going to be a very different type of Postal Service when we come out of this.

Actually, shipping probably has a brighter future, and certain kinds of mail are going to be become very important. And we can probably migrate into things such as saturation or neighborhood mail in a way that we have not in the past. As I imagine the future, very powerful, sort of first mile, last mile alliances with the competition would have all kinds of benefits. It would be financially rewarding.

And then at the same time, it would allow a single large truck to go through a neighborhood instead of all of these trucks bumping into one another and moving through all these crowded neighborhoods, from UPS and FedEx and no longer DHL but the Postal Service. I think coming together would be a very green solution and it would be financially very viable, too.

I think we can incentivize employees in a better way and we can deploy them against the operational model in a more flexible, agile fashion. I like what we are doing with seamless acceptance and the intelligent mail bar code that is going to allow all kinds of benefits for the customers and for internal operations. The Postal Service has gotten much better in the last few years on using information and gathering information. Bill Galligan is sort of a national treasure with regard to the development and understanding of operations that helped us immensely tighten the efficiency of the operation.

I am pretty hopeful. Maybe not for the same reason. But we have a lot of options. The other thing I loved about Congressman Davis' comment is we do need to listen more. Our customers are very, very bright, and sometimes I think we are very guilty of not having listened to them. The people who make the equipment are smart as they can be. They live by their wits and I think a lot of times we turn them away with wonderful ideas.

Mr. LYNCH. OK. Mr. Herr, in your testimony, you suggested that beyond the Postal Service's aggressive plan here that they say is urgently needed for viability, you suggest that may not indeed be enough, what they have on the table right now. What action do you think is needed here if that is not enough?

Mr. HERR. Well, at this point they are looking to take $5.9 billion out in costs and as I mentioned earlier that would be unprecedented. They have made good progress on it so far this year. But to make sure that happens without any additional shocks that could come, say, from a fuel increase or something like that, so as we mentioned in the statement, they need to be sure to think about that. Looking at retail facilities, if there are opportunities to do that, and we specifically mentioned facilities in urban areas rather than small rural post offices, we think that may be an area, places that have multiple options.

Other things, work with the unions to find ways to, there have been some real efforts to reduce costs for delivery services. That has been a real breakthrough agreement that they had with one of their unions on that. So there are ways there to move forward, too.

And I think more broadly, because 80 percent of their costs are compensation and benefits, they need to take a look at what options are there. That is certainly the largest cost center.

Mr. LYNCH. Yes. And given the transportation costs associated with the post office, we have caught a real break here in the past 8 months with the price of fuel. That has been somewhat of a stimulus. We have dodged that bullet while we are facing some others.

I am not sure if the gentleman from Illinois has any questions.

Mr. DAVIS. Mr. Chairman, I do.

Mr. LYNCH. The Chair recognizes the gentleman from Illinois, Mr. Davis, for 5 minutes.

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

Mr. Williams, Mr. Herr, it is good to see you both.

Mr. Herr, let me ask you, the Postal Service is required to prefund 80 percent of its future liability for retiree health benefits by 2016. Do you know of any company in the country that is required or chooses to pre-fund on such an accelerated schedule?

Mr. HERR. I am not familiar with companies, but I do know in the Federal Government, other agencies, including GAO, pre-fund retiree health care benefits. My understanding from talking with our financial folks at GAO is that the Postal Service was behind in terms of making these payments. So in a sense, this represents an effort to catch up. That is why, well, one, their number of employees is large, and for that reason the size of the payment is large as well, sir.

Mr. DAVIS. Also under H.R. 22, the Postal Service would still be pre-funding on the order of some $2 billion a year by 2016, a little more than 4 percent of the unfunded liability per year. Although most private companies do not pre-fund at all, do you know any percentage of companies or what percentage of companies in the private sector that might fund at that level?

Mr. HERR. I am not aware, we did not look specifically at the private sector. We took a hard look at the numbers the Postal Service had provided to us.

Mr. DAVIS. Thank you very much.

Mr. Williams, let me ask you, we are obviously looking for all the cost savings possibilities that we can possibly find, hope to find, look to find, if there is anything to find. When you look at the Postal Service's utilization of fuel, do you have any comments that you could make relative to what their utilization seems to be?

Mr. WILLIAMS. We have recommended to them in the past that they engage in the purchase of futures of fuel. And of course, that definitely faded into the background when the price of gasoline spiked. As it lowers again, it might be tempting to reconsider the purchase of that. I think as the network is right-sized, there will be fewer places to drive between and among. And that is going to result in some conservation. The possibilities for alternative fuel is very exciting. I would love to get more involved in it and I believe we are going to be meeting with Congressman Serrano on exploring some of those possibilities. Those would be great solutions if the technology is mature enough.

We have taken a false step in the past with ethanol. We bought ethanol, 1,300 trucks and we don't use ethanol fuel in them, we use regular gasoline because of the availability. So it does pay to look before we leap. But there are some exciting possibilities out there on that front.

Mr. DAVIS. We have all been excited and delighted recently, at least in the last 3, 4 months, but we never quite know what might happen in the future. And just as we have experienced some price reductions, it is also possible that we might be in a situation again where the prices escalate. That is a possibility.

Mr. WILLIAMS. I agree.

Mr. DAVIS. Thank you very much. I have no further questions, Mr. Chairman.

Mr. LYNCH. Thank you.

I want to thank both of you for your great testimony here. Thank you for helping the committee with its work. We will continue to work on a couple of these issues outside of committee, outside of hearing. But we really appreciate your willingness to come here and testify today. You are free to go and have a good day.

I would like to invite the next panel up, just to get you seated.

Welcome, gentlemen, Mr. Goff, Mr. Mapa, Mr. Keating. We appreciate your willingness to come before the committee to help us with its work.

It is the committee policy that all witnesses are sworn in, so I would like to ask you to rise and please raise your right hands.

[Witnesses sworn.]

Mr. LYNCH. Let the record reflect that the witnesses have answered in the affirmative.

Mr. Dale Goff is the president of the National Association of Postmasters of the United States. Dale Goff is in his 39th year with the U.S. Postal Service, and began as a postal assistant in New Orleans. He has been a member of the National Association of Postmasters for 29 years. His NAPUS positions have included State president, national vice president, national president, among others. He was also postmaster of the year in 1994.

Mr. Charles Mapa is president of the National League of Postmasters of the United States. Charles Mapa is a postal and military veteran with 35 years of service. Mr. Mapa has been a member of the National League of Postmasters for 24 years. He has also served as the California branch vice president, executive vice president and president. Mr. Mapa was elected national president in 2006 and re-elected in 2008.

Mr. Ted Keating is president of the National Association of Postal Supervisors. Mr. Keating worked for the U.S. Postal Service for 40 years, following 4 years with the Air Force. Mr. Keating began his membership in the National Association of Postal Supervisors as a member of the Northeastern Branch 498. For 15 years, Mr. Keating served on the Massachusetts State Executive Board, including 9 years in which he held the position of secretary-treasurer. Mr. Keating was elected to the position of executive vice president of the National Association of Postal Supervisors in August 1998. Mr. Keating retired from the Postal Service in October 2004, and has assumed the presidency of the Association in December 2004.

Welcome, gentlemen and Mr. Goff, if you could, we will welcome your opening statement.

STATEMENTS OF DALE GOFF, PRESIDENT, NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES AND POSTMASTER OF COVINGTON, LA; CHARLES W. MAPA, PRESIDENT, NATIONAL LEAGUE OF POSTMASTERS; AND TED KEATING, PRESIDENT, NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

STATEMENT OF DALE GOFF

Mr. GOFF. Mr. Chairman, my name is Dale Goff. I am president of the 40,000-member National Association of Postmasters of the United States [NAPUS]. I am also postmaster of Covington, LA.

I represent the managers in charge of the 27,000 independent post offices in this Nation. These post offices serve urban, suburban and rural communities. Some of these post offices support a network of postal stations, community postal units and contracted postal stations. Other offices are so small that they define the community, employ just the postmaster and have limited hours of operation.

For customers living in isolated towns, the post office is their lifeline to the outside world. During this past summer, a New England postmaster illustrated this point at a PRC hearing on the universal service obligation. The postmaster serves a remote offshore town and is the commercial hub of the island. The post office is the town's pharmacy, since mail order drug companies are the primary means of dispensing medications, and the town's bank, since money orders are used for commerce.

The picture being painted today is not very pretty. Mail volume is crashing and so is its associated revenue. Service cuts and work hour reductions are deep and wide. Residential and business customers feel the squeeze as postmasters are being directed to cut window hours, close on Saturdays, consolidate delivery routes, defer necessary repairs and restrict access to mail supplies. Service and safety are being compromised. These actions are the result of factors that are beyond the control of the agency. The economic contraction has swallowed up mail volume and revenue.

My fear is that too short a financial lifeline is fools gold. As front line managers, postmasters are highly qualified to offer input with regard to the financial instability of the Postal Service and long-term strategies for streamlining its operations. First and foremost, it is crucial that the committee report favorably H.R. 22, bipartisan legislation to provide the Postal Service and its customers a temporary financial lifeline. This measure permits the Postal Service to accelerate the effective date of using the Postal Retirees Health Benefit Trust Fund to pay current retiree premiums. It amortizes the remaining fund liability to a more attainable period of time. This proposal is neither a bailout, nor does it cost U.S. taxpayers a dime. H.R. 22 is fair, responsible and helps protect the universal postal service.

It is imperative to note that the crisis plaguing the Postal Service is beyond its control and a fiscal climate exists that Congress did not envision when the postal reform law was enacted. Now the tools with which Congress equipped the Postal Service and the associated fiscal requirements are problematic. Postmasters are troubled by budget analysis which theorizes that temporary postal relief would undermine efficient business practices and aggressive cost-cutting.

Mr. Chairman, extinction of universal postal service would be the product without passage of postal relief legislation. In the absence of such legislation, postal doomsday falls on Wednesday September 30, 2009. On that date, the Postal Service will no longer be able to perform its constitutional duties on behalf of our country. Eight percent of this Nation's gross domestic product is tied to the Postal Service. So failing to respond to this crisis is not an option.

The administration can help to alleviate this crisis. The Office of Personnel Management has the authority to more accurately recompute the 2002 estimate of the USPS projected overpayment into the Civil Service Retirement Trust Fund. The calculation made by the previous administration significantly understated the overpayment.

The Postal Service can help itself. Clearly, the immense postal bureaucracy contributes to inefficiencies in costs. In 2003, NAPUS testified before the President's Commission on the U.S. Postal Service about the necessity to de-layer the bureaucracy. Last Friday, the Postal Service took a step in the right direction but fell short of this mark.

Fortuitously, last week I glanced through the manuscript of a 1951 hearing before the House Post Office and Civil Service Committee. The hearing record relates that the Hoover Report on Government Reorganization provided for the decentralization of the Postal Service into 15 regions, enabling closer supervision of the more than 40,000 post offices. Mr. Chairman, today we have 13,000 fewer offices than in 1951. Yet the Postal Service finances about six times as many districts as proposed in the Hoover report.

Mr. LYNCH. Mr. Goff, you have exceeded the time limit. What I am going to do is this. I am going to let you finish your statement when I come back. I know you have a few more pages there, I am reading along with you. But I have a vote on the floor and I cannot miss it. Actually, I have two or three votes. These will be the last votes for the day so we will be able to finish up when I come back. Thank you, and again I apologize.

[Recess.]

Mr. LYNCH. Again, my apologies for the delay.

Mr. Goff, If you could just sum up that would be great, and then we will continue with the testimony.

Mr. GOFF. I will be glad to, Mr. Chairman.

Mr. LYNCH. Thank you, sir.

Mr. GOFF. The recommendation that was made back in 1951 said that instead of saving money and bringing about more efficient operations, the cost for money for the post office and the amount of bureaucracy that would be there that would have little districts out there where we would have just all different types of postmaster generals. What we are asking for, Mr. Chairman, is that the future of the Postal Service is in the hands of this committee and H.R. 22 is the only means right now for the salvation that we could get.

Mr. Chairman, I do apologize, I am from the south so I talk a little slow.

[The prepared statement of Mr. Goff follows:]

NAPUS

Postmasters—Proudly Serving America

NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES

TESTIMONY OF

DALE GOFF

PRESIDENT

POSTMASTER OF COVINGTON, LA

BEFORE THE

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

WASHINGTON, DC

MARCH 25, 2009

Mr. Chairman, distinguished Committee members, my name is Dale Goff. I am President of the 40,000-member National Association of Postmasters of the United States (NAPUS). I am also the proud Postmaster of Covington, Louisiana.

In my capacity as NAPUS President, I represent the managers-in-charge of the 27,000 independent Post Offices in this nation. These post offices serve Americans residing and working in urban, suburban and rural communities. Some of these post offices support a network of postal stations, community postal units and contracted postal stations; other offices are so small that they define a community, employ just the Postmaster, and have limited hours of operation. Customers living in these isolated towns pick up their mail on a daily basis; a post office is their lifeline to the outside world. In fact, during this past summer, three NAPUS members testified before the Postal Regulatory Commission on the importance of small and rural post offices. A New England Postmaster, serving a remote off-shore town, stressed that her office is the commercial hub of the island. Mail is ferried to and from the island post office. The post office is the town's pharmacy, since mail order drug companies are the primary means of dispensing medications, and the town's bank, since postal money orders are used for commerce.

The picture being painted today is not very pretty. Mail volume is crashing, and so is its associated revenue. Service cuts and work hour reductions are not only being implemented, they are being deepened. Countless post office residential and business customers are feeling the squeeze as Postmasters are being directed to cut window hours, close on Saturdays, consolidate delivery routes, defer necessary repairs, and restrict access to mail supplies. Service and safety are being compromised. Regrettably, the factors that have necessitated these actions are way beyond the control of the agency. The extended national economic contraction has swallowed up mail volume and revenue. My fear is that the recession will be longer than anticipated and too short a financial lifeline is fool's gold.

As front-line managers who actually administer all facets of postal operations, and contact postal customers on a daily basis, Postmasters are highly qualified to offer input with regard to the financial *instability* of the Postal Service and long-term strategies for streamlining its operations.

First and foremost, it is crucial that the Committee report favorably H.R. 22, bipartisan legislation to provide the Postal Service and its customers a temporary financial lifeline. This measure permits the Postal Service to accelerate, by eight years, the effective date of using the Postal Retirees Health Benefit Trust Fund to pay current retiree Federal Employees Health Benefits Program premiums. It would also amortize the remaining Fund liability to a more attainable period of time. This acceleration and refinancing proposal is neither a bailout, nor does it cost U.S. taxpayers a dime. H.R. 22 is fair, responsible and helps protect a universal Postal Service.

It is imperative to note that the crisis plaguing the Postal Service is the result of economic conditions beyond its control and a fiscal climate that Congress did not envision in 2006, when the Postal Accountability and Enhancement Act was signed into law. Consequently, the 3-year-old tools with which Congress equipped the Postal Service and the associated fiscal requirements are problematic. Postmasters are troubled by budget analysis, which theorizes that temporary postal relief would undermine efficient business practices and aggressive cost cutting. Mr. Chairman, efficiency is not at-risk if Congress enacts H.R. 22; rather, extinction of universal postal service would be the product without it. In the absence of remedial legislation, on September 30, 2009, the Postal Service will no longer be able to perform its Constitutional duties on behalf of our country. Of course, prior to *Postal Doomsday*, the Service may be forced to file an "exigent rate case", in compliance with the Postal Accountability and Enhancement Act, or borrow money from the U.S. Treasury to meet its obligations. These may be its only viable choices. Eight percent of this nation's gross domestic product is tied to the Postal Service, so failing to respond to the crisis is not an option.

The current Administration can help to alleviate the crisis. The Office of Personnel Management has the authority to more accurately compute the 2002 estimate of the USPS' projected *overpayment* into the Civil Service Retirement Trust Fund. The calculation made by the previous Administration significantly understated the projected USPS overpayments into the CSRS Trust Fund. In addition, the Center of Medicare and Medicaid Services should permit the Postal Service to apply for Medicare Part D employer subsidy, an opportunity recognized in the original Part D legislation.

The Postal Service can also help itself. Clearly, the multi-layered Postal bureaucracy contributes to its institutional inefficiencies and costs. In fact, in 2003, NAPUS testified before the Presidents' Commission on the U.S. Postal Service about the necessity to "de-layer" the bureaucracy. Fortuitously, last week, I glanced through the transcript of a 1951 hearing before the House Post Office and Civil Service Committee (February 8, 1951). Robert Johnson, chairman of Citizens Committee for the Hoover Report, observed that the Report "provided for the decentralization of the postal service into 15 regions, enabling closer supervision of the more than 40,000 post offices." Mr. Chairman, today, we have 13,000 fewer post offices than in 1951, yet the agency finances about 6 times as many districts, as proposed in the 1950 Hoover Report. Why? The swollen postal bureaucracy not only adds to postal costs, it also interferes with the management of local post offices and the service they provide to the mailing public. Let me quote the prophetic 58-year-old words of House Post Office and Civil Service Committee Chairman Tom Murray, as he took issue with the creation of a mere 15 postal districts:

> ... this recommendation instead of saving money and bringing about more efficient operations, will cost considerably more money to the Post Office Department. You cannot tell me that you can set up 15 districts with 15 directors of post, and with innumerable superintendents in each district, a little army of bureaucrats in each one of those 15 districts, that it will not cost more money. And it will not in my opinion cause any more efficient operation. You would have 15 little assistant Postmasters General sitting down in 15 districts in the United States.

Chairman Murray was no postal novice; he served on the Post Office Committee for 23 years and, as its Chair, for 15 of those years.

Finally, Mr. Chairman, I would point out that while there are 38,000 retail postal facilities in the United States, only 27,000 of them are Post Offices. In consolidations and closing decisions, only Post Offices are recognized and accorded unique status by Title 39 of the United States Code. Nevertheless, the Postal Service has closed about 2,000 post offices since 1984; and, according to the PRC, closing <u>all</u> small and rural post offices would yield savings of only $586 million, 8-tenths of one percent of the postal operating budget. Consequently, closing every single small and rural post office in this nation would not make a difference in postal sustainability. However, post office discontinuance would drive away business and would deny millions of Americans access to core postal services.

Mr. Chairman, the future of the Postal Service is in the hands of this Committee and H.R. 22 is the only means of salvation readily available.

Mr. LYNCH. You talk just fine. Thank you, sir.
Mr. Mapa.

STATEMENT OF CHARLES W. MAPA

Mr. MAPA. Chairman Lynch, Ranking Member Chaffetz, members of the subcommittee, good afternoon, wherever you are. With your permission I would like to briefly summarize my testimony and ask that my full statement be accepted and entered into the record.

Mr. LYNCH. Without objection.

Mr. MAPA. My name is Charlie Mapa and I am president of the National League of Postmasters. We have been representing postmasters since the late 1800's. I am pleased to appear before you here today. Thank you for inviting all of us to testify.

Before summarizing my statement, I would like to congratulate Chairman Lynch on being named chairman of this subcommittee. It is comforting to the League to know that the Chair comes with a very strong postal background.

In my written testimony I address three topics: No. 1, the overall state of the Postal Service and the need to allow the Postal Service to refinance its obligation to fund our retirees' health benefits as H.R. 22 would do. No. 2, the importance of small post offices to rural America and the minuscule amount of money that closing substantial numbers of them would save. No. 3, the manner in which the Postal Service has controlled costs over the last several years, the diminishing returns of that approach and the means to better increase efficiency and reduce costs.

Clearly, the Nation is in extremely troubled times. The economy is at its lowest point since the Great Depression. The Postal Service is in trouble and needs relief. H.R. 22 would give some relief. The consequences of not acting are disastrous. There are $8.4 million postal-related jobs and more than $1 trillion in revenue attributed to the mailing industry. That I believe is even larger than the auto industry.

If the mailing sector were to crash, it would shake the American economy to the core and given its fragile condition, it could bring the entire economy to a standstill. That must be avoided at all costs.

Let me also emphasize that relief must exist beyond 2 years. Anything else would create a system that will appear to be on the edge of disaster, held together by spit, glue and rubber bands. That is exactly the image that will drive mailers to aggressively seek alternatives to the Postal Service, electronic and otherwise, that will result in a loss of volume that otherwise should not have been lost and otherwise would not have been lost.

H.R. 22 will save the Postal Service and it will do so without spending a dime of the taxpayers' money. My written testimony goes into much greater detail about how H.R. 22 works.

In terms of small post offices, when one comes to the world of postal and public policy concerns, one often assumes that many small offices could be closed, resulting in little harm and significant savings. Usually that point of view is predicated upon a misunderstanding of the role of the small post office in rural America, and the mistaken belief that the cost of maintaining these post offices is much greater than it actually is.

My testimony shows that small post offices are vital to the continued existence of rural America and that they truly bind rural America together. When a small, rural post office closes in a rural community, often the community ends up becoming a ghost town.

Mr. Chairman, closing small post offices savings no significant money. If one were to close the smallest 10,000 post offices, more than one-third of all post offices in the country, the savings to the Postal Service would be minimal, less than 1 percent of the Postal Service's budget. The bottom line is that if the Postal Service wants to close a small, rural post office and the community doesn't care, so be it. But if the Postal Service wants to close a small, rural post office and the community does care because it doesn't want to disappear, then the Postal Service shouldn't close that office.

Finally, my testimony looks at the way the Postal Service has reduced costs over the last decade and argues that a better way to gain efficiency is to flatten the management structure and eliminate unnecessary bureaucracy. One way the Postal Service has saved costs is by reducing carrier and clerk hours and shifting these hours onto the postmaster for the postmaster to work instead of the clerk or carrier. Today, many postmasters are working 60 and 70 hours a week, some even more. Mr. Chairman, massive burnout is close. A disaster is looming on the horizon and I would be remiss in my duties if I did not make that perfectly clear.

Finally, instead of becoming more efficient, we are becoming more and more bureaucratic, more telecons, more forms, more reports. It needs to stop. One way is to eliminate management layers. The Postal Service recently cut the number of districts down to 74. It needs to do more and reduce these down to something more like 40. The idea is not that cost savings come from the positions cut, but from the streamlining and removal of layers of management making decisions easier and cheaper to make and easier and cheaper to implement. The thing to do in these challenging times is to flatten the bureaucracy and trust that postmasters will rise to meet the challenge. We would do that if the Postal Service would let us.

Thank you for considering our views.

[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 & the District of Columbia

Of the
Committee on Oversight and Government Reform

Of the
United States House of Representatives

March 25, 2009

Testimony of Charles W. Mapa,
President, National League of Postmasters

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

March 25, 2009

Chairman Lynch, Ranking Member Chaffetz, members of the Subcommittee, good morning. I would like to thank you for inviting the National League of Postmasters of the United States to testify during your 2009 oversight hearings on the Postal Service. We are pleased to appear before you today. We want extend the League's congratulations to Congressman Lynch on being named Chairman of this subcommittee. It is comforting for the League to know that the Chairman of our subcommittee has such an extensive background and interest in postal affairs.

Background

My name is Charles W. Mapa and I am President of the National League of Postmasters. I am from Gold Run California, where I was appointed postmaster in 1986. Gold Run is a community of several hundred people, nestled in the foothills of the Sierra Nevadas between Sacramento and Lake Tahoe.

The National League of Postmasters, which was founded in 1887, is a management association representing the interests of tens of thousands of postmasters throughout the United States. Although we represent postmasters from post offices of all sizes—from the very smallest to the very largest—rural postmasters are a sizable portion of our membership. Thus, we speak for rural America with a certain degree of experience. The League speaks for thousands of retired postmasters as well.

Summary

This morning, Mr. Chairman, I will address three topics: 1) the overall state of the Postal Service and the need to allow the Postal Service to refinance its obligation to fund our retirees' health benefits as H.R. 22 would do; 2) the importance of small post offices to the cultural and social cohesion of rural America; and 3) the manner in which the Postal Service has controlled costs over the last several years, the diminishing returns of that approach, and the means to better increase efficiency and reduce costs.

My testimony will show that the Postal Service needs H.R. 22 to survive this economic crisis. It will also point out that H.R. 22 is not a bailout since it allows the Postal Service to use its own money to fund retiree health benefits. My testimony will also show how small post offices are vital to the continued existence of rural America, that closing them would be disastrous for rural America, and that no significant cost savings would accrue from such an action. If one were to close the smallest 10,000 post offices, the "savings" to the Postal Service would be *de minimus*—less than one half of one percent of the Postal Service's budget, according to the recent USO study by the Postal Regulatory Commission. Finally, my testimony looks at the ways that the Postal Service has "reduced costs" over the last decade, and argues that a better way to gain efficiency is to flatten the management structure, and eliminate unnecessary bureaucracy.

I. State of the Postal Service

Clearly the nation is in extremely troubled times. The economy is at its lowest point since the Great Depression, and the economic health of the Postal Service's largest customer—the financial services industry—is even worse than that of other industries. Overall retail sales have plummeted, taking advertising mail volume down with it. Volume for FY 2008 (which ended September 30, 2008) was 4.5% below the previous year. I believe that is the largest single-year decline in postal volume history. Things have gotten even worse in the First Quarter of 2009 and projections for the rest of 2009 are not pleasant.

More than ever before, we need innovation that can improve service and lower costs, and get the Postal Service through this recession. Over the years, postmasters have offered scores of ideas to Postal Service Headquarters, ideas that could have saved millions in costs and added millions to revenue. Postal Headquarters has routinely rejected these ideas, without even seriously considering many of them. It has gotten to the point that when we bring an idea to the attention of top management, we know that it will likely be ignored. This is a bit puzzling and very frustrating, for no one knows the local postal system better than the local postmaster, and no one knows better than local postmasters how to make things work more efficiently without sacrificing service. Perhaps you can help us on this matter and get a rational explanation from the Postal Service as to why it cavalierly ignores any suggestions that do not originate at headquarters.

In terms of a focus on the future, two things come to mind. First, the Postal Service has rightly focused a great deal on the Intelligent Mail Barcode (IMB). We applaud that decision for there are a variety of new services that the IMB should make available in the medium and long term, and each of those either will add value or be a potential revenue generator. Second, there is an enormous potential to increase market dominant revenues through pricing flexibility and Negotiated Service Agreements (NSAs). That potential has not been tapped, and it needs to be. There seems to be signs that the Postal Service has finally begun to focus on this issue. That is a very good development.

Realistically, however, while all of these very important developments—the IMB, pricing flexibility and NSAs—should be significant solutions for the medium and long term, their helpfulness in yielding immediate benefits will be limited. For the short term, we need to take other measures to get us through the recession. These measures need to be designed to counter the lingering negative effects that the recession will have on the postal system after the economy rebounds, and these measures need to stabilize the institution so that it can rationally deal with the gradual erosion in bill paying mail that electronic diversion is creating.

The best solution that has been developed is found in H.R. 22, a bill co-sponsored by Congressmen Davis (D IL) and McHugh (R NY) and many others. New co-sponsors are being added daily, and at last count, their numbers were around 200. This is a bill that the League very strong endorses.

H.R. 22 would allow the Postal Service to refinance its obligation to fund its employees' retirement health benefits. H.R. 22 is not a bailout, but a solution that allows the Postal Service to use its own money, set aside in a trust fund, for the very purpose for which the money was targeted. H.R. 22 would not spend a dime of the taxpayers' money. Moreover, H.R. 22 continues the pre-funding of the retiree health benefits, and does so at a level that few—if any other institutions—in this country can match.

Here is how H.R. 22 would work. H.R. 22 would grant relief by 1) stretching the time period for the Postal Service to pre-fund its retiree health benefits, while concurrently 2) allowing it to pay for current retiree health benefits out of the trust fund that has been set aside to pay for the future retiree health benefits of postal employees.

More specifically, under current law, the Postal Service now pays *two items* on an annual basis that go to cover retiree health care—one payment of $2.3 Billion (which changes over time) directly pays for *current* retirees' health premiums, while another payment of $5.4 Billion (which changes slightly over time) prefunds *future* (i.e., after the year 2016) retiree health benefits. Under current law, this second payment automatically goes into a retirement health benefit trust fund and no funds are disbursed until 2016. By 2016, postal employees' retiree health benefits would be entirely pre-funded. At that point, the Postal Service would largely stop paying[1] for any retiree health benefits payments, and the fund would pick up the payment.

Under H.R. 22, the Postal Service would continue to make the second payment (the $5+ Billion) to the trust fund for future retiree health benefits, but NOT make the first payment (the $2.3+ Billion) for current retiree health benefits. This would save the Postal Service the $2.3 + Billion per year. Since current retiree health benefits still need to be funded, H.R. 22 would allow that payment to come from the trust fund. Thus, after H.R. 22 passes, roughly half the Postal Service's annual payment would go to cover

[1] Except for a relatively small annual residual payment.

current retiree health benefits while the other half would go to pre-fund future retiree health benefits. As a result, this structure would continue to pay for current retiree health benefits, continue the pre-funding of future retiree health benefits, free up some $2.3+ Billion per year, and cost the taxpayer nothing.

Finally, under H.R. 22, since the trust fund would now be paying for both current and future retiree health benefits, the payments would have to continue beyond 2016, instead of largely stopping in 2016. However, the fact that those payments stopped in 2016 has created a windfall for the Postal Service. Eliminating that windfall, in exchange for stabilizing the Postal Service during this time of economic crisis, at no expense to the taxpayer, is a very good trade off.

Mr. Chairman, as you know, the current system of dual payments was set up by the Postal Accountability and Enhancement Act (PAEA) in 2006. At that time it looked reasonable and achievable, but no one then thought that we were on the verge of the Great Recession, the greatest economic crisis since the Great Depression. Now that we are in the middle of this crisis, the size of the dual payments does not look so reasonable. In considering the merits of H.R. 22, it is critical to remember that no other public or private entity pre-funds its retiree health benefits to the extent that the Postal Service currently does, or to the extent that it would continue to do so, even *after H.R 22 becomes law*.

Chairman Lynch, members of the Subcommittee, some relief is needed, and that relief must extend beyond two years. Anything else will create a system that will appear to be on the edge of disaster, held together by spit, glue, and rubber bands. That is exactly the image that will drive mailers to aggressively seek alternatives to the Postal

Service—electronic and otherwise—that will result in the loss of volumes that otherwise should not have been lost and otherwise would not have been lost.

The consequences of inaction, or acting in an insufficient manner, are severe. Not allowing the Postal Service to spread its retiree health payments could result in extensive layoffs that would notably increase the nation's overall unemployment levels, and impede the nation's economic recovery. Moreover, not allowing the Postal Service to refinance its retiree health payments could end up threatening the very viability of the postal system. This is because the Postal Service would be forced to make significant cuts that would seriously and negatively affect the quality of its service. The consequences of that degradation in service would be a significant revenue loss. This revenue loss would trigger further cuts, which would trigger further revenue losses, and further cuts and further revenue losses. Such a spiral could result in the implosion of the postal system.

As a study done by the Envelope Manufacturing Association Foundation has shown, there are 8.4 million postal-related jobs and more than $1 trillion in revenue attributed to the mailing industry. http://www.emafoundation.org/ That, I believe, is even larger than the auto industry. Having the mailing sector crash would shake the American economy to the core, and given its fragile condition, it could bring the entire economy to a standstill.

That is something that must be avoided at all costs.

Mr. Chairman, these are very serious economic times, and the negative consequences of not acting are severe. We all need to rally around this issue and help the Postal Service through this crisis.

II. Rural America and Small Rural Post Offices

When one first considers the world of postal and public policy concerns, and the role of the small post office in the United States, one often assumes that many could be closed down, resulting in little harm and considerable cost savings. Usually that position is predicated upon 1) a lack of appreciation of the role of small post offices in rural America, and 2) an erroneous belief that the cost of maintaining these post offices is much greater than it actually is.

A. The Role of Small Post Offices in Rural America.

Keeping rural America healthy is critical for the social, political, and economic well-being of America. The glue that keeps rural America together—maintains its social and economic cohesion—is our postal system and the local rural post offices. If we want to keep rural America strong, and by extension keep America strong, we need to keep our rural postal system and our rural post offices strong. Any significant negative effect on rural America would be disastrous.

The role rural post offices play in rural America goes far beyond the mere delivery of mail. It is a role that goes to the essence of social cohesion and to the essence of what makes up the notion of "community" in rural communities. The rural post office is an institution that literally binds rural America together, culturally, socially, politically, and economically. It, along with the rural newspaper, set the framework within which rural communities operate. To interfere with either is to interfere with the fundamental dynamics of rural communities and to risk their destruction.

It is in the rural post offices that community members encounter one another every day, greet each other every morning, and daily reinforce their ties of community. Rural post offices serve as gathering places where social news is exchanged and political issues are discussed, often with some heat. It is in the rural post offices that political opinions are formed and finalized. It is where friendships are made and maintained and scouts and scoutmasters recruited. It is the forum where municipal and county leaders are developed, the forum where their criteria for office is discussed and debated, and the forum where the decisions that will be carried out at the ballot box are made. It is the only presence of the federal government in these communities, and it is the one place where local leaders can go and take the pulse of their community, and find out just what people think about the burning issues of the day.

In many rural areas, postmasters play a very important social role that has nothing to do with the postal system or postal revenues. These are roles whose value cannot really be measured in dollars. For instance, many rural postmasters help customers with low literacy levels in a variety of ways, providing assistance in writing checks and money orders to pay bills. Many rural postmasters address envelopes for their patrons, as well as read and explain mail to them. As such, they perform a valuable social function that no one else does. Moreover, they have done so for centuries. In a related vein, state and federal forms are available on site, and rural postmasters often help local citizens with these. Without rural postmasters, these needs would not be met, and rural America would be the poorer.

Local post offices provide other functions such as space for community bulletin boards and the posting of federal notices. They are shelters where children can wait for the school bus. None of these functions are functions that can be filled by having rural letter carriers sell stamps from their cars, nor having city letter carriers deliver letters.

It is important to realize that the very existence of America's rural villages depends on the existence of their local post offices. The post office literally keeps the community together, and when a rural town's post office disappears, the town often shrivels up and dies, and the business and cultural life of the community disappears. That is why the Federal Postal Code, Title 39 of the U.S. Code, has provisions in it that require the input of the community when the closure of a rural post office is being considered.

Mr. Chairman, rural post offices are icons of rural America, whose function goes far beyond the mere provision of postal services. If rural America is to remain strong, they must remain strong, and endure.

B. The Cost of Small Post Offices in Rural America.

In terms of the costs of keeping rural post offices open, many new to the area assume that they are significant. Nothing could be farther from the truth, for the amount the Postal Service spends on keeping small rural post offices open is *de minimis*. Closing them would save nothing. As the Postal Regulatory Commission just reaffirmed, the cost of the 10,000 smallest post offices—about one-third of all post offices in the United States—is less than one percent (1%) of the total budget of the Postal Service.[2] That is a

[2] The recent USO study by the Postal Regulatory Commission reaffirmed this calculus. Report on Universal Postal Service and the Monopoly, Postal Regulatory Commission, December 19, 20008.

small price to pay for the social, cultural, political, and economic stability that America has for so long enjoyed in rural America.[3]

Finally it is important to state for the record that while developments in the world of electronic communication have altered the dynamics of mail, they really haven't diminished the importance of the postal system to rural America. The Postal Service remains critical to the social, cultural, political, and economic well-being of rural America and is going to remain so for the foreseeable future. As far as I know, no one has seriously suggested otherwise.

III. Postal Service Cost Control Efforts

The Postal Service has taken steps to significantly reduce costs over the last several years. One way it has done so, as we have told this committee before, is to exploit postmasters' good will. Throughout the country, route time hours are being saved for letter carriers by making postmasters carry the routes any time there is a shortage, rather than by having replacement carriers carry the route, as is normal. This effort is increasing the workload of postmasters and making 60 and 70 hour work weeks all too common. A couple of weeks ago, I ended up talking to one veteran postmaster who literally was in tears on the phone, having spent more than 90 hours the previous week at

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3 There are some that say that post offices that operate at a loss or do not pay their way should be closed. The question of post offices operating at a loss or paying their own way is not an easy question to address. This is because the system the Postal Services uses to determine whether a post office is "making a profit" keys on the amount of revenue accepted at that post office, *regardless of where the deliveries are to be completed.* Thus, the postage for a hypothetical mailing of 15,000 is all credited to the post office *where the mailing is entered* and none of the revenue to the post offices *where the actual pieces are delivered.*

That situation creates an enormous disconnect for most of the costs of delivering those 15,000 pieces are borne by the post offices of delivery (to which no revenue is credited) and not the post office of origin (to which all the revenue is credited). Thus, the system inherently skews the relationship of revenue and costs among the nation's post offices and should call into question the very notion of a post office "operating" at a loss.

the job. I told that postmaster to stop, and that it wasn't worth losing one's health for the Postal Service. Since then, that postmaster has gone out on sick leave, for stress.

Mr. Chairman, as conscientious public servants, postmasters understand that they often need to put in more than 40 hours per week, considering the magnitude of our civic and social responsibilities, and the severity of the economic crisis. But there comes a point—and we appear to have reached it—where "often putting in more than 40 hours" turns into a regular six-day work week with each day much longer than eight hours. All of these extra hours are worked with no extra pay.

This cannot go on. Massive burnout is close. Moreover, from the Postal Service and the public's point of view, this type of "cost savings" is not sustainable. Sooner or later cost control efforts fall apart if they rely on managers' putting in 60 hours and more on a regular, constant, and weekly basis. That type of sweatshop "cost control" only brings short-term benefits, not long-term benefits.

Mr. Chairman, you have heard the number of hours by which the Postal Service has "reduced" its workload. It gives the impression that the workload has been reduced by gains in efficiency. Yet cutting down carrier and clerk hours, by transferring those hours to the postmaster to work, is not being more efficient. Indeed, it is the very opposite. Becoming more efficient is supposed to mean finding ways to "work smarter," not just forcing your managers to put in extra time to make up for the "reduction" in work hours of others.

A significant crash in efficiency is looming on the horizon. Morale is at its lowest point in memory. Retirements are soaring. As they do, the Postal Service is losing the very people who know how to "grease" the system and really make it work on the local level. For those postmasters that are still in their jobs, the relationship between them and their immediate supervisory managers is deteriorating, as more pressure is put on those managers to work postmasters longer. Not only that, but also more and more postmasters' immediate supervisors are micromanaging everything, and calling for more and more telecons, reports and forms. All this is a classic example of a massive bureaucracy under pressure, but one that is not acting "smart" but acting more and more bureaucratic.

The situation is not good, and it is getting worse. We have taken our concerns to postal executives more than once. There is never a response. Nothing happens. No one cares.

Part of the problem is that there is a general lack of trust that permeates the system. Top postal officials don't trust the executives they have in place all over the country to do the right thing, and many of them don't trust those above them. It is a horrible situation, and I am not sure what other industry—if any—has industrial relations that are worse.

Mr. Chairman, postmasters are generally very good people. All the Postal Service needs to do is listen to them, believe in them, and manage them well. Treat them like adults, and the human beings that they are. Stop thinking of lower management as part of the problem, and start making them part of the solution. We would respond accordingly.

Part of the problem is also the *increasing* bureaucracy. We need less bureaucracy, not more. There are ways to do this. For instance, we have far too many areas and districts. The Postal Service recently cut the number of districts down from 88 to 80. It needs to do more, and reduce those down to something like 40. The recent reorganization was a step in the right direction, although it does seem that that action was aimed more at reducing positions, rather than eliminating bureaucracy.

The thing to do in these challenging times is to flatten the bureaucracy, and trust that postmasters to rise to the challenge. We would, if only the Postal Service would let us.

The Postal Service also needs to get postmasters out to the public more, selling not only the mail and postal products, but the Postal Service itself. Postal management has been so bad over the last several decades, that the term "going postal" has been coined to describe someone who simply flips out because of the way his managers have treated him over the years. Let's stop that, turn the ship around, and get going in the right direction. Let's build good will, not destroy it.

Thank you for considering our views, and I would be pleased to answer any questions that you might have.

Mr. LYNCH. Thank you.

Mr. Keating.

STATEMENT OF TED KEATING

Mr. KEATING. Good afternoon, Chairman Lynch. It is comforting to NAPS, as Charlie indicated, that my Boston accent will not be a problem for this committee. [Laughter.]

Mr. LYNCH. No, you will not need a translator with me. [Laughter.]

Mr. KEATING. The Postal Service continues to suffer from the steady erosion of mail volume. Last month USPS reported the eighth consecutive quarter of lower mail volume, volume down more than 15 percent from where it was this time last year. Even greater losses are predicted through the remainder of this year. The last time mail volume fell by this much was in 1937, in the midst of the Depression.

The Postal Service has not been passive in response to the worsening financial condition. Over the past year, as mail volume has continued to steadily decline, the Postal Service has initiated aggressive cost-cutting actions that have reduced the financial loss. The Postal Service has cut 50 million work hours, stopped construction of new post offices and facilities, instituted a nationwide hiring freeze, consolidated mail processing operations, and reduced hours in many post offices.

Last Friday, it announced the closure of 6 of its 80 districts, the elimination of more than 1,400 mail processing supervisor and management positions at nearly 400 facilities around the country and the offering of another early retirement opportunity to nearly 150,000 postal employees. These actions are expected to save the Postal Service more than $100 million annually. More job cuts are likely to come as downsizing continues, operations are streamlined and processing and delivery networks are made more efficient.

Indeed, much more remains to be done to restore the financial health of the Postal Service. Congress needs to do its part, Mr. Chairman. We urge the committee to move ahead and promptly report out H.R. 22.

Even when H.R. 22 passes, however, we will not be out of the swamp. Additional steps will be necessary. Let me take a moment to comment on these additional steps the post office should take. First and foremost, the Postal Service needs to rethink its organizational structure and reorganize itself. Its nationwide management framework, currently built around 10 geographic areas, is far too large and bureaucratic and costly to be allowed to continue. The Postal Service should return to an organizational structure based on five geographic regions.

It is time that the Postal Service applies the same cost-cutting scrutiny to the members of its executive ranks as it is applying to middle and lower management. Let me repeat that: it is time the Postal Service applies the same cost-cutting scrutiny to its executive ranks as it applies to middle and lower management.

Second, the Postal Service should promptly withdraw from the practice of buying homes for its employees ostensibly in support of relocation needs. This policy has caused the Postal Service to rack up significant losses. The downsides of this policy are now becoming more and more evident as the Postal Service faces an inventory of homes it must continue to pay to maintain until it can sell them.

Third, the Postal Service should stop tolerating the practice of detailing supervisors and managers to positions that don't officially exist in the organizational structure. Currently there are hundreds of supervisors detailed to these ad hoc positions, created at the discretion of district managers to address issues that personally concern them.

It is unfortunate, Mr. Chairman, that I need to raise an internal management matter like this to your attention. It is only one of the numerous problems that NAPS and the postmaster organizations have raised with the Postal Service. Like so many of the recommendations, they have been ignored by top USPS management.

In conclusion, Mr. Chairman, the Postal Service faces grave challenges brought about by the deep recession and aggravated further by continuing electronic diversion. These challenges, however, are not unconquerable. Through the three initiatives I touched upon, including the swift passage of H.R. 22, the finances of the Postal Service could eventually be stabilized. Postal supervisors look forward to working with you and the Congress to make sure that happens.

Thank you for the consideration of my testimony. I look forward to continuing the dialog with you as time allows.

[The prepared statement of Mr. Keating follows:]

STATEMENT OF

TED KEATING, PRESIDENT

NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

ON

RESTORING THE FINANCIAL STABILITY OF THE U.S. POSTAL SERVICE: WHAT NEEDS TO BE DONE?

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

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 25, 2009

Good afternoon Chairman Lynch, Ranking Member Issa and other distinguished members of the subcommittee. My name is Ted Keating. Thank you for inviting me to testify on behalf of the National Association of Postal Supervisors.

We are at a pivotal moment in the life of the Postal Service. The financial health of this great American institution is threatened by a disastrous economy that has undermined mail volume and threatened the viability of postal service in this country as we know it. Electronic diversion of mail has contributed further to the problem. While we are optimistic that a substantial portion of the volume will eventually return as the economy strengthens, the Postal Service faces continuing, severe revenue losses that will jeopardize service accessibility and quality.

The Postal Service continues to suffer from the steady erosion of mail volume. Last month USPS reported the eighth consecutive quarter of lower mail volume, with volume off more than 15 percent from where it was this time last year. Even greater losses are predicted through the remainder of this year. The last time mail volume fell by as much was in 1937 in the midst of the Depression.

The Postal Service has not been passive in response to the worsening financial situation. Over the past year, as mail volume has continued its steady decline, the Postal Service has initiated aggressive cost-cutting actions that have reduced the financial loss. The Postal Service has cut 50 million workhours, stopped construction of new post offices and facilities, instituted a nationwide hiring freeze, consolidated mail processing operations and reduced hours in many post offices.

Last Friday it announced the closure of six of its 80 district offices, the elimination of more than 1,400 mail processing supervisor and management positions at nearly 400 facilities around the country and the offering of another early retirement opportunity to nearly 150,000 postal employees. These actions are expected to save the Postal Service more than $100 million annually. More job cuts are likely to come, as downsizing continues, operations are streamlined, and processing and delivery networks are made more efficient.

Indeed, much more remains to be done to restore the financial health of the Postal Service. Congress needs to do its part. Mr. Chairman, we urge the Committee to move ahead and promptly report out HR 22. This is a necessary, but pragmatic action. I don't think a better vehicle to provide meaningful relief to the Postal Service could be found than HR 22. The relief comes not at the expense of the taxpayer, but through a sensible recalibration of the financing arrangements for the Postal Service's payment of health benefit premiums for its retirees. The legislation still upholds the policy of pre-funding future retiree health benefits, but permits the Postal Service to begin to pay its share of current retiree health insurance premiums from the Retiree Health Benefits Fund, into which it already has contributed significant sums.

The Congress should not allow itself to be tripped up by scoring problems associated with the overly-technical assessment of the legislation from the Congressional Budget Office. Why? The transfer of funds from the USPS Retiree Health Benefit Fund and the Civil Service Retirement Fund is purely an inter-governmental transfer, which should result in a net zero cost, regardless of on-budget or off-budget reasoning. Additionally, the same accommodating attitude that Congress applied toward the scoring of the economic stimulus legislation and other financial relief measures for the banking and auto industries should apply to the Postal Service. These are unprecedented times that require unprecedented approaches. Strict adherence to technical cost-scoring rules may make sense in the best of economic times, but not now.

Even when HR 22, passes, however, we will not be out of the swamp. Additional steps will be necessary. Let me take a moment to comment upon those additional steps the Postal Service should take. First and foremost, Postal Service needs to rethink its organizational structure and reorganize itself. Its nationwide management framework, currently built around 10 geographic areas, is far too large, bureaucratic and costly to be allowed to continue to exist. The Postal Service should return to an organizational structure based on 5 geographic regions. By reducing and consolidating its top-management structure, the Postal Service would eliminate needless bureaucracy, save costs, and operate more efficiently. It is time that the Postal Service apply the same rigorous cost-cutting scrutiny to the numbers of its upper ranks as it is applying to middle and lower-management.

Second, the Postal Service should promptly withdraw from the practice of buying the homes of its employees, ostensibly in support of relocation needs. This policy has caused the Postal Service to rack up significant losses. The downsides of the policy are now becoming more and more evident, as the Postal Service faces an inventory of homes it must continue to pay to maintain until it can sell them. Recruitment and retention incentives can be provided through sufficient other means, without the need for home purchase

Third, the Postal Service should stop tolerating the practice of detailing supervisors and managers to positions that don't officially exist in the organizational structure. Currently there are hundreds of supervisors assigned to *ad hoc* positions, created at the discretion of district managers to address matters they deem merit attention. When a district manager has detailed a supervisor or manager to an *ad hoc* position, the work associated with their original position still must get done, creating a domino-like cascade of staffing reassignments, requiring even craft employees to be assigned to first-line supervisor positions, in turn generating overtime costs and harming productivity. District managers should be required to adhere to standard staffing practices like the rest of the Postal Service's executives and managers, and to use the resources and personnel normally available, avoiding unnecessary costs. It is unfortunate, Mr. Chairman, that I need to raise an internal management matter like this to your attention. It only one of numerous problems that NAPS and the postmaster organizations have raised with USPS, in light of the savings and management efficiencies that could be secured. Like so many of our recommendations, they have been ignored by USPS top management.

Additionally I concur with the recommendations of my colleagues that additional cost-savings could be secured through:

-- A recalculation of the value of the Postal Service's payments into the Civil Service Retirement Fund, revisiting the 2003 calculations because of highly questionable assumptions used by the Office of Personnel Management in arriving at its determinations;

-- Approving the Postal Service's application for Medicare Part B reimbursement of its prescription drug benefits program for its retirees, to which the Postal Service is clearly entitled; and

-- Relieving the Postal Service of its responsibility for paying the pension benefits associated with the military service of its employees, service that was rendered even before they were hired by the Postal Service.

In conclusion, Mr. Chairman, the Postal Service faces grave challenges brought about by the deep recession and aggravated further by continuing electronic diversion. These challenges, however, are not unconquerable. Through the initiatives I have touched upon, including the swift passage of H.R. 22, the finances of the Postal Service can eventually be stabilized. The Postal Supervisors look forward to working with you and the Congress to help to make that happen.

Thank you for the consideration of my testimony. I look forward to further dialogue when the time comes for questions.

Mr. LYNCH. Thank you.

Let me begin by asking each of you, in terms of the proposal by the post office presently to reduce delivery days from 6 to 5, it seems from your own testimony that there is more that can be gained from getting rid of some of the bureaucracy here and perhaps even consolidating some of the post offices and areas, other than the rural areas. I understand the situation where the post office is the only game in town. As Mr. Goff indicated in New England, you have post offices that operate as a pharmacy, a bank, and in a lot of small towns, the post office and the health center and a gas station, that is pretty much your hub of some of these towns.

But in areas where you have a high density of post offices, have we leapt over that phase instead and are looking to cut a delivery day already? Are we going too quickly in this suggested solution? Or should we be dropping back to look at some of these ways of reducing costs?

Mr. GOFF. Mr. Chairman, I know the 6 to 5-day delivery thing, I can tell you as an organization, as the president of NAPUS, that I am totally against reducing down to 5-day delivery. And I say that for several reasons. Coming from one of the largest cities and the operational side of this, just think of the holidays that we have now, the 10 or 12 that we have during the year. That day after the holiday, we are constantly making up for the day that we just missed. So if we had a savings on that 1 day of reducing down to 5 days, my idea is that we are going to just play holiday every time after that 5th day, that we are going to catch up.

So, if there is a savings on that 1 day, we are going to lose it on that following day.

Now, as far as the amount that would be saved from that, I am not sure if the figures are all totally accurate. We have heard three or four different figures today on just what that savings would be. But from an operational side, how do we keep the mail flowing? We flow it now. Are the retail areas still going to work? Are the clerks still going to work to process mail? So I am not sure that the big savings is there.

And when you talk about the consolidation of the postal network or the stores that we have out there, I think there is some room that we can do it as far as stations within the big cities, the big urban areas. As you said, the rural areas, that cannot be done. That is the life line of those communities. But I would think that we could look at some type of area there where we could take a station in downtown New York City and maybe put some consolidation there. As was said earlier, do we need to have one in every high rise building. I don't think we do, because the volume is not there any more.

I still say that even though, and you heard Mr. Mapa say that, we went down to 74 districts, there is still a lot of room. Mr. Chairman, we have 50 States. We could go with 50 districts. Or better yet, we could eliminate all of the districts and just stay with our areas we have out there. As Mr. Davis said this morning about the communication age that we are in now, and believe me, there are postmasters sitting in this room right now that will tell you, Big Brother is there. Big Brother watches us on the computer all the time. They know everything that we are doing. I think that can still streamline that way.

And it is incumbent upon us, whether it is management or union or the upper executives in the Postal Service, that we have to work together to change this structure.

Mr. LYNCH. My time is just about expired. I would like to give 5 minutes to the ranking member, Mr. Chaffetz.

Mr. CHAFFETZ. Thank you, Mr. Chairman. I would like to further explore this idea of 5-day delivery, I would like to get the other gentlemens' input on that. Is there some sort of sliding scale or maybe it is not for every single week, or 10 days a year? Is there somewhere in between that you find acceptable?

Mr. MAPA. Five-day delivery, it sounds good, on the outset. But then if you examine it like Mr. Goff has done, he is there in the post office on a Tuesday after 3 days off. The mail accumulates. You are delivering Saturday, Sunday and Monday mail. And that holiday mail. So if we are going to take another delivery day out of the week, then that means you are going to, every week, be delivering 3 days of mail on, let's say, a Monday. It is a real challenge. Your carriers have to carry a lot more mail. You have a lot more mail to put in the boxes. You have up times that you are punished for if you don't make it in time for that. So that is one aspect that we have to examine.

The other aspect is even though they say that 85 percent of Americans don't care if we deliver mail to them on Saturday, what about the 15 percent that do? Who are those 15 percent? Are those the businesses out there that actually pay a lot of money into the postal system that help keep us going? I don't think we need to be too cavalier when we say we want to go to 5-day delivery. I think there are a lot of aspects that we really have to examine before we jump on that.

Mr. CHAFFETZ. Do you have other suggestions? I don't think anybody necessarily wants to do this. The question is, what are we are going to have to do and what is most palatable, what is not? So in its place, I guess a challenge to all three of you is, in its place, what other options are there to come up with literally a couple billion dollars?

Mr. MAPA. Before we came here today, we did not sit down and compare notes about what kind of testimony we would do. But I saw in all three of our testimonies we called to attention the immense bureaucracy in the Postal Service and the need to reduce that. I know that Ted would love to have his supervisors be able to supervise, Dale and I would love to have our postmasters be able to run their post offices. We are responsible people, we have been trained to manage. If you gave us half a chance, I think the Postal Service would be surprised. But we are so into micromanaging every breath, I just think it is unhealthy the way we do things in the Postal Service.

Mr. CHAFFETZ. I want to give a little time to Mr. Keating, please.

Mr. KEATING. Sure. I too have previously testified against the 5-day delivery. I think that it would be the beginning of the end of the Postal Service as we know it as a service to the American people. I think that the layers of management are one thing, but there is a lot of, the Postal Service came to us last year, the three organizations, probably the unions too, and asked for givebacks because of the financial situation. We thought about it, and in the end we eventually said no, because we see daily the waste that goes on in the Postal Service. We give them ideas about how they can save money and they totally ignore it.

So until we see postal headquarters addressing some of the issues that we have given to them, we are not going to be thinking about giving givebacks to the Postal Service. There are a lot of things we can do internally still to get the Postal Service back in shape. I believe we can do that.

Mr. CHAFFETZ. Mr. Goff.

Mr. GOFF. I agree with Mr. Keating. That was my thought, when you asked that question. There are so many things that we have brought forward, and just to be told no, that we are not going to do that. We heard several times today that you are consulting with the management associations on some issues. And I think you saw me a couple of times just go like that, and I am going, well, I don't remember talking about that. Maybe they are going to consult with us in the future on it.

But there are some issues that we have brought forward, the details that are out there, the money that we spent on people per diem staying in hotels as they work on the details somewhere. And some of these districts, and I can speak back for home, you may have 15, 20, 30, 50 people working on details. There is cost involved there. We have other areas we can tighten up with.

Mr. CHAFFETZ. I guess one of the challenges that I would ask you all long-term and short-term as well to work toward and to think about that I would be particularly interested in seeing is, the idea of consolidating distribution facilities, post offices, I think there is a distinct difference between a rural post office, which could be the center of town, I can think of several in my district. I have a very urban component, I have a very rural component. I think of Oak City. Oak City in my district is a very, very small town, but the post office is the center of town. It is where people gather, they do a lot more than just pick up the mail.

I think it is a very different equation than how you deal with maybe an urban center or downtown where there may be post offices that are literally two or three blocks apart from each other. How to tackle that issue I think is something that needs to be addressed long term. My time is out now, the light is red, but maybe we can explore this more in the future.

Thank you, all three of you, for being here. Thanks, Mr. Chairman.

Mr. LYNCH. Thank you.

Also, I would like to point out that we are going through a process right now about how to deal with the instability in the Postal Service right now. We do have your testimony. Some of these parts of solutions are loosely developed and others are more detailed, such as H.R. 22. But we would want to hear from you. I think it is very important that the postmasters, folks that are on the front lines and trying to manage this system, have an opportunity to try to contribute to the solution. I think that is a very important piece there.

So just as the Chair of the committee, and I am sure I speak for the other Members on both sides, we welcome your input. I think you have pointed out some things that we haven't heard from the other panels. And I think they are well-founded.

Let me ask you, Mr. Goff, you also mentioned in your testimony about the possible projected over-payment by the U.S. Postal Service into the Civil Service Retirement Trust Fund and the fact that OPM could go back and more accurately calculate that. That is something that interests me, because this H.R. 22 issue and how we solve that or provide some relief to that funding requirement is a very important piece here. Everybody has talked about that. If we don't have accurate numbers in terms of what is required in the first place, we need to have a solid base that we are operating from. I need that number to be as hard as possible, the number that we need and the amount of relief, obviously, that is required.

Could you expand on that a little bit, amplify that point?

Mr. GOFF. Just as we have been talking, we are trying to look at ways that we can go back in and help the Postal Service. Just as you were saying, too, we feel under the previous administration that when we got this situation taken care of, the figure that came about, it was one that was OK for everybody, yes, we were overpaying. But we still feel after looking at it for a while now that the overpayments, we are still overpaying into that fund. I think that needs to be looked at. It is just another area that we think we can go in and find some additional funds that the Postal Service would have.

Mr. LYNCH. OK. Just so you know, I have asked my staff, committee staff to send a letter to John Barry, who is the new Director of OPM, and ask him to give me a good hard number, look at these numbers again and obviously, in this environment, we can't have the Postal Service overpaying. Then we have to figure out a way to provide some relief that there that doesn't put the whole health benefit system in jeopardy. We are trying to find a way forward here on that point, much as H.R. 22 has suggested.

But I want to have, you sort of, you need to have the right numbers to work from before you throw a projection out there, otherwise we are acting on bad information. We can't have that, because there is so much at risk here. But just so you know, I understand what you said, and we are going to try to get a better number on that going forward.

We appreciate your coming before us. We appreciate the testimony that you have rendered here. This is an ongoing process. So we want you to be involved here. We think you have a lot that you can contribute in your years of service and your perspective. And you are welcome partners in this, I just want you to know that. Your insight has been very valuable to the committee. Thank you very much.

We have the final panel, welcome, gentlemen. It is the committee policy that all witnesses are sworn in. May I ask you to rise, please, and raise your right hands.

[Witnesses sworn.]

Mr. LYNCH. Let the record show that the witnesses have responded in the affirmative.

I will give a brief introduction and then we will have your testimony. Mr. William Burrus, president of the American Postal Workers Union, AFL–CIO, 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 in the U.S. Postal Service.

Mr. William Young is president of the National Association of Letter Carriers. He is the 17th president of that association. Its 300,000-member union represents city letter carriers employed in the U.S. Postal Service.

Mr. John Hegarty is president of the National Postal Mail Handlers Union. Mr. Hegarty was sworn into office as National Postal Mail Handlers Union president effective July 1, 2002. For the 10-years prior to becoming the national president, Mr. Hegarty served as the president of Local 301 in New England, the second largest local union affiliated with the Mail Handlers Union.

Mr. Don Cantriel is president of the National Rural Letter Carriers' Association. He began his postal career in Bland, MO, where he was a member of the National Rural Letter Carriers' Association. Mr. Cantriel has served at all levels of the association, beginning with the president of his local unit.

Welcome, gentlemen, and if I could, I would invite Mr. Burrus for his opening statement.

STATEMENTS OF WILLIAM BURRUS, PRESIDENT, AMERICAN POSTAL WORKERS UNION, AFL–CIO; WILLIAM H. YOUNG, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL–CIO; JOHN F. HEGARTY, NATIONAL PRESIDENT, NATIONAL POSTAL MAIL HANDLERS UNION; AND DON CANTRIEL, PRESIDENT, NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

STATEMENT OF WILLIAM BURRUS

Mr. BURRUS. Mr. Chairman and members of the subcommittee, thank you for convening this hearing on the financial stability of the U.S. Postal Service and for providing me the opportunity to testify on behalf of the dedicated employees that our union represents.

I commend the committee through your leadership, Mr. Chairman, for convening today's hearing on this critical topic at a pivotal time in the history of the U.S. Postal Service. Mr. Chairman, I will summarize my remarks, but I ask that the complete written testimony be admitted into the record. It has been a long day and I will try to be as brief as I can.

The Nation and the world are experiencing a financial collapse that is unparalleled in modern history and the Postal Service, like most institutions in our society, has been adversely affected. Mail volume has declined, leading to deficits that threaten the very foundation of the Postal Service.

The Postal Service can take steps on its own to respond to the crisis, but Congress must also play its part. The most important thing that Congress can do is to pass H.R. 22, which will provide temporary relief from the crippling obligation to pre-fund future retiree health care costs. Absent this relief, it is unlikely that the Postal Service can survive in its present form.

Over the past 10 years, as the mailing industry engaged in debate over postal reform, the overriding focus was the impact of email, the Internet, and the cost burden associated with serving an additional 1.8 million delivery addresses each year. With all the emphasis on a new form of communication, there was no focus on the real driving factor of hard copy communications, the economy. And as the country slid toward the recession that now engulfs us, no attention was paid to declining mail volume due to economic stagnation.

Advocates of postal reform ignored the burden that pre-funding retiree health care liabilities would pose on a service that would soon suffer double digit volume reductions as a result of the Nation's economic decline. The postal community identified the wrong threats and was totally unprepared for the challenges we now face. Email, the Internet and other forms of instant communications are viewed as direct challenges to hard copy communications. But we have known about them for years. And looking backward is of little value when we need a vision for the future.

The numbers speak for themselves. Annual deficits are expected far into the future. Yet the only solutions postal management has offered are reductions in work hours, consolidation of facilities and 5-day delivery. It is expected at some point management will suggest modifications to employees' wages and benefits in order to stem the tide of red ink. But I defer to that time any public comment on that possibility.

I would like to inform Congress that of the group representing postal employees, the crafts represented by the APWU have been reduced disproportionately, 110,000 employees over a 10-year period. We would expect that reductions and other sacrifices would be shared equally among the entire postal community. But no business can exist for long with a strategy based on cost reduction alone. Eventually it will become impossible to maintain an acceptable level of service and there will be nothing left to cut.

However, there are steps management can initiate to address the issue of financial stability. They could begin with a fundamental shift in the relationship between the Postal Service and commercial mailers. And I quote an observation by Joy Leong, a contributor to the newsletter Mailing Systems Technology, "Mailers are customers of the Postal Service, not shareholders. Printers, mail fulfillment services and other vendors are contractors of the Postal Service, not shareholders." In recent years, these lines have been blurred and major mailers have assumed the role of shareholders. They have formed organizations that have been granted unfettered access to the inner working of the Postal Service and to the decisionmaking process.

One umbrella organization has even been afforded office space in postal headquarters. This cozy relationship between postal executives and major business mailers is unhealthy and counter-productive. One of the byproducts of this relationship is the preservation of work share discounts that benefit the mailers at the expense of Postal Service stability. I have repeatedly shared with Members of Congress the views of my Union on excessive work share discounts and their corrosive effect on postal finances. Because over time, work share discounts have morphed into a disgraceful policy that rewards large mailers with rate reductions so extreme as to be absurd.

Mr. LYNCH. [Remarks off microphone.]

Mr. BURRUS. Yes. Let me make this one point, Mr. Chairman. After investing $20 billion in automation designed to affix bar codes on handwritten and other non-bar coded mail, the Postal Service has converted a 1 cent per piece cost into what amounts to a 10.5 cent bonus to work shares. This practice, policy and ratemaking process is detrimental to the health of the U.S. Postal Service.

But I have sung this song before, Mr. Chairman. Throughout the debate on postal reform, I have said that postal management has chosen a path that would lead to insolvency, and let me close with this, Mr. Chairman. The USPS' current predicament is the result of a flawed business strategy and a lack of vision of how hard copy communications can be relevant into the future. Management has failed to find a meaningful role for the world's best delivery force, a system that reaches every American home 6 days per week, has a network of 40,000 facilities, enjoys stellar name recognition and boasts a dedicated work force. Until the Postal Service finds a way to morph that proud tradition and work force into a meaningful role, far into the future of the Nation's communications systems, even with H.R. 22, the Postal Service will not be long for the future.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Burrus follows:]

APWU CONGRESSIONAL TESTIMONY

American
Postal
Workers
Union,
AFL-CIO

WILLIAM BURRUS
PRESIDENT

Before The

SUBCOMMITTEE ON FEDERAL
WORKFORCE
POSTAL SERVICE AND THE DISTRICT
OF COLUMBIA

COMMITTEE ON OVERSIGHT and GOVERNMENT REFORM

Financial Stability of the United States Postal Service

TESTIMONY OF WILLIAM BURRUS
PRESIDENT
AMERICAN POSTAL WORKERS UNION,
AFL-CIO

March 25, 2009

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Mr. Chairman and members of the Subommittee, thank you for convening this hearing on the financial stability of the United States Postal Service, and for providing me the opportunity to testify on behalf of the dedicated employees that the American Postal Workers Union is privileged to represent. I commend the Committee through your leadership, Mr. Chairman, for convening today's hearing on this critical topic at a pivotal point in the history of the U.S. Postal Service.

The nation and the world are experiencing a financial collapse that is unparalleled in modern history, and the Postal Service, like most institutions in our society, has been adversely affected. Mail volume has declined precipitously, leading to deficits that threaten the very foundation of the postal system.

The Postal Service can take steps on its own to respond to the crisis, but Congress also must play its part. The most important thing Congress can do is to pass H.R. 22, which will provide temporary relief from the crippling obligation to pre-fund future retiree healthcare costs. Absent this relief, it is unlikely the Postal Service can survive in its present form.

Over the past 10 years, as the mailing industry engaged in debate over postal reform, the overriding focus was the impact of e-mail, the Internet, and the cost burden associated with serving an additional 1.8 million delivery addresses each year. The standard refrain, which was repeated time and time again, is frozen in my memory: These factors would spell the doom of the Postal Service unless reform legislation was adopted.

With all the emphasis on new forms of communications, there was no focus on the real driving factor of hard-copy communications: the economy.

And as the country slid toward the recession that now engulfs us, no attention was paid to declining mail volume due to economic stagnation. Advocates of postal reform overlooked the impact of one of the central aspects of the legislation they supported: They ignored the burden that pre-funding retiree healthcare liabilities would pose on a service that would soon suffer double-digit volume reductions as a result of the nation's economic decline.

The postal community identified the wrong threats and was totally unprepared for the challenges we now face.

E-mails, the Internet and other forms of instant communication are viewed as direct challenges to hard-copy communications; but we have known about them for years, and looking backward is of little value when the stability of the Postal Service hangs in the balance. We need a vision for the future instead of a recap of yesterday.

The numbers speak for themselves. Annual deficits are expected far into the future, yet the only solutions postal management has offered are reductions in work hours and the consolidation of facilities. It is expected that at some point, management will suggest modifications to employees' wages and benefits in order to stem the tide of red ink. I defer to that time any public comment on that possibility.

I would like to inform Congress that of the groups representing postal employees, the crafts represented by the American Postal Workers Union have been reduced disproportionally. (Table 1, attached to my testimony, shows employee totals for various categories of employees from 2002 through 2008.) We would expect that reductions and other sacrifices will be shared equally among the entire postal community.

But no business can exist for long with a strategy based on cost reduction alone; eventually it will become impossible to maintain an acceptable level of service, and there will be nothing left to cut.

However, there are steps postal management can initiate to address the issue of financial stability. They could begin with a fundamental shift in the relationship between the Postal Service and commercial mailers. I quote an observation by Joy Leong, a contributor to the newsletter Mailing Systems Technology: ***"Mailers are customers of the Postal Service, not shareholders. Printers, mail fulfillment services and other vendors are contractors of the Postal Service, not shareholders."*** [Emphasis added.]

In recent years these lines have been blurred, and major mailers have assumed the role of shareholders. They have formed organizations that have been granted unfettered access to the interworking of the Postal Service and to the decision-making process. One umbrella organization has even been afforded office space in postal headquarters. This cozy relationship between postal executives and major business mailers is unhealthy and counterproductive.

One of the byproducts of this relationship is the preservation of workshare discounts that benefit the mailers at the expense of Postal Service stability. I have repeatedly shared with the members of Congress the views of my union on excessive workshare discounts and their corrosive affect on postal finances. (Table 2 shows the growth of the discounts.)

The law specifically requires universal service at uniform rates, yet the standard has been nullified with the growth of discounts that were intended to be temporary. Over time, workshare discounts have morphed into a disgraceful policy that rewards large mailers with rate reductions so extreme as to be absurd.

In the most recent rate case, while the Postal Service is experiencing serious financial difficulties, the USPS proposed to increase the discount for five-digit pre-sorted mail from 9.6 cents to 10.5 cents per letter, an increase of an astounding 9.4 percent.

In a dissent from the majority opinion of the Postal Regulatory Commission that approved the new rates – including workshare discounts that the Commission acknowledged were not based on "established methodologies" – Commissioner Ruth Goldway concluded that, "The uneconomic approach to rate setting can be a factor contributing to the Postal Service slide into financial distress."

If the Postal Service is to be excused again for violating the rate-setting standards, Commission Goldway said, "the reasons given must be carefully chosen so that the Postal Service, and the postal community, do not get the impression that there is not now, and never will be, any enforceable standard for workshare pricing."

USPS employees and equipment affix bar codes at a cost of less than one penny per letter, but the postal rate-setters have the audacity to certify that the cost avoided is 10 times the actual cost. This absurdity leaves postal management with zero credibility regarding the issue of financial stability.

The United States Postal Service is the only enterprise that pays 10.5 cents for another entity to apply a bar code – a computer-generated indicia that records bits of information used by the provider and the recipient.

After investing $20 billion on automation designed to affix bar codes on hand written and other non-bar-coded mail, the Postal Service has converted a one-cent per piece cost into what amounts to a 10.5 cent bonus to worksharers. So much for financial stability.

But I have sung this song before. Throughout the debate on postal reform, I have said that postal management had chosen a path that would lead to insolvency.

The nation's financial crisis has accelerated the pace of that journey, but the culprit is not the Internet or e-mails. The USPS' current predicament is the result of a flawed business strategy and a lack of vision of how hard-copy communication can be relevant far into the future. Management has failed to find a meaningful role for the world's best delivery force – a system that reaches every American home six days per week, has a network of 40,000 facilities, enjoys stellar name recognition, and boasts a dedicated workforce.

But even if postal management could be convinced to revise its approach, such changes would pale in importance compared to the issue of Congressional relief from the smothering obligation to fund future retiree healthcare costs.

This is the immediate problem, and it is serious. The APWU has strongly-held differences with the Postal Service about rate policies and other decisions, but we are united that passage of H.R. 22 is essential to the survival of the United States Postal Service. We ask that it be adopted expeditiously.

Thank you, Mr. Chairman, for your leadership and that of the members of this Subcommittee. Thank you for your efforts. I would be pleased to respond to any questions you may have.

Table 1

USPS Complement of Employees by Major Group FY2002-FY2008
(on-rolls at the end of the FY)

	2002	2003	2004	2005	2006	2007	2008	**Percent Change 2002-08**
HQ, IG & Area Offices	12,264	12,669	12,730	12,693	12,759	12,802	12,686	**3.4%**
APWU represented*	313,709	298,270	280,762	275,881	268,308	258,384	249,132	**-20.6%**
Mailhandlers	59,259	56,776	54,769	56,028	57,158	57,882	55,812	**-5.8%**
City Delivery Carriers	233,639	229,404	228,140	228,278	224,400	222,132	211,661	**-9.4%**
Rural Delivery Carriers-FT	60,817	61,611	62,762	64,335	66,344	67,584	68,900	**13.3%**
Postmasters/ Installation Heads	25,771	25,509	25,519	25,322	25,429	25,285	25,250	**-2.0%**
Supervisors, Managers, Administrators & Technical	47,490	44,796	42,803	42,179	41,740	40,693	39,797	**-16.2%**
Noncareer Transitional	12,847	11,025	9,884	8,460	5,133	5,232	18,332	**42.7%**
Noncareer X Transitional	88,580	86,895	90,227	89,824	94,928	95,935	83,518	**-5.7%**
Total	**854,376**	**826,955**	**807,596**	**803,000**	**796,199**	**785,929**	**765,088**	**-10.5%**

*Includes Career Clerks, MV Operators, Building & Eq. Maintenance, Vehicle Maintenance, Nurses. The noncareer transitional employees of all types are consolidated into one group.

USPS Volume FY2002-FY2008
(millions of pieces)

	2002	2003	2004	2005	2006	2007	2008	**Percent Change 2002-08**
Mail Volume	202,821.9	202184.7	206,105.6	211,742.7	213,137.7	212,234.0	202,702.9	**-0.1%**

Source: United States Postal Service Annual Reports

Table 2

Discounts from the Single Piece First Class Letter Rate For Automation Rate Letters (Cents per piece)					
	2004-05 rates (June '02)	Jan. 2006	May 2007	May 2008	Proposed May 2009
3-digit	7.8	8.2	7.6	7.4	8.3
5-digit	9.2	9.7	9.8	9.6	10.5

Mr. LYNCH. Thank you, President Burrus.
President Young.

STATEMENT OF WILLIAM H. YOUNG

Mr. YOUNG. Good afternoon, Chairman Lynch and Ranking Member Chaffetz.

My written submission describes in some detail how and why we have come to this critical point in history of this extraordinary institution. It provides background on the retiree health issue, its funding, and it outlines specific recommendations. Primary among them is H.R. 22. I am pleased to note that 9 of the 11 members of this subcommittee are now co-sponsors. You join the 208 other co-sponsors in the House of Representatives. That is very encouraging to all of us here.

When the American public reacts with outrage and disgust at the travesty of AIG, and when they fume about bailouts for banks, brokers and insurance companies that often reward wheeler dealers who got us into these unprecedented financial messes, you listen and you act. And you should. But I hope the innocent victims of this greed, the corruption and incompetence of Wall Street, don't get lost in the midst of all this anger. And believe me, my members are angry too. The financial elite of this country, aided and abetted by misguided deregulation, have trashed our economy. And the historic recession we face threatens the jobs and well-being of 700,000 postal families across the country.

Nothing we did, nothing the Postal Service did and nothing the postal industry did caused this crisis. So we hope that Congress will listen and act to help us overcome it. I want you to know that all of us are doing everything that we can do. The Postmaster General outlined that in his testimony, I won't repeat it here.

I would suggest to you that letter carriers know a little something about helping out in a crisis, about steadiness when there is panic in the air, about sharing and about sacrifice. When anthrax appeared in the mail stream, the chances of public panic were significant. Letter carriers didn't panic. They continued to do their jobs in a very frightening environment. There was no public panic, and eventually things returned to normalcy.

When Katrina devastated the Gulf Coast, many letter carriers lost their homes and all of their possessions. It was not until letter carriers appeared on the streets of New Orleans that the public panic began to subside and that normalcy returned.

When officials from the Homeland Security Department needed a way to distribute vaccinations in our country if it came under a biological attack, the Nation's letter carriers stepped up to the plate and volunteered to make those distributions under the City Readiness Initiative. Every year we volunteer our services, we conduct the Nation's largest food drive on the second Saturday in May. We replenish all the local food banks across America, delivering over 70 million pounds of food.

We do these things because we accept our role in society. We are the men and women trusted by America to deliver their mail. We come to you now because the Postal Service is in trouble, and we need your help.

We contend that before you consider any drastic and counter-productive measures, such as the move to 5-day delivery, or redefining universal service, Congress can and should take several other steps to strengthen the Postal Service, starting with the passage of H.R. 22. I outlined those other things, by the way, in my testimony, and I won't bore you with it here this afternoon.

With all due respect to Chairman Gallagher and Postmaster General Potter, this is not the time to undercut public and mailer respect for and reliance on the Postal Service by reducing postal services drastically and counterproductively to 5 days a week. The Nation's mailers have diverse needs and business is conducted 6 days week in America. In general, they want 6-day delivery, need 6-day delivery and expect 6-day delivery. If the Postal Service doesn't provide it, some one else will demand the right to do it, and that will only add to the woes of the Postal Service.

Now, we are here not to ask for a bailout. We are simply asking to use money that we have already put aside, our own money, the Postal Service's own money, to get us through this crisis. I am not going to get into a debate with you all about scoring rules, which we all know can mean what we want them to mean when it suits our political purposes. But I am confident that the same American public that is quite sure something is very wrong about bailing out AIG believes very strongly that something is right about the Postal Service. They may not appreciate AIG's traders scurrying off with multi-million dollar bonuses, using taxpayers' hard-earned dollars, but they do appreciate their letter carrier earning his middle class salary, paying their taxes, raising their children in the community and faithfully delivering their mail each day.

And they will thank you for helping the Postal Service to use its own rainy day fund to do that with a binding obligation to restore that rainy day fund when this crisis is past. Not a bailout, not a subsidy, not a loan. Our own money. How do you score that? Well, I will tell you how I score it, I score it a home run for everyone, the Postal Service, postal employees, mailers, postal customers, and oh, by the way, the Congress of the United States.

Before I conclude, I would like to address one further last issue. Earlier today, Chairman Lynch, you said that your concern about H.R. 22 was that it would leave a $75 billion unfunded liability in 2016 for future retiree health benefits. First, I share your concern. These benefits are my members' benefits, and I would never support legislation that would endanger their payment.

Second, you should note, sir, that the $75 billion estimate is highly uncertain, if not suspect. It assumes that retiree health benefit premiums will increase 7 percent a year forever. If there is anybody in that country who can survive that, I would like to know who it is. Seven percent a year, every single year, forever. I am going to submit a report from Watson Wyatt that shows that Medicare and Medicaid don't even believe that. Their more realistic, long-term trend rate is 5 percent annually. That ought to be instructive.

Third, I would like you to know, sir, that under H.R. 22, the balance in the retiree health fund will continue to grow from $32 billion today to $71.5 billion in 2016. Do you know how much the typical private sector company has pre-funded for its employees today?

Zero. Do you know how much the Treasury, the Commerce, the Labor Departments have pre-funded? Zero. Do you know how much the Congress of the United States has pre-funded for you and your employees? Zero.

So please, let's not kill the Postal Service out of an understandable yet tenuous concern about unfunded liabilities in 2016. The reality is, we need to re-examine the whole issue. I am delighted to hear you said that you were going to look into that, sir. The current funding schedule was set by the prior administration to meet short-term budget scoring rules. It wasn't set on the basis of any sound public policy or any sound accounting principles. In fact, and this is the part I think you would be most interested in, sir, in fact, a fair accounting of the Postal Service——

Mr. LYNCH. You really have to wrap up, sir.

Mr. YOUNG. This is it.

Mr. LYNCH. I appreciate that you have been here all day and I am cutting you some slack. I get your message.

Mr. YOUNG. Can I finish one sentence?

Mr. LYNCH. Please do, yes.

Mr. YOUNG. In fact, a fair accounting of the Postal Service's surplus and Civil Service Retirement Fund, which the OPM calculated and the PAEA allocated to the retiree health benefit fund, would most likely offset any unfunded liability. Zero. Thank you, sir.

[The prepared statement of Mr. Young follows:]

National Association of
Letter Carriers
Affiliated with the AFL-CIO & Union Network International

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Testimony Submitted by William H. Young
President, National Association of Letter Carriers
AFL-CIO
Subcommittee on Federal Workforce,
Postal Service, and the District of Columbia
March 25, 2009

Good afternoon Chairman Lynch, Ranking Member Issa and other distinguished members of the Sub-Committee. My name is William H. Young. It is my privilege to represent 220,000 hard-working letter carriers and some 80,000 retired letter carriers who are members of the National Association of Letter Carriers. Thank you for inviting me to testify on their behalf.

I have had the honor of testifying before Congress on numerous occasions over the past 10 years. I cannot remember a more important hearing than the one you are holding today, at least not for the 9 million Americans who work in the mailing industry and who rely on a healthy United States Postal Service – an industry that is, by the way, twice as big as the critically important automobile industry.

At this moment, the survival of the Postal Service – a venerable institution that is literally older than our country – hangs in the balance. The Great Recession we face today threatens to destroy the most trusted and universal connection most Americans have with their national government. The last time mail volume fell by as much as we have seen in recent months was in 1937 – at the depths of the Great Depression.

Like all of you, I am sickened by what Wall Street and companies like AIG, Lehman Brothers and Merrill Lynch have done to this country. The millions of workers who have lost their jobs and homes, the tens of millions of Americans whose pensions have been gutted, and the countless millions of American families whose dreams have been threatened, did not deserve what has happened to them. Most of all, I am outraged that the greed and recklessness of an elite few have endangered the future viability of the United States Postal Service – as well as the jobs of hundreds of thousands of hard-working postal employees.

I am sure all of you share that outrage. That so many of the responsible parties are nonetheless beating down your doors with outstretched hands, seeking bailouts from the taxpayers of this country makes it all the worse. It really is revolting.

We are not here today to ask for a taxpayer bailout, but we are here to ask the Congress for help. I am confident that you will not let your justifiable anger about AIG and the banking industry bailout prevent you from doing the right thing when it comes to providing financial relief to the United States Postal Service. I will talk more about that in a moment. But first, I want to talk about what we are doing to overcome the crisis.

Even before the recession, the Postal Service and its employees faced a difficult challenge. The decline of First Class Mail due to the Internet and the need to adapt to a new postal law led NALC to seek win-win solutions in the 2006 round of bargaining. We stepped up to facilitate the introduction of further automation with the Flats Sequencing System and addressed rising health care costs. We created a joint route evaluation task force to dramatically reduce the time and expense of adjusting city carrier routes and we expanded the duties of city carriers by taking Customer Connect, a program that uses letter carriers as sales agents for the Postal Service's competitive products, nationwide. The new law granted the Postal Service greater pricing flexibility for these products and we want to take full advantage of it when the economy begins to recover.

When the financial meltdown hit last fall, NALC was already working with the Postal Service to responsibly cut costs in the face of a recession that hit the Postal Service a year earlier. Mail volume was dropping and we understood that fewer carriers were needed to do the job of serving more than 145 million delivery points, six days per week. We used our special task force to negotiate an expedited system of route adjustments and went to work on adjusting virtually every city carrier route in the country in the space of just a few months, a task that would normally take years under the traditional system. It cost us jobs, but it was necessary – over the past year, more than 10,000 city carrier positions have been eliminated through attrition. As Postmaster General Jack Potter informed Senator Joe Lieberman in a December 3, 2008 letter, our route adjustment agreement will help the Postal Service save $1.3 billion this year on city delivery operations. We expect to use this expedited system again later this year to achieve further savings.

As Postmaster General Potter testified earlier today, the USPS is taking unprecedented measures to cut costs and respond to the current crisis. But we cannot use cost-cutting measures alone to restore our financial health. Given the scale of the crisis before us, we need Congress to act as well.

In the short-term, that means taking the common-sense step of passing H.R. 22, a bipartisan bill introduced by Reps. McHugh and Davis that will save the USPS billions of dollars over the several years by letting it pay current retiree health benefits out of its now-restricted retiree health fund. Meanwhile, going forward, Congress should work with the Obama administration on an in-depth review of the Postal Service's post-retirement obligations. Such a review would examine the prior administration's decisions in this area of policy and devise a fair division of responsibilities between the Postal Service and the U.S. Treasury for service performed for other agencies or for the Post Office Department before the creation of the USPS in 1971.

Let me say a little more about H.R. 22. First, I want to thank the seven members of this Sub-Committee who have co-sponsored this legislation. You are part of a huge, bi-partisan group of members – nearly 200 at last count – who have co-sponsored H.R. 22. The House of Representatives clearly understands this issue and I hope both this Sub-Committee and the full Government Reform and Oversight Committee will act to move this legislation expeditiously.

Second, NALC strongly supports the policy of pre-funding future retiree health benefits. Those benefits are our benefits. They are benefits that letter carriers and other postal employees are relying on to be there in the future – they are benefits that we have all worked very hard to earn. But we are seeking to adopt a more reasonable and affordable schedule of prefunding. Indeed, even with the adoption of H.R.

22, the Postal Service will still be prefunding at a far greater rate – some $2 billion per year – than virtually any other company. In fact, no other company is required by law or corporate accounting standards to pre-fund retiree health benefits – and not surprisingly, very few do. A survey by Watson Wyatt in 2008, shows that 65 percent of Fortune 1000 companies do not prefund at all and that the median level of prefunding (relative to future obligations) among the minority of firms that do prefund is far less than the 40-50 percent the USPS has already set aside in the Postal Service Retiree Health Benefits Fund. (The Watson Wyatt survey will be submitted for the record.)

Third, with H.R. 22, the Postal Service is not looking for a bailout. No taxpayer funds will be required by the bill. The USPS is seeking to use its own money to survive a cash crunch resulting from the economic crisis. The collapse of the housing, real estate and banking industries – all heavy users of the mail – and an economy-wide retrenchment in advertising budgets have slashed mail volumes. Although all the volume we have lost may not all come back, we believe most of it will when the economy improves. The McHugh-Davis legislation will provide breathing space until the economy fully recovers.

And fourth, H.R. 22 will not in any way reduce or endanger the benefits payable to postal employees. That's because, as under current law, any unfunded liability for retiree health benefits that remains in 2016 will be amortized by the Postal Service over the next 40 years.

Given the unique nature of the Postal Service and the placement within the Office of Personnel Management (OPM) budget of the funds used to pay for postal retiree obligations, the Congressional Budget Office (CBO) may assign a positive score to H.R. 22. I know how important the budget scoring rules are, but I will trust this Sub-Committee to deal with this obstacle. I am also confident that the Congress as a whole will see that maintaining the viability of the Postal Service in the face of the worst economic crisis in 80 years is so important that a positive score, arrived at because of technical rules governing the projection of future postal outlays, should not stand in the way of this legislation.

Of course, the crisis we face is not going to be over quickly. The Federal Reserve has concluded that it may take five or six years to recover from this recession –which explains the extraordinary credit market actions it took last week. This is why we need the full eight years of relief provided by H.R. 22. And this is why we need Congress and the Obama administration to undertake a comprehensive review of the Postal Service's post-retirement obligations. Such a review could fairly reduce the Postal Service's costs by significantly more than most of the alternatives now being discussed – particularly, proposals to eliminate one day of delivery. Such a reduction in delivery frequency would be penny-wise and pound foolish. It would reduce the value of the Postal Service to its customers by far more than any associated cost savings. And it would be counterproductive because it would drive more volume out of the mailstream. Since we believe that most if not all the mail volume lost during this crisis will return, and that many new uses of the mails will evolve over time once the economy recovers, any precipitous decision to reduce delivery services would be short-sighted and unwise.

Let me expand on the need for a comprehensive review of retirement obligations. There were at least three decisions made by the OPM and the prior administration affecting the cost of postal retiree health benefits that need reconsideration and correction, and there is at least one other pension issue that deserves review.

On retiree health, the Postal Accountability and Enhancement Act called for the establishment of a Postal Service Retiree Health Benefit Fund with a down-payment from a transfer from the Civil Service Retirement Fund. This transfer was supposed to be the surplus in the so-called "postal sub-account" of the Fund, taking into account the decision by Congress to return the cost of CSRS military pension benefits earned by postal employees to the U.S. Treasury. This brings us to the first Office of Personnel Management decision that adversely affected the Postal Service. When its Board of Actuaries initially calculated the 'postal surplus' in 2003, the OPM unfairly transferred pension obligations for service provided to the Post Office Department to the USPS – a cost that is legitimately the obligation of taxpayers, not postage ratepayers. It did this by failing to account for the impact (in some measure) of wage inflation on the cost of CSRS service credit accrued by employees before the creation of the Postal Service in 1971. The Treasury was not assigned the actual cost of this pre-1971 service credit when workers retired with pensions based on their high-three average salaries, only the cost of that credit at pre-1971 wage levels – as if the workers had never received another pay increase after 1971. For these employees, the Board also effectively shifted the high-cost years of service under the CSRS pension formula to the Postal Service while assigning the low-cost years to the Treasury. Both issues are explained by a report prepared by the Hay Group for the USPS that I will submit for the record.

Two other decisions made by the previous administration also raised the cost of future retiree health benefits for the Postal Service.

First, it wrongly rejected the Postal Service's application for funds authorized by the Medicare Modernization Act (MMA) for employers that provide prescription drug benefits to their retirees – a decision that raised the long-term unfunded liability of such benefits by $6 billion. Public employers like the USPS were specifically authorized to receive the MMA funds and while using taxpayer funds under MMA to offset taxpayer-funded benefits in other federal agencies might not make sense, the Postal Service is not tax-payer funded.

Second, when calculating the cost of future retiree health benefits, the OPM mandated the use of an inflation assumption for retiree health premiums that grossly overstates the likely cost of future benefits. The OPM assumes FEHBP premiums will rise by 7 percent annually over the next several decades, while the Centers for Medicare and Medicaid and most corporate benefit experts assume a more sustainable 5 percent long-term inflation rate. (I will submit a survey of "costing assumptions" conducted in 2008 by Watson Wyatt.) The schedule of payments included in the PAEA was made all the more onerous as a result of all these decisions.

Finally, we believe Congress and the Obama administration should complete the work begun in the PAEA in relieving the Postal Service of the cost of pension benefits derived from military service performed by employees before they are hired by the Postal Service. The PAEA transferred the cost of such benefits under CSRS to the Treasury in 2007, but the USPS still shoulders this cost for FERS employees – a cost that should be borne by taxpayers. The cost is significant because veterans' preference in USPS hiring is mandated by law and three-quarters of all postal employees are now covered by FERS. As a first step, this Sub-Committee could ask the OPM and/or the GAO to conduct a thorough analysis of the cost of FERS military pension benefits payable to postal employees.

As most of you know, I do not share the calm demeanor and even temperament of our new President, Barack Obama. Although I make no apologies for being a passionate defender of my members and their employer, those who don't know me often mistake my passion for anger. Well, today it would not be a mistake. I really am angry.

I think it is a travesty that we find ourselves in this precarious position not because of anything we have done. Not because of anything postal management has done and not because anything this Congress or this Sub-Committee has done. We are here today because the financial industry and its leaders have recklessly crashed our economy.

But undirected anger is not especially helpful and doesn't solve the problem. President Obama has correctly called on us all to channel our anger productively, and to rebuild our economy by rebuilding our Middle Class. There is no better way to do that than to help the Postal Service survive the current Great Recession. No other organization in America supports more good Middle Class jobs. No other institution is more important to sustaining a bigger American industry and no other industry is more vital to promoting the economic recovery we all hope to create in the months and years to come.

I am in the final stretch of my long career in the Postal Service. Like a lot of my members, I have loved this institution and dedicated my life to it. It has survived a lot in its history. I am sure it will survive this crisis too, if we all pull together and make the right choices today. I look forward to working with this Sub-Committee to strengthen the Postal Service and to help build a better future for our country. I am happy to take your questions.

Mr. LYNCH. I thank you.
President Hegarty.

STATEMENT OF JOHN F. HEGARTY

Mr. HEGARTY. Good afternoon, and thank you, Chairman Lynch, Ranking Member Chaffetz. I appreciate the opportunity to testify and I would ask that my entire written testimony be submitted for the record.

Mr. LYNCH. Without objection, so ordered.

Mr. HEGARTY. As with your predecessor, it is an honor to have someone as Chair of this subcommittee who has such a rich background in labor and postal issues, Mr. Chairman. I wish to focus my comments today on what Congress and the executive branch can do, as well as what we, the Mail Handlers Union, are doing to help the Postal Service through its current financial crisis. The first step is to simply enact H.R. 22.

How often does Congress see a bill that would rectify a multi-billion dollar debt situation, keep a vital function of Government alive, yet cost the taxpayer not 1 cent? That is what H.R. 22 does.

How often are the Postal Service, the mailers, the unions, the management associations and the $900 billion industry associated with the mail all on the same page? This is it, and it has bipartisan support.

Aside from not costing the public the public a penny, H.R. 22 has the added benefit of continuing to increase the amount of money in the trust fund for future retirees' health care, and it does not reduce any health care benefits. Furthermore, it gives the Postal Service some flexibility for the foreseeable future. And I fully support keeping the trust fund healthy.

All of us at this table are in agreement. There is one aspect of this process, however, that I would like to address, the imposition of the CBO scoring on this bill. If CBO scores an obstacle, then Congress needs to take a close look at the problem created by the rules under which CBO operates. The scoring issue may be singular to the Postal Service. It is a quasi-governmental agency, which receives no Federal appropriation for its operations. It is off budget for some purposes and on budget for others. Why should an intergovernmental transfer of U.S. Postal Service funds that in the long term will not change the finances of the Treasury by 1 cent and will not change the Postal Service's total obligation or the total amount of their retiree health care benefit fund, be construed as adding to the deficit? Why should a fix that does not cost the taxpayers or the users of the Postal Service one penny be scored? While it may make some sense in an academic accounting ledger world, it does not make common sense in the real world.

If legislation similar to H.R. 22 is not passed, the Postal Service may not be able to meet all its financial obligations as soon as September 30th of this year. That inaction would lead to a much bigger debt, the debt incurred by American society if we allow the Postal Service and the $900 billion industry which depends on it to fail. I obviously think Congress should figure out a way to pass H.R. 22. It is, in the words of President Obama's Reinvestment Act, temporary, targeted and job-saving. It is similar to the stimulus aid sent to the States to prevent layoffs and cuts in services. I hope the subcommittee will look closely at this issue.

I am often asked, what are we, the Mail Handlers Union, doing to help the Postal Service cut costs. There is a complex story to be told here. First, during the past 10 years, thousands of mail handler jobs and more than 100,000 total postal jobs have been eliminated, mostly through attrition, while the mail continues to be processed and delivered professionally and on time. That is why postal employee productivity is at an all-time high.

We have also aggressively pursued labor management programs to reduce overhead. Let me give you just a few examples. The ergonomic risk reduction process has succeeded in reducing repetitive motion injuries by as much as 35 percent. Because of the forceful backing of the Postmaster General and his headquarters staff, plant managers have embraced this effort. It has been estimated that the ergonomic risk reduction process saves on average 20 injuries per facility per year where the process is used, about a fivefold return on the dollar. These reductions account for approximately $77.8 million in cost avoidance.

Then there is the voluntary protection program which is driven by employees and is OSHA-related. It looks at the cause of a specific, often traumatic injury, and seeks to prevent a recurrence. There are measurable differences in the injury rates in facilities that use this program versus those that do not.

Starting in 1999, the Postal Service and our union developed a joint contract interpretation manual to encourage union and management representatives at all levels to resolve and reach consistent results on pending issues. It has saved many millions of dollars and added a level of predictability and responsibility to our craft.

The parties also have a quality of working life program, which provides opportunities for mail handlers and supervisors working together to identify and resolve work problems in the work place. The Postal Service reports that the savings are substantial, in the millions of dollars.

Finally, as a former labor leader, Mr. Chairman, you know how complicated a give and take process collective bargaining can be. Yet in our current contract, which was negotiated in 2006, ratified by our members and expires in 2011, we are reducing by 1 percent each year the amount the Postal Service pays toward our health care. The other unions and management associations are also on board with these reductions. The Postal Service's cost eventually will be reduced by more than $250 million per year when all unions and postal employees are taken into account. In these 5 years alone, the Postal Service is saving over $800 million, just from this one contract provision.

So in my view, the unions have stepped up to the plate. We ask that Congress do the same by passing H.R. 22.

Thank you for your time and attention. I will be happy to answer any questions you may have.

[The prepared statement of Mr. Hegarty follows:]

National Postal Mail Handlers Union

John F. Hegarty
National President

Mark A. Gardner
Secretary-Treasurer

Jefferson C. Peppers, III
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

Rudy Santos
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

"Restoring the Financial Stability of

the U.S. Postal Service: What Needs to be Done?"

March 25, 2009

National Headquarters: 1101 Connecticut Avenue, NW, Suite 500, Washington, D.C. 20036
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Good afternoon, and thank you Chairman Lynch 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, which serves as the exclusive bargaining representative for nearly 55,000 mail handlers employed by the U.S. Postal Service. As with your predecessor, it is an honor to have someone as Chair of this Subcommittee who has such a rich background in labor and postal issues.

You have asked us to testify today about the finances of the Postal Service and our efforts to make it a viable institution in the future. The Postal Service, as we have all heard, is a "leading economic indicator." It is subject to the same economic pressures as other sectors of the economy. This "leading indicator" status was apparent early last year. Volume started to fall dramatically long before the October 2008 collapse of the stock market, and long before much of the country became aware of the depth of the crisis in the financial and housing industries. Certainly, the internet also had much to do with the loss of First-Class volume and the resulting decline in revenue that formerly, particularly with First-Class mail, contributed to overall overhead.

I wish to focus my comments during this five-minute period on what Congress and the Executive Branch can do, as well as what we, the National Postal Mail Handlers Union, are doing to help the Postal Service through this crisis.

The first step is simply to enact H.R. 22 – now. How often does Congress see a bill that would rectify a multi-billion dollar debt situation, keep a vital function of government alive, yet costs the taxpayer not one cent? That is what H.R. 22 does. How often do you have a "perfect storm" in which the Postal Service, the mailers, the unions, the management associations and the $900 billion industry associated with the mail are all on the same page? This is it, and it has bipartisan support. We have been working to gather cosponsors in conjunction with those other groups. If H.R. 22 has not passed by the time of our May Legislative Conference, it will be our number one issue.

Aside from not costing the public a penny, H.R. 22 has the added benefit of continuing to increase the amount of money in the Trust Fund for future retirees' health care, and it does not reduce any health care benefits. Furthermore, it gives the Postal Service some flexibility for the foreseeable future. Along with my colleagues, I am here to urge members of this Subcommittee and all Members of Congress to cosponsor this legislation and pass it as soon as possible.

Others on this panel have enumerated the advantages of H.R. 22, so I will not repeat their evidence. All of us at this table are in agreement. There is one aspect of this process, however, that I would like to address: the imposition of the CBO "scoring" on this bill. If CBO's score is an obstacle, then Congress needs to take a close look at the problem created by the rules under which CBO operates. The scoring issue may be singular to the Postal Service. It is a quasi-governmental entity which receives no federal appropriation for its operations. It is off-budget for some purposes and on-budget for others. That is quite a hybrid. Why should an inter-governmental transfer of USPS funds that in the long-term will not change the finances of the Treasury by one cent, and will not change the Postal Service's total obligation or the total amount of the Retiree Health Care Benefit Fund, be construed as "adding to the deficit"? Why should a fix that does not cost the taxpayers or the users of the Postal Service one penny be "scored"? While it may make some sense in an academic, accounting ledger world, it does not make common sense in the real world.

Not passing legislation similar to H.R. 22 will have two effects: first, on the Postal Service, which may not be able to meet all of its financial obligations as soon as September 30 of this year. Second, it would add to a much bigger debt—the debt incurred by American society if we allow the Postal Service and the $900 billion industry which depends on it to fail during this economic crisis.

With regard to the Postal Service, under H.R. 22 the Trust Fund will not lose any money, no retirees will be disadvantaged, Congress will not have to appropriate any money, and the American taxpayer will not provide a penny of assistance through increased postage rates. I think Congress should figure out a way to pass H.R. 22. It is, in the words of President Obama's reinvestment act, "temporary, targeted and job saving." It is similar to the stimulus aid sent to the States to prevent layoffs and cuts in services.

Focusing on the mailing industry, magazine and catalogue publishing companies are in dire straits due to the economy. If they do not publish a "spring sales catalogue," a publishing company would have to lay off workers, or perhaps shut its doors altogether. Also, the mailing firm that the company employs loses work. The paper and envelope industry's demand is decreased. More workers are laid off. In the meantime, the Postal Service loses that revenue.

And, it doesn't take a flight of imagination to describe this scenario. It is already happening. RR Donnelly and L.L. Bean just announced layoffs. While H.R. 22 cannot control declining consumer sales, it provides a viable Postal Service that is crucial to revitalizing the future recovery of the economy.

Incidentally, that is why the long-term nature of H.R. 22 is so important. This economic decline is steep, and I haven't read any economist who thinks the recovery will be swift. The two-year alternative that some Senators have suggested is putting a band-aid on a deep wound – it will require Congress to revisit the issue in less than 24 months, and that will be a very difficult task.

What are we, the Mail Handlers Union, doing to cut Postal Service costs? There is a complex story to be told here. First, during the past few years, thousands of Mail Handler jobs (and more than 100,000 total postal jobs) have been eliminated, through attrition, while the mail continues to be processed and delivered professionally, and on time. That is why postal employee productivity is at an all time high.

We also have aggressively pursued labor-management programs to reduce overhead. These programs have cut back injuries (and compensation costs in money and time lost) and associated health care costs, resolved and reduced grievances, and sped processing and delivery, doing it quicker and cheaper.

As with the other unions at this table, we work in many joint labor-management programs to save the Postal Service money. Let me give you just a few examples:

- *The Ergonomic Risk Reduction Process.* We have been very successful in reducing repetitive motion injuries by as much as 35%. This program establishes committees that meet in the individual plants on a weekly basis to identify ergonomic risks. Generally, because of the forceful backing of the Postmaster General and his headquarters staff, plant managers have embraced this effort. It has been estimated that the Ergonomic Risk Reduction Process saves (on average) 20 injuries per facility per year where the process is used – about a five-fold return on the dollar. From 2003 to the end of FY08, we have experienced 35.3% drop in musculo-skeletal disorders at ERRP sites. These reductions account for approximately $77.8 million in cost avoidance.

- *Voluntary Protection Program.* This program is driven by the employees and is OSHA-related. Rather than looking at recurring injuries, it looks at the cause of a specific, often traumatic injury. It seeks to prevent a recurrence. Where this program has been implemented during the past five years, it has become a major factor in the reduction of injury and illness rates. There are measurable differences in the injury rates in facilities that use this program versus those that do not. Less than 20% of facilities use VPP. This non-participation is caused, at least in part, by a complicated set of regulations that must be followed. We are working with OSHA to streamline those regulations. (See Attachment #1: OSHA Chart attached to my written testimony.)
- *Contract Interpretation Manual.* The Postal Service and our union spent years and millions of dollars on resolving contract disputes without a common reference tool. Starting in 1999, we developed the Contract Interpretation Manual or CIM as a joint effort to encourage union and management representatives at all levels to resolve and reach consistent results on issues about which the parties are in agreement. The CIM is binding on both parties. It has eliminated

numerous misunderstandings and misinterpretations, and countless hours of unnecessary wrangling and appeals. It has saved many millions of dollars, and added a level of predictability and responsibility to our craft. We continue to upgrade the CIM on a periodic basis.

- *Quality of Working Life.* This program provides opportunities for Mail Handlers and supervisors, working together, to identify and resolve problems in the workplace. Improvements include the following: reducing downtime of machines, streamlining handling of mail, increasing productivity of automation by modifications to the conveyor belts and other problems, designing a machine to dry mail, and much more. We could not begin to quantify all these savings, but the Postal Service reports that they are quite substantial (in the millions of dollars). (See Attachment #2)

All of these are joint labor-management programs that are intended to protect both employees and the public. They have made the Postal Service a more efficient, less costly workplace. They improve the work-lives of our members, and at the same time they improve the finances of the Postal Service. We believe that much of the recent increase in productivity of postal employees is directly related to union involvement, something which none of us should overlook.

I have attached to my written testimony one example of how our members have saved the Postal Service, and its customers, money – in some cases hundreds of thousands of dollars, and in others millions of dollars.

On a related issue, Mr. Chairman, our unions have engaged in collective bargaining since the implementation of the 1970 Postal Reorganization Act. But our collective bargaining differs from that which you had in your Iron Workers Local. In 1970, in order to get meaningful collective bargaining, we gave up the right to strike. We also have binding interest arbitration if there is an impasse.

As a former labor leader, you know how complicated a give-and-take process collective bargaining can be. We have gained for our members a higher employer contribution to our health care than the federal sector. In return, we gave up some things, such as higher pay raises. That is the nature of the system, and we have not had a work stoppage since it was instituted in 1970.

In our current contract, which was negotiated in 2006, ratified by our members, and expires in 2011, we are reducing by 1% each year the amount the Postal Service pays toward our health care. The other unions and management associations are also on board with these reductions. The Postal Service's costs eventually will be reduced by more than $250 million per year when all unions and postal employees are taken in account, and in these five years alone, the Postal Service is saving over $800 million just from this one contract provision.

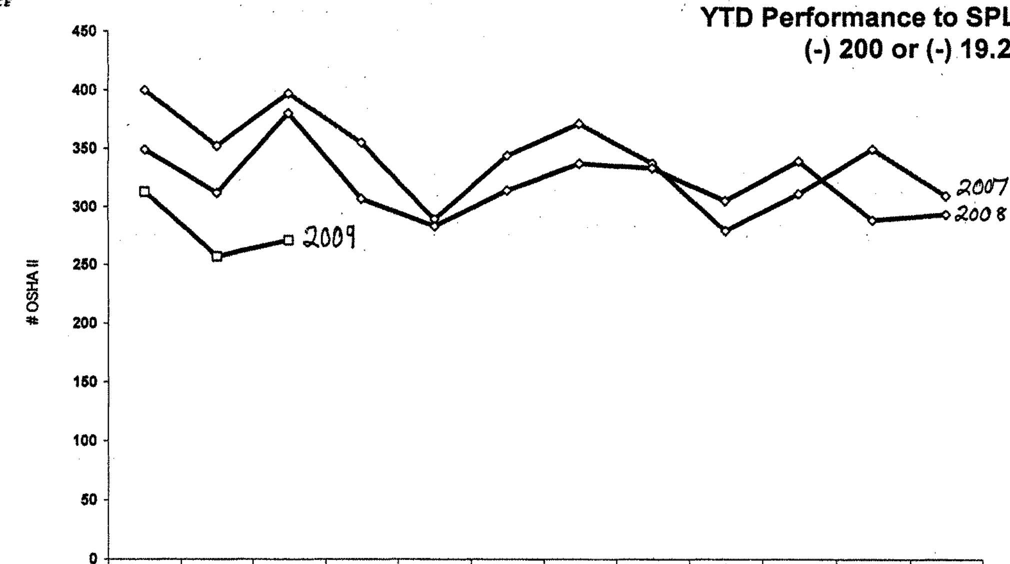
Again, thank you for your time and attention. No one sitting at this table thinks that resolving this crisis will be easy. We are presidents of unions who represent nearly one-half million workers. Our daily concern about the future of the economy and the Postal Service reflects our members' worries about their future. I will be glad to answer any questions you may have.

Attachment 1

NPMHU OSHA II PERFORMANCE

FY 2007, 2008 & 2009 MONTHLY TREND CHART

YTD Performance to SPLY
(-) 200 or (-) 19.2%



	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
FY 2007	400	352	397	355	289	344	371	337	279	311	349	309
FY 2008	349	312	380	307	283	314	337	333	305	339	288	293
FY 2009	313	257	271									

SAFETY DEPENDS ON ME!

QTR 1 FY 2009

Slide # 2
Date Prepared: 1/21/09
Prepared by: rbk/sepm

NPMHU OSHA II PERFORMANCE
YTD BY AREA – RANKED % DIFF TO SPLY

Sorted

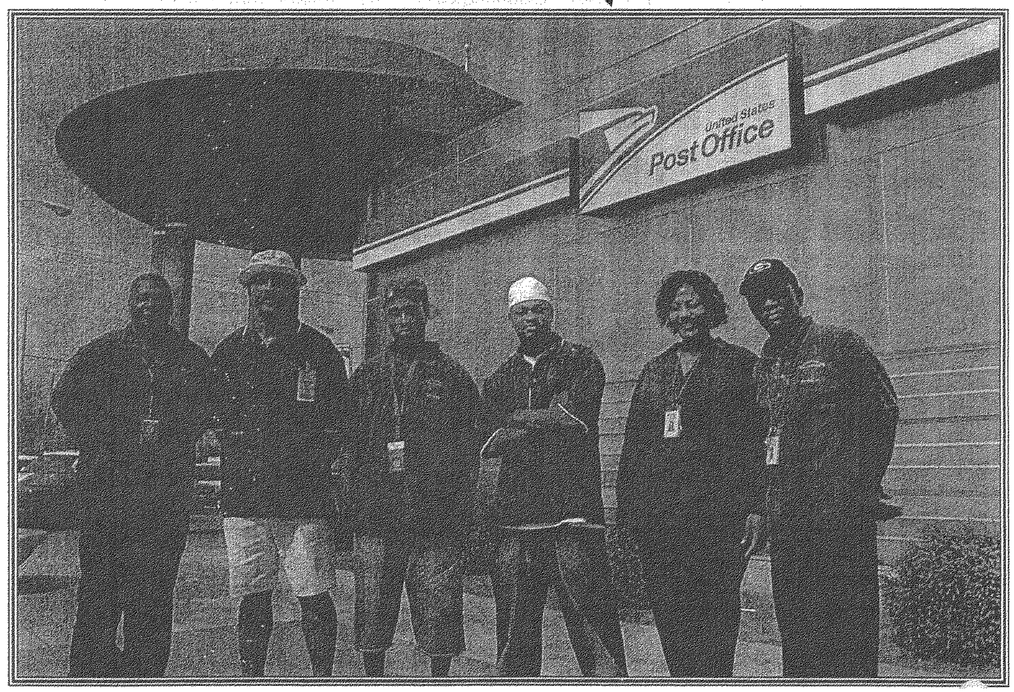
	Area	YTD FY 07	YTD FY 08	YTD FY 09	YTD Diff (09 to 08)	YTD % Diff (09 to 08)
1	SOUTHWEST	115	99	63	-36	-36.4%
2	WESTERN	171	160	107	-53	-33.1%
3	PACIFIC	89	78	54	-24	-30.8%
4	EASTERN	206	156	109	-47	-30.1%
5	GREAT LAKES	134	123	104	-19	-15.4%
6	SOUTHEAST	111	134	119	-15	-11.2%
7	CAPITAL METRO	87	88	81	-7	-8.0%
8	NORTHEAST	106	88	84	-4	-4.5%
9	NEW YORK METRO	118	102	105	3	2.9%
10	GLOBAL BUSINESS	12	13	15	2	15.4%
	Area Total	1,149	1,041	841	-200	-19.2%

QTR 1 FY 2009

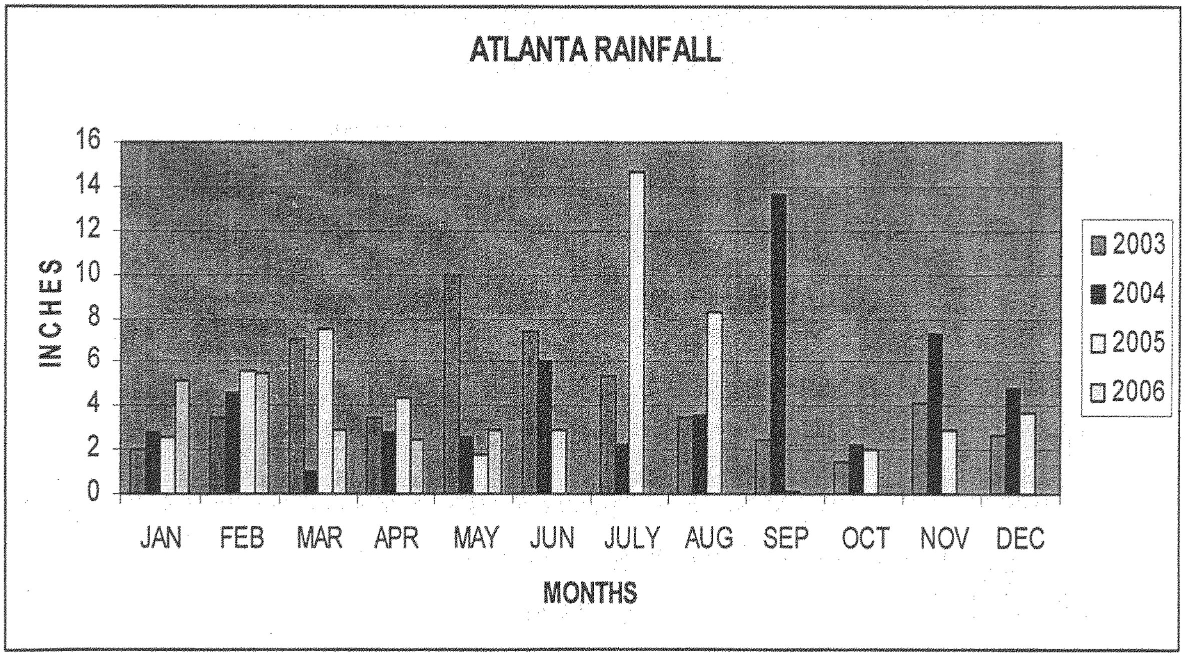
Slide # 3
Date Prepared: 1/21/09
Prepared by: rbk/sepm

Attachment 2

MAGNIFICENT THREE QUALITY CIRCLE

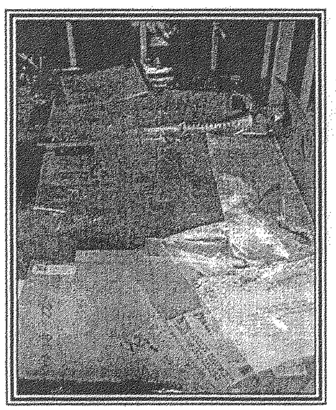


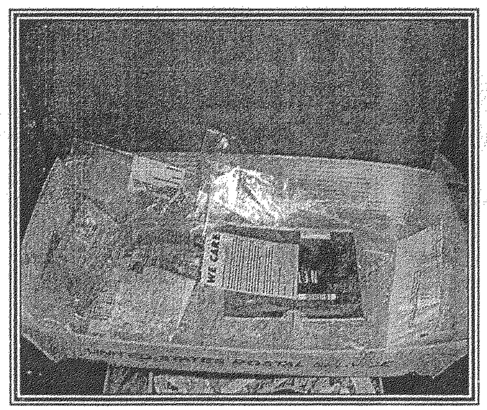
CURRENT DATA:

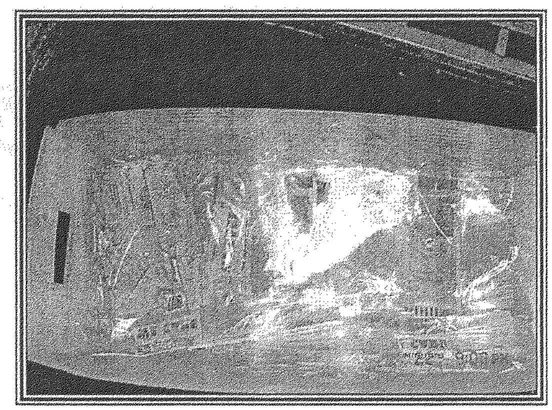


PRESENT SITUATION:

- Wet Flats and Letters from stations are slowing the processing of the mail.

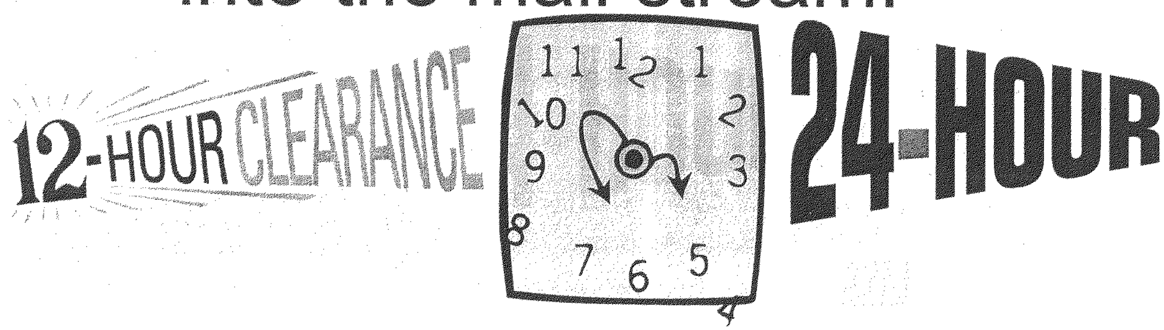






PRESENT SITUATION:

- Wet Flats and Letters are often delayed 12-24 hour before it is placed back into the mail stream.



Solution:

- Our proposal is To:

Build a machine like none other.

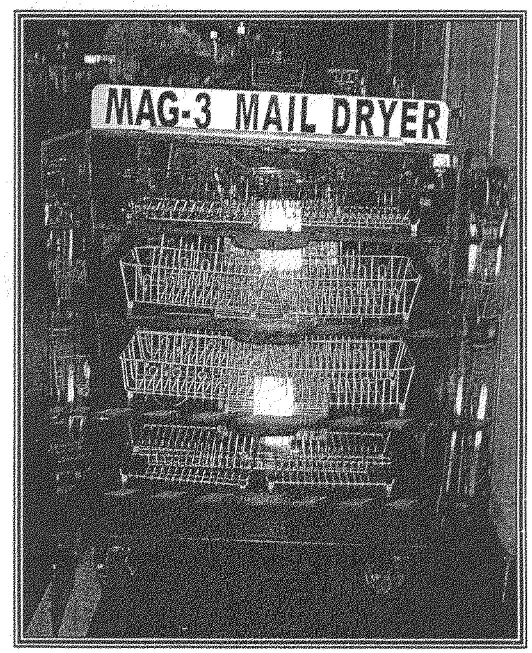
Our Proposal is To:

- Dry Flats and Letters from the stations by using the "Mag 3" Mail Dryer. (See attachment A-1)
- Have designated area to dry wet Flats and Letters from affected areas. (See attachment A-2).

We anticipate that if this proposal is implemented it will :

- Provide Mag 3 Mail Dryer to promptly dry wet Flats and Letter from stations, so that they can be processed.

(See attachment A-1)



We anticipate that if this proposal is implemented it will :

- Allow the dried mail to be placed back into the mail stream within the hour.

Voice of the Customer

- The implemented changes will positively affect the customer by keeping wet mail from becoming damaged and thus protecting the contents, and also aid in improving prompt delivery.

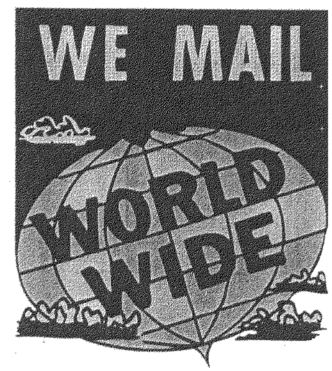
We Love To Serve You!

Voice of the Business

- The implemented changes will positively affect the business by improving EXFC scores by reintroducing potential test mail to the outgoing process, thus maintaining the integrity of the 24 hour clock.

Voice of the Employee

- The implemented changes will directly affect the employee by providing an effective process for drying wet Flats and Letters, therefore allow employee to be more productive in their respective craft.



Cost Analysis

Mag Three Mail Dryer

Parts	$350.00
Labor	$600.00
Total Cost	$950.00

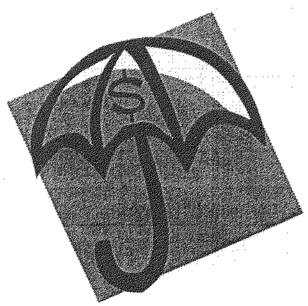
Average Pieces Of Wet Mail in One Day	3,600

Potential Lass Revenue For One Day	
2,700 Letters x 0.39	$1,053.00
900 Flats x 0.63	$567.00
3,600 Total Pieces	$1,620.00

Average Annual Rainey Days	115

Potential Annual Loss	$186,300 ($1,620 x 115)

Potential Annual Savings with MAG THREE DRYER $186,300	
One Time Cost Of Dryer	-$950.00
Total Potential Annual Savings	$185,350



Mr. LYNCH. Thank you, sir.
President Cantriel.

STATEMENT OF DON CANTRIEL

Mr. CANTRIEL. Thank you, Chairman Lynch, members of the subcommittee. I would like to extend my thanks to the committee for scheduling a hearing on restoring the financial stability of the Postal Service.

I would ask that my full testimony be submitted for the record.

Mr. LYNCH. Without objection.

Mr. CANTRIEL. I will give a brief summary of my statement.

Mr. Chairman, as the NRLCA's national president, it is in our members' best interest to work toward the creation of a financially stable Postal Service. Toward this end, our union has been working together with the Postal Service to establish revenue-generating programs along with ways to reduce costs for the Postal Service.

One revenue-generating program we use is called Rural Reach. To date, the rural carrier craft has generated $26 million for the Postal Service and we fully expect by the end of the first full year of existence to exceed $30 million in revenue for the Postal Service.

Our union is the only union that can claim that actual employee wages, what our employees take home in his or her paycheck every 2 weeks, is in large measure based on mail volume. Every year, rural routes are evaluated and rural carrier salaries are established based on the work performed each day during the evaluation. Mail volume is a critical factor in the salary-setting process. During boom times for the Postal Service, rural carriers can see an increase in the route evaluations. Until recently route evaluations generally went up due to increased mail volume and an expanding customer base.

Unfortunately, our last two mail counts resulted in significant reduction in rural route evaluation, impacting tens of thousands of rural letter carriers and causing their salaries to be lower. Last year, in a 2-week mail count, rural routes served by our members lost anywhere from 2 to 12 hours of pay each week. Each evaluated hour is worth more than $1,500 per year. So you can see how declining mail volume dramatically affects the men and women we represent.

This year, the NRLCA had a 4-week mail count during the last 2 weeks in February, the first 2 weeks in March. Official results from this recently completed mail count are not available. We are once again expecting rural route evaluations to go down, not up.

The point I am making is quite simple: our people are hurting. They are making less money or in some cases opting to work an additional day to make the same amount of money. It is pretty simple: reduction in rural route evaluations translates into direct savings to the Postal Service. If mail volumes decline, chances are very good that the Postal Service will be paying our members less because there will be less mail to deliver and collect each day.

Never let it be said that rural carriers are not doing their part to help the company. We have been doing it for decades with our evaluated compensation system. If the business falters, labor costs, at least rural letter carriers' labor costs are adjusted downward. Every postal employee we represent knows in the pocketbook what it means for the company to be challenged by declining mail volume.

The Postal Service can save literally hundreds of millions of dollars if routes are evaluated when mail volume is low. But this annual adjustment mechanism does not stop with salaries. Most rural letter carriers still provide their own delivery vehicles, from which they are paid an equipment maintenance allowance. EMA is adjusted quarterly by measuring fluctuations in CPI-W, transportation index. In other words, EMA payments to rural carriers go down when costs, including the costs of fuel, go down. These regular adjustments have recently resulted in significant cost savings for the Postal Service, as gasoline and automobile prices have dropped sharply.

Our union, like the other postal unions during the last contract negotiations cycle, lost some ground on health benefit costs and now pays a large percentage of health insurance premiums. Our members now pay more while the employer contribution to Federal employee health benefit premiums, as a percentage of total cost, is lower. As health care costs for businesses and corporations continue to rise, our union members will pay an additional 4 percent of the Federal employees health benefit programs over the life of the current collective bargaining agreement. It is another example of how our bargaining unit has provided additional savings to the Postal Service.

The most important piece of legislation Congress should enact is H.R. 22, introduced by Representatives John McHugh and Danny Davis. The Postal Service is saddled with an ambitious payment schedule to pre-fund its retirees' health benefits. This is an obligation no other corporation or Government agency is required to prefund. The last administration required this provision to be included for one simple purpose, to make the PAEA budget neutral.

There are several other savings opportunities that the Postal Service would have based on the actions of Congress, including helping them with the Medicare Part D, recalculation, looking at the way that the FERS retirement system is set up, and the payment that is made for military retirees.

Mr. Chairman, members of the subcommittee, thank you for allowing me to testify before you today. I would be happy to answer any additional questions you may have.

[The prepared statement of Mr. Cantriel follows:]

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Testimony of
Don Cantriel, President
National Rural Letter Carriers' Association

Before the

Oversight and Government Reform Subcommittee on Federal Workforce, Postal Service, and the District of Columbia

March 25, 2009

Chairman Lynch, and members of the Federal Workforce, Postal Service, and the District of Columbia Subcommittee, my name is Don Cantriel, and I am President of the National Rural Letter Carriers' Association (NRLCA), representing 123,000 bargaining unit rural letter carriers. Our members work in rural, suburban, and urban areas throughout the United States and function as "post offices on wheels" because rural letter carriers offer Postal customers all of the services performed over the counter at a post office. We sell stamps and money orders, accept express and priority mail, offer signature and delivery confirmation, registered and certified mail, and, of course, collect our customer's parcels. I would like to extend my thanks to the Committee for scheduling a hearing on Restoring the Financial Stability of the Postal Service.

Mr. Chairman, as the NRLCA's National President it is in our members' bes interests to work toward the creation of a financially stable Postal Service. Toward this end, our union, together with the Postal Service, established a revenue-generation program harnessing the sales and marketing talents of our members called ``Rural Reach.'' Rural Reach was created to attract new customers to the Postal Service who are currently using our competitors. It is also aimed at attracting customers who can benefit from using additional USPS services and products. What the Rural Reach program does is allow rural carriers to better serve our customers by initiating conversations with them about the products and services the Postal Service offers in an attempt to grow more revenue in the small to midsize customer base. To date, and in less than a year since the inception of Rural Reach, the rural carrier craft has already generated $26 million dollars for the Postal Service. We fully expect that by the end of Rural Reach's first fu year, the program will exceed $30 million dollars in revenue for the Postal Service.

Our union is the only union that can claim that actual employee wages - what an employee takes home in his or her paycheck every two weeks - is in large measure based on mail volume. Every year, rural routes are evaluated during a two to four week period, and rural carrier salaries are established based on the work performed each day during the evaluation. Mail volume is a critical factor in the salary setting process. During boom times for the Postal Service, rural carriers can see an increase in their route evaluations. Traditionally, until relatively recently, route evaluations generally went up due to increased mail volume and an expanding customer base. Our members were able to earn more and improve their collective standard of living. Unfortunately, our last two mail counts resulted in significant reductions in rural route evaluations, impacting tens of thousands of rural letter carriers and causing their salaries to be lower. Last year, in a two-week mail count, rural routes served by our members lost anywhere from 2 to 12 hours of pay each week. Each evaluated hour is worth more than $1500 per year so you can see how declining mail volume dramatically affects the men and women we represent. This year, the NRLCA had a four-week mail count during last two weeks in February and the first two weeks in March. Official results from this recently completed mail count are not available, but we are once again expecting rural route evaluations to go down - not up. The point I am making is quite simple. Our people are hurting. They are making less money or, in some cases, opting to work an additional day to make the same amount of money. It is pretty simple -- reductions in rural route evaluations translate into direct savings to the Postal Service. If mail volume declines chances are very good that the Postal Service will be paying our members less because there will be less mail to deliver and collect each day. Never let it be said that rural carriers are not doing their part to help the Company. We have been doing it for decades with our evaluated compensation system, th most unique pay system in the United States. If the business falters, labor costs - at least rural letter carrier labor costs - are adjusted downward. Every Postal employee we represent knows - in the pocket book - what it means for the Company to be challenged by declining mail volume. And every manager knows the Postal Service can save literally hundreds of millions of dollars if routes are evaluated when mail volume is low.

But this annual adjustment mechanism does not stop with salaries. Most rural letter carriers still provide their own delivery vehicle for which they are paid an equipment maintenance allowance. That allowance or ``EMA'' is adjusted quarterly by measuring fluctuations in the CPI-W Transportation Index. In other words, EMA payments to rural carriers go down when costs - including the cost of fuel - go down. These regula adjustments have recently resulted in significant cost savings for the Postal Service as gasoline and automobile prices have dropped sharply.

Our union, like the other Postal unions during the last contract negotiations cycle, lost some ground on health benefit costs and now pay a larger percentage of health insurance premiums. Our members now pay more while the employer contribution to federal employee health benefit premiums, as a percentage of total costs, is lower. As health care costs for businesses and corporations continue to rise, our union members will pay an additional 4% of FEHB premiums over the life of our current collective bargaining agreement. This is another example of how our bargaining unit has provided additional savings to the Postal Service.

Despite all the ways we help the Postal Service generate revenue, and all the ways our pay system offers relief to the Postal Service in tough times, the NRLCA cannot not do it alone or even with our brother and sister unions by our side.

Mr. Chairman, there are additional and important ways Congress can act to help the Postal Service achieve financial stability. Prescription drug costs are one of the fastest growing costs in the Federal Employees Health Benefits (FEHB) for Postal employees, retirees and their dependents. A large cost savings can be realized if the Postal Service was permitted to use the VA Federal Supply Schedule (FSS) to purchase prescription drugs for its covered population. Veterans Affairs (VA), Dept. of Defense (DOD), and the Indian Health Service use the FSS to purchase prescription drugs from the manufacturers at a substantial discount over traditional wholesale costs.

A rough cost savings estimate can be calculated by taking the number of USPS employees and retirees participating in the FEHB Program and comparing that group to the total FEHBP covered population. Then take the total FEHBP prescription drug dollars spent and divide it by the proportion of the total population who are USPS employees and retirees. Then simply apply the average savings realized under the FSS to determine the cost savings that would accrue to the USPS. Allowing the Postal Service to use the FSS to purchase prescription drugs would save the USPS roughly $250 million a year. Yes, this plan may pose some administrative challenges, but the cost savings will be well worth it.

A second savings opportunity for the Postal Service includes having the Office of Management and Budget (OMB) allow the USPS to apply for the Medicare Part D subsidy under the Medicare Prescription Drug Improvement and Modernization Act of 2003. During the previous Administration, the USPS was told not to apply for this subsidy because the Office of Management and Budget said "there is no good rationale to continue to pay itself to continue providing drug coverage to federal retirees of agencies that are fully supported by federal tax dollars." Mr. Chairman, as you know, the USPS is not supported by federal tax dollars, but rather by rate payer money. If the USPS were eligible to apply for and receive the Medicare Part D subsidy, the USPS would save approximately $240 million per year.

Mr. Chairman, it is imperative that legislative help come from Congress and there are two provisions of the Postal Accountability and Enhancement Act (PAEA) of 2006, Public Law 109-435, that can be modified to aid the USPS, financially, in a very meaningful way.

One change that could save revenue for the USPS involves transferring the military pension benefits of Federal Employees' Retirement System (FERS) to the Treasury Department. During the passage of PAEA, Congress agreed that the USPS should not be responsible for the military pension benefits of former military employees. The implementation of PAEA transferred $27 billion dollars worth of obligations in military pensions from the USPS to the Treasury Department for Civil Service Retirement System employees. However, the USPS and its customers, ratepayers, continue to be responsible for the military pension obligation of FERS Postal employees with prior military service. Just as the military pension obligation was shifted back to the Treasury Department for civil service employees, we feel the same should be done for FERS employees who served in the military prior to their Postal employment.

Second, and possibly the most important piece of legislation Congress should enact and enact as quickly as possible is H.R. 22, introduced by Representatives John McHugh (R-NY) and Danny Davis (D-IL). The USPS is saddled with an ambitious payment schedule to pre-fund its retirees' health benefits. This is an obligation no other corporation or government agency is required to pre-fund. The last Administration required this provision to be included for one simple purpose -- to make the PAEA budget neutral.

In 2006, when the PAEA became law, pre-funding retiree health benefits fund seemed feasible. Revenue for the USPS had just increased from the previous year, reaching over $72 billion. Total mail volume in 2006 also increased 1.4 billion pieces from the previous year.

Mr. Chairman, that was then, this is now. In 2008, the USPS posted a revenue net loss of $2.8 billion, and volume was down 9.5 billion pieces. In 2009, the USPS is predicting to lose in upwards of $6-8 billion in revenue, and faces a declining mail volume of 12-15 billion pieces.

Enacting H.R. 22 is vital for the Postal Service, for Rural Letter Carriers, for all Postal employees, and for the American people during these trying economic times. Everyone wants and everyone needs a financially stable Postal Service. Mr. Chairman, in no way am I advocating that the USPS stop making payments for future retirees' health benefits -- far from that. I want the USPS to continue to pre-fund its future retirees' health benefits. It is my members who will benefit from a fully funded retirees' health benefits fund. I am asking only that Congress allow the USPS to have access to the retiree health benefits fund now, to help pay for its current retirees' premiums. By doing this, Congress would help alleviate some of the financial burden on USPS, and give it a fair chance to survive the current economic climate.

Mr. Chairman, and members of the subcommittee on Federal Workforce, Postal Service, and the District of Columbia, I thank you for allowing me to testify before you today. I would be happy to answer any additional questions you may have.

Mr. LYNCH. Thank you. Thank you all. We appreciate your testimony.

Let me ask, there has been a menu of options that the Postmaster General laid out and reinforced by the Board of Governors, Ms. Gallagher. They talked about a voluntary separation program, voluntary retirement program. To my knowledge, at least the way they described it, it was not incentivized in any manner. I can't remember the last time they did an incentivized retirement program. It might have been 1982, I think, when my mom retired. That is the last one I remember.

But there hasn't been a great groundswell, they are not beating the door down to get out of there. I question the efficacy of a program like that when the economy is so weak. Do you actually think people are going to go into retirement when they see their 401(k) and their investments cut in half? What are your thoughts on this effort to get 150,000 postal employees to take an early retirement?

Mr. BURRUS. Speaking for the members of the American Postal Workers Union, they are not fools, they are not going to relinquish a job paying in excess of $50,000 a year to the uncertainty of a bad economic situation. It is an act of desperation. They are not going to have many takers, I predict. Our union maintains that our collective bargaining agreement requires an incentive. We will resolve that through the grievance arbitration process.

But it is similar to the threat of 5-day delivery. It is a diversion. There is no intent, there is no desire, and it is certainly over Congress' congressional dead body that they will get a 5-day delivery.

Mentioning those things sucks all the oxygen out of the discussion, while we are collectively fighting as hard as we can to get H.R. 22 passed. We really don't need these sideshows. So I am very critical of them even bringing these things up. They are not the answer to the USPS problem.

There are some long-term solutions, but the initial hurdle is the avoidance of that $5-plus billion obligation they have to the future retiree health benefits.

Mr. LYNCH. Understood. That is loud and clear.

Mr. Young, on the early retirement piece here, if I am missing something.

Mr. YOUNG. Excuse me, I couldn't hear you, sir.

Mr. LYNCH. On the early retirement piece here, do you think that is going to be successful the way they have it framed right now?

Mr. YOUNG. No, sir, I don't. In the last early retirement that was just offered to my members, less than 3,000 of them took it. It is the uncertainty. You said it exactly right. When people lost all their retirement savings, when the stock market plunged, they don't know what they are facing, what the future is going to look like. There is a lot of people out there that are scared.

I want to get back to this idea of these things that Potter and Gallagher brought to you this morning, and I just want to question in a general way, Mr. Lynch, whether it makes sense to try to make these kinds of decisions when the Postal Service is at the bottom. This would be like restructuring the Postal Service during the Great Depression. Nobody that I have talked to in this country believes we are going to be mired forever in the current economic state that we are. At least we all pray to God we are not.

So I think it makes a lot more sense to look at this when normalcy returns. I would just say one thing, a lot of people are starting to believe now that all of a sudden the Internet and these other alternatives jumped into this. During the last 6 years, the Postal Service made all the right moves to protect themselves from that. And as one of the earlier panels testified, we would have actually made $2.8 billion last year if it hadn't been for this future retiree health benefit payment. So I think the real key is what you said, let's find out what that real number is. What is the real number, what is that obligation, and then let's go from there in trying to decide how we make this the best Postal Service with the funds that we have available.

Mr. LYNCH. Mr. Hegarty.

Mr. HEGARTY. On the voluntary early retirement, I have a couple of concerns. Something for the committee to consider too is, employees hired since 1984 under the Federal Employees Retirement System, if they take an early retirement, they lose the ability to contribute to the thrift savings plan, they lose the matching contributions, they don't qualify for social security right away, they really can't live on it. A typical voluntary early retirement offer in the last round for an employee hired in mid-1984 is $900 a month. So I don't know any postal employee who, as President Burrus said, would go from a good-paying middle class job could live on $900 a month.

For the Civil Service Retirement employees, the picture is a little bit better for them. They were all hired in 1983 or before, some of them are approaching normal retirement age. But I would love to see incentives, I just don't know where the money would come from for that, either.

Mr. LYNCH. Right.

Mr. HEGARTY. And the last time they did an incentive was 1992, and they lost so many employees in so many wrong places they had to hire to replace a lot of the employees that they took the voluntary retirement.

Mr. LYNCH. I know I am over my time. But I am going to ask, President Cantriel, could you also hit that same question?

Mr. CANTRIEL. Because we are the last mile of delivery, this is the first time we have ever been offered the voluntary early retirement. Like the NALC, we had 606 carriers who took advantage of voluntary early retirement. The comments that I heard throughout the country was, if I am going to have to work, I would just as well work for the Postal Service, because I cannot live on what I would be getting from my retirement without some sort of an incentive to do it. That was the general feeling from ours.

I don't expect a large portion of our membership to take advantage of it this time. And in positions other than the declining mail volume, which may result in the loss of some routes, if one of our people retires, someone has to replace them, because we are that last mile, similar to the NALC. Someone is going to have to actually deliver that mail.

Mr. LYNCH. Yes. Thank you.

Mr. Chaffetz for 5 minutes.

Mr. CHAFFETZ. Thank you, Mr. Chairman, and thanks to those of you who have been here since 9:30 a.m. The chairman slipped me a note and said, don't worry, we are halfway there. So hang in there with us. [Laughter.]

We have heard various testimony and the chorus has been fairly united on the idea for support of H.R. 22. I personally support H.R. 22, now that I have been able to dive in and look at it. Obviously I think it has the numbers and the support, in a broad way, bipartisan way, and hopefully we can get to that sooner rather than later.

We need revenues to go up, we need expenses to go down to get to that magical point. We have to deal with the fact, the realities of where things are today. So I guess I would like to lead with a sense of what are the top three things we could do to affect either revenues going up and/or expenses going down? H.R. 22 plays a critical and important role and gets us a long way toward that direction.

Taking maybe 30 seconds each, knowing that you will each take a minute—[laughter]—maybe we could start with President Cantriel there and give me a sense of what you would add to that list. We need big things that are going to make big differences. What are No.s 2 and 3 on that list that you would add?

Mr. CANTRIEL. I guess I would have to piggyback a little bit on what you heard from the managers. We see so many levels out there. I am going to use my postmaster I just talked to within the last week when he told me what my evaluation was. He said, I am so tired of filling out a report verifying that I filled out the reports that had to be reported, and not given the opportunity to run my office. One of his comments was, I know less about running my office now than I did 15 years ago when I got the position.

So I think there has to be some streamlining in middle management and put some responsibility back on those postmasters to make those decisions. I think Charlie and Dale both said it very well, they are very capable of making the decisions that need to be made there. They don't need three levels of middle management to tell them what they need to do.

I think we are top heavy in a lot of areas. I don't see that we need 80 or 74 districts. I don't think we need 10 areas to tell our members how to deliver the mail. We have too many people that are not actually handling the mail telling people that are handling the mail what they need to do and how they need to do it.

Mr. CHAFFETZ. Thank you.

President Hegarty.

Mr. HEGARTY. Thank you. The first thing I think we need to do is continue the revenue generation that the unions are participating in. The carriers and rural carriers have done it for a number of years. We just started last year talking to vendors, people we do business with, that don't use the U.S. mail. We now have the opportunity to fill out a form or go on the computer and a professional Postal Service sales associate will call on that business and explain to them the benefits of the mail, how they can get better service, how they can save money.

So that is just taking off from my craft's perspective. But as I said, the letter carriers and the rurals have been doing it for quite a while.

One thing I would caution that you should do is not go to 5-day delivery. That would be in the top three for me. One of the reasons, we have talked about driving people to our competitors. The other thing I think that would do is drive people to the Internet. Because the first time their bank statement doesn't come on time or the first time their credit card bill goes late, they are going to say the heck with this, I can go online, do all that stuff and save myself some postage.

Mr. CHAFFETZ. Thank you.

President Young.

Mr. YOUNG. Yes, I am just going to give you the list. First and foremost, restore the economy. When that is done, the Postal Service is fine.

Mr. CHAFFETZ. If you can give me until Thursday—[laughter.]

Mr. YOUNG. That is what I was just going to say, you are from Utah, you can do that by Thursday. [Laughter.]

Second, the Medicare subsidy Part D, that was designed for companies to provide a drug benefit equal to Medicare. We do and just with the stroke of a pen the previous President said, we are not going to give it to you, notwithstanding the fact that is about $8 billion right there, $8 billion is what I am told the number is there.

Management restructuring would be No. 3. And here is No. 4 for you. We are still paying for FERS employees for the time they spent in military service. In the Postal Reorganization Act that we just passed in 2006, we took care of the CSRS employees, their previous military service. That was $17 billion, that was the cost of that. We are still asking mailers and the people who pay postage to pay for the time that anybody who is a FERS employee after 1984, any time they spent in the military. That would be significant as well.

Mr. CHAFFETZ. Thank you. Great, I appreciate it, thank you.

Mr. BURRUS. No. 1 is H.R. 22, No. 2 is restoring the economy, No. 3, to infinity, is similar to jumping off a five-story building and flapping your arms. It doesn't cushion the fall, but it gives you something to do on the way down. [Laughter.]

Mr. CHAFFETZ. Thank you.

Thank you, Mr. Chairman.

Mr. LYNCH. Let me ask, one of the other legs of the stool that Postmaster General Potter had thrown out there was consolidation of some of these post offices. They have already gone with six facilities, six area facilities which I guess are largely for administrative purposes. But there is a sense that there could be some consolidation of more of the urban post offices and while that might not necessarily affect the number of people out there in terms of your workers, we may gain some efficiencies by discontinuing the leases that we have out there or closing down some facilities out there that are obsolete or not being utilized to full extent.

What are your thoughts on that idea about closing those facilities?

Mr. BURRUS. In general, we oppose consolidations. We support efficiencies, if the Postal Service can prove to the community that a consolidation is in the interest of saving the Postal Service money while providing the same level of service to the citizens of that community, then we stand aside and will support such an effort.

But what we see in the current plan is deny the single user, my grandmother, my cousin, the student in college, to deny them the level of service they provide for the major mailers. Major mailers follow the Postal Service, and it is actually beneficial to them, because it reduces the number of drop points where they take their mail to. So consolidation saves money for your major printers and major mailers.

But it is creating a two-tier U.S. Postal Service, one system for the major mailers, a totally different system for the person who drops the letter in the collection box at the end of the corner. That is the danger of this consolidation plan. It is not just efficiency. It is separating the Postal Service into one Postal Service for the haves, another Postal Service for the have-nots. And we oppose that.

Mr. LYNCH. OK. Mr. Young.

Mr. YOUNG. I think it is worth a look, but I caution, and I think you know this, so I know you do, sir, because of your background, but it is going to be real heavy on all of you. Every time we try to close any facility in your areas, you are going to hear from all of the people that live in that area the millions of reasons as to why it shouldn't happen.

I would just make this one remark, and you just take it for what it is worth. I believe this is the right number, if it is not, I apologize, but it is close. Long Island has 80 postmasters. Ask yourself the question, do you think that is necessary? It is not that big of an island.

Mr. LYNCH. President Hegarty.

Mr. HEGARTY. Well, again, if it makes sense, if it is going to save the Postal Service money. But the key is, if it is not going to hurt service, then we are not opposed to it, provided it is done in accordance with our collective bargaining agreement and the Postal Service's own handbooks and manuals. They have a handbook called the Handbook PO 408, it governs their area mail processing service, where they are supposed to do a survey. And under the PAEA, they have to have community input, stakeholder input and hold a public hearing.

One quick example, they are doing an A and P study right now in my home facility of Springfield, MA, and they want to truck all of the cancellation mail, the letters that come in that need to be run on the cancellation machines, down to Hartford, CT, to be canceled, and then truck them back up to Springfield to be delivered. I know you are familiar with the State of Massachusetts, Springfield to Hartford is about 35 miles, it is down I–91. They would be going down there in rush hour traffic, all kinds of weather. It doesn't make a lot of sense to me.

So those are the types of consolidations that we are opposed to.

Mr. LYNCH. Mr. Cantriel, I know that you represent the rural carriers. So you are probably outside of the possibility of consolidation in many cases. But your thoughts?

Mr. CANTRIEL. Well, we do have some in urban areas, but yes, I do deal mostly with the rural areas. There is a real identity problem there. They do not like losing that. There are solutions that can be there, there are things that can be done to look at to make sure that the communities are provided the same service that they have. In my area, there are three or four small offices, in one post office, three or four clerks could provide the same amount of hours at the window and do the same amount of service without having a manager there all day long and still provide the service that we need in those rural communities.

I don't look much toward closing a lot of those down because of the identity for that community and what goes on there. So it is a little more difficult for me to jump on board with closing down very many offices.

Mr. LYNCH. OK, thank you.

I don't believe we have any more questions, but I do have a comment, and that is that the Postal Service is one of the most respected Government institutions in this country because of what the people you represent every day do in our communities, whether they are rural communities, folks have a great deal of respect for their local letter carrier in the cities as well as the suburbs. Their local clerk is a very familiar face around town.

But it is really, that reputation of reliability and of great service is largely due to the people that you represent. So we thank you for that.

Just as I spoke earlier with the supervisor and postmasters that we have an open process here on how to proceed, I do want to caution that time is wasting and we don't have a lot of options here. We don't have a lot of time, let me put it that way. So we are going to have to decide on a course of action and we are going to have to get to it. Sounds like H.R. 22 in some iteration will be part of that approach and that response.

But we would like to do more than just that, and we would welcome your input and your ideas. You see it at a ground level, and you have seen it for a good while. And so we would be enriched by having your input in this whole process. We welcome it.

I thank you for your testimony here, and have a good day.

[Whereupon, at 4:52 p.m., the subcommittee was adjourned.]

[The prepared statement of Hon. John M. McHugh and additional information submitted for the hearing record follow:]

STATEMENT OF THE HONORABLE JOHN M. McHUGH

Committee on Oversight and Government Reform

I thank the Chairman for convening today's hearing and welcome the opportunity to share my thoughts about what needs to be done to restore financial stability to the Postal Service. Suffice it to say that the situation is dire and deteriorating rapidly. What I do want to take the time to outline is an important legislative solution that I am hopeful will be considered by this Subcommittee this Spring – a measure that already has a majority of the Subcommittee Members as cosponsors.

As a Member who has closely followed postal legislative issues for more than 14 years, we must consider the legislation requested by the Postal Service: H.R. 22, a bipartisan bill with over 200 cosponsors that would provide immediate financial relief to the Postal Service by allowing it to refinance its retirees' health benefits payment. This legislation is strongly supported by the Postal Service, all of its unions and management associations, and the entire $900 billion mailing industry, which employs nine million Americans.

As the Postmaster General will testify today, the Service faces a crisis of huge and historic proportions, despite extensive efforts to reduce costs. This situation is due to the precipitous decline in mail volume brought about by the deepening recession and the economic condition of the agency's largest customer, the financial services industry.

Additionally, the Postal Service is laboring under a crippling cost burden imposed by a statutory requirement that the Postal Service prefund the health benefits of future retirees, while still continuing to pay annual premiums for its current retirees. The payment for current retirees totals about $2 billion and is growing each year. At the same time, the annual mandated prefunding ranges from $5.4 billion to $5.8 billion over the ten-year period from 2007 through 2016.

In 2008, the Postal Service's total retirees' health benefits costs came to $7.4 billion – $1.8 billion paid for current retirees and $5.6 billion deposited into the Postal Service Retiree Health

Benefits Fund to prefund future premium payments. Without the mandated payments, the Postal Service would have achieved a positive net income in 2008 – rather than its actual $2.8 billion loss. No other entity – public or private – is required to prepay this health benefit obligation at these extremely high levels.

To address this serious situation, H.R. 22 would simply accelerate by seven years a provision in the law to pay the health premiums for current retirees from the Postal Service Retiree Health Benefits Fund, which already holds in excess of $32 billion and will continue to grow. H.R. 22 would not require an appropriation or use of any taxpayer monies, but rather involves merely an intra governmental transfer of funds. It would not increase the health benefit premiums paid by current or future Postal Service retirees, nor would it affect their benefits. Moreover, the mandated ten year prefunding of retiree benefits would remain in place, at which time the obligation will be reamortized, so there will always be more going into the Health Fund than going out.

Congress must act quickly to enact H.R. 22 in order to prevent the loss of thousands of jobs in the Postal Service and the American mailing industry. I look forward to today's hearing on the challenges and possible solutions in addition to H.R. 22. Thank you.

Compensation for Postal Service Officers

Background

Jack Potter is the Postmaster General of the largest postal system in the world; he is the CEO of the 10th largest commercial enterprise in our country, which is second only to Wal-Mart in the number of workers it employs. Despite the scope of his responsibility, he is the lowest paid CEO of a major corporation in our country.

The compensation figure in the press ($857,459) is not his annual salary or his annual compensation; the majority of that amount represents his civil service retirement that he will receive after he leaves the position, and other types of compensation required to be reported, but not typically considered as income.

- The actual annual salary of the Postmaster General is $263,575. (This level of compensation was provided in the *Postal Accountability and Enhancement Act of 2006,* passed by Congress in December 2006).

- $381,496 is the estimated change in the future value of Civil Service Retirement benefits to be paid out over the PMG's remaining life-time after retirement — perhaps 35 years. Any CSRS employee with the same input variables as the PMG would have the same value.

- $135,041 is incentive and performance compensation and will be paid out over a 10 year time period beginning when the PMG leaves postal employment.

- $69,253 represents estimated security costs that are required for the protection and security of the PMG and charged to his total compensation per the reporting requirements of the SEC. These costs include Inspection Service protection.

The remaining amount (approximately $8089) was for such benefits as life insurance, parking, and a physical exam.

Provisions in Law

- Subject to statutory limits, federal law in 39 USC provides that compensation and benefits for all Postal Service officers shall be comparable to that for comparable work in the private sector. This helps to ensure that the Postal Service can attract and retain talented employees. The postal law of 2006 reinforced this principle by stating that 12 officers of the Postal Service may receive a salary up to 120 percent of the salary of the Vice President of the United States.

- Postal employees are covered by the same defined retirement plans as are all Federal employees, CSRS or FERS.

- Although the law governing the USPS provides that executives should be compensated at a level comparable to the private sector, the USPS's status as part of the federal government precludes the ability to achieve a standard of compensation comparable to the private sector.

- As such, the postal Governors – who are Presidentially appointed and Senate confirmed – have designed a compensation system for executive officers, which balances salary with the potential to earn additional compensation for those who meet their performance goals and objectives.

- A significant portion of the officer's potential compensation is incentive-based and "at risk" – meaning it is tied to performance metrics agreed to by the Governors and the individual officers.

- The Board has a Compensation Committee, which meets several times a year, to review compensation matters; the Compensation Committee makes recommendations to the Board for their review and approval.

- Any additional incentive compensation awarded to officers above the previously defined salary cap is deferred until after the officer leaves the USPS.

- The Board of Governors have adjusted the salary of the Postmaster General because he continues to exhibit strong leadership, effecting billions of dollars in cost reductions while achieving record setting service levels even in the face of an increasingly difficult market severely impacted by the economic climate.

- Key examples of the Postal Service's success under the Postmaster General's leadership, and of the Postmaster General's performance include:

    - Unprecedented record service and productivity levels since 2001.
    - Extraordinary performance in leading the Postal Service through the 9/11 and anthrax crises, as well as the responses to Hurricanes Katrina and Rita.
    - Exemplary leadership demonstrated by implementing visionary strategic initiatives and severe cost-cutting measures to proactively address the declining mail volume and economic crisis.

Comparing USPS to the Private Sector

- The Postal Service is a complex logistics, shipping, and transport enterprise that is required by law to serve every home and business in the nation. It is the largest service provider in this category on a global scale.

- In order to attract and retain the best available officer talent, the Postal Service must be able to compete with world-class peers like FedEx, UPS, Deutsche Post and UK Royal Mail, all of which offer their chief executives annual salaries several times that of the Postmaster General.

- With $75 billion in annual revenue and 656,000 employees, the Postal Service compares in size and scope with the largest and top ranking Fortune 500 companies.

- An independent review by an independent consulting firm retained by the Board of Governors, found that Postal Service executive officer's compensation is only about 15 percent of the compensation for comparable executive officers in the private sector.

- Given the incredible size and scope of the Postal Service and the constraints within the federal sector, providing compensation for Postal Service officers that is comparable to similar work in the private sector is a difficult, if not impossible, standard to achieve.

- A review of public records shows that the President and CEO of the Tennessee Valley Authority, a federally-owned corporation in 2008 had a compensation package consisting of nearly $1.1 million in incentive awards, a salary of approximately $655,000 and another $300,000 in deferred compensation. In addition, news accounts had indicated that the projected salary for the President and CEO of the Public Company Accounting Oversight Board, a private-sector, non-profit corporation created by the Sarbanes-Oxley Act, was $654,406 for 2008.

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STEPHEN F. LYNCH
9TH DISTRICT, MASSACHUSETTS

COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND GOVERNMENT-SPONSORED ENTERPRISES
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
CHAIRMAN, SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA
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April 3, 2009

The Honorable John E. Potter
Postmaster General and CEO
United States Postal Service
475 L'Enfant Plaza, SW
Washington, DC 20260

Dear Mr. Potter:

As a follow up to your recent testimony before the House Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, I am providing you and the leadership team of the Postal Service with the following questions for the record posed by Members of the Subcommittee during the March 25, 2009 oversight hearing. In responding to the following inquiries, I ask that you provide responses to the Subcommittee within 30 days.

The reporting items and outstanding questions posed by Rep. Norton to the Postal Service are as follows:

1. Please submit for the record all of the Postal Service's "green initiatives". Please provide all of the Postal Service's policies and authorities for its "green" initiatives, including any updates to these initiatives.
2. Please submit for the record the inventory of all Postal Service vehicles and the type of fuel these vehicles use.

The reporting items and outstanding questions entered into the record by Rep. Serrano to the Postal Service are as follows:

1. In order to help move this country toward oil independence and help the Postal Service develop new cost savings and profit centers, and assuming that you receive adequate funding, is the Postal Service willing to conduct pilot tests for substantial numbers of fully electric delivery vehicles in 4-5 locations around the country? If these tests prove successful, will you be prepared to begin converting your fleet to electric Long Life Vehicles (LLVs)?

2. If you received funding from Department of Energy or Congress, would you be willing to begin the process of replacing or converting your delivery fleet with electric vehicles?

3. Has the Postal Service prepared any studies on the costs, maintenance and fuel savings, design issues, potential profit centers, appropriate geographical regions, additional green jobs, and a time frame for moving to electric LLVs? Could you please provide the Subcommittee a report on those issues in the next 30 days?

4. Has the Postal Service prepared any studies that quantify the carbon footprint of its last mile delivery network?

5. Could you provide the Committee a copy of the updated study in the next 30 days? We would also like to know what you foresee would be the challenges and opportunities for the Postal Service if a price were put on carbon, such as through the adoption of a cap and trade system.

6. In October 2008, you started a "go green" campaign to "reduce energy use 30 percent by 2015" and said that the Postal Service was conducting detailed energy audits of 500 buildings. "More than one trillion BTUs of potential energy reductions already [had] been identified." Have you been able to implement those energy reductions?

7. Can you get back to us about what kinds of changes can be made in Postal Service buildings and how much they would cost?

8. The Comprehensive Plan says that the Postal Service is postponing replacement of LLVs by 7 years. Does the Postal Service have a plan for replacing LLV vehicles? Please provide a copy. What are the safety and maintenance considerations in extending the life of the vehicles?

If you have any questions, please contact Margaret McDavid at (202) 226-5126 or margaret.mcdavid@mail.house.gov.

Sincerely,

Stephen F. Lynch
Chairman
Subcommittee on Federal Workforce, Postal Service, and the District of Columbia

Questions for the Record to Postmaster General Potter Following

March 25, 2009 Congressional Hearing

Questions posed by Rep. Norton:

Q1. Please submit for the record all of the Postal Service's "green initiatives". Please provide all of the Postal Service's policies and authorities for its "green" initiatives, including any updates to these initiatives.

Attached, please find an outline of our efforts to "green" the Postal Service.

Q2. Please submit for the record the inventory of all Postal Service vehicles and the type of fuel these vehicles use.

Vehicle Categories	Quantity	Fuel Type(s)
½ Tons (LHD & RHD)	189,687	Primarily gasoline, some E-85, propane, CNG, & hybrid
1 & 2 Tons	7,912	Diesel
Cargo Vans	2,208	Diesel
Tractors	2,248	Diesel
Trailers	4,170	N/A
Maint. support & service vehicles	5,196	Primarily gasoline, some E-85
Administrative vehicles	5,519	Primarily gasoline, some E-85
Inspection Service & OIG	3,165	Primarily gasoline, some E-85
Mobile Post Offices	218	Diesel
Parade vehicles	10	Gasoline
Buses	4	Diesel
Total vehicles	220,337	

Questions posed by Rep. Serrano:

Q1. In order to help move this country toward oil independence and help the Postal Service develop new cost savings and profit centers, and assuming that you receive adequate funding, is the Postal Service willing to conduct pilot tests for substantial numbers of fully electric delivery vehicles in 4-5 locations around the country? If these tests prove successful, will you be prepared to begin converting your fleet to electric Long Life Vehicles (LLVs)?

The Postal Service recognizes our role as a leader among federal agencies in conserving energy and protecting the environment. We also understand the necessity and advantages of redefining our business model to continue improving our products and services, while controlling costs through more efficient operations. A significant part of those operations is our postal owned fleet, the largest civilian delivery fleet in the country.

The Postal Service would certainly be willing to conduct pilot tests of a substantial number of electrical vehicles, under the right circumstances. Those circumstances include having the right mix of partners, both public and private corporate sponsors from the automotive and public utility industries. We would also envision a strong role for other federal agencies, including the Department of Energy and the Environmental Protection Agency.

After a successful pilot, there will still be additional factors to consider before an official commitment could be made to an all electric delivery fleet. However, USPS would certainly be positioned to make at least a very significant commitment to electric vehicles.

We should point out that while the LLVs are our primary delivery vehicle (142,200 nationally), they are complemented by another 45,000 other light-delivery vehicles, consisting of another delivery-purpose-built vehicle similar to the LLV, as well as a large contingent of regular minivans.

There also is one fleet vehicle characteristic that is essential to USPS mail delivery. That is the right hand drive (RHD) requirement for many of our vehicles. When discussing fleet replacement vehicles, RHD is a paramount consideration. Based on our discussions with the auto industry, it appears that initial electric vehicle offerings will continue to be left-hand drive vehicles, which will have the broadest appeal to most of the industry's target groups. Once the traditional left-hand drive vehicles become established, vehicle manufacturers say, they will consider a RHD variant.

Q2. If you received funding from Department of Energy or Congress, would you be willing to begin the process of replacing or convening your delivery fleet with electric vehicles?

Under the circumstances described in Question # 1, the answer is yes.

Due to the size and complexity of the postal fleet, there are very few questions that can be answered just "yes" or "no". As an example, the Postal Service plays an important role to cities and communities impacted by natural disasters, such as hurricanes, tornadoes, and earthquakes. After the first responders, the Postal

Service is the first sign of "normalcy" the victims see, as our letter carriers begin restoring mail delivery to affected areas.

USPS is able to do so largely because we have made arrangements beforehand for fuel and aren't typically affected by temporary regional fuel shortages that occur after those disasters. A total shift to electric vehicles would change and limit our ability to respond to those events in the future. Florida and the Gulf of Mexico coastal region may be potential sites for hybrid electric (not plug in) vehicles as an alternative. As hybrid technology continues to evolve, USPS will continue monitoring its progress and be positioned to act. For longer routes requiring larger capacity vehicles, hybrid electrics may be required, or use of another fuel type.

Q3. Has the Postal Service prepared any studies on the costs, maintenance and fuel savings, design issues, potential profit centers, appropriate geographical regions, additional green jobs, and a time frame for moving to electric LLVs? Could you please provide the Subcommittee a report on those issues in the next 30 days?

While the Postal Service has conducted ongoing evaluations of various alternative fuel vehicle technologies, our financial constraints have precluded our performing an in-depth analysis of transitioning to an electric fleet. Recently, based on conversations and an exchange of information with members of Congress, we have done some initial high-level investigation into what a changeover to an electric-powered fleet would entail, both in terms of costs, as well as vehicle type and availability, necessary infrastructure support, and other primary considerations.

If the reference in the question about "fuel savings, design issues, potential profit centers" refers to Vehicle to Grid (V2G) technology, postal management has been exploring the possibility of that with particular interest. We have concerns that the infrastructure and grid development doesn't currently exist to validate and effectively pilot such a system today, but it is a subject we are certainly willing to explore as the technology becomes available. The system's ability to generate revenue would need to be a part of that evaluation.

A report on our recent activities can be prepared and forwarded as requested, but it will be limited in its scope and details due to the time constraint and to the lack of industry data and information.

I would like to recommend a meeting between your office, any other interested parties, and appropriate postal representatives. Due to the complexities of the issues you raise, I believe a meeting or series of meetings would serve as a forum for information exchange.

Q4. Has the Postal Service prepared any studies that quantify the carbon footprint of its last mile delivery network?

The Postal Service is finalizing the details regarding the public announcement of its Greenhouse Gas Emissions study, based upon 2007 carbon footprint data. We will provide a copy of the study to the Committee and would appreciate the opportunity to brief the Committee on its findings in the near future. We are

pleased to note, however, that to our knowledge we are the first federal agency to voluntarily conduct and publicly report a green house gas inventory. Our carbon footprint for 2007 was 9.05 million metric tons, which is one-tenth of one percent of U.S. greenhouse gas emissions in 2007.

Q5. Could you provide the Committee a copy of the updated study in the next 30 days? We would also like to know what you foresee would be the challenges and opportunities for the Postal Service if a price were put on carbon, such as through the adoption of a cap and trade system.

The Postal Service will be focused on implementing policy and reduction targets identified in its first Greenhouse Gas Study, such as the commitment to reduce facility energy consumption by 30 percent by 2015. We plan to update our GHG study every year to measure our progress, and anticipate having the next report ready next Spring. Although not directly affected by adoption of a cap and trade system that targets energy producers and heavy manufacturing, the Postal Service would face higher energy costs, since cap and trade costs would be passed along to users.

Q6. In October 2008, you started a "go green" campaign to "reduce energy use 30 percent by *2015"* and said that the Postal Service was conducting detailed energy audits of 500 buildings. "More than one trillion BTUs of potential energy reductions already [had] been identified." Have you been able to implement those energy reductions?

The energy reductions that USPS identified during 2008 are in various phases of implementation throughout 2009. As of March 2009, we have completed implementation of projects resulting in over 700 million BTU energy reduction, and have begun implementation of projects anticipated to result in close to 300 million more BTU of energy reduction for postal buildings. Our intent is to complete implementation of projects resulting in a total of 1.2 trillion BTU in energy reductions by the end of this fiscal year (Sept. 30, 2009).

Q7. Can you get back to us about what kinds of changes can be made in Postal Service buildings and how much they would cost?

In order to achieve the 30% reduction goal, it is necessary to reduce consumption by approximately 6 trillion BTUs for our portfolio of over 34,000 facilities. Based on our inventory size and data already collected through detailed energy audits, it is estimated it will require a capital investment of $1.035 billion for system upgrades, retro-commissioning of existing building systems and to provide support and training to bring systems up to peak efficiency. This investment will pay for itself many times over in energy and environmental impact savings. Below is a breakdown of how this funding would be used:

- **Energy-efficient lighting upgrades in 2/3 of building space. $500 million.**
- **Modern building automation systems in largest processing facilities. $75 million.**
- **Modern building automation systems in small and medium buildings. $25 million.**

- **Implementation of enterprise energy management system, including smart meters in largest energy consuming buildings. $35 million.**
- **HVAC upgrades in largest energy consuming buildings. $200 million.**
- **Building envelope improvements. $50 million.**
- **Water efficiency improvements. $15 million.**
- **Upgrades at data centers and conversion of older computer equipment to Energy Star. $50 million.**
- **Efficiency upgrades of fixed mechanization equipment. $50 million.**
- **Retro-commissioning. $25 million.**
- **Staff development / training. $10 million.**

Q8. The Comprehensive Plan says that the Postal Service is postponing replacement of LLVs by 7 years. Does the Postal Service have a plan for replacing LLV vehicles? Please provide a copy. What are the safety and maintenance considerations in extending the life of the vehicles?

One of the primary reasons behind the decision three years ago to postpone the LLVs' replacement was the lack of a clear signal regarding the direction alternative fuels would take. The Postal Service didn't want to gamble and invest in what might have become a short-lived solution, and be left with a technologically obsolete fleet for the next 20-plus years. Today as the focus is becoming clearer, that decision point is proving to be a very wise one. Our currently planned replacement period for the LLVs is 2017 through 2024. We haven't begun to put the actual replacement plan together, and likely won't until 2013 or 2014. Again, the reason is that given the current increased interest in alternative-fuel technology and the potential of funding for it, whatever we identify today in vehicle technologies and alternative fuels is likely to be obsolete in four or five years.

Before making the final LLV postponement decision, a great deal of work was done to be sure the vehicles and our supporting infrastructure were up to the challenge. The fleet was assessed as to its overall condition, and extensive discussions and negotiations were conducted with our key vehicle replacement parts suppliers to ensure there will be continued parts availability. Today, we are well positioned to ensure the LLV fleet meets the extended replacement period.

DRAFT USPS PCES Executives / Officer Employee Relocation
MAY 11, 2009

Benefit	Current Policy	New Policy	FTR
Lump Sum Allowance	No Lump Sum Allowance	Lump Sum Allowance	
Advance round trip for home finding	Up to 3 trips totaling 10 days/9 nights; actual expenses	One trip up to 10 consecutive calendar days	1 trip up to 10 calendar days
# of dependents on advance round trip	All dependents	One dependent	1 dependent
Child care $ for dependent(s) remaining home during advance round trip	Yes, with no limitations	Eliminated to mirror FTR	No allowance for dependents.
Temporary quarters allowance (TQ)	Up to 75 days actual lodging expense	Employee receives 30 days at 75% of GSA lodging and per diem rate listed for new duty station; each dependent moving with you receives 30 days at 25% of lodging and per diem	30 days X .75 of lodging and per diem rate listed for new duty station; 30 days X .25 for each dependent moving with you
Limitations on lump sum allowance	Not applicable	Lump Sum Allowance limited if transferee owns a residence at new duty station	No
Return trips to former residence	5 trips (transportation expenses only)	Eliminated to mirror FTR	No
Use of Relocation Management Firm (RMF) for:			
Home Purchase Program	Yes No cap on homes eligible	Yes $800,000 cap on homes eligible	No mandatory capped value
Home finding assistance	Yes	No change	Agency discretion
Home marketing assistance	Yes	No change	Agency discretion
Movement/storage of household goods	Mandatory use of RMF w/storage available up to 75 days on up to 25,000 lbs.	No change	Up to 18,000 lbs.
Requirements for Home Purchase Program			
Distance requirement for home purchase	Must be 70 miles from old residence to new duty station	Must be 50 miles further from old residence to old duty station	More than 50 miles
Home marketing is required	No	No	No
Maximum value for eligibility in home purchase program	No	$800,000 maximum value of home	No mandatory capped value
Mandatory listing price after first 30 - day marketing period	No	No	No
Home sale incentive	No	3% of sales price of the home (if a sale is obtained and closed with an outside buyer while participating in the home purchase program)	Up to 5% of sales price of the home
New Home closing costs (capped at 5% of purchase	Yes	No change	Yes

DRAFT USPS PCES Executives / Officer Employee Relocation
MAY 11, 2009

price)			
Benefit	**Current Policy**	**New Policy**	**FTR**
Tax assistance provided on loan origination fee when purchasing new home	Yes	To be eliminated	No
Old Home closing costs (capped at 10% of sale price)	Yes	No change	Yes
Residence transaction time limit / 50-mile rule	2 years / 50 miles	No change	2 years / 50 miles
Miscellaneous Benefits			
Loss on sale of previous residence	Yes	New computation formula*	No
Expenses while en route to new location	Yes	Use of POV required if less than 800 miles	Yes
Relocation leave – 5 days	Yes	No change	No
Miscellaneous expense allowance	Two weeks base pay	No change	$500 or 1 week's pay/single $1,000 or 2 week's pay/family
Shared Appreciation Loan Program	Yes	Eliminated to mirror FTR	No
Mortgage interest differential (MID)	Yes	Eliminated to mirror FTR	No
Tax assistance – Federal and State income tax	Yes	No change	Relocation Income Tax Allowance
Service Agreement Requirement	Must remain in new duty station for one year	Must remain with USPS, in new duty station, for minimum of two years	Must sign employment agreement at least 12 months
Surviving spouse relocation benefits	Yes	Will be changed to mirror FTR	Yes
Spouse job search expenses ($1,500 maximum)	Yes	Yes	No
PCES Final Move			
Service requirement	Retirement	Must be eligible to receive an annuity from either CSRS or FERS	Eligible for retirement
En Route Travel to new duty station	Yes	Transportation and per diem* (employee only)	Transportation and per diem* (employee only)
En Route Travel for family	Yes	Transportation only	Transportation only
Movement/Storage of Household Goods up to 25,000 lbs.	Yes	No change	Up to 18,000 lbs.
Miscellaneous Expense Allowance	Two weeks base pay	No change	$500 or 1 week's pay/single $1,000 or 2 week's pay/family

DRAFT USPS PCES Executives / Officer Employee Relocation
MAY 11, 2009

Residence Transactions	Buyer Value Option	No change	No
Time Requirement for Final Move	5 years	No change	Must begin no later than six months after date of separation. An extension of up to 2 years may be granted by the agency.

External Hires are provided the following benefits			
En Route Travel to new duty station	Yes, transportation, lodging and per diem	Transportation and per diem*	Transportation of employee & immediate family members. Per diem for employee only.
En Route Travel for family	Yes	Transportation only	Transportation only
Miscellaneous Expense Allowance	Yes	Will be eliminated to mirror FTR	No
Movement and storage of household goods	Yes, up to 18,000 lbs.	No Change	Yes, up to 18,000 lbs.
Residence Transactions	Yes	Will be eliminated to mirror FTR	No
Lump Sum Allowance	Yes, if over 100 miles	Will be eliminated to mirror FTR	No

*Per diem for an established minimum driving distance per day is computed based on the lodgings-plus per diem rates for travel published on the GSA website.

* New formula for loss on sale/equity loss:

Loss experienced	Reimbursement at
$1 - $20,000	100%
$20,001 - $40,000	75%
$40,001 - $60,000	50%
$60,001 - $75,000	25%
$75,001 - $100,000	10%
Greater than $100,000	0%

UNITED STATES POSTAL SERVICE®

Reducing Energy Use

The U.S. Postal Service has as a goal of reducing energy use 30 percent by 2015. Building on its history of environmental innovation, the Postal Service is working to create a culture of conservation among its 685,000 employees in its 34,000 facilities and among its suppliers and partners in the mailing industry.

- The Postal Service has several large solar photovoltaic systems. Photovoltaics convert sunlight directly into electricity. The emissions eliminated by using solar power are equal to planting more than 850,000 trees.
- Detailed energy audits are ongoing at our largest energy-consuming buildings, which are responsible for 75 percent of the Postal Service's energy consumption. More than 1 trillion BTUs of potential energy reductions have already been identified. And projects that will save 500 billion BTUs have already been completed.
- Revisions to USPS energy standards allow for high-efficiency HVAC, lighting, roofs and windows whenever these systems need to be replaced in our 34,000 building inventory.
- A Utility Management System (UMS) pilot project began earlier this year to capture consumption and cost data for electricity, natural gas and fuel oil. The project has successfully gathered invoices and processed payments for 600 sites. UMS provides greater visibility for cost and consumption information, allowing the Postal Service to better manage energy resources.
- Lighting and lighting controls in processing plants are being upgraded to include energy-efficient fluorescent lighting, creating a cleaner and brighter environment.
- The Postal Service is exploring or installing several renewable energy systems in facilities around the country, including the use of solar panels, geo-thermal devices and even wind turbines.
- With the largest civilian fleet of alternative fuel-capable vehicles (43,000), the Postal Service has used more than 1 million gallons of alternative fuel and increased E85 fuel consumption by 40 percent between FY2006 and FY2007.
- Mail is delivered by bicycle in Arizona and Florida. Two-ton electric vehicles have been delivering mail in New York City since 2004. And three-wheel electric vehicles are being tested as possible replacements for traditional gasoline delivery vehicles in Florida, California, Texas and Arizona. Electric energy costs per mile: less than 4 cents.
- The three-year test of hydrogen fuel-cell vehicles for mail delivery hit a milestone this year. Carriers in Washington, DC, and Irvine, CA, have delivered more than 1 million pieces of mail using fuel-cell vans. Fuel economy was double that of conventional gasoline vehicles.
- USPS recently awarded a contract to develop an enterprise energy management system that will pull together all energy and building information into one system that will pull together all energy and building information into one system. It will allow detailed analysis and tracking to ensure peak energy performance.

UNITED STATES POSTAL SERVICE®

Greener Than You Think

Everyone – consumers, businesses, nonprofit organizations — uses the mail, and the U.S. Postal Service is committed to managing resources wisely to minimize mail's environmental impact. Across the organization, from supply management to facilities to delivery, the Postal Service is integrating sound environmental business practices into day-to-day operations. Leading by example, USPS is meeting the needs of the present without compromising the future.

- According to the U.S. Environmental Protection Agency, the nation's environmental watchdog, advertising mail represents **less than 2.4 percent** of the nearly 254 million tons of municipal solid waste created annually. More than 35 percent of this mail is recycled.
- The Postal Service is recognized as an environmental innovator and leader, and has been honored with more than **70 major environmental awards**, including 39 White House Closing the Circle Awards for environmental stewardship and 10 WasteWise Partner of the Year awards for best government performance by the U.S. Environmental Protection Agency.
- USPS is committed to helping consumers make environmentally responsible decisions about their mail, and created a special "green" section on its website with information on products and services, hundreds of helpful facts and suggestions and programs to improve environmental awareness. A key feature of **usps.com/green** is a carbon footprint calculator that consumers can use to see how much they can contribute to the environment by "skipping the trip," and conducting postal business online.
- In 2008, when the **Office of Sustainability** was established to coordinate energy, fuel, recycling and sustainability programs across 34,000 facilities and among 685,000 employees. Program goals include reducing energy consumption by 30 percent by 2015 and creating a culture of conservation in every internal business unit and external business partner.
- The Postal Service partnered with companies, agencies and organizations in ongoing pilot programs to safely recycle and properly dispose of e-waste, including small electronics, compact fluorescent lamps and discarded or expired pharmaceuticals. These **Mail-Back programs** leverage USPS's national infrastructure, create customer convenience, and find new, innovative uses for the mail.
- More than a half-billion packages and envelopes provided to customers by the Postal Service annually are nearly 100 percent recyclable and created using environmentally friendly materials. USPS is the only shipping or mailing company to earn **Cradle to Cradle Certification™** based on the quality of raw materials used to produce Priority Mail and Express Mail packaging, cardboard signs in Post Office lobbies and Ready Post® packaging and shipping supplies — including tape and labels.
  - More than 375 suppliers worked with the Postal Service to set materials standards for sustainability.
  - About 3,000 individual component materials were scientifically evaluated against 39 human and environmental criteria, including renewable energy, water use and recyclability.
  - All firms providing USPS boxes, envelopes and other certified materials must adhere to Cradle to Cradle standards.
- **"Read, Respond, Recycle"** is the simple, effective message behind Post Office Box Lobby mail recycling programs at almost 4,000 postal facilities across the country. And USPS is adding an additional 4,000 locations in 2009. By placing secure recycle bins in Post Office lobbies, the Postal Service is making it even easier for customers to make environmentally friendly choices.
- The Postal Service created and chairs the **Greening the Mail Task Force**, a public/private partnership charged with improving the environmental performance of mail. Members include customers, industry groups, suppliers, environmental organizations and the federal EPA. One of the primary goals is to work with marketers to make sure that mail is addressed and targeted correctly so consumers receive the mail they want.

UNITED STATES POSTAL SERVICE

Fuel Efficient Vehicles

Throughout history, the U.S. Postal Service has championed every new mode of transportation in its ongoing effort to provide prompt, reliable, universal mail delivery. From horse-drawn wagons and stage coaches, to trains, automobiles, planes and alternative fuel vehicles, the Postal Service has been at the cutting edge of transportation. With the largest civilian fleet in the world – more than 220,000 vehicles traveling more than 1.2 billion miles a year – USPS consistently looks for ways to reduce the environmental impact of its fleet.

- The **first electric vehicle** joined the Postal Service fleet in 1899, more than 100 years ago, after proving to be more efficient than a horse and buggy. Today, 30 electric vans are used to transport mail to processing facilities in New York City.
- Mail is being delivered on a trial basis by **three-wheel electric vehicles** in Florida, California, Arizona and Washington, DC. The T3 has a range of 40 miles, a maximum speed of 12 mph and a load capacity of 450 pounds. Powered by two rechargeable power modules, the T3 has zero gas emissions and costs 4 cents a mile to operate.
- The Postal Service has more than 43,000 **alternative fuel-capable vehicles**. 36,000 are ethanol-capable. As part of its ongoing efforts to reduce the use of petroleum-based fuel, USPS purchased more than 1 million gallons of alternative fuel and increased E85 fuel consumption by 40 percent between 2006 and 2007.
- Fuel-cell technology promises the benefits of zero greenhouse gases, zero air pollutants, more energy efficiency and less reliance on oil. The Postal Service is testing a **fourth generation fuel-cell** Chevrolet Equinox in a partnership with General Motors and funding from the U.S. Department of Energy. A hydrogen fuel-cell vehicle has been delivering mail in Irvine, CA, since September 2006. A second fuel-cell vehicle is being tested in Washington, DC.
- Tests are underway on medium-duty **hybrid electric vans** from Eaton Corporation and Azure Dynamics. They join the 10 existing Hybrid-Electric Ford Escape vehicles currently in the fleet.
- The Postal Service reduces the risk associated with testing any new technology by using a **vehicle R&D** strategy that calls for testing fuels and technologies in operational conditions to determine their overall viability and value to postal operations. The Vehicle Engineering Department's lab is in Merrifield, VA.
- Evaluation is continuing on a Telematics computer system placed in 33 cargo vans that monitors vehicle performance and identifies opportunities to **save fuel and reduce emissions**. Telematics monitors acceleration, starting, stopping and idling and can e-mail fleet managers about potential vehicle failures or the need to change oil.
- Mail also is delivered the most energy efficient way possible: it's walked. This **"fleet of feet"** delivers mail door-to-door and neighbor-to-neighbor by walking almost 10,000 mail delivery routes every day.
- About 35 delivery vehicles have been converted to run on **propane** and heavy-duty vehicles run on **biodiesel** fuel in two sites.

UNITED STATES POSTAL SERVICE

Greener Facilities

The U.S. Postal Service is committed to making a positive impact on the environment, taking proactive measures wherever possible to create sustainable spaces and making environmentally responsible decisions for our employees and customers working in and conducting business at our 34,000 Post Offices across the country. The Postal Service also continues to develop design standards and processes to build the most sustainable and efficient buildings that are life-cycle cost effective.

- Postal buildings are going green. New postal facilities are being built with the environment in mind. They have energy-efficient lighting and HVAC, low-water use fixtures and low VOC materials.
- The Denver Post Office has been honored with LEED certification by the U.S. Green Building Council. Leadership in Energy and Environmental Design certification is a nationally accepted rating system that measures the environmental attributes and sustainable features of buildings.
- The Postal Service is converting the roof of the Morgan Processing and Distribution Center, in downtown Manhattan, into a green, vegetative roof. Equivalent to 2.5 acres, the roof will become an environmental oasis designed to reduce energy use and provide a safe, sustainable outdoor environment for employees. When completed, it will be the first Green Roof developed by a federal agency and the largest Green Roof in New York City.
- Post Office lobby design standards have been updated to incorporate environmentally conscious building components, including linoleum or bio-based floor tiles, low volatile organic compounds, counters and cabinetry using environmentally sensitive, renewable materials and veneers such as bamboo, and more efficient lighting technologies.
- All new postal facilities under construction must improve upon ASHRAE 90.1-2004 by 30 percent or the largest amount that is life cycle cost effective.
- A variety of sustainable building design concepts have been integrated within the Postal Service's national standard design criteria. These criteria are used for all new construction as well as repair and alteration projects. The result is facilities that use less energy and have less impact on the environment. Some examples of sustainable building concepts include use of high-efficiency lighting and HVAC, low volatile organic compound paints, recycled-content materials and low water use fixtures.
- The EPA has honored the Postal Service with its Environmental Achievement Award for use of "green solutions" in the Pacific Area, including solar photovoltaic systems, fuel cells, and combined heat and power generation.
- Native plant species are used in landscaping at postal facilities around the country to minimize the use of resources.
- The Southampton Post Office on Long Island in New York City will be the first Postal Service-owned LEED certified facility. Construction on the facility is scheduled to conclude at the end of April 2009 and open later that summer.

EDOLPHUS TOWNS, NEW YORK
CHAIRMAN

DARRELL E. ISSA, CALIFORNIA
RANKING MINORITY MEMBER

ONE HUNDRED ELEVENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
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Majority (202) 225-5051
Minority (202) 225-5074

April 10, 2009

The Honorable John E. Potter
Postmaster General and CEO
United States Postal Service
475 L'Enfant Plaza, SW
Washington, DC 20260

Dear Mr. Potter:

As a follow up to your recent testimony before the House Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, I am providing you and the leadership team of the Postal Service with the following additional questions for the record from the March 25, 2009 House Subcommittee on Federal Workforce, the Postal Service, and the District of Columbia oversight hearing on the financial stability of the Postal Service:

1. What are your current thoughts on the prospect of five-day mail? Have you conducted any research into the consumer impact that would be generated by the move? Potentially, how much money could this move save and do you know what day would likely to be cut?
2. Has there been any move toward consolidation of postal offices? Today, it seems there is an overabundance of post offices in some areas (particularly urban areas) with the potential for savings with little impact on sales.
3. What activities, if any, are you engaging in to develop new revenue streams for the USPS? Specifically, is anyone at the USPS looking to start new revenue streams from areas that are outside traditional USPS business areas?
4. With an increase in the cost of a stamp coming in the next few weeks, can you tell us about some of the elasticity assumptions you use in developing mail flow projections and at what point would we reach the point of diminishing returns on further increases?
5. Where do you see the Post Office in five and ten years? How long do you think it will take to have the USPS on a solid long-term foundation, where the deep cuts we are seeing now are no longer needed?
6. With approximately 300,000 Postal employees, about half of the total USPS career workforce, eligible for early or regular retirement, how many do you expect to take that retirement in the coming months and are there any incentives to retire?
7. What do you see as the Post Office's ideal workforce size once the economy rebounds?
8. Do you have any initiatives in place to encourage local innovation on the part of Postmasters to increase efficiency or find new roles for the USPS?

9. We have heard about the revival of a Memorandum of Understanding "to verify whether the U.S. mail is a pathway for regulated agricultural materials" that may harbor harmful pests to agriculture and the environment. Specifically, we have heard that the California Agricultural Commissioners and Sealers are interested in reviving a Memorandum of Understanding that was entered into 1998-2003, by the California Department of Food and Agriculture, USDA's Animal Plant Health Inspection Service and the US Postal Service. The MOU allowed for a pilot interdiction program "to verify whether the U.S. mail is a pathway for regulated agricultural materials." Can you shed any light on this issue and where the USPS stands on this?
10. In your testimony, there was a general indication that there was no intent for the USPS to subcontract out work. However, I have heard reports that some of the facility management personnel at one of 9 locations around the nation have been notified that their positions are being eliminated and their work subcontracted by one or more firms including a foreign owned "Bureau Veritas" and these workers are suspicious as to whether there is actual cost savings in this switch. Is this situation true? If this is true, can you provide an outline of the reasoning behind the decision and the projected cost savings? If not true, can you provide details of what is actually happening in this case?
11. When the Postal Service announced it would be closing six of its 80 district offices, including one in Lake Mary, FL, the Central Florida District Office. The USPS owns the Central Florida District Office building. Why would Central Florida merge into "Sun Coast" (Tampa) when you rent that office space for over 500,000 a year?
12. How will the recent consolidations in the domestic private shipping market, resulting from the withdrawal of DHL, affect USPS costs?
13. It is our understanding that USPS contracts with Federal Express for a large portion of its shipping. How will the consolidations in the market impact USPS's contract with Federal Express?
14. In the initial contract with FedEx, it is my understanding the Postal Service was limited in how much cargo could be placed on FedEx planes every night. Is there still a limitation, and if so, could that limit your ability to expand Express Mail and Priority Mail service for consumers?
15. Please provide a detailed explanation of the process that resulted in a renewed 2006 contract with FedEx for transporting postal express products. Please include and explanation of whether or not it was competitively bid.
16. Could you please provide any and all relevant documents related to the 2006 renewed contract between the USPS and FedEx, including, but not limited to any RFP's and RFQ's.

Thank you for your attention to these matters. If you have any questions, please contact Margaret McDavid at (202) 226-5126 or margaret.mcdavid@mail.house.gov.

Sincerely,

Stephen F. Lynch
Chairman
Subcommittee on Federal Workforce, Postal Service, and the District of Columbia

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

QUESTIONS FOR THE RECORD FOLLOWING MARCH 25, 2009 HEARING

Please note: These questions were submitted as "Additional Questions for the Record for the Postmaster General"

Questions for the Postmaster General

1. a) What are your current thoughts on the prospect of five-day mail? b) Have you conducted any research into the consumer impact that would be generated by the move? c) Potentially, how much money could this move save and d) do you know what day would likely to be cut?

   a) We are currently developing a potential implementation plan to examine operational issues associated with five-day delivery should Congress allow us to pursue this delivery model.

   b) Consumer research has been done and we will continue to do so as appropriate as part of our implementation plan.

   c) Because this is a complex issue with many variables, it's too early yet to be able to put a dollar amount on potential savings, but we expect them to be substantial. However, some early preliminary projections of the USPS are that we could realize savings of up to $3.5 billion annually.

   d) We are exploring the option of eliminating home delivery on Saturdays, since it appears it would have the least effect on our business customers and the public, but would likely keep postal retail offices and Post Office Box operations open for customers.

2. Has there been any move toward consolidation of postal offices? Today, it seems there is an overabundance of post offices in some areas (particularly urban areas) with the potential for savings with little impact on sales.

   There are locations around the country where offices are within a few miles of each other but the reverse is also true. Where there are opportunities, options are reviewed to either close or consolidate post offices. In all instances, we follow the procedures for closing post offices as outlined in Title 39, US Code and Handbook PO 101, Post Office Discontinuance Guide.

3. What activities, if any, are you engaging in to develop new revenue streams for the USPS? Specifically, is anyone at the USPS looking to start new revenue streams from areas that are outside traditional USPS business areas?

   The Postal Service is following a strategy of "fewer, bigger, better" and focusing its efforts on a few initiatives that offer the greatest chance to expand our existing revenue streams. In some cases, these initiatives are different from the Postal Service's traditional tactics. For example, we are seeking to make consumers and businesses more aware of the convenience of shipping using Priority Mail® by launching a new advertising campaign in May 2009. The new campaign features an integrated marketing and advertising campaign that invests in the future growth of Priority Mail.

   We also are taking advantage of the pricing flexibility that we were granted under the Postal Accountability and Enhancement Act of 2006 by for the first time introducing price discounts for incremental saturation mail volume, and proposing a Summer Sale that will do the same for other types of Standard Mail®. Additionally, we are looking at the possibility of developing revenue streams from new inter-agency agreements outside traditional USPS business areas.

4. With an increase in the cost of a stamp coming in the next few weeks, can you tell us about some of the elasticity assumptions you use in developing mail flow projections and at what point would we reach the point of diminishing returns on further increases?

   The elasticity for single-piece First-Class Mail is about -0.2. The elasticity would have to be much higher in order for a 2-cent increase to result in negative net financial consequences to the Postal Service. Nevertheless, we understand that there are many factors that influence our customers' use of the mail, and we are using the processes enabled by the Postal Accountability Enhancement Act to judiciously improve the financial well-being of the postal system.

5. Where do you see the Post Office in five and ten years? How long do you think it will take to have the USPS on a solid long-term foundation, where the deep cuts we are seeing now are no longer needed?

   In five to ten years the Postal Service will still provide hardcopy mail and related services in fulfilling its mission to provide trusted, affordable universal service. As the country's needs, conditions, and technology change, so too will the Postal Service. Returning to financial stability will require a dual approach: first, through

aggressive cost reductions and initiatives to retain and create revenue; and second, through changes to current legal requirements to allow increased flexibility for the Postal Service to meet the country's changing needs. First and foremost, flexibility is needed in the payment schedule for retiree health benefits.

As our country's needs change, so do the economics of providing postal services. The average number of mail pieces per delivery has declined from 5.9 pieces in 2000 to 4.7 pieces in 2009. Meanwhile, the fixed costs of a growing delivery network have risen significantly as 1.5 million new delivery points are added each year. Our cost structure needs to change accordingly.

Regardless of the mail volumes looking forward, the Postal Service will continue to improve service and efficiency. Automation will provide further benefits primarily with deployment of the Flats Sequencing System, thereby reducing the numbers of vehicles on the street and the number of facilities required. Reducing expenses will target both the high level of network fixed costs, such as carriers having to go to a delivery point whether there are 1 or 8 pieces of mail, as well as targeting the costs that vary with volume. Technology and standardization will provide more efficient processes and expense reductions ranging from reducing labor costs (that represent almost 80% of postal costs) to non-personnel expenses such as travel, training, and supplies. The dialogue with all of the various postal stakeholders will continue to highlight areas of opportunity, one being the need to potentially change delivery frequency from six days a week.

Improving the cost structure will better position the Postal Service to pursue some very real growth opportunities. The Postal Service is growing its market share in advertising and packages, as affordable prices attract customers and as awareness of customer needs grows. To meet the evolving needs of customers, the Postal Service will continue to create new and improved products and services. Vote-by-Mail, used by an increasing number of states and localities, is one example of meeting the country's changing needs. Intelligent Mail, a tracking technology that utilizes information-rich barcodes, will be fully implemented and will serve as a platform for future innovation. And customers will find even greater and more convenient access to postal products and services. We will have fully upgraded our website, call centers, and retail service.

Our public service will remain strong. We may have fewer employees in the future, while we will still provide employment for a significant number of citizens, including veterans. We will remain an

environmental leader and help eliminate the need for multiple deliveries to residences and businesses, thereby preventing unnecessary carbon emissions. Our sustainability practices will continue to be world-class among our facilities and vehicle fleet as the country commits to a new era of cleaner energy and more efficient energy usage.

While the Postal Service may be leaner, its impact on the economy and the country will still be significant. With leading economists still uncertain as to when the economy will recover and financial challenges abate, it is difficult to predict when the Postal Service will be on a solid long-term foundation, even after deep cuts of $4 to $6 billion per year. In the past, it has taken two years after a recession for mail volume to recover. It is possible that after this current recession, mail volumes will only partially recover due to factors such as electronic diversion. Ultimately, the length of time needed to achieve a solid long-term foundation depends on the economy and how much flexibility is provided by Congress to manage the best postal service in the world.

6. With approximately 300,000 Postal employees, about half of the total USPS career workforce, eligible for early or regular retirement, how many do you expect to take that retirement in the coming months and are there any incentives to retire?

	SPLY	FY 09	
	# Optional Retirements	# Optional Retirements	+/- to SPLY
Qtr 1/2	11,661	15,733 actual	+34.9%
Qtr 3/4	8,116	10,875 projected	

As the chart above indicates, 15,733 postal employees chose regular or optional retirement for postal quarters one and two of FY 2009. We project that another 10,875 postal employees will chose to retire this fiscal year. This assumption is based upon the current economic conditions of today and that the economy does not worsen. Regarding employees who may chose to take the VERA, or voluntary early retirement, will project that for quarter four, about 2,966 employees or 2% of the eligible VERA employee group, 148,327, will take advantage of this offer. The Postal Service, at this time, does not plan on offering employees financial incentives to retire.

7. What do you see as the Post Office's ideal workforce size once the economy rebounds?

   The Postal Service continually adjusts its workhours to workload requirements to be as efficient as possible. Achieving an optimal staffing mix of career and non-career employees is essential to the Postal Service meeting its goals of service reliability and financial stability. Changes in mail volume, mail mix, technology and mailer behavior require optimal use of the flexible, non-career workforce, and may also require reassignment of career employees. While there isn't a specific number that we can share for the future, we can say that due to factors noted above that Postal Service employee complement decreased by 20,841 employees in 2008. Today, our career workforce is approximately 640,000, and we will continue to have as an efficient a workforce as possible.

8. Do you have any initiatives in place to encourage local innovation on the part of Postmasters to increase efficiency or find new roles for the USPS?

   There are a number of avenues available for Postmasters to participate in revenue generation and productivity improvements, such as:

   - ***eIdeas* - web based program that allows all employees to submit improvement ideas;**
   - ***Business Connect* - web based opportunities for Postmasters to identify customers with revenue opportunities;**
   - ***Submit-A-Lead program* - web based program for submitting sales leads.**

   There are many web sites in various functional areas as well as tools in the web have links to submit ideas.

9. We have heard about the revival of a Memorandum of Understanding "to verify whether the U.S. mail is a pathway for regulated agricultural materials" that may harbor harmful pests to agriculture and the environment. Specifically, we have heard that the California Agricultural Commissioners and Sealers are interested in reviving a Memorandum of Understanding that was entered into 1998-2003, by the California Department of Food and Agriculture, USDA's Animal Plant Health Inspection Service and the US Postal Service. The MOU allowed for a

pilot interdiction program "to verify whether the U.S. mail is a pathway for regulated agricultural materials." Can you shed any light on this issue and where the USPS stands on this?

The California Department of Food and Agriculture has approached the U.S. Department of Agriculture to initiate contact with USPS to discuss the implementation of an MOU with USPS to use dog teams to identify parcels containing prohibited plant materials sent through the USPS system. This successful program was used from 1998-2003 to interdict invasive species. The CDFA and USDA have begun the process by reviewing the past MOU, prior to initiating formal contact with USPS.

10. In your testimony, there was a general indication that there was no intent for the USPS to subcontract out work. However, I have heard reports that some of the facility management personnel at one of 9 locations around the nation have been notified that their positions are being eliminated and their work subcontracted by one or more firms including a foreign owned "Bureau Veritas" and these workers are suspicious as to whether there is actual cost savings in this switch. Is this situation true? If this is true, can you provide an outline of the reasoning behind the decision and the projected cost savings? If not true, can you provide details of what is actually happening in this case?

    In our continuing effort to improve efficiencies and reduce cost, the USPS awarded two contracts early in 2009. The contract for boiler/UPV inspections was awarded to OneCIS Insurance Co., and the elevator inspection services contract was awarded to National Elevator Inspection Services, Inc. (NEIS). Both of these companies are subsidiaries of Bureau Veritas, a world-wide leader in delivering technical services and solutions in the fields of inspections, audits, certification, testing, training and consulting via a comprehensive network that covers 140 countries and nearly 700 offices and laboratories.

    Based upon the contract unit pricing and the quantity of assets requiring inspection, the Postal Service will save over $1.5 million annually by using these companies. This savings estimate is based upon a comparison of in-house resource costs in fiscal year 2008, which includes salaries and benefits, travel, vehicles, required training/certification and code books, to the annual costs of the contracts including travel/per diem. In light of the significant financial challenges facing the USPS, the responsible management decision was to solicit and award these contracts

11. When the Postal Service announced it would be closing six of its 80 district offices, including one in Lake Mary, FL, the Central Florida District Office. The USPS owns the Central Florida District Office building. Why would Central Florida merge into "Sun Coast" (Tampa) when you rent that office space for over 500,000 a year?

    We examined a myriad of factors prior to the decision to close the Central Florida District and merge its operations into the Suncoast and South Florida Districts. We considered central geographical locations for the new and former territory for the gaining districts in terms of travel time, distance, response time and travel costs. No one element was the deciding factor, rather a combination of them.

    It should also be noted that the Central Florida District staff currently occupies 25,000 sq. ft. of space in the Mid-Florida plant. The Suncoast District, along with 20 Headquarters and seven Office of the Inspector General (O.I.G.) domiciled employees, occupy 105,000 sq. ft in the current district office facility. The limited expansion room due to operational requirements at the Mid-Florida plant to absorb additional staffing would not have been sufficient and could have required costs for additional office space.

    After careful analysis of costs, savings, customer service and district territories, we determined that the best business decision for the Postal Service and our customers was to merge the smaller Central Florida District into the larger South Florida and Suncoast Districts.

12. How will the recent consolidations in the domestic private shipping market, resulting from the withdrawal of DHL, affect USPS costs?

    Based on a recent analysis by The Colography Group Inc., the USPS Priority Mail product increased its market share in Q4 CY2008 by 1.1% over the same period of the previous year. However, the overall decline in the shipping market has offset any volume gains. Due to this offset, we have not experienced any significant impact to our costs.

13. It is our understanding that USPS contracts with Federal Express for a large portion of its shipping. How will the consolidations in the market impact USPS's contract with Federal Express?

    As stated in the previous response, shipping volumes have steadily decreased across the industry. The new volumes the Postal Service has gained as a result of the consolidations have been offset by the overall market decline in shipping volume. These gains have only

served to replace the vacated space caused by the overall volume decline, and have not resulted in impact to the contract.

14. In the initial contract with FedEx, it is my understanding the Postal Service was limited in how much cargo could be placed on FedEx planes every night. Is there still a limitation, and if so, could that limit your ability to expand Express Mail and Priority Mail service for consumers?

    Under our agreement with FedEx, we negotiate the amount of space needed to transport our products based on internal forecasting. We also periodically review and modify the space required as mail volumes change. Based on current market projections, we do not foresee any limitations on their ability to handle new Priority Mail and Express Mail volumes.

15. Please provide a detailed explanation of the process that resulted in a renewed 2006 contract with FedEx for transporting postal express products. Please include and explanation of whether or not it was competitively bid.

    The original contract was awarded in 2001. By 2004, six addendums had been added to the contract to adjust its terms and conditions. In 2004, the USPS began a comprehensive review of the contract's terms and conditions in light of current market conditions to determine if changes were warranted to the existing shared network structure.

    After an exhaustive market analysis involving both internal USPS personnel as well as industry and academic experts, the USPS determined that given the security restrictions enacted after 9-11, the scale of the USPS network, and operational capability needed by the USPS, only FedEx was fully capable of meeting the requirements.

    Subsequently, FedEx approached the USPS about the possibility of extending the term of the 2001 contract while the USPS was interested in reducing the minimum volume requirements flown on FedEx. The two parties reached a mutual agreement and established a new contract in 2006 that operates until 2013 and reduces the minimum guaranteed volumes.

    The contract was not competitively bid

16. Could you please provide any and all relevant documents related to the 2006 renewed contract between the USPS and FedEx, including, but not limited to any RFP's and RFQ's.

As stated in response to question 15 the contract was awarded non-competitively and therefore there is no RFP or RFQ to be provided. However, we would be happy to provide a copy of the redacted contract for your review.

Additional QFR:
In response to Ranking Member Chaffetz' request for information on bonuses paid by the Postal Service, the total incentive pay for 47 postal officers for the fiscal year 2008 Pay-for-Performance period was $968,100.

STEPHEN F. LYNCH
9TH DISTRICT, MASSACHUSETTS

COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND GOVERNMENT-SPONSORED ENTERPRISES
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
CHAIRMAN, SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA
SUBCOMMITTEE ON NATIONAL SECURITY AND FOREIGN AFFAIRS

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April 3, 2009

Ms. Carolyn Gallagher
Chairman, Board of Governors
United States Postal Service
475 L'Enfant Plaza, SW Room 10300
Washington DC 20260-1000

Dear Ms. Gallagher:

As a follow up to your recent testimony before the House Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, I am providing you and the leadership team of the Postal Service with the following questions or requests for information posed by Members of the Subcommittee during the March 25, 2009 oversight hearing. In responding to the following questions for record, I ask that you provide responses to the Subcommittee within 30 days.

The reporting items and outstanding questions posed by Chairman Lynch to the Postal Service Board of Governors are as follows:

1. GAO estimates that the current proposal of H.R. 22 would reduce the Retiree Health Benefits Fund balance by an estimated $32 billion (including interest charges) by 2016, so that in 2017, the remaining current unfunded obligation would be an estimated $75 billion (rather than $43 billion) to be amortized for future payments. You testified that you do not believe there will be $75 billion in unfunded liabilities in 2017. Please fully explain and provide your estimates of the Postal Service's 2017 balance of the Retiree Health Benefits Fund., if H.R. 22 is enacted.

2. Please provide a house-by-house breakdown of the houses purchased under the Postal Service's relocation program. Include location and purchase prices and net loss for each house. Include information for any houses not resold.

The reporting items and outstanding questions posed by Ranking Member Chaffetz to the Postal Service Board of Governors are as follows:

1. Please submit for the record the Postal Service's total costs to operate its housing relocation program. Please describe the Board's role in reviewing/approving the existing policy.

2. What is the status of the Board's review and approval of the revised relocation policy? When will it be finalized? Please describe the Board's role in the process, including what Board committee is responsible for review or approval of the policy.

The reporting items and outstanding questions entered into the record by Rep. Serrano to the Postal Service are as follows:

1. In order to help move this country toward oil independence and help the Postal Service develop new cost savings and profit centers, and assuming that the Postal Service receives adequate funding, is the Board of Governors willing to have the Postal Service conduct pilot tests for substantial numbers of electric vehicles around the country?

2. If these tests prove successful, will you be prepared to approve the conversion of the Postal Service fleet to Long Life Vehicles?

3. If you received funding from Department of Energy or Congress, would you be willing to begin the process of replacing your delivery fleet with electric vehicles?

If you have any questions, please contact Margaret McDavid at (202) 226-5126 or margaret.mcdavid@mail.house.gov.

Sincerely,

Stephen F. Lynch
Chairman
Subcommittee on Federal Workforce, Postal Service, and the District of Columbia

Questions for the Record for
Board of Governors Chairman Gallagher
Following

March 25, 2009
Congressional hearing

Submitted to the Committee May 12, 2009

The Postal Service has received the following Questions for the Record from Chairman Lynch, Subcommittee on Federal Workforce, Postal Service and the District of Columbia.

Q1. GAO estimates that the current proposal of H.R. 22 would reduce the Retiree Health Benefits Fund balance by an estimated $32 billion (including interest charges) by 2016, so that in 2017, the remaining current unfunded obligation would be an estimated *$75* billion (rather than $43 billion) to be amortized for future payments. You testified that you do not believe there will be $75 billion in unfunded liabilities in 2017. Please fully explain and provide your estimates of the Postal Service's 2017 balance of the Retiree Health Benefits Fund., if H.R. 22 is enacted.

Fiscal Year (as of year-end)	Retiree Health Benefit Trust Fund Balance	Estimated Unfunded Retiree Health Benefit Obligation	Total Estimated Retiree Health Benefit Obligation
2006	0	$74.815 billion	$74.815 billion
2007	$25.745 billion	$55.041 billion	$80.786 billion
2008	$32.610 billion	$53.472 billion	$86.082 billion
2016 (with enactment of H.R. 22)	$71.470 billion	$74.940 billion	$146.410 billion
2016 (no enactment of H.R. 22)	$103.599 billion	$42.811 billion	$146.410 billion

The projections at the beginning of 2017 are based on the health care inflation rate and the discount rate assumptions used by the Office of Personnel Management (OPM) in their most recent valuation of the Postal Service Retiree Health Benefits Fund (PSRHBF). The projections assume an ultimate health benefit premium trend of 7.0 percent per year, and a discount rate of 6.25 percent per year. When developing the projections, it was also assumed that career employment will decline by an average of 9,870 positions each year, with a reduction of 18 thousand positions in 2009, and 13.5 thousand positions in 2010.

The above projections are overly conservative. First, the projections do not fully reflect the very aggressive cost reduction efforts recently undertaken by the Postal Service in response to unprecedented mail volume declines. The combined cost reduction efforts for 2009 and 2010 will reduce Full Time

Equivalent (FTE) positions by approximately 100,000 by the end of 2010. These efforts are expected to continue, at more moderate rates, through 2016. Consequently, there will be substantially fewer active employees accruing retiree health benefits than had been estimated previously, and, therefore, the annual normal cost, the total Fund obligation, and the unfunded obligation will be less than currently estimated.

Second, the annual retiree premium escalation is assumed to be 7 percent, consistent with the OPM valuation assumption. This level of inflation would result in a 60 percent compounded increase in 2009 premium costs by the end of 2016.

The Postal Service Office of the Inspector General is currently performing an independent review of the funding status and the valuation of the Postal Service retiree health benefit obligations. Part of this review involves benchmarking retiree health care cost escalation assumptions used by private entities as well as state and local governments. 47 of the 61 Fortune 100 companies that fund retiree health benefits use an ultimate healthcare trend rate of 5 percent. Additionally, 34 of 52 governmental organizations reporting under Government Accounting Standards Board (GASB) Statement 45 use an ultimate health care cost trend rate of 5 percent. Also based on Global Insight's recent projection of ECI-health benefits, long-term health care cost escalation is projected to be in the 5 percent to 5.5 percent range. This level of inflation would reduce the projected Fund obligations substantially.

The assumed long term investment earnings assumption (discount rate) also plays a key role in the development of the unfunded liability projections. Recently the Federal Accounting Standards Advisory Board issued Statement of Federal Financial Accounting Standards No. 33 (SFFAS 33). This standard addresses the determination of discount rates used for actuarial valuations. While OPM currently uses a discount rate assumption of 6.25 percent, under SFFAS 33, our actuaries believe a more reasonable discount rate is 5.0 percent. The lower discount rate will have the effect of lowering earnings and increasing the unfunded liability.

The combination of the above two assumption changes is expected to substantially lower the projection of the unfunded liability. To determine the amount of the change to the projections, the Postal Service has asked our actuaries to develop an independent projection of the retiree health benefits obligations and funding status based on both the knowledge gained from their recent review and the calculation processes required under SFFAS 33. We expect this analysis to be completed by May 15, and we will forward their report to Congress when received.

Q2. Please provide a house-by-house breakdown of the houses purchased under the Postal Service's relocation program. Include location and purchase prices and net loss for each house. Include information for any houses not resold.

The information is attached.

Questions from Congressman Chaffetz to the Postal Service Board of Governors are as follows:

1. Please submit for the record the Postal Service's total costs to operate its housing relocation program. Please describe the Board's role in reviewing/approving the existing policy.

The home sale portion of the relocation program cost the USPS $37 million in 2008 and $33.7 million in 2007. The Board approves all pay and benefit policies for Officer level employees, including relocation benefits. Management is responsible for setting pay and benefit policies for all other levels of employee. Officer compensation policies are reviewed by the Compensation and Management Resources Committee prior to any change in policy. Once the Committee supports a proposal, management presents the policy to the full Board for approval.

Q2. What is the status of the Board's review and approval of the revised relocation policy? When will it be finalized? Please describe the Board's role in the process, including what Board committee is responsible for review or approval of the policy.

Management is currently preparing a proposal for the Board to review, and has provided periodic briefings on the status of the proposal. Under title 39, management is required to consult with the management associations with respect to policy changes affecting nonbargaining employees. The consultative process lasts 60 days, and if all time is used, a finalized revised policy proposal from management is expected in late June. Although setting these policies for non-Officer level employees is within the authority of management, due to concerns over the current policy, the Board will review the proposal prior to authorizing management to implement it. The Officer relocation policy will be updated to reflect the changes in the overall policy, which is scheduled to be presented to the Compensation and Management Resources Committee for review and the full Board for approval during the June meetings.

Questions from Congressman Serrano:

Q1. In order to help move this country toward oil independence and help the Postal Service develop new cost savings and profit centers, and assuming that the Postal Service receives adequate funding, is the Board of Governors willing to have the Postal Service conduct pilot tests for substantial numbers of electric vehicles around the country?

I've had the opportunity to review the Postmaster General's reply to the same question and I agree with his assessment. Based on the best available information, data, and our knowledge and experience, the Postal Service believes battery electric vehicles will offer the best near-term technology solution for the postal fleet. Our typical delivery operations are the model definition of what an electric vehicle is made for. The majority of our routes are short, about 17 miles a day. The route length is expected to grow over the next several years, but is still

expected to average less than 20 miles daily. Postal delivery vehicles return to their originating point each afternoon, and can be recharged in the evening, during off peak hours.

Q2. If these tests prove successful, will you be prepared to approve the conversion of the Postal Service fleet to Long Life Vehicles?

Upon a successful pilot demonstration, it will still be incumbent upon postal management to establish and present a business case that would support the acquisition of electric delivery vehicles. A project of this type, scope, and magnitude must be able to withstand the closest scrutiny and be approved on its own merits. I do believe the Board would look favorably upon such a project that meets all of the fiscal and technical requirements.

Q3. If you received funding from Department of Energy or Congress, would you be willing to begin the process of replacing your delivery fleet with electric vehicles?

Yes. This is a matter the Board and postal management are very interested in pursuing. In this scenario, I think it would still be a prudent measure to follow the same steps I discussed in response to question # 2.

Draft USPS EAS Employee Relocation
May 11, 2009

Benefit	Current policy	Proposed policy	FTR
Lump Sum Allowance			
Advance round trip (home finding)	1 trip 8 days (included in lump sum)	Changed to mirror FTR	1 trip up to 10 calendar days
Dependents on advance round trip	1 dependent	No change	1 dependent
Child care $ for dependent (s) remaining home during advance round trip	$50/day per child – children under 17/Maximum $150/day (included in lump sum)	Will be eliminated to mirror FTR	No allowance for dependents.
Temporary quarters allowance (TQ)	60 days homeowner 30 days non-homeowner	Will be changed to mirror FTR	30 days X .75 of lodging and per diem rate listed for new duty station; 30 days X .25 for each dependent moving with you
Return trip to former residence	1 trip - transportation only	Will be eliminated	No
Limitations on lump sum allowance	None	Lump Sum Allowance limited if transferee owns a residence at new duty station	No
Use of Relocation Management Firm (RMF) for:			
Home Purchase Program[1]	EAS 19 and above No cap on homes eligible	EAS 23 and above $800,000 cap on homes eligible	No mandatory capped value
home finding assistance	Yes	No change	Agency discretion
home marketing assistance	Yes	No change	Agency discretion
movement/storage of household goods	Mandatory use of RMF Up to 18,000 lbs	No change.	Up to 18,000 lbs.
Requirements for Home Purchase Program			
Distance requirement for home purchase	70 miles	50 miles further than old residence to old duty station	More than 50 miles
Home marketing is required	Yes	No change	No
Mandatory listing price	No	Mandatory listing price within 110% of Broker's Market Analysis after 30 days	No
Home sale incentive	Up to $5,000	Up to 3% of sales price of the home	Up to 5% of sales price of the home
Time period to vacate home after accepting guaranteed buyout offer	60 days	45 days	Agency discretion

[1] Minimum grade for Inspection Service personnel (law enforcement only) is 17 and then, only when promoted.

Draft USPS EAS Employee Relocation
May 11, 2009

Benefit	Current policy	Proposed policy	FTR
Maximum value for eligibility in home purchase program	No limit	$800,000 maximum value of home	No mandatory capped value
New Home closing costs (capped at 5% of purchase price)	Yes	No change	Yes
Old Home closing costs (capped at 10% of sale price)	Yes	No change	Yes
Residence Transaction time limit / 50-mile rule[2]	2 years / 50 miles	No change	2 years / 50 miles
Miscellaneous			
Loss on sale of previous residence	Yes	New computation formula*	No
En Route travel to new location	Yes	Use of POV required if less than 800 miles	Yes
Relocation leave – 5 days	Yes	Will be eliminated to mirror FTR	No
Miscellaneous expense allowance	$2,500	No change	$500 or 1 week's pay/single $1,000 or 2 week's pay/family
Tax assistance – Federal and State income tax	Yes	No change	Relocation Income Tax Allowance
Qualification requirements for benefits	Must remain in new duty station for one year	Must remain with the USPS, in new duty station for minimum 2 years	Must sign employment agreement at least 12 months
Lateral transfers and downgrades	Management discretion	Benefits are not authorized (except RIF-impacted employees)	Not addressed
External Hires are provided the following benefits			
En Route Travel to new duty station	Yes, transportation, lodging and per diem	Changed to mirror FTR	Per diem for meals, lodging and incidentals. Must drive at least 300 miles per day
En Route Travel for family	Yes, transportation only	Changed to mirror FTR	Transportation and per diem ¾ of employee's rate.
Miscellaneous Expense Allowance	Yes	Will be eliminated	Not authorized for new appointees
Movement and storage of household goods	Yes, up to 18,000 lbs.	No Change	Up to 18,000 lbs w/storage up to 60 days
Residence Transactions	Yes	Changed to mirror FTR	Not authorized for new appointees
Lump Sum Allowance	Yes, if over 100 miles	Changed to mirror FTR	Not authorized for new appointees

[2] Your new permanent duty station must be at least 50 miles further than your former residence was from your former permanent duty station.

Draft USPS EAS Employee Relocation
May 11, 2009

* New formula for loss on sale/equity loss:

Loss experienced	Reimbursement at
$1 - $20,000	100%
$20,001 - $40,000	75%
$40,001 - $60,000	50%
$60,001 - $75,000	25%
$75,001 - $100,000	10%
Greater than $100,000	0%

US Postal Service
Home Sale Costs 2009

Customer #	Property City & State	Contract Date	Purchase Price	Sale Date	Sale Price	Stage Desc
1	Greeley, CO	12/05/08	$ 175,000.00	03/04/09	$ 158,000.00	Files Closed But Not Billed At The End Of The Period*
2	Arlington, WA	01/05/09	$ 429,333.00	03/18/09	$ 360,000.00	Files Closed But Not Billed At The End Of The Period*
3	Reynoldsburg, OH	10/06/08	$ 137,500.00	02/20/09	$ 125,500.00	Files Closed But Not Billed At The End Of The Period*
4	Bluffton, SC	08/13/08	$ 343,000.00	02/25/09	$ 265,000.00	Files Closed But Not Billed At The End Of The Period*
5	Sioux Falls, SD	10/14/08	$ 277,000.00	02/13/09	$ 238,500.00	Files Closed But Not Billed At The End Of The Period*
6	Sweet Home, OR	01/05/09	$ 237,167.00	03/02/09	$ 210,500.00	Files Closed But Not Billed At The End Of The Period*
7	New Richmond, WI	01/26/09	$ 164,000.00	03/17/09	$ 135,000.00	Files Closed But Not Billed At The End Of The Period*
8	Chadron, NE	12/05/08	$ 163,500.00	01/28/09	$ 154,000.00	Files Closed But Not Billed At The End Of The Period*
9	Pueblo, CO	12/30/08	$ 149,167.00	01/21/09	$ 149,900.00	Files Closed But Not Billed At The End Of The Period*
10	Comanche, TX	08/19/08	$ 112,833.00	03/03/09	$ 70,000.00	Files Closed But Not Billed At The End Of The Period*
11	Marion, AR	10/21/08	$ 188,500.00	02/20/09	$ 167,500.00	Files Closed But Not Billed At The End Of The Period*
12	De Leon, TX	06/19/08	$ 71,000.00	02/12/09	$ 42,500.00	Files Closed But Not Billed At The End Of The Period*
13	Tyler, TX	06/30/08	$ 275,500.00	02/13/09	$ 179,000.00	Files Closed But Not Billed At The End Of The Period*
14	Amarillo, TX	03/06/09	$ 129,500.00	03/26/09	$ 124,000.00	Files Closed But Not Billed At The End Of The Period*
15	Albuquerque, NM	02/23/09	$ 263,750.00	03/13/09	$ 262,000.00	Files Closed But Not Billed At The End Of The Period*
16	Weston, FL	01/14/09	$ 453,333.00	02/25/09	$ 419,900.00	Files Closed But Not Billed At The End Of The Period*
17	Fredericksburg, VA	11/21/08	$ 242,333.00	03/16/09	$ 210,000.00	Files Closed But Not Billed At The End Of The Period*
18	Batavia, IL	03/24/08	$ 539,500.00	02/09/09	$ 417,500.00	Files Closed But Not Billed At The End Of The Period*
19	Madisonville, KY	10/14/08	$ 224,600.00	03/03/09	$ 175,000.00	Files Closed But Not Billed At The End Of The Period*
20	Fuquay Varina, NC	10/13/08	$ 613,000.00	03/13/09	$ 487,500.00	Files Closed But Not Billed At The End Of The Period*
21	Hicksville, NY	02/13/09	$ 410,000.00	02/13/09	$ 412,500.00	Files Closed But Not Billed At The End Of The Period*
22	Cold Spring, KY	10/02/08	$ 130,000.00	02/18/09	$ 112,000.00	Files Closed But Not Billed At The End Of The Period*
23	Chicago, IL	10/26/07	$ 206,333.00	02/20/09	$ 90,000.00	Files Closed But Not Billed At The End Of The Period*
24	Mardela Springs, MD	09/10/08	$ 282,500.00	02/04/09	$ 250,000.00	Files Closed But Not Billed At The End Of The Period*
25	Fairplay, CO	10/10/08	$ 313,333.00	04/16/09	$ 218,500.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
26	Heyburn, ID	03/20/09	$ 143,500.00	04/16/09	$ 140,000.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
27	Palmer Lake, CO	08/04/08	$ 244,500.00	04/23/09	$ 202,000.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
28	Hutchinson, MN	11/03/08	$ 239,000.00	04/13/09	$ 180,500.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
29	Gig Harbor, WA	11/17/08	$ 616,667.00	03/27/09	$ 489,000.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
30	Ridgeway, SC	01/30/09	$ 1,210,000.00	03/19/09	$ 950,000.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
31	Albuquerque, NM	02/26/09	$ 187,167.00	04/13/09	$ 183,900.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
32	Salisbury, MD	12/18/08	$ 215,000.00	02/05/09	$ 190,000.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
33	Panama City, FL	03/18/09	$ 210,750.00	03/26/09	$ 202,000.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
34	Bensenville, IL	01/07/09	$ 88,500.00	04/13/09	$ 71,500.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
35	Sacramento, CA	11/20/08	$ 260,000.00	03/13/09	$ 215,000.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
36	Bradenton, FL	09/30/08	$ 295,000.00	04/21/09	$ 235,000.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
37	Olive Branch, MS	08/18/08	$ 191,250.00	03/26/09	$ 145,000.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
38	Wendell, NC	03/02/09	$ 193,250.00	04/17/09	$ 188,838.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
39	Plymouth, MI	11/10/08	$ 347,500.00	03/04/09	$ 288,000.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
40	Allentown, NJ	02/13/09	$ 587,000.00	04/21/09	$ 545,000.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
41	Sioux Falls, SD	02/23/09	$ 117,167.00	04/16/09	$ 108,500.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
42	DeSoto, TX	10/02/08	$ 136,667.00	04/14/09	$ 129,900.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
43	Cordova, TN	03/10/09	$ 161,667.00	04/17/09	$ 145,000.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
44	Kernersville, NC	03/10/09	$ 147,000.00	04/01/09	$ 141,000.00	Files In Inventory (Sold Not Closed) At The End Of The Period**
45	Grand Junction, CO	03/30/09	$ 250,250.00			Files In Inventory (Unsold) At The End Of The Period
46	High Point, NC	03/09/09	$ 212,667.00			Files In Inventory (Unsold) At The End Of The Period
47	Jacksonville, FL	03/25/09	$ 410,500.00			Files In Inventory (Unsold) At The End Of The Period
48	Harrisburg, PA	04/14/09	$ 405,000.00			Files In Inventory (Unsold) At The End Of The Period
49	Houston, TX	03/06/09	$ 212,500.00			Files In Inventory (Unsold) At The End Of The Period
50	Wyandotte, MI	01/28/09	$ 106,500.00			Files In Inventory (Unsold) At The End Of The Period
51	Odessa, TX	03/20/09	$ 262,500.00			Files In Inventory (Unsold) At The End Of The Period
52	Spokane, WA	03/17/09	$ 260,000.00			Files In Inventory (Unsold) At The End Of The Period
53	Roswell, NM	03/23/09	$ 233,500.00			Files In Inventory (Unsold) At The End Of The Period
54	Mustang, OK	04/09/09	$ 242,000.00			Files In Inventory (Unsold) At The End Of The Period
55	Franklin, TN	10/21/08	$ 651,633.00			Files In Inventory (Unsold) At The End Of The Period
56	Hampton, GA	01/22/09	$ 375,000.00			Files In Inventory (Unsold) At The End Of The Period

US Postal Service
Home Sale Costs 2009

Customer #	Property City & State	Contract Date	Purchase Price	Sale Date	Sale Price	Stage Desc
57	New Freedom, PA	03/24/09	$ 262,500.00			Files In Inventory (Unsold) At The End Of The Period
58	Ludington, MI	01/05/09	$ 136,667.00			Files In Inventory (Unsold) At The End Of The Period
59	Royal Oak, MD	10/24/08	$ 650,000.00			Files In Inventory (Unsold) At The End Of The Period
60	Edmond, OK	02/26/09	$ 253,250.00			Files In Inventory (Unsold) At The End Of The Period
61	Pacific Junction, IA	03/25/08	$ 99,667.00			Files In Inventory (Unsold) At The End Of The Period
62	Miami, FL	03/18/09	$ 131,667.00			Files In Inventory (Unsold) At The End Of The Period
63	Palm Coast, FL	09/15/08	$ 292,333.00			Files In Inventory (Unsold) At The End Of The Period

*Reflects the home is sold, but final cost data associated with the property sale is not yet available.

**Reflects there is contract on the property, but the property did not yet close.

US Postal Service
Home Sale Costs 2007

Customer #	Property City	Property State	Purchase Price	Days in Inventory	Sale Price	Final Bill Date	Total Costs*	% Cost**
1	Dayton	OH	$ 398,333.00	319	369,000.00	01/27/07	$ 128,696.16	34.88%
2	Kearns	UT	$ 190,000.00	7	190,000.00	01/27/07	$ 21,342.58	11.23%
3	Omaha	NE	$ 191,000.00	107	185,000.00	01/27/07	$ 38,055.96	20.57%
4	Locust Grove	GA	$ 157,000.00	1	157,000.00	01/27/07	$ 14,276.41	9.09%
5	Gilbert	AZ	$ 284,500.00	175	225,000.00	01/27/07	$ 96,577.58	42.92%
6	Bernville	PA	$ 245,000.00	68	222,500.00	01/27/07	$ 50,550.95	22.72%
7	Charlotte	NC	$ 313,900.00	4	313,900.00	01/27/07	$ 22,083.05	7.04%
8	The Woodlands	TX	$ 168,000.00	1	168,000.00	01/27/07	$ 13,468.34	8.02%
9	Gilbert	AZ	$ 283,000.00	72	265,500.00	01/27/07	$ 48,109.08	18.12%
10	Hutto	TX	$ 165,500.00	58	165,000.00	01/27/07	$ 20,872.18	12.65%
11	Woodbridge	VA	$ 288,000.00	0	288,000.00	01/27/07	$ 23,161.50	8.04%
12	Coral Springs	FL	$ 480,000.00	233	415,500.00	01/27/07	$ 133,589.46	32.15%
13	Manassas Park	VA	$ 562,500.00	161	500,000.00	01/27/07	$ 143,668.19	28.73%
14	Bayamon	PR	$ 120,000.00	24	120,000.00	01/27/07	$ 11,824.21	9.85%
15	Topeka	KS	$ 108,000.00	150	98,900.00	01/27/07	$ 29,211.22	29.54%
16	Gastonia	NC	$ 231,500.00	101	222,000.00	01/27/07	$ 37,616.55	16.94%
17	Rochester Hills	MI	$ 331,500.00	53	320,000.00	01/27/07	$ 108,895.80	34.03%
18	Mountville	PA	$ 281,000.00	30	275,000.00	01/27/07	$ 31,051.08	11.29%
19	Sioux Center	IA	$ 191,000.00	18	191,000.00	01/27/07	$ 13,575.04	7.11%
20	Great Falls	MT	$ 204,250.00	4	204,250.00	01/27/07	$ 17,202.98	8.42%
21	Round Rock	TX	$ 138,500.00	1	138,500.00	01/27/07	$ 16,998.62	12.27%
22	Phoenix	AZ	$ 270,000.00	0	270,000.00	01/27/07	$ 22,000.16	8.15%
23	Arlington	VA	$ 600,000.00	5	600,000.00	01/27/07	$ 44,798.60	7.47%
24	Miramar	FL	$ 440,000.00	3	440,000.00	01/27/07	$ 34,878.51	7.93%
25	Bartlett	TN	$ 255,333.00	91	249,900.00	01/27/07	$ 38,586.64	15.44%
26	Snohomish	WA	$ 369,950.00	1	369,950.00	01/27/07	$ 34,178.95	9.24%
27	Guaynabo	PR	$ 257,500.00	82	255,000.00	01/27/07	$ 35,545.82	13.94%
28	Rochester	NY	$ 94,900.00	7	94,900.00	01/27/07	$ 9,534.70	10.05%
29	American Falls	ID	$ 169,500.00	0	169,500.00	01/27/07	$ 13,566.97	8.00%
30	Gaylord	MI	$ 128,000.00	0	128,000.00	01/27/07	$ 14,728.32	11.51%
31	Albertville	MN	$ 372,000.00	163	344,000.00	01/27/07	$ 81,642.80	23.73%
32	Bakersfield	CA	$ 385,000.00	14	385,000.00	01/27/07	$ 28,862.71	7.50%
33	Germantown	MD	$ 550,000.00	54	535,000.00	02/24/07	$ 67,596.30	12.63%
34	Clifton	VA	$ 775,000.00	153	675,000.00	01/27/07	$ 188,373.68	27.91%
35	Alexandria	VA	$ 503,750.00	71	484,900.00	01/27/07	$ 61,889.32	12.76%
36	Dallas	TX	$ 445,000.00	42	445,000.00	01/27/07	$ 35,005.05	7.87%
37	Glenpool	OK	$ 84,900.00	6	84,900.00	01/27/07	$ 8,896.33	10.48%
38	Elkridge	MD	$ 352,000.00	0	352,000.00	01/27/07	$ 30,212.59	8.58%
39	Pembroke Pines	FL	$ 450,000.00	164	435,000.00	02/24/07	$ 92,420.57	21.25%
40	Ashburn	VA	$ 641,000.00	113	605,000.00	01/27/07	$ 109,803.91	18.15%
41	Las Vegas	NV	$ 427,000.00	0	427,000.00	02/24/07	$ 31,132.43	7.29%
42	Jacksonville	FL	$ 165,000.00	0	165,000.00	02/24/07	$ 23,567.29	14.28%
43	Charlotte	NC	$ 167,000.00	0	167,000.00	02/24/07	$ 14,548.62	8.71%
44	Lodi	CA	$ 253,500.00	58	250,000.00	02/24/07	$ 28,241.89	11.30%
45	Canal Winchester	OH	$ 120,000.00	132	108,900.00	02/24/07	$ 33,259.66	30.54%
46	Lorton	VA	$ 295,500.00	45	300,000.00	02/24/07	$ 31,574.37	10.52%

47	Louisville	KY	$ 289,000.00	140	266,000.00	02/24/07	$ 59,252.82	22.28%
48	Martinsville	IN	$ 322,500.00	135	279,000.00	02/24/07	$ 87,114.70	31.22%
49	Brighton	CO	$ 216,667.00	50	217,500.00	02/24/07	$ 29,290.32	13.47%
50	Pineville	SC	$ 318,500.00	44	295,000.00	02/24/07	$ 54,279.85	18.40%
51	Blackfoot	ID	$ 258,000.00	3	258,000.00	01/27/07	$ 21,105.09	8.18%
52	Collierville	TN	$ 492,500.00	105	465,000.00	02/24/07	$ 81,969.38	17.63%
53	Racine	WI	$ 175,000.00	259	155,000.00	02/24/07	$ 54,614.77	35.24%
54	Washington	DC	$ 172,833.00	52	180,745.00	02/24/07	$ 26,435.20	14.63%
55	Wildwood	MO	$ 225,000.00	0	225,000.00	02/24/07	$ 23,077.25	10.26%
56	Woodbridge	VA	$ 419,900.00	3	419,900.00	02/24/07	$ 30,031.74	7.15%
57	Shreveport	LA	$ 191,000.00	0	191,000.00	02/24/07	$ 13,797.36	7.22%
58	Chicago	IL	$ 375,000.00	168	340,000.00	02/24/07	$ 88,847.11	26.13%
59	Odenton	MD	$ 317,500.00	19	317,500.00	02/24/07	$ 28,061.99	8.84%
60	Tempe	AZ	$ 394,900.00	8	394,900.00	02/24/07	$ 45,005.34	11.40%
61	Houston	TX	$ 84,000.00	2	84,000.00	02/24/07	$ 9,447.91	11.25%
62	Wyandotte	MI	$ 154,000.00	1	154,000.00	02/24/07	$ 14,921.55	9.69%
63	Bradenton	FL	$ 352,000.00	0	352,000.00	02/24/07	$ 29,872.10	8.49%
64	Bristow	VA	$ 542,000.00	203	462,000.00	02/24/07	$ 149,566.88	32.37%
65	Alta Loma	CA	$ 582,500.00	73	590,000.00	02/24/07	$ 70,045.31	11.87%
66	Newark	CA	$ 627,500.00	65	595,000.00	02/24/07	$ 103,338.93	17.37%
67	Naperville	IL	$ 375,000.00	21	375,000.00	02/24/07	$ 31,456.62	8.39%
68	Everett	WA	$ 355,000.00	15	355,000.00	02/24/07	$ 31,834.26	8.97%
69	Brighton	CO	$ 307,500.00	90	309,900.00	02/24/07	$ 33,076.17	10.67%
70	Brownstown Town	MI	$ 187,500.00	61	188,125.00	02/24/07	$ 40,909.13	21.75%
71	San Jose	CA	$ 738,000.00	3	738,000.00	02/24/07	$ 56,012.66	7.59%
72	St Petersburg	FL	$ 159,900.00	36	159,900.00	02/24/07	$ 15,054.46	9.41%
73	Mission	TX	$ 107,000.00	1	107,000.00	02/24/07	$ 15,023.65	14.04%
74	Collierville	TN	$ 390,000.00	7	390,000.00	02/24/07	$ 30,227.83	7.75%
75	Mount Juliet	TN	$ 175,900.00	0	175,900.00	02/24/07	$ 13,535.76	7.70%
76	Brentwood	TN	$ 380,000.00	0	380,000.00	02/24/07	$ 31,038.22	8.17%
77	Plainfield	IL	$ 206,500.00	95	206,900.00	02/24/07	$ 27,949.15	13.51%
78	Stone Mountain	GA	$ 199,000.00	93	189,900.00	02/24/07	$ 42,070.07	22.15%
79	Okemos	MI	$ 199,000.00	91	186,500.00	02/24/07	$ 42,662.40	22.88%
80	Saint Charles	IL	$ 250,000.00	2	250,000.00	02/24/07	$ 18,628.05	7.45%
81	San Diego	CA	$ 365,500.00	1	365,500.00	02/24/07	$ 72,167.61	19.74%
82	Farmington	MN	$ 255,800.00	0	255,800.00	02/24/07	$ 17,821.15	6.97%
83	Hellertown	PA	$ 230,500.00	0	230,500.00	02/24/07	$ 20,917.91	9.08%
84	Leander	TX	$ 162,000.00	0	162,000.00	02/24/07	$ 13,224.66	8.16%
85	Cabot	AR	$ 211,000.00	195	199,900.00	02/24/07	$ 48,692.64	24.36%
86	Quincy	MA	$ 345,000.00	113	298,000.00	02/24/07	$ 83,833.64	28.13%
87	Broadview Heights	OH	$ 242,000.00	14	242,000.00	02/24/07	$ 23,109.73	9.55%
88	Savage	MN	$ 217,000.00	12	217,000.00	02/24/07	$ 18,913.12	8.72%
89	Vancouver	WA	$ 177,000.00	5	177,000.00	02/24/07	$ 18,312.95	10.35%
90	Tyngsboro	MA	$ 329,167.00	55	319,000.00	02/24/07	$ 64,441.43	20.20%
91	Gray	GA	$ 203,333.00	55	194,900.00	02/24/07	$ 30,089.89	15.44%
92	Johnstown	CO	$ 315,000.00	0	315,000.00	02/24/07	$ 21,299.24	6.76%
93	Burke	VA	$ 607,500.00	184	549,900.00	02/24/07	$ 131,628.39	23.94%
94	Peyton	CO	$ 274,000.00	114	263,500.00	02/24/07	$ 50,180.94	19.04%
95	Naples	FL	$ 489,000.00	107	439,900.00	02/24/07	$ 100,813.73	22.92%
96	Fredonia	WI	$ 215,000.00	57	213,500.00	02/24/07	$ 25,744.82	12.06%
97	Omaha	NE	$ 189,667.00	133	180,250.00	02/24/07	$ 40,405.70	22.42%
98	Germantown	TN	$ 230,567.00	74	226,550.00	02/24/07	$ 38,662.64	17.07%

99	Upper Marlboro	MD	$ 561,800.00	2	561,800.00	02/24/07	$ 37,008.76	6.59%
100	San Diego	CA	$ 550,000.00	70	530,000.00	02/24/07	$ 68,956.11	13.01%
101	Eleanor	WV	$ 276,250.00	126	264,900.00	02/24/07	$ 45,719.26	17.26%
102	Pleasant Grove	UT	$ 223,000.00	33	220,600.00	02/24/07	$ 30,627.62	13.88%
103	Linwood	MN	$ 275,000.00	139	275,900.00	02/24/07	$ 34,781.29	12.61%
104	Bowie	MD	$ 499,999.00	0	499,999.00	03/28/07	$ 39,188.77	7.84%
105	Chicago	IL	$ 170,000.00	443	125,000.00	03/28/07	$ 86,256.28	69.01%
106	Aurora	CO	$ 291,667.00	172	279,900.00	02/24/07	$ 72,323.16	25.84%
107	Jacksonville	FL	$ 155,500.00	2	155,500.00	02/24/07	$ 18,122.95	11.65%
108	Hagerstown	MD	$ 186,598.00	1	186,598.00	02/24/07	$ 15,347.26	8.22%
109	Coeur D Alene	ID	$ 304,000.00	105	285,000.00	03/28/07	$ 52,039.68	18.26%
110	Grand Junction	CO	$ 469,000.00	38	459,900.00	03/28/07	$ 54,039.30	11.75%
111	Lake Worth	FL	$ 285,000.00	188	240,000.00	03/28/07	$ 85,227.27	35.51%
112	Norman	OK	$ 256,500.00	36	258,500.00	03/28/07	$ 25,546.55	9.88%
113	Baltimore	MD	$ 69,500.00	57	69,500.00	03/28/07	$ 9,696.16	13.95%
114	Matthews	NC	$ 249,900.00	1	249,900.00	03/28/07	$ 18,238.82	7.30%
115	New Bern	NC	$ 248,900.00	0	248,900.00	03/28/07	$ 20,607.01	8.28%
116	Greensboro	NC	$ 255,000.00	122	215,000.00	03/28/07	$ 72,517.76	33.73%
117	San Jose	CA	$ 727,500.00	101	714,900.00	03/28/07	$ 87,060.41	12.18%
118	Las Vegas	NV	$ 410,000.00	302	348,500.00	03/28/07	$ 130,750.29	37.52%
119	Cordova	TN	$ 151,000.00	163	139,000.00	03/28/07	$ 43,502.50	31.30%
120	Frederick	MD	$ 389,000.00	1	389,000.00	03/28/07	$ 32,490.29	8.35%
121	North Platte	NE	$ 205,000.00	12	205,000.00	03/28/07	$ 20,141.08	9.82%
122	Wichita	KS	$ 130,000.00	5	130,000.00	03/28/07	$ 10,345.21	7.96%
123	Las Vegas	NV	$ 262,000.00	99	255,000.00	03/28/07	$ 44,450.72	17.43%
124	Shawnee	OK	$ 57,000.00	76	53,000.00	03/28/07	$ 15,419.07	29.09%
125	Princeton Junction	NJ	$ 650,000.00	28	650,000.00	03/28/07	$ 50,216.86	7.73%
126	Lexington	SC	$ 126,000.00	7	126,000.00	03/28/07	$ 12,197.65	9.68%
127	Spring Creek	NV	$ 295,000.00	0	295,000.00	03/28/07	$ 24,554.68	8.32%
128	Fairfax	VA	$ 815,000.00	205	775,000.00	03/28/07	$ 170,394.46	21.99%
129	Cedar Hill	TX	$ 142,750.00	84	138,900.00	03/28/07	$ 26,914.06	19.38%
130	Cape Elizabeth	ME	$ 440,000.00	38	437,500.00	03/28/07	$ 42,108.84	9.62%
131	Odenton	MD	$ 415,000.00	7	415,000.00	03/28/07	$ 32,873.24	7.92%
132	Houston	TX	$ 175,500.00	73	171,500.00	03/28/07	$ 26,807.39	15.63%
133	East Grand Forks	MN	$ 165,000.00	3	165,000.00	03/28/07	$ 6,286.68	3.81%
134	Bothell	WA	$ 423,950.00	5	423,950.00	03/28/07	$ 37,021.09	8.73%
135	Arlington	WI	$ 138,000.00	1	138,000.00	03/28/07	$ 14,662.78	10.63%
136	North Brunswick	NJ	$ 248,000.00	237	236,000.00	03/28/07	$ 51,160.24	21.68%
137	Round Rock	TX	$ 305,000.00	107	276,400.00	03/28/07	$ 75,667.15	27.38%
138	Craig	AK	$ 215,000.00	28	215,000.00	03/28/07	$ 18,632.91	8.67%
139	Germantown	TN	$ 488,000.00	6	488,000.00	03/28/07	$ 32,704.68	6.70%
140	Riverview	FL	$ 226,000.00	16	226,000.00	03/28/07	$ 22,205.33	9.83%
141	Long Beach	MS	$ 175,000.00	13	175,000.00	03/28/07	$ 15,323.50	8.76%
142	Orlando	FL	$ 301,500.00	106	275,000.00	03/28/07	$ 69,560.04	25.29%
143	Brooklyn Center	MN	$ 194,000.00	102	189,900.00	04/25/07	$ 39,011.04	20.54%
144	Lincoln	AL	$ 160,250.00	45	158,500.00	03/28/07	$ 23,650.96	14.92%
145	McDonough	GA	$ 342,000.00	25	340,000.00	03/28/07	$ 35,802.56	10.53%
146	Carteret	NJ	$ 341,667.00	117	325,000.00	03/28/07	$ 62,414.01	19.20%
147	Alexandria	VA	$ 468,500.00	148	430,000.00	03/28/07	$ 94,507.48	21.98%
148	Potsdam	NY	$ 250,667.00	84	239,900.00	03/28/07	$ 42,237.00	17.61%
149	Clinton Township	MI	$ 157,500.00	168	138,900.00	03/28/07	$ 58,004.95	41.76%
150	Brownstown	MI	$ 190,333.00	165	169,900.00	03/28/07	$ 69,805.16	41.09%

151	Coconut Creek	FL	$ 512,500.00	94	484,000.00	03/28/07	$ 96,758.03	19.99%
152	Carrollton	TX	$ 142,900.00	4	142,900.00	03/28/07	$ 11,063.97	7.74%
153	Lagrangeville	NY	$ 370,500.00	74	359,900.00	04/25/07	$ 55,130.39	15.32%
154	Woodinville	WA	$ 610,000.00	18	610,000.00	03/28/07	$ 61,002.54	10.00%
155	Wales	ME	$ 210,000.00	7	210,000.00	04/25/07	$ 16,040.84	7.64%
156	Odessa	FL	$ 435,000.00	140	388,500.00	04/25/07	$ 103,410.85	26.62%
157	Tucson	AZ	$ 295,000.00	1	295,000.00	04/25/07	$ 20,875.75	7.08%
158	Woodbridge	VA	$ 645,000.00	209	570,000.00	04/25/07	$ 157,542.83	27.64%
159	Blythewood	SC	$ 425,750.00	84	398,900.00	04/25/07	$ 71,168.62	17.84%
160	San Antonio	TX	$ 90,750.00	77	86,900.00	04/25/07	$ 24,972.96	28.74%
161	Westfield	IN	$ 266,000.00	50	260,000.00	04/25/07	$ 37,992.43	14.61%
162	Alexandria	VA	$ 730,750.00	35	724,900.00	04/25/07	$ 75,244.48	10.38%
163	East Granby	CT	$ 326,900.00	21	326,900.00	04/25/07	$ 31,999.51	9.79%
164	Gig Harbor	WA	$ 423,500.00	125	385,000.00	04/25/07	$ 97,420.22	25.30%
165	Macon	GA	$ 234,000.00	49	225,000.00	04/25/07	$ 33,927.85	15.08%
166	Ocoee	FL	$ 213,000.00	113	200,000.00	04/25/07	$ 49,397.21	24.70%
167	Aurora	CO	$ 264,500.00	28	273,000.00	04/25/07	$ 23,469.53	8.60%
168	Naples	FL	$ 510,000.00	2	510,000.00	04/25/07	$ 42,792.19	8.39%
169	Spring Hill	FL	$ 247,000.00	176	229,000.00	04/25/07	$ 61,189.32	26.72%
170	Mullica Hill	NJ	$ 410,000.00	191	383,000.00	04/25/07	$ 88,997.44	23.24%
171	Oakdale	PA	$ 201,000.00	127	203,900.00	04/25/07	$ 35,868.23	17.59%
172	Odenton	MD	$ 349,000.00	115	328,000.00	04/25/07	$ 73,295.84	22.35%
173	Millersville	MD	$ 586,500.00	114	559,900.00	04/25/07	$ 107,347.74	19.17%
174	Fremont	NH	$ 233,333.00	70	235,000.00	04/25/07	$ 66,313.81	28.22%
175	Stevenson Ranch	CA	$1,072,500.00	68	960,000.00	04/25/07	$ 212,584.29	22.14%
176	The Woodlands	TX	$ 158,000.00	12	158,000.00	04/25/07	$ 14,506.41	9.18%
177	Scottsdale	AZ	$ 690,000.00	0	690,000.00	04/25/07	$ 46,067.94	6.68%
178	Tacoma	WA	$ 295,000.00	8	295,000.00	04/25/07	$ 29,967.61	10.16%
179	Bristow	VA	$ 470,000.00	278	410,000.00	04/25/07	$ 145,818.15	35.57%
180	Westminster	CO	$ 224,500.00	138	212,000.00	04/25/07	$ 58,515.94	27.60%
181	Fort Worth	TX	$ 114,500.00	6	114,500.00	04/25/07	$ 11,967.60	10.45%
182	Lovettsville	VA	$ 412,500.00	140	360,000.00	04/25/07	$ 121,675.38	33.80%
183	Charlotte	NC	$ 327,500.00	122	317,500.00	04/25/07	$ 46,849.02	14.76%
184	Rockville	MD	$ 615,000.00	0	615,000.00	04/25/07	$ 45,351.39	7.37%
185	Victorville	CA	$ 435,000.00	248	397,500.00	04/25/07	$ 114,241.67	28.74%
186	Crawfordville	FL	$ 209,500.00	135	197,500.00	04/25/07	$ 40,435.32	20.47%
187	Beaver Falls	PA	$ 317,500.00	115	283,000.00	04/25/07	$ 66,998.87	23.67%
188	Macon	GA	$ 235,000.00	0	235,000.00	05/23/07	$ 16,757.72	7.13%
189	Orient	OH	$ 186,333.00	175	169,900.00	05/23/07	$ 59,457.05	35.00%
190	Kentwood	MI	$ 189,000.00	105	175,000.00	04/25/07	$ 42,591.28	24.34%
191	Fort Wright	KY	$ 153,500.00	0	153,500.00	05/23/07	$ 14,541.50	9.47%
192	Deltona	FL	$ 205,000.00	14	205,000.00	05/23/07	$ 16,358.02	7.98%
193	Chandler	AZ	$ 281,250.00	115	264,900.00	05/23/07	$ 51,188.63	19.32%
194	Wheat Ridge	CO	$ 306,000.00	80	297,500.00	05/23/07	$ 38,781.24	13.04%
195	Burien	WA	$ 230,950.00	21	230,950.00	05/23/07	$ 22,461.45	9.73%
196	Billings	MT	$ 219,050.00	315	184,900.00	05/23/07	$ 85,374.55	46.17%
197	Greensboro	NC	$ 137,000.00	1	137,000.00	05/23/07	$ 11,547.35	8.43%
198	Haines	AK	$ 151,000.00	0	151,000.00	05/23/07	$ 10,630.78	7.04%
199	Cordova	TN	$ 197,633.00	195	179,900.00	05/23/07	$ 64,456.35	35.83%
200	Woodridge	IL	$ 284,000.00	146	262,500.00	05/23/07	$ 73,345.03	27.94%
201	Oak Creek	WI	$ 159,000.00	127	158,500.00	05/23/07	$ 27,252.54	17.19%
202	Phoenix	AZ	$ 195,000.00	60	193,900.00	05/23/07	$ 24,119.50	12.44%

203	Huntington Beach	CA	$ 715,000.00	7	715,000.00	05/23/07	$ 54,997.22	7.69%
204	Pittsburgh	PA	$ 196,000.00	161	179,900.00	05/23/07	$ 61,326.73	34.09%
205	Evanston	IL	$ 538,000.00	25	538,000.00	05/23/07	$ 44,610.20	8.29%
206	Windsor	CT	$ 266,500.00	17	266,500.00	05/23/07	$ 25,700.39	9.64%
207	Goodyear	AZ	$ 328,500.00	10	328,500.00	05/23/07	$ 67,387.15	20.51%
208	Albuquerque	NM	$ 185,000.00	6	185,000.00	05/23/07	$ 16,187.57	8.75%
209	Weston	FL	$ 483,333.00	55	462,500.00	05/23/07	$ 68,634.67	14.84%
210	Daphne	AL	$ 125,900.00	4	125,900.00	05/23/07	$ 12,405.55	9.85%
211	Pearland	TX	$ 203,500.00	177	194,225.00	05/23/07	$ 47,656.21	24.54%
212	Abingdon	MD	$ 363,500.00	30	369,000.00	05/23/07	$ 32,671.89	8.85%
213	Rochester	MN	$ 130,200.00	6	130,200.00	05/23/07	$ 15,481.01	11.89%
214	Alexandria	VA	$ 540,000.00	0	540,000.00	05/23/07	$ 38,216.28	7.08%
215	Frederick	MD	$ 529,500.00	186	444,900.00	05/23/07	$ 151,098.30	33.96%
216	Reno	NV	$ 360,667.00	79	347,000.00	05/23/07	$ 62,795.50	18.10%
217	Lincoln	NE	$ 123,000.00	18	120,000.00	05/23/07	$ 18,915.14	15.76%
218	Albuquerque	NM	$ 313,500.00	2	313,500.00	05/23/07	$ 26,437.83	8.43%
219	Chester	VA	$ 233,000.00	0	233,000.00	05/23/07	$ 20,370.61	8.74%
220	Carrollton	TX	$ 377,500.00	263	332,500.00	05/23/07	$ 109,555.14	32.95%
221	Grove City	OH	$ 280,000.00	258	226,000.00	05/23/07	$ 107,075.14	47.38%
222	Lake City	IA	$ 127,000.00	19	127,000.00	05/23/07	$ 10,853.31	8.55%
223	Flushing	NY	$ 640,000.00	102	615,000.00	05/23/07	$ 102,545.80	16.67%
224	Grove City	OH	$ 134,667.00	63	134,900.00	05/23/07	$ 19,849.22	14.71%
225	Shelby Township	MI	$ 178,000.00	64	179,900.00	05/23/07	$ 24,566.83	13.66%
226	Westminster	CO	$ 188,500.00	1	188,500.00	05/23/07	$ 13,367.20	7.09%
227	Brick	NJ	$ 274,900.00	21	274,900.00	05/23/07	$ 19,260.06	7.01%
228	Royersford	PA	$ 420,000.00	0	420,000.00	05/23/07	$ 33,834.50	8.06%
229	Mount Juliet	TN	$ 186,000.00	0	186,000.00	05/23/07	$ 16,651.96	8.95%
230	Keller	TX	$ 425,000.00	36	430,000.00	05/23/07	$ 35,551.20	8.27%
231	Leesburg	GA	$ 146,500.00	7	146,500.00	05/23/07	$ 15,476.25	10.56%
232	Florence	KY	$ 167,000.00	2	167,000.00	05/23/07	$ 13,945.21	8.35%
233	Sterling	VA	$ 627,000.00	237	515,000.00	05/23/07	$ 195,293.44	37.92%
234	Wilson	NC	$ 230,750.00	132	190,000.00	05/23/07	$ 65,865.03	34.67%
235	Mount Olive	AL	$ 285,000.00	88	276,900.00	05/23/07	$ 38,182.11	13.79%
236	Katy	TX	$ 154,833.00	83	156,100.00	05/23/07	$ 23,695.56	15.18%
237	Ocean	NJ	$ 367,450.00	10	367,450.00	05/23/07	$ 35,020.06	9.53%
238	Powell	OH	$ 230,000.00	3	230,000.00	05/23/07	$ 22,620.51	9.84%
239	Evergreen	CO	$ 443,000.00	3	443,000.00	05/23/07	$ 36,089.88	8.15%
240	Bowie	MD	$ 400,000.00	0	400,000.00	05/23/07	$ 40,429.67	10.11%
241	Chesapeake	VA	$ 606,500.00	146	579,900.00	05/23/07	$ 89,815.65	15.49%
242	Louisville	KY	$ 312,000.00	68	300,000.00	05/23/07	$ 46,076.94	15.36%
243	Wrightstown	NJ	$ 324,000.00	4	324,000.00	05/23/07	$ 24,753.77	7.64%
244	Westville	IN	$ 266,500.00	92	257,900.00	05/23/07	$ 40,105.28	15.55%
245	Homestead	FL	$ 392,500.00	56	399,000.00	05/23/07	$ 87,549.38	21.94%
246	Woodbridge	VA	$ 670,000.00	26	670,000.00	05/23/07	$ 49,673.19	7.41%
247	Clear Lake	SD	$ 108,150.00	1	108,150.00	05/23/07	$ 10,515.29	9.72%
248	Fernley	NV	$ 232,333.00	148	219,900.00	05/23/07	$ 67,786.39	30.83%
249	Franklin	TN	$ 320,000.00	3	320,000.00	05/23/07	$ 26,141.31	8.17%
250	Centerville	OH	$ 328,000.00	154	308,500.00	05/23/07	$ 83,808.89	27.17%
251	Independence	OH	$ 433,500.00	126	385,900.00	06/27/07	$ 105,874.40	27.44%
252	Pflugerville	TX	$ 214,000.00	21	214,000.00	05/23/07	$ 19,444.02	9.09%
253	Cheboygan	MI	$ 315,000.00	0	315,000.00	05/23/07	$ 30,451.11	9.67%
254	Oldsmar	FL	$ 567,000.00	6	567,000.00	05/23/07	$ 52,083.93	9.19%

255	Waldorf	MD	$ 339,900.00	0	339,900.00	05/23/07	$ 25,304.96	7.44%
256	Eureka	MO	$ 280,000.00	-1	280,000.00	06/27/07	$ 21,571.22	7.70%
257	Middleburg	FL	$ 290,000.00	246	264,900.00	06/27/07	$ 93,780.96	35.40%
258	Meriden	KS	$ 358,500.00	178	280,000.00	06/27/07	$ 138,085.70	49.32%
259	Mars	PA	$ 346,500.00	165	329,900.00	06/27/07	$ 74,971.28	22.73%
260	Boise	ID	$ 217,500.00	109	205,000.00	06/27/07	$ 38,266.32	18.67%
261	North Las Vegas	NV	$ 275,900.00	8	275,900.00	06/27/07	$ 30,360.01	11.00%
262	Centreville	VA	$ 670,000.00	15	670,000.00	06/27/07	$ 45,902.91	6.85%
263	Castle Rock	CO	$ 353,333.00	225	326,500.00	06/27/07	$ 83,126.16	25.46%
264	El Dorado Hills	CA	$ 571,500.00	35	559,900.00	06/27/07	$ 55,139.17	9.85%
265	Eagan	MN	$ 153,900.00	16	153,900.00	06/27/07	$ 12,928.71	8.40%
266	Herndon	VA	$ 625,000.00	13	625,000.00	06/27/07	$ 43,243.59	6.92%
267	Milliken	CO	$ 206,000.00	113	200,000.00	06/27/07	$ 42,294.96	21.15%
268	Littleton	CO	$ 826,000.00	6	826,000.00	06/27/07	$ 54,582.24	6.61%
269	Walpole	MA	$ 495,000.00	364	439,900.00	06/27/07	$ 134,964.18	30.68%
270	Sedalia	MO	$ 339,500.00	147	289,900.00	06/27/07	$ 92,004.13	31.74%
271	Manassas	VA	$ 605,000.00	140	576,500.00	06/27/07	$ 122,294.73	21.21%
272	Pittsburgh	PA	$ 134,000.00	81	134,900.00	06/27/07	$ 38,838.53	28.79%
273	Tolleson	AZ	$ 234,500.00	36	245,900.00	06/27/07	$ 18,828.02	7.66%
274	Miami	FL	$1,440,000.00	29	1,440,000.00	06/27/07	$ 106,281.53	7.38%
275	San Antonio	TX	$ 90,000.00	1	90,000.00	06/27/07	$ 8,086.26	8.98%
276	West Dundee	IL	$ 497,000.00	207	420,000.00	06/27/07	$ 145,785.26	34.71%
277	Indianapolis	IN	$ 113,000.00	81	103,000.00	06/27/07	$ 26,869.52	26.09%
278	Conroe	TX	$ 350,000.00	19	350,000.00	06/27/07	$ 25,878.77	7.39%
279	Keansburg	NJ	$ 187,000.00	5	187,000.00	06/27/07	$ 14,714.67	7.87%
280	Slater	IA	$ 176,000.00	5	176,000.00	06/27/07	$ 19,213.99	10.92%
281	Poway	CA	$1,850,000.00	168	1,700,000.00	06/27/07	$ 352,933.99	20.76%
282	Ivanhoe	TX	$ 136,000.00	8	136,000.00	06/27/07	$ 14,392.23	10.58%
283	Puyallup	WA	$ 291,500.00	6	291,500.00	06/27/07	$ 36,663.66	12.58%
284	Corinth	TX	$ 308,000.00	5	308,000.00	06/27/07	$ 23,552.47	7.65%
285	Boynton Beach	FL	$ 328,333.00	191	290,000.00	06/27/07	$ 100,886.54	34.79%
286	Greenville	WI	$ 220,500.00	2	220,500.00	06/27/07	$ 17,062.00	7.74%
287	Jacksonville	FL	$ 465,000.00	156	400,000.00	06/27/07	$ 125,645.21	31.41%
288	Montgomery	AL	$ 84,500.00	126	84,900.00	06/27/07	$ 18,024.10	21.23%
289	Loveland	OH	$ 236,500.00	93	227,900.00	06/27/07	$ 55,530.31	24.37%
290	Simsbury	CT	$ 354,000.00	31	354,000.00	06/27/07	$ 31,314.41	8.85%
291	Henderson	NV	$ 443,667.00	117	424,900.00	06/27/07	$ 76,793.74	18.07%
292	Westbrook	ME	$ 431,500.00	224	335,000.00	06/27/07	$ 156,722.37	46.78%
293	Haslet	TX	$ 346,000.00	55	336,000.00	06/27/07	$ 52,594.82	15.65%
294	Madisonville	LA	$ 415,000.00	56	399,900.00	06/27/07	$ 50,546.60	12.64%
295	Wasilla	AK	$ 145,000.00	1	145,000.00	06/27/07	$ 12,176.16	8.40%
296	Gainesville	VA	$ 675,000.00	0	675,000.00	06/27/07	$ 45,035.58	6.67%
297	Powell	OH	$ 353,000.00	203	308,900.00	06/27/07	$ 101,581.83	32.89%
298	Aberdeen	MD	$ 258,000.00	12	258,000.00	06/27/07	$ 21,665.82	8.40%
299	Loveland	OH	$ 220,000.00	172	195,700.00	06/27/07	$ 74,304.64	37.97%
300	Seminole	TX	$ 127,500.00	117	124,900.00	06/27/07	$ 27,367.93	21.91%
301	Mesquite	TX	$ 104,700.00	0	104,900.00	06/27/07	$ 18,223.53	17.37%
302	Melvindale	MI	$ 103,500.00	117	89,900.00	06/27/07	$ 57,335.41	63.78%
303	O Fallon	IL	$ 191,000.00	82	168,900.00	06/27/07	$ 44,075.94	26.10%
304	Gilbert	AZ	$ 402,500.00	33	400,000.00	06/27/07	$ 41,758.10	10.44%
305	Hillsboro	OR	$ 285,000.00	26	285,000.00	06/27/07	$ 25,175.40	8.83%
306	Plaquemine	LA	$ 254,900.00	1	254,900.00	06/27/07	$ 24,417.29	9.58%

307	Riverview	FL	$ 227,500.00	84	209,900.00	07/25/07	$ 44,567.23	21.23%
308	Houston	TX	$ 98,000.00	44	97,500.00	07/25/07	$ 19,864.34	20.37%
309	Gorham	ME	$ 256,333.00	91	245,000.00	07/25/07	$ 40,262.14	16.43%
310	Plymouth Meeting	PA	$ 335,000.00	13	335,000.00	07/25/07	$ 26,002.82	7.76%
311	San Antonio	TX	$ 428,333.00	187	370,000.00	07/25/07	$ 124,307.78	33.60%
312	Keller	TX	$ 297,900.00	7	297,900.00	07/25/07	$ 20,853.82	7.00%
313	Pasadena	MD	$ 333,333.00	251	329,900.00	07/25/07	$ 63,119.29	19.13%
314	Reno	NV	$ 782,500.00	89	760,000.00	07/25/07	$ 123,584.78	16.26%
315	Broken Arrow	OK	$ 156,000.00	17	156,000.00	07/25/07	$ 15,232.46	9.76%
316	Wake Forest	NC	$ 315,000.00	0	315,000.00	07/25/07	$ 21,441.80	6.81%
317	Middleburg	FL	$ 153,667.00	86	148,900.00	07/25/07	$ 25,689.65	17.25%
318	Reston	VA	$ 639,900.00	46	639,900.00	07/25/07	$ 45,878.24	7.17%
319	Melrose	MA	$ 520,000.00	21	520,000.00	07/25/07	$ 38,173.75	7.34%
320	Hudson	NH	$ 335,000.00	16	335,000.00	07/25/07	$ 26,061.90	7.78%
321	Oak Park	IL	$ 380,000.00	8	380,000.00	07/25/07	$ 34,045.35	8.96%
322	Madison	WI	$ 272,000.00	33	274,500.00	07/25/07	$ 24,621.80	8.97%
323	Dublin	OH	$ 330,000.00	12	330,000.00	07/25/07	$ 28,045.05	8.50%
324	Commerce City	CO	$ 237,000.00	1	237,000.00	07/25/07	$ 22,798.75	9.62%
325	Decatur	GA	$ 233,250.00	187	225,000.00	07/25/07	$ 59,846.03	26.60%
326	Houston	TX	$ 278,500.00	71	262,500.00	07/25/07	$ 41,602.02	15.85%
327	Fairfax	VA	$ 472,000.00	1	472,000.00	07/25/07	$ 34,947.94	7.40%
328	Kents Store	VA	$ 233,750.00	79	225,000.00	07/25/07	$ 32,898.49	14.62%
329	Canton	MI	$ 241,667.00	21	237,000.00	07/25/07	$ 29,872.50	12.60%
330	Eagle Mountain	UT	$ 295,000.00	6	295,000.00	07/25/07	$ 25,168.64	8.53%
331	Mount Juliet	TN	$ 290,000.00	0	290,000.00	07/25/07	$ 24,818.36	8.56%
332	Berkeley Springs	WV	$ 294,000.00	407	222,500.00	07/25/07	$ 132,642.47	59.61%
333	Ormond Beach	FL	$ 299,500.00	262	255,000.00	07/25/07	$ 97,257.20	38.14%
334	Dillon	MT	$ 295,200.00	116	282,500.00	07/25/07	$ 46,623.07	16.50%
335	Westerville	OH	$ 312,500.00	88	299,900.00	07/25/07	$ 73,066.77	24.36%
336	Westminster	CO	$ 294,000.00	42	290,000.00	07/25/07	$ 36,417.62	12.56%
337	Huntersville	NC	$ 154,000.00	9	154,000.00	07/25/07	$ 13,304.16	8.64%
338	West Bloomfield	MI	$ 195,000.00	3	195,000.00	07/25/07	$ 20,689.19	10.61%
339	Westminster	CO	$ 262,500.00	2	262,500.00	07/25/07	$ 21,821.68	8.31%
340	Cuyahoga Falls	OH	$ 102,250.00	1	102,250.00	07/25/07	$ 7,879.98	7.71%
341	Phillipsburg	NJ	$ 180,000.00	1	180,000.00	07/25/07	$ 14,232.54	7.91%
342	Hammond	IN	$ 103,500.00	0	103,500.00	07/25/07	$ 8,932.74	8.63%
343	Coppell	TX	$ 423,500.00	167	377,962.00	07/25/07	$ 100,769.60	26.66%
344	Omaha	NE	$ 129,000.00	47	129,000.00	07/25/07	$ 16,934.54	13.13%
345	Albany	OR	$ 203,000.00	4	203,000.00	07/25/07	$ 15,166.57	7.47%
346	Spring Hill	FL	$ 290,000.00	0	290,000.00	07/25/07	$ 25,730.62	8.87%
347	Monson	MA	$ 271,000.00	293	238,000.00	07/25/07	$ 100,448.57	42.21%
348	Potomac	MD	$1,075,000.00	12	1,075,000.00	07/25/07	$ 92,341.50	8.59%
349	Marble Falls	TX	$ 434,000.00	7	434,000.00	07/25/07	$ 31,680.44	7.30%
350	Hudson	NH	$ 243,000.00	7	252,470.00	07/25/07	$ 17,186.35	6.81%
351	Guyton	GA	$ 208,333.00	183	179,900.00	07/25/07	$ 62,797.63	34.91%
352	Ashburn	VA	$ 608,000.00	12	608,000.00	07/25/07	$ 41,305.78	6.79%
353	Tampa	FL	$ 454,500.00	279	374,000.00	07/25/07	$ 154,168.05	41.22%
354	Houghton	MI	$ 79,178.00	64	81,000.00	07/25/07	$ 12,541.29	15.48%
355	Houston	TX	$ 95,000.00	0	95,000.00	08/28/07	$ 12,302.56	12.95%
356	Potomac Falls	VA	$ 730,000.00	18	730,000.00	08/28/07	$ 50,954.12	6.98%
357	Fort Worth	TX	$ 119,000.00	14	119,000.00	07/25/07	$ 18,825.01	15.82%
358	Pleasant View	TN	$ 146,200.00	3	146,200.00	07/25/07	$ 14,172.09	9.69%

359	Smyrna	TN	$ 144,300.00	2	144,300.00	07/25/07	$ 11,163.16	7.74%
360	Del City	OK	$ 73,000.00	0	73,000.00	08/28/07	$ 7,279.35	9.97%
361	Apple Valley	MN	$ 249,900.00	0	249,900.00	08/28/07	$ 24,345.03	9.74%
362	Mesa	AZ	$ 245,000.00	7	245,000.00	08/28/07	$ 20,425.39	8.34%
363	Frederickbg	VA	$ 214,900.00	0	214,900.00	08/28/07	$ 15,406.41	7.17%
364	Smithfield	VA	$ 316,000.00	13	316,000.00	08/28/07	$ 23,782.38	7.53%
365	Rock City	IL	$ 117,500.00	0	117,500.00	08/28/07	$ 10,201.14	8.68%
366	Belleville	IL	$ 238,950.00	113	215,000.00	08/28/07	$ 44,449.10	20.67%
367	Memphis	TN	$ 237,333.00	74	230,000.00	08/28/07	$ 32,944.74	14.32%
368	Fort Washington	MD	$ 352,500.00	38	347,280.00	08/28/07	$ 53,725.65	15.47%
369	Damascus	MD	$ 269,900.00	11	269,900.00	08/28/07	$ 22,333.12	8.27%
370	Tampa	FL	$ 450,000.00	8	450,000.00	08/28/07	$ 42,430.65	9.43%
371	Firestone	CO	$ 354,500.00	276	289,000.00	08/28/07	$ 125,742.41	43.51%
372	Las Cruces	NM	$ 153,200.00	116	153,200.00	08/28/07	$ 22,359.70	14.60%
373	Naperville	IL	$ 519,900.00	1	519,900.00	08/28/07	$ 36,770.97	7.07%
374	Tempe	AZ	$ 181,000.00	48	181,000.00	08/28/07	$ 17,165.06	9.48%
375	Greeley	CO	$ 100,000.00	12	100,000.00	08/28/07	$ 10,792.21	10.79%
376	Oklahoma City	OK	$ 85,000.00	0	85,000.00	08/28/07	$ 8,408.19	9.89%
377	Brighton	CO	$ 391,333.00	198	359,900.00	08/28/07	$ 89,015.01	24.73%
378	Hoboken	NJ	$ 590,000.00	1	590,000.00	08/28/07	$ 42,071.98	7.13%
379	Mitchellville	MD	$ 515,000.00	315	413,450.00	08/28/07	$ 108,000.11	26.12%
380	San Antonio	TX	$ 250,000.00	1	250,000.00	08/28/07	$ 24,283.88	9.71%
381	Detroit	MI	$ 112,000.00	459	85,000.00	08/28/07	$ 77,944.99	91.70%
382	Fountain	CO	$ 218,000.00	398	184,900.00	08/28/07	$ 90,101.92	48.73%
383	Southlake	TX	$ 460,000.00	6	460,000.00	08/28/07	$ 33,321.82	7.24%
384	Sterling Heights	MI	$ 109,500.00	4	109,500.00	08/28/07	$ 10,252.71	9.36%
385	Parkville	MO	$ 413,333.00	253	343,000.00	08/28/07	$ 124,431.41	36.28%
386	Elk Grove	CA	$ 435,000.00	221	368,000.00	08/28/07	$ 124,296.59	33.78%
387	Arlington	VA	$ 341,500.00	36	341,900.00	08/28/07	$ 86,178.06	25.21%
388	Hopatcong	NJ	$ 329,900.00	0	329,900.00	08/28/07	$ 17,490.42	5.30%
389	Middlefield	OH	$ 146,500.00	124	139,900.00	08/28/07	$ 38,779.51	27.72%
390	Voorheesville	NY	$ 399,000.00	27	399,000.00	08/28/07	$ 37,185.33	9.32%
391	Havertown	PA	$ 314,000.00	5	314,000.00	08/28/07	$ 27,987.32	8.91%
392	Plano	TX	$ 272,000.00	134	260,000.00	08/28/07	$ 64,994.16	25.00%
393	Mooresville	NC	$ 373,500.00	41	354,825.00	08/28/07	$ 60,834.09	17.14%
394	N Attleboro	MA	$ 390,000.00	3	390,000.00	08/28/07	$ 33,180.08	8.51%
395	Houston	TX	$ 52,750.00	196	45,000.00	08/28/07	$ 24,581.75	54.63%
396	Apple Valley	MN	$ 481,500.00	220	405,000.00	08/28/07	$ 137,724.90	34.01%
397	Alum Creek	WV	$ 153,000.00	110	146,500.00	08/28/07	$ 39,674.63	27.08%
398	Amarillo	TX	$ 113,500.00	4	113,500.00	08/28/07	$ 9,560.21	8.42%
399	Olathe	KS	$ 378,667.00	69	367,500.00	08/28/07	$ 65,533.42	17.83%
400	Chesterfield	VA	$ 315,000.00	28	315,000.00	08/28/07	$ 24,210.52	7.69%
401	Parker	CO	$ 340,000.00	42	340,000.00	08/28/07	$ 33,620.62	9.89%
402	Waukee	IA	$ 235,667.00	32	234,000.00	08/28/07	$ 30,968.44	13.23%
403	Wichita	KS	$ 90,000.00	21	90,000.00	08/28/07	$ 11,053.93	12.28%
404	Ludlow	MA	$ 260,000.00	16	260,000.00	08/28/07	$ 18,140.89	6.98%
405	Tecumseh	KS	$ 257,000.00	7	257,000.00	09/22/07	$ 20,475.42	7.97%
406	Hampton	GA	$ 405,000.00	0	405,000.00	09/22/07	$ 31,021.35	7.66%
407	Oklahoma City	OK	$ 125,894.00	8	125,894.00	09/22/07	$ 10,777.58	8.56%
408	Fort Pierce	FL	$ 381,333.00	227	299,900.00	09/22/07	$ 161,486.66	53.85%
409	Modesto	CA	$ 350,000.00	17	350,000.00	09/22/07	$ 26,553.83	7.59%
410	Leesburg	VA	$ 485,000.00	4	485,000.00	09/22/07	$ 32,817.96	6.77%

411	Muskego	WI	$ 328,500.00	153	282,500.00	09/22/07	$ 92,430.90	32.72%
412	Fairhope	AL	$ 181,000.00	91	171,950.00	09/22/07	$ 28,981.80	16.85%
413	Colorado Springs	CO	$ 347,500.00	89	310,000.00	09/22/07	$ 72,353.47	23.34%
414	Walterboro	SC	$ 186,500.00	84	177,500.00	09/22/07	$ 30,960.09	17.44%
415	Deland	FL	$ 537,500.00	3	537,500.00	09/22/07	$ 41,669.98	7.75%
416	Lexington	SC	$ 222,250.00	71	196,000.00	09/22/07	$ 51,884.31	26.47%
417	Richfield	OH	$ 385,000.00	59	390,000.00	09/22/07	$ 67,829.79	17.39%
418	Apple Valley	MN	$ 185,500.00	36	178,000.00	09/22/07	$ 25,258.32	14.19%
419	Lees Summit	MO	$ 161,500.00	24	157,425.00	09/22/07	$ 24,343.96	15.46%
420	Lincoln	RI	$ 640,000.00	0	640,000.00	09/22/07	$ 46,956.51	7.34%
421	Mesa	AZ	$ 378,500.00	146	308,500.00	09/22/07	$ 146,768.96	47.58%
422	San Diego	CA	$ 578,000.00	143	500,000.00	09/22/07	$ 146,660.26	29.33%
423	Commerce City	CO	$ 395,500.00	47	380,000.00	10/29/07	$ 52,154.68	13.72%
424	Prairie Du Chien	WI	$ 67,500.00	4	67,500.00	09/22/07	$ 6,537.94	9.69%
425	Wilmington	DE	$ 347,500.00	216	332,900.00	09/22/07	$ 70,625.82	21.22%
426	Clermont	FL	$ 182,500.00	139	163,000.00	09/22/07	$ 50,944.05	31.25%
427	Tremonton	UT	$ 169,000.00	72	162,500.00	09/22/07	$ 23,888.54	14.70%
428	Kernersville	NC	$ 154,750.00	55	148,900.00	09/22/07	$ 25,777.51	17.31%
429	Natick	MA	$ 558,500.00	8	558,500.00	09/22/07	$ 42,351.69	7.58%
430	Arlington	TX	$ 329,500.00	7	329,500.00	09/22/07	$ 23,731.90	7.20%
431	Winston Salem	NC	$ 169,900.00	3	169,900.00	09/22/07	$ 13,127.15	7.73%
432	Fredericksburg	VA	$ 507,500.00	219	459,900.00	09/22/07	$ 115,017.27	25.01%
433	Hewitt	TX	$ 194,833.00	72	184,250.00	09/22/07	$ 32,433.07	17.60%
434	Palm Beach Gard(	FL	$ 311,000.00	37	275,000.00	09/22/07	$ 64,970.15	23.63%
435	Saint Louis Park	MN	$ 228,000.00	16	228,000.00	09/22/07	$ 17,926.30	7.86%
436	Cortland	IL	$ 236,500.00	8	236,500.00	09/22/07	$ 18,926.59	8.00%
437	Amarillo	TX	$ 164,000.00	1	164,000.00	10/29/07	$ 12,567.51	7.66%
438	Carver	MN	$ 210,000.00	0	210,000.00	09/22/07	$ 16,091.39	7.66%
439	Fond Du Lac	WI	$ 96,000.00	5	96,000.00	09/22/07	$ 8,562.79	8.92%
440	Sterling	VA	$ 401,000.00	259	344,000.00	09/22/07	$ 139,696.13	40.61%
441	Foster City	CA	$ 700,000.00	16	700,000.00	09/22/07	$ 46,650.78	6.66%
442	Farmington	MN	$ 166,500.00	46	164,900.00	09/22/07	$ 28,918.85	17.54%
443	Warrenton	VA	$ 593,500.00	318	466,000.00	09/22/07	$ 236,404.04	50.73%
444	Southfield	MI	$ 161,667.00	56	170,000.00	09/22/07	$ 56,771.02	33.39%
445	Deale	MD	$ 657,500.00	3	657,500.00	10/29/07	$ 49,372.25	7.51%
446	Seattle	WA	$ 254,500.00	68	249,900.00	10/29/07	$ 36,774.04	14.72%
447	Plymouth	IN	$ 196,000.00	152	184,900.00	10/29/07	$ 48,282.97	26.11%
448	Anoka	MN	$ 436,500.00	49	416,000.00	10/29/07	$ 59,615.37	14.33%
449	Springfield	IL	$ 300,000.00	136	270,000.00	11/29/07	$ 71,680.98	26.55%
450	Montgomery	AL	$ 165,000.00	77	163,000.00	10/29/07	$ 25,123.39	15.41%
451	Lakeville	MN	$ 276,000.00	74	271,900.00	10/29/07	$ 45,022.47	16.56%
452	Cary	NC	$ 374,000.00	11	374,000.00	10/29/07	$ 26,403.15	7.06%
453	Canton	MA	$ 592,500.00	55	587,500.00	10/29/07	$ 103,044.90	17.54%
454	Liverpool	NY	$ 121,667.00	35	117,900.00	10/29/07	$ 21,723.16	18.43%
455	Preston	ID	$ 180,000.00	3	180,000.00	10/29/07	$ 15,492.78	8.61%
456	Rockford	MI	$ 136,500.00	34	135,500.00	10/29/07	$ 17,609.15	13.00%
457	Morgantown	PA	$ 376,290.00	1	376,290.00	10/29/07	$ 29,346.49	7.80%
458	Frisco	TX	$ 270,250.00	29	269,900.00	10/29/07	$ 26,768.38	9.92%
459	Chesterfield	VA	$ 267,000.00	101	247,000.00	10/29/07	$ 52,927.15	21.43%
460	Goodyear	AZ	$ 359,900.00	10	359,900.00	10/29/07	$ 28,906.97	8.03%
461	Holyoke	CO	$ 195,000.00	28	195,000.00	10/29/07	$ 13,047.41	6.69%
462	Mcdonald	PA	$ 220,000.00	9	220,000.00	11/29/07	$ 20,482.14	9.31%

463	Wagoner	OK	$ 78,500.00	2	78,500.00	10/29/07	$ 7,655.59	9.75%
464	Hauser	ID	$ 322,000.00	17	322,000.00	10/29/07	$ 26,861.57	8.34%
465	Rimrock	AZ	$ 220,000.00	3	220,000.00	10/29/07	$ 16,470.87	7.49%
466	Salt Lake City	UT	$ 337,500.00	19	335,500.00	10/29/07	$ 31,845.57	9.49%
467	Hugo	MN	$ 389,667.00	149	340,000.00	10/29/07	$ 98,982.58	29.11%
468	Erie	PA	$ 79,000.00	1	79,000.00	10/29/07	$ 9,065.56	11.48%
469	Fountain Valley	CA	$ 742,500.00	1	742,500.00	11/29/07	$ 60,181.71	8.11%
470	Valrico	FL	$ 271,667.00	211	232,000.00	11/29/07	$ 96,804.93	41.73%
471	Midway	FL	$ 155,500.00	183	130,000.00	11/29/07	$ 48,136.03	37.03%
472	Hampton	GA	$ 327,000.00	119	305,000.00	11/29/07	$ 66,506.91	21.81%
473	Sioux Falls	SD	$ 238,000.00	77	226,100.00	11/29/07	$ 36,638.55	16.20%
474	Amarillo	TX	$ 135,000.00	1	135,000.00	11/29/07	$ 10,649.04	7.89%
475	Huntingdon	TN	$ 187,333.00	418	125,000.00	11/29/07	$ 102,327.13	81.86%
476	Lake Worth	FL	$ 281,667.00	49	292,000.00	11/29/07	$ 38,721.65	13.26%
477	Harrisburg	PA	$ 169,750.00	40	169,900.00	11/29/07	$ 24,865.38	14.64%
478	West Fargo	ND	$ 141,500.00	24	141,500.00	11/29/07	$ 16,391.86	11.58%
479	Troy	OH	$ 127,900.00	5	127,900.00	11/29/07	$ 10,116.99	7.91%
480	New Orleans	LA	$ 243,500.00	260	174,925.00	11/29/07	$ 143,131.77	81.82%
481	Greeley	CO	$ 216,500.00	47	213,500.00	11/29/07	$ 25,286.20	11.84%
482	Imperial	PA	$ 104,900.00	9	104,900.00	11/29/07	$ 10,160.99	9.69%
483	Billings	MT	$ 434,334.00	99	414,000.00	11/29/07	$ 88,079.73	21.28%
484	West Haven	CT	$ 151,500.00	9	151,500.00	11/29/07	$ 13,253.55	8.75%

485	Canonsburg	PA	$ 118,000.00	0	118,000.00	11/29/07	$ 13,862.21	11.75%
486	Jefferson	WI	$ 170,000.00	3	170,000.00	11/29/07	$ 15,379.53	9.05%
487	Springfield	MO	$ 125,000.00	0	125,000.00	11/29/07	$ 12,268.29	9.81%
488	Villa Ridge	MO	$ 188,750.00	79	176,000.00	11/29/07	$ 44,581.23	25.33%
489	West Bloomfield	MI	$ 625,500.00	109	500,000.00	11/29/07	$ 254,380.19	50.88%
490	Clackamas	OR	$ 359,000.00	107	347,500.00	11/29/07	$ 62,242.19	17.91%
491	Warwick	RI	$ 228,000.00	51	218,000.00	11/29/07	$ 37,128.78	17.03%
492	Palm Harbor	FL	$ 445,000.00	2	445,000.00	12/20/07	$ 42,551.72	9.56%
493	Fultondale	AL	$ 183,000.00	1	183,000.00	11/29/07	$ 14,075.48	7.69%
494	Charlotte	NC	$ 162,250.00	83	159,900.00	11/29/07	$ 27,054.50	16.92%
495	Bonaire	GA	$ 125,000.00	3	125,000.00	12/20/07	$ 11,302.81	9.04%
496	Mount Pleasant	SC	$ 533,500.00	180	470,000.00	12/20/07	$ 151,156.45	32.16%
497	Alexandria	KY	$ 306,000.00	68	269,000.00	12/20/07	$ 75,135.80	27.93%
498	Mechanicsville	VA	$ 339,167.00	63	332,900.00	12/20/07	$ 54,242.33	16.29%
499	Charlotte	NC	$ 288,500.00	50	290,000.00	11/29/07	$ 27,548.01	9.50%
500	Dallas	TX	$ 264,900.00	1	264,900.00	11/29/07	$ 19,741.15	7.45%
501	Clearwater	FL	$ 249,995.00	0	249,995.00	12/20/07	$ 20,337.94	8.14%
502	Ladson	SC	$ 213,500.00	148	195,000.00	12/20/07	$ 48,969.53	25.11%
503	Norman	OK	$ 384,667.00	117	370,000.00	11/29/07	$ 59,377.19	16.05%
504	Centennial	CO	$ 225,500.00	2	225,500.00	12/20/07	$ 19,121.36	8.48%
505	Douglasville	GA	$ 161,000.00	141	120,000.00	12/20/07	$ 60,248.48	50.21%
506	Tallahassee	FL	$ 146,450.00	92	133,900.00	12/20/07	$ 37,630.27	28.10%
507	Overland Park	KS	$ 762,500.00	44	745,000.00	11/29/07	$ 70,330.78	9.44%
508	San Antonio	TX	$ 126,000.00	14	126,000.00	01/30/08	$ 11,022.81	8.75%
509	Leesburg	GA	$ 140,900.00	8	140,900.00	12/20/07	$ 11,105.49	7.88%
510	Louisville	KY	$ 229,000.00	157	205,000.00	12/20/07	$ 62,591.28	30.53%
511	Bowling Green	KY	$ 133,500.00	133	126,825.00	12/20/07	$ 22,115.25	17.44%
512	Murray	KY	$ 170,000.00	45	170,000.00	01/30/08	$ 14,456.30	8.50%
513	Rio Rancho	NM	$ 272,500.00	131	233,000.00	12/20/07	$ 74,227.85	31.86%
514	Castaic	CA	$ 572,500.00	127	500,000.00	12/20/07	$ 133,262.73	26.65%
515	Overland Park	KS	$ 352,000.00	2	352,000.00	11/29/07	$ 24,263.70	6.89%
516	Stone Ridge	VA	$ 406,000.00	105	389,900.00	12/20/07	$ 70,128.60	17.99%
517	Jacksonville	FL	$ 367,000.00	3	367,000.00	01/30/08	$ 33,865.95	9.23%
518	Alexandria	VA	$ 590,000.00	6	590,000.00	11/29/07	$ 41,816.42	7.09%
519	Hamburg	NY	$ 136,250.00	61	144,054.00	12/20/07	$ 20,871.84	14.49%
520	Gilbert	AZ	$ 373,333.00	100	320,500.00	01/30/08	$ 96,869.06	30.22%
521	Blue Springs	MO	$ 138,167.00	70	133,500.00	01/30/08	$ 33,061.08	24.76%
522	De Pere	WI	$ 342,250.00	57	339,900.00	12/20/07	$ 35,738.88	10.51%
523	Norfolk	NE	$ 163,000.00	14	163,000.00	11/29/07	$ 20,180.99	12.38%
524	Valencia	CA	$ 557,500.00	142	486,000.00	12/20/07	$ 136,821.52	28.15%
525	Kenosha	WI	$ 309,333.00	70	249,900.00	01/30/08	$ 84,747.93	33.91%
526	Wethersfield	CT	$ 369,500.00	215	322,500.00	12/20/07	$ 114,184.44	35.41%
527	Rancho Cucamon	CA	$ 394,500.00	83	376,500.00	12/20/07	$ 70,052.24	18.61%
					$156,606,137.00		$ 25,661,633.21	16.39%

Total Costs*
% Cost**

*Reflects various costs associated with home sales, including brokers' commissions, carrying and home closing costs, repairs and maintenance.
**Reflects percentage of net loss to USPS; figure is obtained by dividing total costs by purchase price of home.

US Postal Service
Home Sale Costs 2008

Customer #	Property City	Property State	Purchase Price	Days In Inventory	Sale Price	Final Bill Date	Total Costs*	% Cost**
1	San Antonio	TX	$ 126,000.00	14	$ 126,000.00	01/30/08	$ 11,022.81	8.75%
2	Murray	KY	$ 170,000.00	45	$ 170,000.00	01/30/08	$ 14,456.30	8.50%
3	Jacksonville	FL	$ 367,000.00	3	$ 367,000.00	01/30/08	$ 33,865.95	9.23%
4	Gilbert	AZ	$ 373,333.00	100	$ 320,500.00	01/30/08	$ 96,869.06	30.22%
5	Blue Springs	MO	$ 138,167.00	70	$ 133,500.00	01/30/08	$ 33,061.08	24.76%
6	Kenosha	WI	$ 309,333.00	70	$ 249,900.00	01/30/08	$ 84,747.93	33.91%
7	Elkins	AR	$ 151,500.00	82	$ 141,000.00	01/30/08	$ 30,788.30	21.84%
8	Alexandria	VA	$ 333,750.00	24	$ 327,100.00	01/30/08	$ 47,336.64	14.47%
9	Elkridge	MD	$ 360,000.00	0	$ 360,000.00	01/30/08	$ 28,288.41	7.86%
10	Aurora	CO	$ 532,500.00	117	$ 497,500.00	01/30/08	$ 95,773.55	19.25%
11	Memphis	TN	$ 313,000.00	85	$ 298,000.00	01/30/08	$ 100,390.75	33.69%
12	Coraopolis	PA	$ 226,000.00	12	$ 226,000.00	01/30/08	$ 21,873.97	9.68%
13	Dumfries	VA	$ 264,167.00	63	$ 248,500.00	01/30/08	$ 55,164.28	22.20%
14	Tampa	FL	$ 242,000.00	21	$ 245,000.00	01/30/08	$ 23,742.29	9.69%
15	Shiloh	IL	$ 290,500.00	77	$ 259,000.00	01/30/08	$ 60,178.48	23.23%
16	Sweetwater	TX	$ 182,000.00	9	$ 182,000.00	01/30/08	$ 18,809.38	10.33%
17	Lockport	NY	$ 205,000.00	128	$ 182,750.00	01/30/08	$ 53,724.22	29.40%
18	Aurora	CO	$ 242,300.00	119	$ 227,000.00	01/30/08	$ 35,314.90	15.56%
19	Hazel Green	WI	$ 334,000.00	37	$ 334,000.00	01/30/08	$ 26,477.85	7.93%
20	Anchorage	AK	$ 245,000.00	25	$ 245,000.00	01/30/08	$ 22,009.01	8.98%
21	Fort Worth	TX	$ 208,000.00	1	$ 208,000.00	01/30/08	$ 17,953.21	8.63%
22	Louisville	KY	$ 235,000.00	0	$ 235,000.00	01/30/08	$ 18,924.83	8.05%
23	Indian Orchard	MA	$ 150,000.00	257	$ 123,000.00	01/30/08	$ 61,712.84	50.17%
24	Indianapolis	IN	$ 74,500.00	76	$ 69,900.00	01/30/08	$ 17,123.59	24.50%
25	Greensboro	NC	$ 290,500.00	189	$ 264,900.00	01/30/08	$ 78,786.33	29.74%
26	West Mifflin	PA	$ 118,000.00	4	$ 118,000.00	01/30/08	$ 11,207.50	9.50%
27	Kansas City	KS	$ 330,000.00	0	$ 330,000.00	01/30/08	$ 25,739.16	7.80%
28	Littleton	CO	$ 216,000.00	46	$ 213,500.00	01/30/08	$ 31,502.17	14.76%
29	Canton	CT	$ 442,000.00	21	$ 442,000.00	01/30/08	$ 34,211.59	7.74%
30	Bronx	NY	$ 560,000.00	266	$ 571,000.00	01/30/08	$ 86,158.40	15.09%
31	Mounds	OK	$ 91,000.00	61	$ 89,900.00	01/30/08	$ 18,432.69	20.50%
32	Shelbyville	TN	$ 209,000.00	203	$ 207,000.00	01/30/08	$ 67,587.28	32.65%
33	Jackson	MI	$ 146,500.00	77	$ 140,000.00	01/30/08	$ 31,871.87	22.77%
34	Locust Grove	VA	$ 411,167.00	191	$ 334,900.00	01/30/08	$ 133,934.37	39.99%
35	Santa Fe	NM	$ 266,500.00	185	$ 250,000.00	01/30/08	$ 66,384.38	26.55%
36	Tampa	FL	$ 475,500.00	164	$ 409,900.00	01/30/08	$ 126,875.22	30.95%
37	Pittsburgh	PA	$ 120,667.00	106	$ 115,000.00	01/30/08	$ 34,249.77	29.78%
38	Collierville	TN	$ 206,000.00	94	$ 178,000.00	01/30/08	$ 56,537.38	31.76%
39	Panama City	FL	$ 227,000.00	1	$ 227,000.00	01/30/08	$ 18,740.81	8.26%
40	Everett	WA	$ 322,000.00	0	$ 322,000.00	01/30/08	$ 33,395.00	10.37%
41	Pleasant Grove	AL	$ 204,500.00	50	$ 200,000.00	01/30/08	$ 31,345.04	15.67%
42	Waxhaw	NC	$ 582,500.00	0	$ 582,500.00	01/30/08	$ 40,120.87	6.89%
43	Bartlett	TN	$ 164,000.00	3	$ 164,000.00	01/30/08	$ 14,327.30	8.74%
44	Billings	MT	$ 199,900.00	0	$ 199,900.00	01/30/08	$ 14,762.13	7.38%
45	New Hope	MN	$ 193,000.00	8	$ 193,000.00	01/30/08	$ 19,244.50	9.97%
46	Alexandria	LA	$ 160,000.00	0	$ 160,000.00	01/30/08	$ 11,925.69	7.45%
47	Amarillo	TX	$ 142,000.00	3	$ 142,000.00	02/28/08	$ 11,951.45	8.42%
48	Cold Spring	KY	$ 374,500.00	220	$ 307,500.00	02/28/08	$ 132,496.75	43.09%
49	Bartlett	IL	$ 213,500.00	62	$ 211,000.00	02/28/08	$ 26,307.85	12.47%

50	Saco	ME	$ 360,000.00	119	$ 322,500.00	02/28/08	$ 80,716.37	25.03%
51	Pleasanton	CA	$ 783,000.00	2	$ 783,000.00	02/28/08	$ 58,732.50	7.50%
52	Somerville	NJ	$ 258,500.00	5	$ 258,500.00	02/28/08	$ 21,687.19	8.39%
53	West Chester	PA	$ 445,000.00	15	$ 445,000.00	02/28/08	$ 32,376.47	7.28%
54	Pleasant Garden	NC	$ 180,827.00	8	$ 177,000.00	02/28/08	$ 12,989.95	7.34%
55	Wichita Falls	TX	$ 242,850.00	144	$ 216,500.00	02/28/08	$ 53,696.26	24.80%
56	Orlando	FL	$ 318,667.00	64	$ 314,900.00	02/28/08	$ 38,101.60	12.10%
57	Colorado Springs	CO	$ 236,000.00	52	$ 228,500.00	02/28/08	$ 35,987.04	15.75%
58	Menomonee Falls	WI	$ 273,500.00	38	$ 265,000.00	02/28/08	$ 51,728.65	19.52%
59	Burlingame	CA	$ 788,000.00	11	$ 788,000.00	02/28/08	$ 52,745.35	6.69%
60	Summerfield	NC	$ 332,500.00	84	$ 321,500.00	02/28/08	$ 47,849.46	14.88%
61	Jacksonville	FL	$ 275,000.00	46	$ 270,000.00	02/28/08	$ 32,654.26	12.09%
62	Rockdale	TX	$ 195,000.00	0	$ 195,000.00	02/28/08	$ 14,932.80	7.66%
63	Fairfax	VA	$ 702,333.00	170	$ 626,000.00	02/28/08	$ 155,512.84	24.84%
64	Tucson	AZ	$ 210,000.00	44	$ 210,000.00	02/28/08	$ 21,630.72	10.30%
65	Trenton	NJ	$ 312,000.00	1	$ 312,000.00	02/28/08	$ 23,272.43	7.46%
66	Fremont	CA	$ 415,250.00	260	$ 335,000.00	02/28/08	$ 138,519.69	41.35%
67	Southlake	TX	$ 453,300.00	9	$ 453,300.00	02/28/08	$ 33,451.40	7.38%
68	Wauconda	IL	$ 221,000.00	87	$ 196,500.00	02/28/08	$ 50,016.37	25.45%
69	Colorado Springs	CO	$ 185,000.00	3	$ 185,000.00	02/28/08	$ 13,646.66	7.38%
70	West Des Moines	IA	$ 267,500.00	155	$ 225,000.00	02/28/08	$ 89,857.41	39.94%
71	Kingwood	TX	$ 462,500.00	0	$ 462,500.00	02/28/08	$ 35,284.74	7.63%
72	Norman	OK	$ 144,500.00	43	$ 138,000.00	02/28/08	$ 21,483.29	15.57%
73	New Brighton	PA	$ 51,000.00	1	$ 51,000.00	02/28/08	$ 6,246.24	12.25%
74	Birmingham	AL	$ 130,000.00	4	$ 130,000.00	02/28/08	$ 14,423.87	11.10%
75	Canton	MI	$ 191,500.00	79	$ 178,500.00	02/28/08	$ 64,116.20	35.92%
76	Danville	CA	$1,207,500.00	80	$ 1,095,000.00	02/28/08	$ 218,179.96	19.93%
77	Glen Allen	VA	$ 330,000.00	39	$ 310,000.00	02/28/08	$ 48,331.49	15.59%
78	Land O Lakes	FL	$ 146,500.00	56	$ 139,175.00	02/28/08	$ 21,658.49	15.56%
79	Fort Worth	TX	$ 156,197.00	0	$ 156,197.00	02/28/08	$ 13,894.60	8.90%
80	Orange	TX	$ 130,900.00	10	$ 130,900.00	02/28/08	$ 13,723.69	10.48%
81	Grantham	NH	$ 360,000.00	8	$ 360,000.00	02/28/08	$ 32,415.52	9.00%
82	Oklahoma City	OK	$ 150,000.00	1	$ 150,000.00	02/28/08	$ 13,752.65	9.17%
83	Kissimmee	FL	$ 275,000.00	224	$ 230,000.00	03/25/08	$ 93,653.85	40.72%
84	Webster	MA	$ 206,000.00	0	$ 206,000.00	03/25/08	$ 13,439.36	6.52%
85	Shelton	WA	$ 218,333.00	103	$ 202,000.00	03/25/08	$ 51,204.74	25.35%
86	Grand Rapids	MI	$ 481,667.00	58	$ 445,000.00	03/25/08	$ 86,580.74	19.46%
87	Greenbackville	VA	$ 234,500.00	156	$ 201,000.00	03/25/08	$ 63,455.59	31.57%
88	Lake Stevens	WA	$ 310,333.00	93	$ 289,000.00	03/25/08	$ 78,211.22	27.06%
89	Wilmington	DE	$ 238,333.00	137	$ 191,000.00	03/25/08	$ 77,837.69	40.75%
90	Putnam	CT	$ 156,000.00	27	$ 156,000.00	03/25/08	$ 14,819.34	9.50%
91	Cleveland	OH	$ 277,000.00	192	$ 200,000.00	03/25/08	$ 136,592.74	68.30%
92	Indianapolis	IN	$ 138,500.00	2	$ 138,500.00	03/25/08	$ 15,023.53	10.85%
93	Fort Atkinson	WI	$ 131,500.00	14	$ 131,500.00	03/25/08	$ 10,597.41	8.06%
94	Sacramento	CA	$ 769,500.00	341	$ 556,439.00	03/25/08	$ 327,149.45	58.79%
95	Richmond	KY	$ 290,000.00	119	$ 290,000.00	03/25/08	$ 31,358.39	10.81%
96	Hollywood	FL	$ 255,000.00	123	$ 247,500.00	03/25/08	$ 88,158.43	35.62%
97	O Fallon	MO	$ 269,500.00	57	$ 256,025.00	03/25/08	$ 45,793.99	17.89%
98	Indianapolis	IN	$ 76,250.00	24	$ 76,500.00	03/25/08	$ 12,539.33	16.39%
99	Hollywood	MD	$ 275,000.00	1	$ 275,000.00	03/25/08	$ 23,114.93	8.41%
100	Aliquippa	PA	$ 192,000.00	34	$ 192,000.00	03/25/08	$ 19,894.66	10.36%
101	High Point	NC	$ 139,000.00	6	$ 147,200.00	03/25/08	$ 11,336.34	7.70%
102	Ringgold	GA	$ 155,000.00	0	$ 155,000.00	03/25/08	$ 14,595.18	9.42%
103	Louisville	KY	$ 269,500.00	108	$ 259,000.00	03/25/08	$ 43,119.42	16.65%
104	Boca Raton	FL	$ 360,000.00	134	$ 300,000.00	03/25/08	$ 107,738.75	35.91%

105	Las Vegas	NV	$ 562,500.00	93	$ 505,000.00	03/25/08	$ 124,870.35	24.73%
106	Indianapolis	IN	$ 72,250.00	73	$ 72,000.00	03/25/08	$ 22,050.66	30.63%
107	Seffner	FL	$ 174,000.00	65	$ 168,500.00	03/25/08	$ 28,780.90	17.08%
108	Auburn	WA	$ 512,500.00	0	$ 500,000.00	03/25/08	$ 86,870.75	17.37%
109	Dallas	TX	$ 119,000.00	60	$ 119,900.00	03/25/08	$ 19,122.35	15.95%
110	Gaithersburg	MD	$ 400,500.00	107	$ 375,000.00	03/25/08	$ 69,610.44	18.56%
111	Bayonne	NJ	$ 300,000.00	57	$ 299,900.00	03/25/08	$ 37,589.06	12.53%
112	grovetown	GA	$ 213,900.00	2	$ 213,900.00	03/25/08	$ 17,444.26	8.16%
113	Palmdale	CA	$ 610,000.00	424	$ 439,900.00	04/25/08	$ 330,558.86	75.14%
114	Apopka	FL	$ 293,500.00	148	$ 223,000.00	04/25/08	$ 102,268.60	45.86%
115	Liberty Lake	WA	$ 273,000.00	49	$ 268,000.00	04/25/08	$ 36,671.81	13.68%
116	Lewisville	TX	$ 146,500.00	254	$ 145,000.00	04/25/08	$ 54,331.58	37.47%
117	San Antonio	TX	$ 250,000.00	153	$ 226,900.00	04/25/08	$ 53,139.30	23.42%
118	Roswell	NM	$ 96,000.00	79	$ 89,500.00	04/25/08	$ 19,657.46	21.96%
119	East Greenbush	NY	$ 196,000.00	21	$ 196,000.00	04/25/08	$ 16,845.04	8.59%
120	Hermon	ME	$ 216,000.00	163	$ 206,000.00	04/25/08	$ 50,338.66	24.44%
121	Conyers	GA	$ 156,500.00	157	$ 139,000.00	04/25/08	$ 43,828.66	31.53%
122	Traverse City	MI	$ 265,500.00	141	$ 244,900.00	04/25/08	$ 56,098.86	22.91%
123	Hurricane	WV	$ 225,500.00	104	$ 203,000.00	04/25/08	$ 55,649.70	27.41%
124	Hewitt	TX	$ 177,500.00	73	$ 162,000.00	04/25/08	$ 34,388.72	21.23%
125	Sedalia	CO	$ 400,000.00	3	$ 400,000.00	04/25/08	$ 28,699.74	7.17%
126	Warrenton	VA	$ 350,516.00	0	$ 350,516.00	04/25/08	$ 33,830.13	9.65%
127	Altoona	IA	$ 128,000.00	186	$ 115,900.00	04/25/08	$ 30,769.90	26.55%
128	Lake Worth	FL	$ 343,333.00	106	$ 300,000.00	04/25/08	$ 98,847.88	32.95%
129	Northfield	MN	$ 299,000.00	100	$ 265,000.00	04/25/08	$ 85,672.95	32.33%
130	Rockford	MI	$ 219,667.00	94	$ 205,000.00	04/25/08	$ 84,012.50	40.98%
131	Grand Island	NY	$ 225,667.00	74	$ 212,000.00	04/25/08	$ 54,931.78	25.91%
132	Warner Robins	GA	$ 116,500.00	64	$ 110,000.00	04/25/08	$ 23,958.77	21.78%
133	Novi	MI	$ 250,000.00	58	$ 220,000.00	04/25/08	$ 57,505.90	26.14%
134	Fairfax Station	VA	$ 677,500.00	51	$ 674,900.00	04/25/08	$ 157,726.26	23.37%
135	Inver Grove Heigh	MN	$ 354,900.00	2	$ 354,900.00	04/25/08	$ 29,694.99	8.37%
136	Collierville	TN	$ 358,000.00	2	$ 358,000.00	04/25/08	$ 26,318.47	7.35%
137	Doniphan	MO	$ 82,433.00	145	$ 70,000.00	04/25/08	$ 26,288.43	37.55%
138	Houston	TX	$ 182,250.00	144	$ 174,900.00	04/25/08	$ 51,961.64	29.71%
139	Greeley	CO	$ 262,500.00	223	$ 219,900.00	04/25/08	$ 74,845.31	34.04%
140	Queen Creek	AZ	$ 218,333.00	139	$ 177,500.00	04/25/08	$ 75,899.12	42.76%
141	Spokane	WA	$ 265,000.00	182	$ 247,000.00	04/25/08	$ 59,899.77	24.25%
142	Livonia	MI	$ 125,000.00	101	$ 113,500.00	04/25/08	$ 68,315.96	60.19%
143	Peachtree Cty	GA	$ 382,950.00	98	$ 333,000.00	04/25/08	$ 91,715.97	27.54%
144	Arlington	VA	$ 200,000.00	44	$ 197,500.00	04/25/08	$ 21,083.67	10.68%
145	Yulee	FL	$ 195,000.00	2	$ 195,000.00	04/25/08	$ 19,829.43	10.17%
146	Lake Worth	FL	$ 285,000.00	0	$ 285,000.00	04/25/08	$ 82,325.51	28.89%
147	Tylertown	MS	$ 273,333.00	116	$ 273,400.00	04/25/08	$ 44,171.26	16.16%
148	Overland Park	KS	$ 138,500.00	82	$ 135,000.00	04/25/08	$ 25,505.49	18.89%
149	Indianapolis	IN	$ 211,000.00	166	$ 179,900.00	04/25/08	$ 68,586.63	38.12%
150	Raleigh	NC	$ 222,000.00	83	$ 221,000.00	04/25/08	$ 35,201.26	15.93%
151	Centreville	VA	$ 585,000.00	311	$ 494,000.00	04/25/08	$ 188,594.00	38.18%
152	Brownsville	TX	$ 163,500.00	149	$ 150,750.00	04/25/08	$ 40,462.56	26.84%
153	Grover	MO	$ 283,333.00	134	$ 257,900.00	04/25/08	$ 73,393.32	28.46%
154	Stockton	CA	$ 462,500.00	284	$ 337,000.00	04/25/08	$ 195,250.07	57.94%
155	Little Rock	AR	$ 418,500.00	175	$ 380,000.00	04/25/08	$ 85,319.17	22.45%
156	Columbus	OH	$ 103,500.00	140	$ 87,900.00	04/25/08	$ 38,584.05	43.90%
157	Saint Charles	MO	$ 401,667.00	130	$ 350,000.00	04/25/08	$ 93,397.55	26.69%
158	Crawfordville	FL	$ 243,250.00	126	$ 222,000.00	04/25/08	$ 54,075.86	24.36%
159	Washington	DC	$ 805,000.00	38	$ 805,000.00	04/25/08	$ 71,256.56	8.85%

160	Denver	CO	$ 154,500.00	0	$ 154,500.00	04/25/08	$ 16,976.81	10.99%
161	Frederick	MD	$ 507,500.00	39	$ 509,900.00	04/25/08	$ 85,980.59	16.86%
162	Eagan	MN	$ 185,000.00	10	$ 185,000.00	04/25/08	$ 16,952.11	9.16%
163	Bullhead City	AZ	$ 255,000.00	104	$ 225,000.00	04/25/08	$ 58,041.29	25.80%
164	Buford	GA	$ 173,667.00	89	$ 177,900.00	04/25/08	$ 23,300.83	13.10%
165	Crossville	TN	$ 170,000.00	0	$ 170,000.00	04/25/08	$ 11,596.77	6.82%
166	Annapolis	MD	$ 706,000.00	148	$ 670,000.00	04/25/08	$ 117,581.14	17.55%
167	Fairfield Bay	AR	$ 62,833.00	141	$ 59,900.00	04/25/08	$ 17,648.73	29.46%
168	Fort Myers	FL	$ 187,200.00	20	$ 187,200.00	04/25/08	$ 16,717.00	8.93%
169	Philadelphia	PA	$ 124,900.00	10	$ 124,900.00	04/25/08	$ 12,762.02	10.22%
170	Corpus Christi	TX	$ 121,500.00	0	$ 121,500.00	04/25/08	$ 12,171.82	10.02%
171	Colorado Springs	CO	$ 278,000.00	0	$ 278,000.00	04/25/08	$ 18,770.74	6.75%
172	Coventry	CT	$ 287,500.00	69	$ 285,000.00	04/25/08	$ 31,107.54	10.91%
173	Rawlins	WY	$ 244,500.00	90	$ 241,947.00	04/25/08	$ 43,013.74	17.78%
174	New Hempstead	NY	$ 482,500.00	187	$ 429,900.00	04/25/08	$ 128,164.70	29.81%
175	Greenville	RI	$ 595,500.00	335	$ 457,000.00	04/25/08	$ 235,051.96	51.43%
176	Woodbury	MN	$ 290,500.00	142	$ 241,500.00	04/25/08	$ 117,159.19	48.51%
177	Columbia Falls	MT	$ 351,667.00	319	$ 287,000.00	04/25/08	$ 120,189.10	41.88%
178	Victorville	CA	$ 326,500.00	276	$ 205,000.00	04/25/08	$ 168,245.08	82.07%
179	Wildwood	MO	$ 550,000.00	84	$ 500,000.00	04/25/08	$ 153,230.99	30.65%
180	Baker City	OR	$ 270,000.00	3	$ 270,000.00	04/25/08	$ 19,310.26	7.15%
181	Cedar Rapids	IA	$ 253,000.00	14	$ 253,000.00	04/25/08	$ 21,189.40	8.38%
182	Jacksonville	AR	$ 240,000.00	190	$ 219,900.00	05/27/08	$ 60,137.90	27.35%
183	Ooltewah	TN	$ 147,000.00	177	$ 140,350.00	05/27/08	$ 45,864.71	32.68%
184	Wichita Falls	TX	$ 257,500.00	165	$ 222,000.00	05/27/08	$ 68,415.90	30.82%
185	Indianapolis	IN	$ 111,000.00	330	$ 94,900.00	05/27/08	$ 45,760.01	48.22%
186	Columbia	SC	$ 182,500.00	183	$ 160,000.00	05/27/08	$ 56,417.36	35.26%
187	Louisville	KY	$ 208,000.00	115	$ 186,300.00	05/27/08	$ 46,572.48	25.00%
188	Franklin Park	NJ	$ 220,000.00	64	$ 210,000.00	05/27/08	$ 54,801.20	26.10%
189	Bellevue	NE	$ 141,000.00	1	$ 141,000.00	05/27/08	$ 12,616.46	8.95%
190	Bridgeport	CT	$ 172,000.00	0	$ 172,000.00	05/27/08	$ 13,651.39	7.94%
191	Slidell	LA	$ 229,000.00	234	$ 178,350.00	05/27/08	$ 94,731.85	53.12%
192	Brunswick	ME	$ 167,000.00	224	$ 129,900.00	05/27/08	$ 61,275.47	47.17%
193	Elko	NV	$ 242,000.00	116	$ 223,000.00	05/27/08	$ 54,395.46	24.39%
194	Hampden	ME	$ 243,500.00	35	$ 243,500.00	05/27/08	$ 28,511.49	11.71%
195	Germantown	TN	$ 218,500.00	118	$ 193,000.00	05/27/08	$ 50,650.51	26.24%
196	Saint Albans	WV	$ 157,000.00	57	$ 152,000.00	05/27/08	$ 19,041.06	12.53%
197	Katy	TX	$ 119,500.00	154	$ 102,897.00	05/27/08	$ 36,976.48	35.94%
198	Midlothian	VA	$ 400,333.00	148	$ 354,000.00	05/27/08	$ 123,428.03	34.87%
199	Modesto	CA	$ 321,500.00	147	$ 290,000.00	05/27/08	$ 88,448.26	30.50%
200	Fredericksburg	VA	$ 277,450.00	64	$ 277,500.00	05/27/08	$ 70,445.65	25.39%
201	Pueblo West	CO	$ 180,000.00	2	$ 180,000.00	05/27/08	$ 12,897.98	7.17%
202	Springfield	VA	$ 300,000.00	1	$ 300,000.00	05/27/08	$ 21,081.00	7.03%
203	Baton Rouge	LA	$ 239,000.00	0	$ 239,000.00	05/27/08	$ 19,306.08	8.08%
204	Belton	KY	$ 180,000.00	5	$ 180,000.00	05/27/08	$ 16,097.91	8.94%
205	Escondido	CA	$ 425,000.00	63	$ 404,900.00	05/27/08	$ 69,975.70	17.28%
206	Elk Grove	CA	$ 405,000.00	8	$ 405,000.00	05/27/08	$ 83,918.40	20.72%
207	Cicero	NY	$ 193,000.00	177	$ 177,000.00	05/27/08	$ 48,313.88	27.30%
208	Marlton	NJ	$ 362,000.00	163	$ 317,000.00	05/27/08	$ 94,103.57	29.69%
209	Cordova	TN	$ 223,750.00	84	$ 204,900.00	05/27/08	$ 82,058.42	40.05%
210	Arlington	VA	$ 310,000.00	2	$ 310,000.00	05/27/08	$ 23,557.59	7.60%
211	Odessa	FL	$ 415,000.00	297	$ 340,000.00	05/27/08	$ 139,616.45	41.06%
212	Ayer	MA	$ 258,333.00	141	$ 251,000.00	05/27/08	$ 38,453.00	15.32%
213	Bozeman	MT	$ 394,750.00	76	$ 372,000.00	05/27/08	$ 60,799.74	16.34%
214	Huron	SD	$ 72,500.00	8	$ 72,500.00	05/27/08	$ 8,003.95	11.04%

215	Arlington	TX	$ 134,900.00	0	$ 134,900.00	05/27/08	$ 9,745.47	7.22%
216	Frederick	MD	$ 287,500.00	301	$ 250,000.00	05/27/08	$ 119,288.10	47.72%
217	Columbia	MD	$ 400,000.00	141	$ 378,000.00	05/27/08	$ 109,212.54	28.89%
218	Crossroads	TX	$ 125,000.00	150	$ 99,900.00	05/27/08	$ 45,088.63	45.13%
219	Foley	AL	$ 187,500.00	134	$ 174,350.00	05/27/08	$ 52,271.04	29.98%
220	Peyton	CO	$ 345,500.00	100	$ 324,000.00	05/27/08	$ 60,408.77	18.64%
221	Pleasant Grove	AL	$ 235,500.00	87	$ 218,900.00	05/27/08	$ 52,992.37	24.21%
222	Deer Park	TX	$ 125,118.00	6	$ 125,118.00	05/27/08	$ 12,145.01	9.71%
223	Winter Springs	FL	$ 148,633.00	125	$ 138,500.00	05/27/08	$ 33,536.66	24.21%
224	Granby	CT	$ 335,000.00	16	$ 335,000.00	05/27/08	$ 29,734.36	8.88%
225	Farmington	MN	$ 339,900.00	0	$ 339,900.00	05/27/08	$ 29,931.03	8.81%
226	Simpsonville	SC	$ 277,500.00	219	$ 240,000.00	05/27/08	$ 77,623.03	32.34%
227	Westminster	MD	$ 260,000.00	2	$ 260,000.00	05/27/08	$ 22,566.58	8.68%
228	Southlake	TX	$ 329,000.00	0	$ 329,000.00	05/27/08	$ 24,053.16	7.31%
229	Sutherland	VA	$ 168,500.00	186	$ 160,000.00	05/27/08	$ 42,307.08	26.44%
230	Albuquerque	NM	$ 308,000.00	4	$ 308,000.00	05/27/08	$ 24,639.75	8.00%
231	Chesapeake	VA	$ 343,000.00	219	$ 309,900.00	05/27/08	$ 85,460.03	27.58%
232	Smyrna	GA	$ 175,000.00	1	$ 175,000.00	05/27/08	$ 14,597.19	8.34%
233	Torrington	CT	$ 216,000.00	14	$ 216,000.00	05/27/08	$ 20,453.50	9.47%
234	Bayshore	NY	$ 372,990.00	144	$ 371,000.00	05/27/08	$ 43,243.34	11.66%
235	The Woodlands	TX	$ 345,000.00	1	$ 345,000.00	05/27/08	$ 25,378.73	7.36%
236	Denver	CO	$ 226,000.00	120	$ 221,300.00	05/27/08	$ 37,313.34	16.86%
237	West Babylon	NY	$ 409,500.00	228	$ 333,000.00	05/27/08	$ 145,523.13	43.70%
238	Northfield	OH	$ 215,333.00	37	$ 213,500.00	05/27/08	$ 54,640.94	25.59%
239	New Orleans	LA	$ 365,000.00	393	$ 267,000.00	06/24/08	$ 169,101.13	63.33%
240	Maryville	TN	$ 367,500.00	195	$ 333,500.00	06/24/08	$ 77,217.94	23.15%
241	Visalia	CA	$ 212,500.00	245	$ 155,000.00	06/24/08	$ 92,657.70	59.78%
242	Udall	KS	$ 233,750.00	58	$ 224,000.00	06/24/08	$ 30,848.81	13.77%
243	Hardy	VA	$ 311,667.00	369	$ 234,900.00	06/24/08	$ 131,153.60	55.83%
244	Salisbury	MD	$ 374,500.00	296	$ 301,500.00	06/24/08	$ 124,028.30	41.14%
245	Hamilton	OH	$ 363,333.00	222	$ 265,000.00	06/24/08	$ 146,217.47	55.18%
246	Southwest Ranch	FL	$ 545,000.00	176	$ 435,000.00	06/24/08	$ 167,887.29	38.59%
247	Batavia	OH	$ 275,000.00	140	$ 248,000.00	06/24/08	$ 72,687.74	29.31%
248	Longmont	CO	$ 171,666.00	35	$ 162,000.00	06/24/08	$ 31,879.98	19.68%
249	Winter Haven	FL	$ 125,000.00	1	$ 125,000.00	06/24/08	$ 41,552.15	33.24%
250	Las Vegas	NV	$ 308,667.00	91	$ 265,000.00	06/24/08	$ 86,112.86	32.50%
251	Alexandria	VA	$ 674,667.00	40	$ 674,900.00	06/24/08	$ 58,983.60	8.74%
252	Odenton	MD	$ 399,333.00	46	$ 385,000.00	06/24/08	$ 86,017.89	22.34%
253	Hutchinson	MN	$ 159,900.00	7	$ 159,900.00	06/24/08	$ 12,648.52	7.91%
254	Clovis	CA	$ 470,000.00	491	$ 349,900.00	06/24/08	$ 219,876.92	62.84%
255	Hesperia	CA	$ 395,500.00	442	$ 249,000.00	06/24/08	$ 282,891.95	113.61%
256	Kentwood	MI	$ 57,833.00	191	$ 45,900.00	06/24/08	$ 24,572.64	53.54%
257	Glyndon	MN	$ 188,334.00	127	$ 172,000.00	06/24/08	$ 40,640.71	23.63%
258	Draper	UT	$ 364,000.00	174	$ 324,900.00	06/24/08	$ 84,161.90	25.90%
259	Aurora	CO	$ 218,500.00	0	$ 218,500.00	06/24/08	$ 28,438.04	13.02%
260	Apple Valley	MN	$ 472,000.00	237	$ 420,000.00	06/24/08	$ 107,207.31	25.53%
261	Birmingham	AL	$ 124,500.00	105	$ 114,000.00	06/24/08	$ 33,013.91	28.96%
262	North Charleston	SC	$ 167,500.00	126	$ 158,900.00	06/24/08	$ 34,387.56	21.64%
263	Aurora	CO	$ 115,000.00	2	$ 110,000.00	06/24/08	$ 35,318.13	32.11%
264	Papillion	NE	$ 180,000.00	17	$ 180,000.00	06/24/08	$ 18,153.95	10.09%
265	Kimberly	ID	$ 275,000.00	345	$ 205,000.00	06/24/08	$ 113,031.92	55.14%
266	Robbinston	ME	$ 300,000.00	41	$ 300,000.00	06/24/08	$ 25,540.98	8.51%
267	Green River	WY	$ 340,000.00	2	$ 340,000.00	06/24/08	$ 24,049.28	7.07%
268	Rancho Cucamon	CA	$1,213,333.00	169	$ 949,900.00	06/24/08	$ 455,898.76	47.99%
269	Winterville	NC	$ 259,000.00	106	$ 236,900.00	06/24/08	$ 50,968.26	21.51%

270	Savannah	GA	$ 390,000.00	0	$ 390,000.00	06/24/08	$ 31,409.52	8.05%
271	Tallahassee	FL	$ 246,000.00	53	$ 249,900.00	06/24/08	$ 58,662.34	23.47%
272	Mount Joy	PA	$ 158,000.00	23	$ 158,000.00	06/24/08	$ 13,484.03	8.53%
273	Ruidoso	NM	$ 248,000.00	0	$ 248,000.00	06/24/08	$ 22,506.86	9.08%
274	Plantation	FL	$ 346,250.00	208	$ 300,000.00	06/24/08	$ 103,542.79	34.51%
275	Sunbury	OH	$ 180,000.00	98	$ 174,900.00	06/24/08	$ 51,015.17	29.17%
276	Cordova	TN	$ 135,500.00	60	$ 132,500.00	06/24/08	$ 25,973.45	19.60%
277	Hurst	TX	$ 279,000.00	30	$ 260,000.00	06/24/08	$ 64,185.83	24.69%
278	Shiloh	IL	$ 260,500.00	122	$ 249,900.00	06/24/08	$ 38,212.28	15.29%
279	Sagamore Hills	OH	$ 167,500.00	31	$ 157,500.00	06/24/08	$ 38,219.83	24.27%
280	Germantown	MD	$ 250,000.00	1	$ 250,000.00	06/24/08	$ 20,138.67	8.06%
281	Roanoke	VA	$ 72,500.00	1	$ 72,500.00	06/24/08	$ 7,545.21	10.41%
282	Indianapolis	IN	$ 224,500.00	254	$ 189,900.00	06/24/08	$ 73,561.39	38.74%
283	Huntingtown	MD	$ 650,000.00	72	$ 654,900.00	06/24/08	$ 56,918.54	8.69%
284	Chicago	IL	$ 255,500.00	35	$ 255,500.00	06/24/08	$ 22,324.44	8.74%
285	Topeka	KS	$ 149,000.00	2	$ 149,000.00	06/24/08	$ 12,638.01	8.48%
286	Poway	CA	$ 475,000.00	0	$ 475,000.00	06/24/08	$ 35,559.42	7.49%
287	Sissonville	WV	$ 231,000.00	0	$ 231,000.00	06/24/08	$ 23,987.83	10.38%
288	Moscow	ID	$ 201,250.00	0	$ 201,250.00	06/24/08	$ 16,228.08	8.06%
289	Broken Arrow	OK	$ 118,500.00	0	$ 118,500.00	06/24/08	$ 13,345.07	11.26%
290	Altoona	WI	$ 234,000.00	223	$ 198,000.00	06/24/08	$ 69,434.61	35.07%
291	Porter	TX	$ 242,500.00	8	$ 242,500.00	06/24/08	$ 21,169.61	8.73%
292	Oakland	TN	$ 158,300.00	110	$ 152,500.00	07/28/08	$ 33,555.46	22.00%
293	Kirkwood	MO	$ 512,500.00	129	$ 455,000.00	07/28/08	$ 109,358.66	24.03%
294	Springfield	VA	$ 485,000.00	32	$ 485,000.00	07/28/08	$ 34,795.54	7.17%
295	Deltona	FL	$ 264,667.00	206	$ 237,500.00	07/28/08	$ 69,677.80	29.34%
296	Oakland	CA	$ 373,333.00	81	$ 350,000.00	07/28/08	$ 59,924.74	17.12%
297	Renton	WA	$ 302,500.00	31	$ 297,000.00	07/28/08	$ 47,618.13	16.03%
298	Marlborough	CT	$ 245,000.00	10	$ 245,000.00	07/28/08	$ 19,743.07	8.06%
299	Keller	TX	$ 278,000.00	1	$ 278,000.00	07/28/08	$ 22,341.34	8.04%
300	Desoto	TX	$ 252,400.00	0	$ 252,400.00	07/28/08	$ 21,263.68	8.42%
301	Ambler	PA	$ 482,500.00	286	$ 435,000.00	07/28/08	$ 116,654.40	26.82%
302	Spring	TX	$ 173,000.00	0	$ 173,000.00	07/28/08	$ 16,814.44	9.72%
303	Las Vegas	NV	$ 688,333.00	363	$ 460,000.00	07/28/08	$ 334,552.82	72.73%
304	Aurora	CO	$ 115,000.00	0	$ 115,000.00	07/28/08	$ 36,978.79	32.16%
305	Ravenswood	WV	$ 207,000.00	66	$ 190,000.00	07/28/08	$ 41,069.24	21.62%
306	Woodstock	IL	$ 195,500.00	0	$ 195,500.00	07/28/08	$ 15,729.98	8.05%
307	Denton	TX	$ 154,000.00	0	$ 154,000.00	07/28/08	$ 12,398.91	8.05%
308	Avon	CT	$ 765,000.00	130	$ 735,000.00	07/28/08	$ 131,760.27	17.93%
309	Eagle River	AK	$ 499,900.00	17	$ 499,900.00	07/28/08	$ 35,899.99	7.18%
310	Summerville	SC	$ 332,000.00	0	$ 332,000.00	07/28/08	$ 23,531.89	7.09%
311	Clarks Summit	PA	$ 245,000.00	0	$ 245,000.00	07/28/08	$ 26,061.81	10.64%
312	Colorado Springs	CO	$ 259,000.00	0	$ 259,000.00	07/28/08	$ 18,147.91	7.01%
313	Joliet	IL	$ 307,000.00	82	$ 263,250.00	07/28/08	$ 114,938.84	43.66%
314	Harper Woods	MI	$ 113,533.00	198	$ 89,000.00	07/28/08	$ 84,568.26	95.02%
315	Fayetteville	AR	$ 294,667.00	147	$ 225,000.00	07/28/08	$ 115,173.27	51.19%
316	New Port Richey	FL	$ 177,000.00	4	$ 177,000.00	07/28/08	$ 18,773.58	10.61%
317	Lewiston	ID	$ 174,900.00	4	$ 174,900.00	07/28/08	$ 12,430.23	7.11%
318	San Antonio	TX	$ 127,500.00	1	$ 127,500.00	07/28/08	$ 11,698.68	9.18%
319	Alexandria	VA	$ 408,000.00	20	$ 408,000.00	07/28/08	$ 31,158.74	7.64%
320	Guthrie	OK	$ 139,000.00	6	$ 139,000.00	07/28/08	$ 11,088.06	7.98%
321	Brunswick	GA	$ 388,000.00	336	$ 322,500.00	07/28/08	$ 136,924.35	42.46%
322	Conifer	CO	$ 253,500.00	163	$ 225,000.00	07/28/08	$ 61,332.29	27.26%
323	Hercules	CA	$ 283,000.00	35	$ 283,000.00	07/28/08	$ 23,792.62	8.41%
324	Sanford	FL	$ 295,000.00	22	$ 295,000.00	07/28/08	$ 94,570.80	32.06%

325	Stafford	VA	$ 323,000.00	8	$ 323,000.00	07/28/08	$ 20,687.93	6.40%
326	Fort Worth	TX	$ 210,000.00	6	$ 210,000.00	07/28/08	$ 16,530.69	7.87%
327	Dutch John	UT	$ 169,800.00	3	$ 169,800.00	07/28/08	$ 14,703.52	8.66%
328	Elgin	IL	$ 165,000.00	92	$ 155,000.00	07/28/08	$ 33,914.81	21.88%
329	Cape May	NJ	$ 285,333.00	80	$ 265,000.00	07/28/08	$ 54,289.69	20.49%
330	Craig	AK	$ 283,000.00	8	$ 283,000.00	07/28/08	$ 21,576.59	7.62%
331	Veneta	OR	$ 348,000.00	0	$ 348,000.00	07/28/08	$ 38,484.35	11.06%
332	Salem	OR	$ 484,000.00	5	$ 484,000.00	07/28/08	$ 52,960.15	10.94%
333	Tucson	AZ	$ 187,000.00	272	$ 156,900.00	07/28/08	$ 82,786.38	52.76%
334	Fayetteville	NC	$ 208,500.00	37	$ 199,900.00	07/28/08	$ 31,449.47	15.73%
335	Council Bluffs	IA	$ 270,000.00	6	$ 270,000.00	07/28/08	$ 19,847.72	7.35%
336	Lincoln	NE	$ 161,500.00	0	$ 161,500.00	07/28/08	$ 13,805.33	8.55%
337	Albuquerque	NM	$ 295,833.00	73	$ 274,900.00	07/28/08	$ 70,743.30	25.73%
338	Hoover	AL	$ 176,000.00	6	$ 176,000.00	07/28/08	$ 18,044.69	10.25%
339	Bowie	MD	$ 524,500.00	312	$ 400,000.00	07/28/08	$ 201,947.57	50.49%
340	La Plata	MD	$ 609,967.00	260	$ 513,000.00	07/28/08	$ 188,551.96	36.75%
341	Spring Hill	FL	$ 249,500.00	235	$ 188,500.00	07/28/08	$ 110,878.03	58.82%
342	Winston Salem	NC	$ 200,000.00	142	$ 158,600.00	07/28/08	$ 98,082.69	61.84%
343	Sioux Falls	SD	$ 188,000.00	8	$ 188,000.00	07/28/08	$ 19,460.63	10.35%
344	San Antonio	TX	$ 236,000.00	3	$ 236,000.00	07/28/08	$ 21,649.34	9.17%
345	Stockbridge	GA	$ 139,480.00	1	$ 139,480.00	07/28/08	$ 10,530.59	7.55%
346	Keizer	OR	$ 179,900.00	1	$ 179,900.00	07/28/08	$ 16,853.78	9.37%
347	Homer	AK	$ 382,500.00	237	$ 352,000.00	07/28/08	$ 85,830.61	24.38%
348	Burlington	NJ	$ 368,000.00	124	$ 345,000.00	07/28/08	$ 76,158.64	22.07%
349	Papillion	NE	$ 226,333.00	49	$ 211,500.00	07/28/08	$ 39,816.03	18.83%
350	Jacksonville	FL	$ 212,000.00	31	$ 234,900.00	07/28/08	$ 37,891.71	16.13%
351	Portage	IN	$ 270,000.00	155	$ 234,000.00	07/29/08	$ 70,805.08	30.26%
352	Franklin	TN	$ 279,000.00	107	$ 276,000.00	07/29/08	$ 53,328.91	19.32%
353	Decatur	IL	$ 140,000.00	0	$ 132,500.00	07/29/08	$ 23,014.99	17.37%
354	Ware	MA	$ 216,000.00	24	$ 216,000.00	08/26/08	$ 17,681.14	8.19%
355	Silver Spring	MD	$ 350,667.00	131	$ 313,500.00	08/26/08	$ 76,652.21	24.45%
356	Spring Hill	FL	$ 208,000.00	316	$ 186,200.00	08/26/08	$ 75,473.12	40.53%
357	Lynnwood	WA	$ 432,000.00	16	$ 432,000.00	08/26/08	$ 42,815.89	9.91%
358	Dacula	GA	$ 420,000.00	97	$ 378,000.00	08/26/08	$ 127,089.73	33.62%
359	Tuttle	OK	$ 184,900.00	3	$ 184,900.00	08/26/08	$ 14,823.22	8.02%
360	Fountain Inn	SC	$ 112,000.00	0	$ 112,000.00	08/26/08	$ 9,381.29	8.38%
361	Cleveland	UT	$ 185,000.00	0	$ 185,000.00	08/26/08	$ 13,840.27	7.48%
362	Tempe	AZ	$ 249,000.00	0	$ 249,000.00	08/26/08	$ 20,382.80	8.19%
363	Anchorage	AK	$ 353,000.00	0	$ 353,000.00	08/26/08	$ 25,075.96	7.10%
364	LaGrange	KY	$ 256,000.00	116	$ 237,500.00	08/26/08	$ 47,753.06	20.11%
365	Hartford	CT	$ 274,000.00	425	$ 171,900.00	08/26/08	$ 222,340.57	129.34%
366	Florissant	MO	$ 169,900.00	2	$ 169,900.00	08/26/08	$ 14,731.42	8.67%
367	De Pere	WI	$ 198,000.00	0	$ 198,000.00	08/26/08	$ 31,257.28	15.79%
368	Denver	CO	$ 301,000.00	71	$ 292,000.00	08/26/08	$ 38,388.12	13.15%
369	Kingwood	TX	$ 215,500.00	27	$ 210,615.00	08/26/08	$ 31,477.85	14.95%
370	Hackettstown	NJ	$ 226,500.00	244	$ 195,000.00	08/26/08	$ 64,975.62	33.32%
371	Willmar	MN	$ 141,000.00	23	$ 141,000.00	08/26/08	$ 12,237.80	8.68%
372	Saltillo	MS	$ 150,000.00	0	$ 150,000.00	08/26/08	$ 11,271.01	7.51%
373	Charleston	WV	$ 177,000.00	186	$ 163,900.00	08/26/08	$ 38,328.80	23.39%
374	Country Club Hills	IL	$ 298,333.00	336	$ 237,500.00	08/26/08	$ 153,943.29	64.82%
375	Desoto	TX	$ 149,000.00	138	$ 149,000.00	08/26/08	$ 14,104.57	9.47%
376	Hummelstown	PA	$ 359,000.00	8	$ 359,000.00	08/26/08	$ 38,755.43	10.80%
377	Scotch Plains	NJ	$ 316,000.00	0	$ 316,000.00	08/26/08	$ 20,233.19	6.40%
378	Newport News	VA	$ 197,500.00	30	$ 202,500.00	08/26/08	$ 33,434.33	16.51%
379	Youngsville	LA	$ 221,500.00	1	$ 221,500.00	08/26/08	$ 19,001.20	8.58%

380	Roswell	GA	$ 318,500.00	1	$ 318,500.00	08/26/08	$ 25,322.71	7.95%
381	Kirkville	NY	$ 218,900.00	21	$ 218,900.00	08/26/08	$ 21,745.71	9.93%
382	Sioux Falls	SD	$ 305,000.00	21	$ 305,000.00	08/26/08	$ 31,111.50	10.20%
383	Miami	FL	$ 159,900.00	11	$ 159,900.00	08/26/08	$ 12,850.93	8.04%
384	Sunrise	FL	$ 207,000.00	30	$ 207,000.00	08/26/08	$ 17,679.69	8.54%
385	Rio Rancho	NM	$ 182,000.00	5	$ 182,000.00	08/26/08	$ 18,205.92	10.00%
386	Indian River Shor	FL	$2,800,000.00	259	$ 1,100,000.00	08/26/08	$ 1,922,760.36	174.80%
387	Hopewell Junctior	NY	$ 292,500.00	114	$ 280,000.00	08/26/08	$ 56,657.55	20.23%
388	Bow	NH	$ 432,500.00	87	$ 405,000.00	08/26/08	$ 76,484.26	18.89%
389	Overland Park	KS	$ 375,000.00	65	$ 372,000.00	08/26/08	$ 56,843.70	15.28%
390	Elizabethtown	KY	$ 163,500.00	59	$ 155,425.00	08/26/08	$ 23,888.09	15.37%
391	Louisville	KY	$ 124,000.00	6	$ 124,000.00	08/26/08	$ 13,419.19	10.82%
392	Moorhead	MN	$ 151,400.00	1	$ 151,400.00	08/26/08	$ 12,261.44	8.10%
393	Scottsdale	AZ	$ 425,000.00	2	$ 425,000.00	08/26/08	$ 29,802.51	7.01%
394	Erie	PA	$ 169,000.00	1	$ 164,000.00	08/26/08	$ 23,569.88	14.37%
395	Urbandale	IA	$ 154,500.00	11	$ 154,500.00	08/26/08	$ 17,222.22	11.15%
396	Traverse City	MI	$ 168,000.00	12	$ 168,000.00	08/26/08	$ 14,366.04	8.55%
397	Greensboro	NC	$ 93,500.00	71	$ 85,000.00	09/25/08	$ 24,884.68	29.28%
398	Manassas	VA	$ 340,000.00	3	$ 340,000.00	09/25/08	$ 22,880.33	6.73%
399	Marysville	WA	$ 305,817.00	71	$ 289,900.00	09/25/08	$ 58,003.59	20.01%
400	Layton	UT	$ 392,500.00	135	$ 347,000.00	09/25/08	$ 83,468.41	24.05%
401	Longmeadow	MA	$ 295,333.00	135	$ 250,500.00	09/25/08	$ 94,432.14	37.70%
402	Fountain	CO	$ 167,500.00	0	$ 167,500.00	09/25/08	$ 11,708.98	6.99%
403	Oklahoma City	OK	$ 466,000.00	0	$ 466,000.00	09/25/08	$ 31,091.15	6.67%
404	Roswell	NM	$ 182,000.00	242	$ 155,000.00	09/25/08	$ 53,744.86	34.67%
405	Fort Worth	TX	$ 124,000.00	2	$ 124,000.00	09/25/08	$ 10,569.55	8.52%
406	Gallion	AL	$ 92,000.00	289	$ 88,070.00	09/25/08	$ 41,569.16	47.20%
407	Lebanon	IN	$ 67,000.00	135	$ 55,250.00	09/25/08	$ 46,592.45	84.33%
408	Westminster	CO	$ 624,000.00	119	$ 555,000.00	09/25/08	$ 121,333.90	21.86%
409	Carroll	IA	$ 189,000.00	24	$ 189,000.00	09/25/08	$ 17,289.56	9.15%
410	Carroll	IA	$ 127,000.00	1	$ 127,000.00	09/25/08	$ 10,430.73	8.21%
411	The Colony	TX	$ 83,000.00	12	$ 83,000.00	09/25/08	$ 10,955.08	13.20%
412	Lawrence	MA	$ 215,000.00	0	$ 215,000.00	09/25/08	$ 16,191.07	7.53%
413	Miramar	FL	$ 336,667.00	104	$ 300,000.00	09/25/08	$ 121,824.01	40.61%
414	Lees Summit	MO	$ 180,000.00	75	$ 179,900.00	09/25/08	$ 25,943.09	14.42%
415	Mount Airy	MD	$ 445,000.00	60	$ 440,000.00	09/25/08	$ 59,788.00	13.59%
416	West Jordan	UT	$ 275,000.00	0	$ 275,000.00	09/25/08	$ 19,607.79	7.13%
417	Camden	AR	$ 185,000.00	1	$ 185,000.00	09/25/08	$ 46,441.37	25.10%
418	Madison	NC	$ 142,500.00	79	$ 144,900.00	09/25/08	$ 13,372.66	9.23%
419	Houston	TX	$ 295,000.00	31	$ 294,900.00	09/25/08	$ 76,703.37	26.01%
420	Loveland	OH	$ 203,000.00	7	$ 203,000.00	09/25/08	$ 15,192.55	7.48%
421	Canton	GA	$ 305,000.00	3	$ 305,000.00	09/25/08	$ 56,172.66	18.42%
422	Madison	MS	$ 483,500.00	141	$ 435,000.00	09/25/08	$ 100,960.24	23.21%
423	Grand Prairie	TX	$ 311,000.00	152	$ 270,000.00	09/25/08	$ 77,224.61	28.60%
424	Midland	TX	$ 140,000.00	4	$ 140,000.00	09/25/08	$ 11,424.05	8.16%
425	Loxahatchee	FL	$ 428,500.00	121	$ 375,000.00	09/25/08	$ 187,465.35	49.99%
426	Taylorsville	KY	$ 128,000.00	64	$ 122,500.00	09/25/08	$ 32,179.83	26.27%
427	Dover	DE	$ 260,667.00	62	$ 254,000.00	09/25/08	$ 42,308.32	16.66%
428	Vienna	VA	$ 335,000.00	81	$ 340,000.00	09/25/08	$ 107,438.98	31.60%
429	Rising Sun	MD	$ 332,000.00	79	$ 315,000.00	09/25/08	$ 80,130.95	25.44%
430	Rossford	OH	$ 170,000.00	56	$ 160,000.00	09/25/08	$ 28,067.11	17.54%
431	Lake Worth	FL	$ 322,500.00	44	$ 314,900.00	09/25/08	$ 100,268.05	31.84%
432	Clovis	CA	$ 473,000.00	11	$ 473,000.00	09/25/08	$ 35,781.20	7.56%
433	Seal Beach	CA	$ 672,000.00	9	$ 672,000.00	09/25/08	$ 52,024.90	7.74%
434	Brentwood	TN	$ 485,000.00	112	$ 447,000.00	09/25/08	$ 92,091.17	20.60%

435	Lake Ariel	PA	$ 199,900.00	10	$ 199,900.00	09/25/08	$ 27,816.03	13.91%
436	Owatonna	MN	$ 169,750.00	152	$ 144,900.00	09/25/08	$ 51,830.49	35.77%
437	Rio Rancho	NM	$ 293,000.00	0	$ 293,000.00	09/25/08	$ 23,291.39	7.95%
438	North Fort Myers	FL	$ 299,333.00	285	$ 185,000.00	09/25/08	$ 157,034.94	84.88%
439	Richmond	VA	$ 148,500.00	7	$ 148,500.00	09/25/08	$ 12,348.55	8.32%
440	Gorham	ME	$ 343,500.00	178	$ 285,500.00	09/25/08	$ 96,060.05	33.65%
441	Sugar Hill	GA	$ 250,500.00	60	$ 247,500.00	09/25/08	$ 62,986.18	25.45%
442	Lansing	MI	$ 80,000.00	38	$ 82,500.00	09/25/08	$ 41,080.25	49.79%
443	Quincy	MA	$ 222,500.00	24	$ 222,500.00	09/25/08	$ 20,581.79	9.25%
444	Gaithersburg	MD	$ 480,000.00	21	$ 480,000.00	09/25/08	$ 38,693.89	8.06%
445	Ocean	NJ	$ 340,000.00	4	$ 340,000.00	09/25/08	$ 29,842.54	8.78%
446	Sanford	NC	$ 207,000.00	1	$ 207,000.00	09/25/08	$ 14,053.00	6.79%
447	Portland	ME	$ 360,000.00	0	$ 360,000.00	09/25/08	$ 24,852.07	6.90%
448	Syracuse	NY	$ 82,400.00	14	$ 82,400.00	09/25/08	$ 9,774.24	11.86%
449	Lewisville	TX	$ 252,000.00	36	$ 246,000.00	09/25/08	$ 28,948.95	11.77%
450	Cary	NC	$ 344,500.00	179	$ 287,500.00	09/25/08	$ 93,292.84	32.45%
451	Coeur D Alene	ID	$ 242,333.00	86	$ 244,900.00	09/25/08	$ 37,674.51	15.38%
452	Churchville	NY	$ 78,500.00	9	$ 78,500.00	09/25/08	$ 8,381.94	10.68%
453	Summerville	SC	$ 184,890.00	8	$ 189,051.00	09/25/08	$ 16,920.69	8.95%
454	Plainfield	NJ	$ 240,000.00	1	$ 240,000.00	09/25/08	$ 20,413.20	8.51%
455	Puyallup	WA	$ 275,000.00	105	$ 255,000.00	09/25/08	$ 74,593.12	29.25%
456	Aurora	IL	$ 271,500.00	64	$ 255,000.00	09/25/08	$ 62,301.06	24.43%
457	Strongsville	OH	$ 234,750.00	246	$ 185,000.00	09/25/08	$ 90,963.15	49.17%
458	Sykesville	MD	$ 385,000.00	17	$ 385,000.00	09/25/08	$ 28,406.61	7.38%
459	Bowie	MD	$ 734,333.00	413	$ 625,000.00	10/28/08	$ 261,773.03	41.88%
460	Roanoke	VA	$ 420,000.00	79	$ 395,000.00	10/28/08	$ 62,623.55	15.85%
461	Spokane Valley	WA	$ 205,500.00	85	$ 189,900.00	10/28/08	$ 43,690.98	23.01%
462	Kenosha	WI	$ 183,000.00	15	$ 183,000.00	10/28/08	$ 22,283.59	12.18%
463	Greeley	CO	$ 152,333.00	130	$ 145,750.00	10/28/08	$ 58,595.59	40.20%
464	Milwaukee	WI	$ 286,000.00	69	$ 265,000.00	10/28/08	$ 69,390.43	26.19%
465	Troy	AL	$ 171,000.00	73	$ 164,900.00	10/28/08	$ 26,639.24	16.15%
466	Owings	MD	$ 388,667.00	228	$ 268,000.00	10/28/08	$ 184,194.76	68.73%
467	San Antonio	TX	$ 84,167.00	36	$ 86,900.00	10/28/08	$ 13,580.95	15.63%
468	Prineville	OR	$ 149,900.00	0	$ 149,900.00	10/28/08	$ 10,031.07	6.69%
469	Stephens City	VA	$ 218,750.00	101	$ 190,000.00	10/28/08	$ 64,361.32	33.87%
470	Louisville	KY	$ 132,500.00	16	$ 132,500.00	10/28/08	$ 14,595.11	11.02%
471	Cobb Island	MD	$ 355,667.00	356	$ 267,900.00	10/28/08	$ 161,481.21	60.28%
472	Holly Springs	NC	$ 316,000.00	6	$ 316,000.00	10/28/08	$ 20,214.68	6.40%
473	Clinton	MD	$ 312,500.00	63	$ 299,900.00	10/28/08	$ 63,883.68	21.30%
474	Oldsmar	FL	$ 240,000.00	15	$ 240,000.00	10/28/08	$ 25,009.54	10.42%
475	Kansas City	KS	$ 155,500.00	46	$ 155,900.00	10/28/08	$ 21,692.58	13.91%
476	San Antonio	TX	$ 116,333.00	42	$ 118,605.00	10/28/08	$ 23,226.48	19.58%
477	Frisco	TX	$ 252,000.00	0	$ 252,000.00	10/28/08	$ 40,565.24	16.10%
478	Mayflower	AR	$ 215,000.00	15	$ 215,000.00	10/28/08	$ 20,220.57	9.40%
479	Grand Rapids	MI	$ 317,500.00	64	$ 319,000.00	10/28/08	$ 61,165.78	19.17%
480	Houston	TX	$ 825,000.00	7	$ 825,000.00	10/28/08	$ 61,376.47	7.44%
481	Columbia Falls	MT	$ 230,000.00	6	$ 230,000.00	10/28/08	$ 28,060.18	12.20%
482	Peoria	AZ	$ 380,000.00	632	$ 204,900.00	10/28/08	$ 279,466.67	136.39%
483	Niles	MI	$ 206,833.00	94	$ 177,000.00	10/28/08	$ 62,926.87	35.55%
484	Springville	AL	$ 192,500.00	72	$ 178,900.00	10/28/08	$ 33,204.71	18.56%
485	Urbandale	IA	$ 327,080.00	65	$ 327,080.00	10/28/08	$ 73,111.03	22.35%
486	Cameron	NC	$ 173,250.00	24	$ 166,500.00	10/28/08	$ 23,226.05	13.95%
487	Tallahassee	FL	$ 182,000.00	16	$ 176,500.00	10/28/08	$ 23,532.84	13.33%
488	Brighton	CO	$ 200,000.00	14	$ 200,000.00	10/28/08	$ 24,049.06	12.02%
489	Renton	WA	$ 318,000.00	2	$ 318,000.00	10/28/08	$ 28,644.69	9.01%

490	Mill Creek	WA	$ 359,500.00	24	$ 351,400.00	10/28/08	$ 51,839.37	14.75%
491	Raynham	MA	$ 357,500.00	133	$ 330,000.00	10/28/08	$ 99,677.34	30.21%
492	Deerwood	MN	$ 229,950.00	53	$ 219,900.00	10/28/08	$ 32,257.98	14.67%
493	Alexandria	VA	$ 375,000.00	6	$ 375,000.00	10/28/08	$ 65,043.07	17.34%
494	Mankato	MN	$ 185,000.00	72	$ 162,500.00	10/28/08	$ 52,774.66	32.48%
495	Lakeland	TN	$ 247,500.00	44	$ 249,900.00	10/28/08	$ 54,789.27	21.92%
496	Albuquerque	NM	$ 294,333.00	30	$ 279,900.00	10/28/08	$ 77,504.04	27.69%
497	Yuma	AZ	$ 259,667.00	55	$ 235,900.00	10/28/08	$ 92,425.22	39.18%
498	Arlington	TN	$ 192,500.00	3	$ 192,500.00	10/28/08	$ 15,948.62	8.28%
499	Lehigh Acres	FL	$ 223,333.00	133	$ 162,000.00	10/28/08	$ 87,448.44	53.98%
500	Alexandria	VA	$ 304,000.00	8	$ 304,000.00	10/28/08	$ 21,232.90	6.98%
501	Germantown	MD	$ 280,000.00	158	$ 245,000.00	10/28/08	$ 114,960.27	46.92%
502	Cordova	TN	$ 125,000.00	146	$ 120,000.00	10/28/08	$ 44,523.17	37.10%
503	Pflugerville	TX	$ 207,000.00	55	$ 203,900.00	10/28/08	$ 32,070.33	15.73%
504	Cambridge	MA	$ 404,000.00	41	$ 399,900.00	10/28/08	$ 38,001.01	9.50%
505	Cape Coral	FL	$ 127,200.00	11	$ 127,200.00	10/28/08	$ 37,937.35	29.82%
506	Ramsey	MN	$ 144,150.00	11	$ 144,150.00	10/28/08	$ 14,465.03	10.03%
507	Marion	IA	$ 127,500.00	0	$ 127,500.00	10/28/08	$ 15,467.68	12.13%
508	Spring	TX	$ 142,500.00	22	$ 142,500.00	10/28/08	$ 13,502.08	9.48%
509	Covington	WA	$ 452,500.00	220	$ 374,950.00	10/28/08	$ 153,392.19	40.91%
510	Urbandale	IA	$ 103,000.00	3	$ 103,000.00	10/28/08	$ 26,993.97	26.21%
511	The Woodlands	TX	$ 204,667.00	54	$ 185,000.00	10/28/08	$ 52,148.52	28.19%
512	O Fallon	MO	$ 270,000.00	4	$ 270,000.00	10/28/08	$ 20,516.08	7.60%
513	Kenmore	NY	$ 235,000.00	0	$ 235,000.00	10/28/08	$ 19,511.68	8.30%
514	Indio	CA	$ 462,500.00	331	$ 357,000.00	10/28/08	$ 187,997.46	52.66%
515	Tenino	WA	$ 237,000.00	26	$ 237,000.00	10/28/08	$ 26,053.70	10.99%
516	Oakland	TN	$ 170,250.00	7	$ 170,250.00	10/28/08	$ 22,367.95	13.14%
517	Acworth	GA	$ 232,500.00	0	$ 232,500.00	10/28/08	$ 18,637.78	8.02%
518	West Jordan	UT	$ 285,000.00	0	$ 285,000.00	10/28/08	$ 22,349.63	7.84%
519	Apple Valley	MN	$ 197,000.00	0	$ 197,000.00	10/28/08	$ 17,360.66	8.81%
520	Richmond	VA	$ 173,000.00	97	$ 164,900.00	10/28/08	$ 59,886.37	36.32%
521	Mars	PA	$ 337,000.00	39	$ 320,000.00	10/28/08	$ 54,653.85	17.08%
522	London	AR	$ 78,500.00	12	$ 78,500.00	10/28/08	$ 7,275.43	9.27%
523	West Fargo	ND	$ 355,000.00	1	$ 355,000.00	10/28/08	$ 25,068.32	7.06%
524	Fruita	CO	$ 222,900.00	12	$ 222,900.00	10/28/08	$ 15,945.24	7.15%
525	Cranston	RI	$ 530,000.00	1	$ 530,000.00	11/24/08	$ 36,872.61	6.96%
526	Great Falls	MT	$ 162,000.00	101	$ 139,000.00	11/24/08	$ 44,840.28	32.26%
527	Colorado Springs	CO	$ 270,000.00	66	$ 264,900.00	11/24/08	$ 40,410.00	15.25%
528	Indianapolis	IN	$ 96,500.00	49	$ 95,000.00	11/24/08	$ 21,024.85	22.13%
529	Woodbury	MN	$ 335,500.00	53	$ 311,000.00	11/24/08	$ 52,999.95	17.04%
530	Albuquerque	NM	$ 365,500.00	42	$ 330,000.00	11/24/08	$ 63,361.54	19.20%
531	Kanab	UT	$ 322,050.00	428	$ 170,000.00	11/24/08	$ 205,379.35	120.81%
532	Gary	IN	$ 96,667.00	345	$ 63,000.00	11/24/08	$ 53,417.40	84.79%
533	Jacksonville	FL	$ 184,000.00	136	$ 140,000.00	11/24/08	$ 109,072.30	77.91%
534	Lebanon	PA	$ 137,500.00	27	$ 137,500.00	11/24/08	$ 13,623.36	9.91%
535	Des Moines	IA	$ 120,500.00	156	$ 93,500.00	11/24/08	$ 63,307.18	67.71%
536	Keller	TX	$ 111,000.00	129	$ 104,900.00	11/24/08	$ 25,436.13	24.25%
537	Guaynabo	PR	$ 411,667.00	102	$ 360,500.00	11/24/08	$ 139,743.50	38.76%
538	Jacksonville	FL	$ 135,333.00	92	$ 91,500.00	11/24/08	$ 57,507.58	62.85%
539	Oak Ridge	NC	$ 409,667.00	79	$ 375,000.00	11/24/08	$ 72,070.22	19.22%
540	Gig Harbor	WA	$ 472,833.00	237	$ 320,000.00	11/24/08	$ 221,943.48	69.36%
541	Kennewick	WA	$ 185,000.00	7	$ 185,000.00	11/24/08	$ 18,571.82	10.04%
542	Waipahu	HI	$ 662,500.00	47	$ 630,000.00	11/24/08	$ 101,191.94	16.06%
543	Salem	OR	$ 340,000.00	2	$ 340,000.00	11/24/08	$ 26,795.52	7.88%
544	Southfield	MI	$ 67,333.00	302	$ 38,500.00	11/24/08	$ 48,277.70	125.40%

545	Perry	IA	$ 166,000.00	280	$ 98,900.00	11/24/08	$ 85,822.92	86.78%
546	Jackson	MS	$ 106,333.00	142	$ 94,000.00	11/24/08	$ 30,212.75	32.14%
547	Lake in the Hills	IL	$ 185,000.00	77	$ 175,900.00	11/24/08	$ 60,407.29	34.34%
548	Kansas city	MO	$ 332,500.00	80	$ 295,000.00	11/24/08	$ 120,003.26	40.68%
549	Franklin	TN	$ 462,500.00	143	$ 412,000.00	11/24/08	$ 107,535.48	26.10%
550	Arlington	TN	$ 176,250.00	92	$ 167,000.00	11/24/08	$ 40,626.12	24.33%
551	Waukesha	WI	$ 282,333.00	87	$ 240,000.00	11/24/08	$ 75,149.48	31.31%
552	Princeton	MN	$ 239,667.00	52	$ 227,000.00	11/24/08	$ 41,246.95	18.17%
553	Fort Worth	TX	$ 79,000.00	2	$ 79,000.00	11/24/08	$ 8,697.55	11.01%
554	Clifton	CO	$ 136,000.00	5	$ 136,000.00	12/29/08	$ 10,572.78	7.77%
555	Marlton	NJ	$ 301,500.00	32	$ 301,500.00	12/29/08	$ 24,291.63	8.06%
556	Bridgeport	WV	$ 385,500.00	56	$ 380,000.00	12/29/08	$ 41,300.13	10.87%
557	Kansas City	MO	$ 379,000.00	153	$ 305,000.00	12/29/08	$ 135,200.32	44.33%
558	Bartlett	TN	$ 214,933.00	22	$ 195,000.00	12/29/08	$ 47,157.83	24.18%
559	Richmond Hill	GA	$ 260,000.00	142	$ 227,900.00	12/29/08	$ 87,464.06	38.38%
560	Lebanon	KY	$ 261,750.00	64	$ 247,500.00	12/29/08	$ 37,453.84	15.13%
561	Waynesboro	VA	$ 216,750.00	39	$ 200,000.00	12/29/08	$ 34,711.88	17.36%
562	Lawrenceville	GA	$ 382,500.00	147	$ 310,000.00	12/29/08	$ 162,999.08	52.58%
563	Grand Prairie	TX	$ 109,500.00	130	$ 104,000.00	12/29/08	$ 27,252.58	26.20%
564	Platte City	MO	$ 137,500.00	40	$ 127,000.00	12/29/08	$ 31,371.93	24.70%
565	San Diego	CA	$ 314,000.00	7	$ 314,000.00	12/29/08	$ 23,191.02	7.39%
566	Bradenton	FL	$ 347,000.00	83	$ 349,900.00	12/29/08	$ 71,121.08	20.33%
567	Brandon	MS	$ 219,000.00	75	$ 190,000.00	12/29/08	$ 55,900.70	29.42%
568	Conyers	GA	$ 248,750.00	35	$ 235,000.00	12/29/08	$ 35,052.52	14.92%
569	Phoenix	AZ	$ 130,000.00	11	$ 130,000.00	12/29/08	$ 14,952.44	11.50%
570	Fort Worth	TX	$ 286,600.00	0	$ 286,600.00	12/29/08	$ 24,321.59	8.49%
571	Mitchellville	MD	$ 339,167.00	138	$ 307,000.00	12/29/08	$ 98,901.84	32.22%
572	Haymarket	VA	$ 440,000.00	7	$ 440,000.00	12/29/08	$ 31,987.91	7.27%
573	Pitman	NJ	$ 250,000.00	0	$ 250,000.00	12/29/08	$ 21,955.07	8.78%
574	Sebago	ME	$ 162,000.00	126	$ 152,000.00	12/29/08	$ 50,650.04	33.32%
575	Brush Prairie	WA	$ 358,500.00	118	$ 275,000.00	12/29/08	$ 114,839.24	41.76%
576	Cicero	NY	$ 119,000.00	69	$ 110,000.00	12/29/08	$ 31,128.91	28.30%
577	Nashville	AR	$ 182,500.00	62	$ 180,000.00	12/29/08	$ 21,487.85	11.94%
578	Lansing	MI	$ 76,167.00	126	$ 75,000.00	12/29/08	$ 33,732.38	44.98%
579	Derry	NH	$ 215,000.00	58	$ 214,000.00	12/29/08	$ 30,173.30	14.10%
580	Swisher	IA	$ 169,900.00	0	$ 169,900.00	12/29/08	$ 15,148.52	8.92%
581	Weslaco	TX	$ 113,700.00	6	$ 113,700.00	12/29/08	$ 12,378.41	10.89%
582	Humble	TX	$ 308,000.00	108	$ 265,000.00	12/29/08	$ 79,743.34	30.09%
583	Greensboro	NC	$ 106,000.00	28	$ 102,900.00	12/29/08	$ 16,944.10	16.47%
584	Cornelius	NC	$ 190,000.00	7	$ 190,000.00	12/29/08	$ 14,988.49	7.89%
585	Westford	MA	$ 335,000.00	2	$ 335,000.00	12/29/08	$ 29,563.60	8.82%
586	Chesapeake	VA	$ 320,000.00	154	$ 299,900.00	12/29/08	$ 77,089.25	25.70%
587	Las Vegas	NV	$ 294,333.00	75	$ 250,000.00	12/29/08	$ 137,185.65	54.87%
588	Lebanon	TN	$ 169,900.00	4	$ 169,900.00	12/29/08	$ 15,804.13	9.30%
589	East Amherst	NY	$ 276,000.00	49	$ 280,000.00	12/29/08	$ 25,050.31	8.95%
					$ 149,398,040.00		$ 34,246,188.25	22.92%

Total Costs*

% Cost**

*Reflects various costs associated with home sales, including brokers' commissions, carrying and home closing costs, repairs and maintenance.

**Reflects percentage of net loss to USPS; figure is obtained by dividing total costs by purchase price of home.

STEPHEN F. LYNCH
9TH DISTRICT, MASSACHUSETTS

COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND GOVERNMENT-SPONSORED ENTERPRISES
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
CHAIRMAN, SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA
SUBCOMMITTEE ON NATIONAL SECURITY AND FOREIGN AFFAIRS

ASSISTANT DEMOCRATIC WHIP

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WWW.HOUSE.GOV/LYNCH

April 3, 2009

Mr. David Williams
Inspector General
U.S. Postal Service Office of Inspector General
1735 N. Lynn Street
Arlington VA 22209

Dear Mr. Williams,

As a follow up to your recent testimony before the House Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, I am providing you with the following questions or requests for information posed during the March 25, 2009 oversight hearing. In responding to the following questions for the record, I ask that you provide responses to the Subcommittee within 30 days.

The reporting items and outstanding questions entered into the record by Rep. Serrano to the Postal Service are as follows:

1. Has your office conducted studies in the past or is it conducting studies now on environmental issues, such as the efficacy of the Postal Service's alternative fuel vehicles?

2. Based on your prior experience, are infrastructure considerations and network planning important factors in developing pilot tests for alternative fuel vehicles?

3. Will you provide your input to the Postal Service for a report on electric vehicles, if the Postmaster General is able to provide one for us? Please keep us informed of the status of your communication on this matter.

If you have any questions, please contact Margaret McDavid at (202) 226-5126 or margaret.mcdavid@mail.house.gov.

Sincerely,

Stephen F. Lynch
Chairman
Subcommittee on Federal Workforce, Postal Service, and the District of Columbia

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

April 22, 2009

The Honorable Stephen F. Lynch
Chairman, Subcommittee on Federal Workforce,
Postal Service, and the District of Columbia
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Lynch:

On April 3, 2009, you requested responses for the record to questions posed during your Subcommittee's March 25, 2009, oversight hearing. The U.S. Postal Service Office of Inspector General (OIG) is providing the following responses for the record:

1. Has your office conducted studies in the past or is it conducting studies now on environmental issues, such as the efficacy of the Postal Service's alternative fuel vehicles?

Response: The OIG has conducted audits on environmental issues related to energy and environmental strategies, facility energy and vehicle fuel consumption, and recycling practices. We attached electronic versions of several of the completed reports in our e-mail accompanying this response. The OIG has not conducted reviews specifically on the efficacy of the Postal Service's alternative fuel vehicles. However, if requested, we are prepared to review the feasibility of electric vehicle usage within the Postal Service.

2. Based on your prior experience, are infrastructure considerations and network planning important factors in developing pilot tests for alternative fuel vehicles?

Response: Yes, infrastructure considerations and network planning are important factors in developing pilot tests for alternative fuel vehicles. Specifically, energy storage and transfer, vehicle usage needs and patterns, operating maintenance requirements, and other network planning issues are important factors which should be considered in developing pilot tests for alternative fuel vehicles.

3. Will you provide your input to the Postal Service for a report on electric vehicles, if the Postmaster General is able to provide one for us?

Response: Yes, if the Postmaster General provides a report on electric vehicles, the OIG would provide input.

We appreciate the opportunity to answer these questions for the record. If you have any questions, please contact Tammy Whitcomb, Deputy Assistant Inspector General for Audit, Revenue and Systems, or me at (703) 248-2100.

Sincerely,

Gordon C. Milbourn III

Gordon C. Milbourn III
Assistant Inspector General
for Audit

cc: The Honorable Jose Serrano
Chairman, Appropriations Subcommittee
on Financial Services and General Government

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

March 20, 2008

MICHAEL S. FUREY
NORTHERN VIRGINIA DISTRICT MANAGER

SUBJECT: Audit Report – Northern Virginia District Energy Management Savings Opportunities (Report Number DA-AR-08-003)

This report presents the results of our self-initiated audit of Northern Virginia District energy management savings opportunities (Project Number 08YG002DA000). Our objective was to evaluate the Northern Virginia District's (the District) efforts to reduce electricity consumption and costs. The current U.S. Postal Service energy management program focuses on facilities of more than 100,000 square feet. We reviewed the District's efforts at facilities that were between 10,000 and 100,000 square feet. See Appendix A for additional information on this audit.

Energy Savings Opportunities Exist at Smaller Sites

Federal laws[1] require the Postal Service to reduce energy consumption at facilities to the maximum extent practical. However, the Postal Service has not applied the District's energy management program to facilities less than 100,000 square feet. Our audit revealed several low- or no-cost opportunities to improve energy efficiency at these smaller sites including conducting energy walk-through inspections at the sites. Smaller facilities in the District did not have energy management plans, primarily because the District, following national strategic direction, focused its energy savings efforts on larger facilities. As a result, the District has not completely seized opportunities to reduce energy consumption and lower energy costs. Further, insufficient internal controls over the payment of the District's electricity bills resulted in assets at risk of approximately $2 million for calendar year 2007. See Appendix B for our detailed analysis of this issue.

For facilities less than 100,000 square feet within the District, we recommend the Northern Virginia District Manager:

1. Establish energy awareness programs.

2. Explore the use of low- and no-cost energy conservation initiatives, such as lighting sensors and more energy efficient thermostat settings.

[1] The Energy Policy Act (EPACT) of 1992 and the Energy Policy Act of 2005 require the Postal Service to lower its energy consumption to meet specific goals. The Energy Independence and Security Act of 2007 expanded these requirements.

This report has not yet been reviewed for release under FOIA or the Privacy Act. Distribution should be limited to those within the Postal Service with a need to know.

3. Direct applicable personnel to do periodic walk-through inspections at facilities to measure compliance with Energy Management Program initiatives.

4. Direct applicable personnel to review and monitor energy bills to ensure accuracy and review the adequacy of rate plans.

Management's Comments

Management agreed with our findings and recommendations and is taking the following actions:

- Recommendation 1 – The Northern Virginia District has named the Finance Manager as the Energy Coordinator who will provide energy awareness information to its field sites by March 31, 2008.

- Recommendation 2 – The District intends to undertake low- or no-cost energy initiatives beginning in March 2008, and will explore the use of a modified self-checklist for walk-through inspections.

- Recommendation 3 – The District will require local site managers to perform walk-through inspections by June 30, 2008, and submit certificates of completion.

- Recommendation 4 – The Northern Virginia District will address the importance of reviewing and approving electricity bills with postmasters by March 31, 2008, and follow up with specific responsibilities for invoice reviewers.

Management partially agreed with the non-monetary impact of our findings. They indicated that three of 12 sites did review their bills and, as such, should reduce the impact presented accordingly.

We have included management's comments, in their entirety, in Appendix E.

Evaluation of Management's Comments

Management's comments are responsive to the recommendations and the corrective actions should resolve the issues identified in the report. We agree with management's assertion regarding the non-monetary impact and have revised our assets at risk figures accordingly.

The U.S. Postal Service Office of Inspector General (OIG) considers all the recommendations significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Miguel A. Castillo, Director, Engineering, or me at (703) 248-2100.

Darrell E. Benjamin, Jr.

Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Support Operations

Attachments

cc: Tom Samra
Carolyn Cole
Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service has over 34,000 facilities nationwide. During fiscal years (FY) 2006 and 2007, the Postal Service expended more than $600 million in utility costs to support operations at these facilities. Ninety-eight percent of utility costs are for electricity, gas, and oil, with electricity alone accounting for approximately 80 percent of the total costs. The major contributors to electricity costs are heating, ventilation, air conditioning, lighting, and equipment.

In the Northern Virginia District, there are 127 facilities of less than 100,000 square feet. In FY 2007, payments to electricity providers for these facilities totaled approximately $2 million, or 73 percent of the District's total electricity costs.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to evaluate the Northern Virginia District's efforts to reduce electricity consumption and costs. To accomplish our objective, we selected 12 facilities from the Northern Virginia District to determine their commitment to energy conservation programs. The 12 facilities randomly selected were from the universe of facilities of between 10,000 and 100,000 square feet. These facilities are Postal Service retail or mail processing locations.

We conducted this performance audit from November 2007 through March 2008 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We reviewed policies and procedures for internal controls and discussed our observations and conclusions with management officials on February 19, 2008. We included their comments where appropriate.

We extracted data from the Electronic Data Warehouse, E-Buy, and the Facilities Management System files. Previous OIG reports related to these systems did not reveal weaknesses that would affect our audit.

PRIOR AUDIT COVERAGE

We did not identify any prior audits or reviews related to the objective of this audit.

APPENDIX B: DETAILED ANALYSIS

Energy Savings Opportunities Exist Within the Northern Virginia District

The Northern Virginia District does not have an energy management program in place for facilities of less than 100,000 square feet. Our audit revealed several low- or no-cost opportunities to conserve energy and improve efficiency at these smaller facilities. We discuss our observations below and detail them in Appendix D.

- **Energy awareness program.** The 12 facilities visited did not have energy awareness programs. Energy awareness programs teach energy users to eliminate waste without diminishing their quality of life. Awareness encourages users to develop simple, cost-effective energy habits such as extinguishing lights when spaces are unoccupied. Energy awareness programs also help ensure that existing energy systems are used to maximum efficiency.

- **Motion sensors and timers.** Eight of 12 facilities visited did not use motion sensors to minimize electricity consumption and costs. Motion sensors are very effective in areas that are used occasionally, such as copying rooms, conference rooms, and restrooms.

- **Lights in use when space was unoccupied.** Five of 12 facilities did not extinguish lights when space was unoccupied. Extinguishing lights in an area when employees have completed an operation or task, or when the day's operations have been completed, is clearly more energy efficient than leaving them on. In addition, exterior lights on outdoor docks were left on during the daytime at two facilities. Postal Service facilities could use a timer to turn exterior lights on at sunset and off about an hour after sunrise. Photocells can perform this task automatically.

- **Use of alternate lighting.** Ten of 12 facilities did not use alternate lighting, which involves reducing the number of light bulbs and fixtures in use within a facility to conserve electricity.

- **Monitoring thermostat settings.** Nine of 12 facilities did not monitor heating and cooling settings. The Postal Service recommends that they be set at 65 degrees Fahrenheit (°F) in the winter and 78°F in the summer.

- **Review of energy bills.** The Northern Virginia District uses e-Buy to pay utility bills. According to the Postal Service utility payment policy, when a utility company sends an electronic data file to accounting for payment, post offices may perform a post-payment certification using the web site provided. Alternatively, the post office may verify individual utility bills and process payments locally using the purchase card. If a payment exceeds $10,000, the post office is to prepare an authorization for payment and submit it to accounting. During calendar year 2007, the Northern Virginia District paid over $2.7 million for electricity usage, but did not adequately validate the electricity bills. In nine of 12 district sites analyzed, personnel did not review the energy bills before authorizing payment and none reviewed the savings potential for using other rate plans. In two instances, sites received bills for electricity usage associated with meters that could not be located. In addition, other rate plans, such as time of use plans, were publicized by the electricity provider but not evaluated by district personnel.

As summarized in Appendix C, federal energy policies require the Postal Service to reduce consumption at facilities to the maximum extent practical. Postal Service Handbook AS-558, *Facility Energy Management Guide,* provides guidance for realizing many of the energy opportunities identified, including energy awareness, lighting practices, and temperature settings.

Smaller facilities in the Northern Virginia District did not have energy management plans because the District focused its energy saving efforts on facilities with space exceeding 100,000 square feet. Furthermore, none of the sites conducted energy walk-through inspections, as described by the Postal Service's energy guide,[2] to identify these potential savings. As a result, the District has opportunities to reduce energy consumption in keeping with federal mandates and to lower energy costs. Further, inadequate internal controls over the payment of Northern Virginia District electricity bills resulted in assets at risk of approximately $2 million, which we will report in our *Semiannual Report to Congress.*

[2] Handbook AS-558, *Facility Energy Management Guide*, Chapter 8, Section 2.

APPENDIX C: SUMMARY – APPLICABLE ENERGY MANAGEMENT LEGISLATION

The Energy Policy Act (EPACT) of 1992:

- Made EPACT applicable by specifically including the Postal Service.
- Called for a 20 percent energy reduction at facilities through FY 2000.
- Section 166 required the Postal Service to follow the same standards as other federal agencies, as found in Section 543 of the National Energy Conservation Policy Act (NECPA).
- Required energy initiatives to be implemented to the maximum extent practical.

The Energy Policy Act of 2005:

- Amended many provisions of building energy requirements.
- Set energy reduction goals at 20 percent between 2006 and 2015.

The Energy Independence and Security Act of 2007:

- Section 323 set energy efficiency requirements and use of energy-efficient lighting fixtures.
- Section 431 expanded energy reduction goals to 30 percent between 2006 and 2015.
- Section 432 amended NECPA Section 543 to require each federal agency to designate a federal energy manager responsible for reducing energy use at each facility included in a group of facilities that use 75 percent of the agency's energy. Each calendar year, the energy manager shall complete a comprehensive energy and water evaluation study for 25 percent of the facilities within the 75-percent energy usage group. The energy manager will use a web-based certification process established by the Department of Energy for the facilities identified.

APPENDIX D: SUMMARY OF NORTHERN VIRGINIA DISTRICT SITE RESULTS

Post Office Sites	Motion Sensors		Awareness Program		Electricity Bill Monitoring		Thermostat Monitoring		Alternate Lighting		Lights Left On in Unoccupied Spaces	
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
Alexandria	X			X		X		X		X		X
Arlington	X			X	X			X		X	X	
Annandale		X		X		X		X		X	X	
Falls Church		X		X		X		X	X		X	
Herndon	X			X		X		X		X		X
Herndon Oak Hill		X		X		X		X		X		X
Leesburg		X		X		X	X			X		X
McLean		X		X				X		X		X
Purcellville		X		X	X		X					X
Sterling		X		X	X		X		X		X	
Vienna		X		X		X		X		X	X	
Woodbridge	X			X		X		X		X		X
Totals	4	8	0	12	3	9	3	9	2	10	5	7

APPENDIX E. MANAGEMENT'S COMMENTS

DISTRICT MANAGER
CUSTOMER SERVICE AND SALES
NORTHERN VIRGINIA DISTRICT

UNITED STATES
POSTAL SERVICE

March 17, 2008

To: Johnson John, Acting Director, Audit Operations
Office of Inspector General

Re: Draft Audit Report –Northern Virginia District Energy Management Savings Opportunities
(Report Number DA-AR-08-DRAFT)

Following are the recommendations and responses to the Energy Management Savings Opportunities Audit for the Northern Virginia District:

Recommendation 1. Establish energy awareness programs.

Response: The Northern Virginia District agrees that the establishment of energy awareness programs will provide each of our field offices information they have been lacking regarding energy saving opportunities. In order to accomplish this, I have named the District Finance Manager as our District Energy Management Coordinator. The Coordinator will contact District Postmasters through an e-mail message which will introduce them to the energy awareness program, provide some immediate no-cost saving suggestions, and request each office provide the name of their local energy management contact. The initial e-mail contact will be sent by March 31, 2008. An informative series of e-mails will provide more in-depth information regarding cost-effective energy habits, the monitoring and payment of electricity bills, energy saving responsibilities, and required procedures as outlines in the AS-558 will be sent to the local energy management contact with a copy to the Postmaster.

Recommendation 2. Explore the use of low- and no-cost energy conservation initiatives, such as, lighting sensors, and thermostat settings.

Response: The Northern Virginia District agrees with this recommendation and intends to encourage the use of low- and no-cost conservation initiatives in our field offices. Where these initiatives can be accomplished at no-cost to the office, the district will direct the monitoring of thermostats, the use of alternative lighting, and the estinguishing of lights in unused areas to the maximum extent practical. This will be accomplished through a series of informational e-mails which will start prior to March 31, 2008. Additionally, the Northern Virginia District will explore the use of a modified self check list during required periodic walk- through inspections, and/or during reviews performed by the District Financial Control and Support function.

Recommendation 3. Direct applicable personnel to perform periodic walk-through inspections at facilities to measure compliance with energy management program initiatives.

Response: The Northern Virginia District agrees that periodic walk-through inspections at our facilities will encourage the compliance of directed energy saving initiatives. Handbook AS-558 was unspecific as to the frequency of these inspections, therefore we will require local management to perform an initial walk-through inspection prior to the end of Quarter 3 FY08. Local management will be required to submit certification that the inspection was performed. The frequency of subsequent walk-through inspections will be determined and published by the District Manager or his designee.

8409 LEE HIGHWAY
MERRIFIELD, VA 22081-9996
703-698-6464
FAX: 703-698-6600

Recommendation 4. Direct applicable personnel to review and monitor energy bills to ensure accuracy and to review the adequacy of rate plans.

Response: The Northern Virginia District agrees that the review of electricity bills will ensure that we are being charged the correct amount for usage and are maximizing our opportunity for savings by requesting the most economical rates available. The importance of reviewing electricity bills will be addressed in the first of the series of e-mail correspondence to the Postmasters which will be sent prior to the close of Quarter 2 FY08. Upon determination of the local office contact, a more in-depth e-mail will be sent which will provide detailed invoice information and specific responsibilities of the invoice reviewer.

Non-monetary Impact: Inadequate internal controls over the payment of Northern Virginia District electricity bills resulted in assets at risk of approximately $2.7 million.

Response: The Northern Virginia District agrees that assets were at risk as a result of the lack of internal controls in monitoing the electricity bills. We do not agree that the risk is $2.7 million, the same amount which was paid for electricity during CY 2007, as stated in Apendix B: Detailed Analysis. We feel that the non-monetary impact of $2.7 million should be reduced based on Appendix D: Site Results, which indicated that 3 out of 12 offices did monitor their electricity bills.

If you have any further questions, please do not hesitate to contact me.

Sincerely,

for Michael S. Furey

cc: Laura Naccarato, Manager, Finance

Office of Inspector General
United States Postal Service

September 26, 2008

SAM PULCRANO
VICE PRESIDENT, SUSTAINABILTY

CAROLE COLE
ACTING EXECUTIVE DIRECTOR, ENERGY INITIATIVES

SUBJECT: Management Advisory – Postal Service National Energy Management Plan (Report Number DA-MA-08-003)

This management advisory provides comments on the U.S. Postal Service's National Energy Management Plan (Project Number 08YG035DA000). The Vice President, Sustainability, requested that the U.S. Postal Service Office of Inspector General (OIG) review the energy plan to assess its potential to meet federal energy requirements and to address the OIG's previous recommendation to establish a long-term energy vision and goals.

We appreciate the opportunity to comment on the National Energy Management Plan. To answer the request, we analyzed the plan's content for coverage of key functional areas contributing to energy consumption. In addition, we sought comment from OIG Counsel and interviewed functional Postal Service managers, as appropriate. We conducted this review during September 2008 in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Inspections*. We discussed our observations and conclusions with management officials on September 19, 2008, and included their comments where appropriate.

Energy Management Plan is Comprehensive

The National Energy Management Plan[1] provided to the OIG addresses the major components of Postal Service energy consumption: transportation and facilities. The plan recognizes the importance of energy to the Postal Service's core mission and addresses strategies for utility management, facility management, fleet management, fuel management, and energy awareness. The plan demonstrates the Postal Service's commitment to controlling energy costs and meeting federal energy requirements, and satisfies our previous recommendation to establish a long-term energy vision and goals.[2]

[1] United States Postal Service National Energy Management Plan, dated September 15, 2008.
[2] *Facilities Energy Management Strategy* (Report Number DA-AR-08-004, dated April 9, 2008).

While the OIG acknowledges management's commitment to conserve energy and reduce costs, we note the Postal Service did not (1) include information about the remote building management system pilot, (2) clarify procedures for reporting baseline information, and (3) include key performance metrics and timeframes in an appendix. These occurred because the Postal Service is continuing to develop performance measures and pilot systems to enable the organization to measure and report the success of its energy initiatives.

Incorporating these areas would expand coverage in meeting federal energy requirements, enhance the reliability of energy reporting, and further encourage field compliance with the energy plan. See Appendix A for our detailed comments.

Suggestion

We suggest the Vice President, Sustainability:

1. Amend the National Energy Management Plan to:

   - Include the remote building management system pilot.
   - Clarify procedures for reporting baseline information.
   - Include key performance metrics and timeframes in an appendix.

Management reviewed a discussion draft of this management advisory and provided feedback; therefore, no response is necessary. If you have any questions or need additional information, please contact Miguel Castillo, Director, Engineering, or me at (703) 248-2100.

E-Signed by Darrell E. Benjamin, Jr
VERIFY authenticity with ApproveIt

Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Support Operations

Attachment

cc: Katherine S. Banks

APPENDIX A: DETAILED COMMENTS

Remote Building System Pilot

The Postal Service has a strategy to implement an enterprise-wide energy management system to provide the ability to locally and remotely monitor energy consumption. At the core of this solution is the ability to consolidate energy management-related data into a centrally managed data warehouse called the Enterprise Energy Management System (EEMS). This includes data from existing Postal Service applications, such as the Utility Management System (UMS) and the Facility Management System (FMS), as well as data from individual facilities.

While the UMS collects consumption data at larger facilities and the FMS provides a variety of data on the facilities universe, neither currently captures energy consumption at the majority of facilities. However, the Postal Service is currently piloting a remote building management system to collect real-time energy consumption and cost data at facilities in the Greensboro District. A review of data collected from this pilot indicates the capability of trending energy consumption at a variety of smaller sized facilities and presents favorable savings for each site. Of the 16 sites the Postal Service is currently monitoring and controlling, the data reflects between 7 and 31 percent reductions in energy consumption.

The Postal Service's initial focus for facility energy management is on its largest 500 facilities because they represent 40 percent of total square footage and an assumed majority of energy consumption. We believe the Postal Service could use the technology the Greensboro District is piloting to expand data collection and remotely control energy use at a broader scope of facilities. Remote control systems provide the ability to set and control building temperatures from a distant location. In addition, expanding the pilot would also improve federal reporting using actual consumption information. As such, we suggest the Postal Service include remote building control systems in the energy management plan.

Clarify Baseline Data

The Postal Service's energy plan specifies a baseline year for facility energy reductions for which consumption data is questionable. Specifically, under the energy management priorities, the plan conveys reducing facility energy consumption 30 percent by 2015 using a baseline year of 2003 to ensure compliance with federal mandates. However, the OIG previously questioned the reliability of the 2003 baseline because the Postal Service used cost rather than consumption data in its report to the Department of Energy. As such, the Postal Service has an opportunity to clarify timeframes for establishing a facility energy baseline using more reliable consumption data. This could occur within a reasonable period after implementing the proposed EEMS that would enhance the Postal Service's ability to report facility consumption data.

Similarly, the Postal Service realizes its obligation to reduce petroleum consumption 20 percent by 2015. In February 2007, the Government Accountability Office (GAO) reported[3] the Postal Service's ability is limited in tracking fuel consumption. Specifically, the lack of fuel consumption information limits the Postal Service's understanding of the extent to which consumption is changing and how consumption has affected overall fuel costs and potential cost-saving opportunities. The GAO recommended improved tracking and monitoring of fuel consumption data, and the Postal Service agreed. As such, the Postal Service could also clarify the baseline period for measuring fuel reductions after management completes its actions in response to the GAO report.

Include Key Performance Metrics and Timeframes

We also recognize the National Energy Management Plan assigns accountability to appropriate organizational functions within the Postal Service. To this end, the Manager, Energy Initiatives, is accountable for overall program development and coordination. In addition, the Postal Service plans to develop specific performance metrics for accountable managers and employees.

We believe the Postal Service has an opportunity to include key metrics and timeframes in an appendix to the National Energy Management Plan. This would enable Postal Service Headquarters to prioritize expectations for managers and employees responsible for energy consumption at the 34,000 facilities and for the consumption of transportation fuel. An appendix of key measures and timeframes would also provide a basis for externally reporting the success of consumption reductions.

[3] *U.S. Postal Service: Vulnerability to Fluctuating Fuel Prices Requires Improved Tracking and Monitoring of Consumption Information*, GAO-07-244.

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

April 9, 2008

TOM SAMRA
VICE PRESIDENT, FACILITIES

CAROLYN COLE
ACTING EXECUTIVE DIRECTOR, ENERGY INITIATIVES

SUBJECT: Audit Report – Facilities Energy Management Strategy
(Report Number DA-AR-08-004)

This report presents the results of our self-initiated audit of the U.S. Postal Service Facilities Energy Management Strategy (Project Number 07YG065DA000). Our objective was to evaluate whether the Postal Service has an energy management strategy for facilities to meet federal requirements. See Appendix A for additional information on this audit.

Energy Management Planning, Policies, and Consumption Data

The Postal Service has a facilities energy management program to meet federal energy requirements. However, expanding short-range planning, widening facility focus, and updating energy policies would increase strategic effectiveness. In addition, the Postal Service conducts energy reduction activities at its facilities and annually reports energy reductions based on cost data, but does not systematically collect and use data on actual energy consumption. Without systematically using actual consumption data, the Postal Service cannot effectively establish baselines and priorities, measure progress, or support the reported energy reductions at over 34,000 facilities. Consequently, the Postal Service risks:

- Not complying with federal mandates to reduce energy consumption.
- Inaccurately reporting energy consumption data to the Department of Energy (DOE).

See Appendix B for our detailed analysis of this issue.

We recommend the Vice President, Facilities, in coordination with the Acting Executive Director, Energy Initiatives:

1. Finalize and publish a National Energy Management Plan. This plan should establish a long-term vision and goals that encompass facilities referenced in the 2007 Energy Independence and Security Act.

2. Update the *Facility Energy Management Policy and Guide*. This should clarify the organizational structure for carrying out energy management responsibilities.

3. Continue to develop systems for reporting actual energy consumption baselines and progressing toward energy reduction goals. In this regard, management should consider expanding electronic energy billing interfaces to collect actual energy consumption data or develop other long-term solutions.

Management's Comments

Management agreed with the recommendations. In response to recommendation 1, management plans to publish the National Energy Management Plan by August 1, 2008. To address recommendation 2, management plans to revise the *Facility Energy Management Policy and Guide* by October 1, 2008, based on organizational changes and new processes and procedures to perform work. Finally, in response to recommendation 3, management plans to present a business case by August 1, 2008, to support national expansion of the Utility Management System.

Management also provided information clarifying the legal interpretation of the Energy Policy Acts of 1992 and 2005 and the 2007 Energy Independence and Security Act (EISA) and how this legislation impacts the Postal Service. While acknowledging the need for an overall 30 percent reduction in energy use by 2015, the Postal Service maintains they are not obligated to comply with all aspects of the legislation since the organization holds a unique status in the federal government. Specifically, management believes EISA Sections 432 and 435, regarding assignment of an energy manager at each facility and addressing leased facilities, respectively, are not applicable to the Postal Service. Management further explained EISA Sections 517 and 435, regarding training contracting officers and requiring 75 percent energy coverage for buildings, respectively, are subject to guidance the Department of Energy has yet to develop.

We have included management's comments in their entirety in Appendix D.

Evaluation of Management's Comments

Management's comments are responsive to the recommendations and the corrective actions should resolve the issues identified in the report. We agree that the provisions of the 2007 EISA that management references do not specifically apply to the Postal Service. These provisions amend Section 543 of the National Energy Conservation Policy Act, which only applies to the Postal Service to the extent the Postmaster General is responsible for overseeing compliance with federal energy mandates. As such, Congress left in place the requirement to follow energy consumption standards.

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations in the report. The OIG considers all recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Miguel Castillo, Director, Engineering, or me at (703) 248-2100.

E-Signed by Darrell E. Benjamin,
VERIFY authenticity with ApproveIt

Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Support Operations

Attachments

cc: Patrick Donahoe
Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service has over 34,000 facilities nationwide. During fiscal years (FY) 2006 and 2007, the Postal Service expended more than $600 million in utilities to support operations in these facilities. When compared to all federal entities, the Postal Service is the second largest consumer of energy after the Department of Defense (DOD).

Federal legislation designed to reduce energy consumption continues to affect the Postal Service. In particular, the Energy Policy Acts (EPACT) of 1992 and 2005 require the Postal Service to lower its energy consumption to specific goals. The 2007 EISA expanded these requirements.[1] Under the 1992 EPACT, the Postal Service was required to reduce energy consumption by 20 percent through FY 2000, where practicable, using a 1985 baseline. The 2005 EPACT and the 2007 EISA require, collectively, a 30 percent reduction in consumption between 2006 and 2015 using a 2003 baseline. In response to energy legislation, the Postal Service annually reports energy consumption reductions for its facilities to the Department of Energy (DOE).

In FY 2006, the Postal Service created a senior level energy position reporting directly to the Deputy Postmaster General. The Executive Director of Energy Initiatives is responsible for overall Postal Service energy reduction activities and works with vice presidents, such as the Vice President of Facilities, to create and implement Postal Service energy management strategies. Also in FY 2007, Facilities Management was given the authority and responsibility to develop strategies and implement activities to reduce energy consumption in the building inventory.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to evaluate whether the Postal Service has an energy management strategy for facilities to meet federal requirements.

To accomplish our objective, we reviewed annual reports on energy management and conservation programs and federal agencies' energy scorecards, and interviewed current and former managers responsible for the Postal Service's Energy Management Program. We also consulted the U.S. Postal Service OIG General Counsel on the Postal Service's obligations associated with federal legislation. In addition, we reviewed electrical consumption data the Postal Service reported to the DOE.

Further, we reviewed data from the Accounting Data Mart to identify FY 2007 utility costs and the Facilities Management Database to identify facility data useful to our

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[1] Appendix C summarizes energy legislation applicable to the Postal Service.

audit. Previous OIG reports related to these systems did not reveal weaknesses that would impact our audit.

We conducted this performance audit from September 2007 through April 2008 in accordance with generally accepted government auditing standards and included tests of internal controls that we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on February 14, 2008, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

We did not identify any prior audits or reviews related to the objective of this audit.

APPENDIX B: DETAILED ANALYSIS

Postal Service Can Strengthen Energy Planning

The Postal Service has a number of strategies and activities under way to reduce energy consumption at its facilities. In November 2007, the Postal Service energy initiatives team implemented a program with a supplier to collect utility energy cost and consumption data at 500 of its largest facilities and 100 smaller ones. The team has also contracted with suppliers to complete energy audits nationwide and begin implementing actions to take advantage of identified energy conservation opportunities.

However, a long-term energy management plan does not exist. Without a long-term energy management plan, the Postal Service cannot effectively maximize its energy conservation efforts as required by the 2007 EISA. A long-term energy management plan would set goals, identify a method for tracking reduced consumption, identify project financing to accomplish goals, and measure performance.

The first phase of the Postal Service's energy management strategy has included:

- Contracting with a vendor to successfully complete a pilot period of up to 1 year to capture actual cost and consumption data, improve bill management, and analyze rates and taxes paid. The targeted facilities account for 60 to 70 percent of utility energy costs.[2]

- Identifying and starting detailed energy audits for targeted facilities.

- Initiating development of an Enterprise Energy Management System. This system is intended to consolidate all energy information including actual meter and sub-meter information from the largest facilities.

- Upgrading design standards and instituting detailed operating procedures to ensure all new construction, repair, and alteration projects are as energy efficient as they are cost effective.

The 2007 EISA specifies energy reductions at a group of facilities that constitute 75 percent of energy use. While we recognize management's efforts to improve energy efficiency at its facilities, the Postal Service's initial focus of reviewing the largest 500 sites accounts for only 60 to 70 percent of its utilities costs. These 500 sites represent less than 2 percent of Postal Service-owned and leased facilities and 40 percent of the total square footage of facilities. This focus may not allow the organization to reduce energy use by 30 percent.

[2] The Postal Service estimates consumption based on costs rather than actual consumption.

An OIG audit[3] of energy activities in the Northern Virginia District noted many low or no-cost opportunities for lowering energy consumption at facilities that are not part of this initial site focus. While performing site walk-through inspections at facilities as small as 11,000 square feet, we noted opportunities such as increasing energy awareness, installing lighting sensors, and changing thermostat settings. We believe that considerable potential exists to reduce energy at many facilities beyond the top 500 sites.

Internal Energy Policies Outdated

The Postal Service's energy policies are outdated. Both the *Facility Energy Management Program Management Instruction* (AS-550-97-4, dated June 1997) and the *Facility Energy Management Guide* (AS-558, dated September 1998) reference obsolete goals and responsibilities. Since the agency issued these policies, goals for reducing energy consumption have changed because of new legislation. Also, the responsibility for the Postal Service's national energy program, including the development of policies and plans, no longer resides with the Vice President, Engineering.

National policies set the direction of the agency and reflect the level of commitment the organization is willing to make. Without clearly defined policies, goals, measures, and responsibilities, the Postal Service cannot assess its progress in reducing energy consumption.

Reported Reductions in Energy Consumption Not Validated

In an effort to establish a repeatable and verifiable methodology, the Postal Service changed its process for calculating consumption for the 2007 reporting period as well as for prior years (back to 2003). The agency based its new methodology on standard federal templates for completing a DOE report. This significantly changed the amount of consumption reported in the last two annual reports, as shown in Table 1.

[3] *Northern Virginia District Energy Management Savings* (Report Number DA-AR-08-003, dated March 20, 2008).

Table 1. FYs 2006 and 2007 Annual Reports: Postal Service Facility Energy Usage

	FY 2006 Energy Consumption (British Thermal Units-BTU)	FY 2007 Energy Consumption (BTU)	FY 2006 Facility Space (Millions Square Feet-MSF)	FY 2007 Facility Space (MSF)	FY 2006 BTUs per Gross Square Foot (GSF)	FY 2007 BTUs per GSF
FY 2003	23,969	31,986	353	314	68	102
FY 2005	23,425	35,237	361	311	65	113
FY 2006	22,231	33,999	332	314	67	108
FY 2007		27,938		313		89

Although this new methodology is repeatable and verifiable, it does not necessarily provide an accurate representation of energy consumption. The Postal Service calculates energy consumption as a cost per square foot, which may be misleading as the per unit cost of energy will fluctuate over time, so this does not necessarily equate to levels of consumption. In comparison, we noted the DOD captures actual meter readings for its consumption data.

There were also significant changes in the amount of facility space reported in the *2007 Annual Report on Energy Management and Conservation Programs.* The current methodology uses the square footage from the facilities management database and the Postal Service's annual report. However, the basis for reporting facility square footage in prior reports is not clear. According to Facilities personnel, sites were removed because they were partially used and their inclusion would skew the results and show the Postal Service as being more energy-efficient than it actually is.

Further, the Postal Service made significant changes in reporting cost per unit. Prior to 2007, the Postal Service calculated the estimated cost per unit on a regional basis which was $.03 per kilowatt hour more than the federal average. Calculations in the annual report used a federal average cost per unit provided by the DOE.

An indication of the fluctuations that can occur when using dollars spent to calculate energy consumption can be seen in a comparison with actual consumption data for Postal Service facilities in the state of Texas. We compared actual consumption with estimated consumption data reported to the DOE and the cost calculated on a regional basis. As shown in Table 2 below, this comparison reflected a difference ranging from 9 percent below actual consumption using the regional method, to 11.9 percent above actual consumption using the federal average.

Table 2. Comparison of Electrical Energy Consumption in Kilowatt Hours (KWHR)

	Invoice Amount	Unit Cost	KWHRs	Difference in KWHRs	Percent Difference in KWHRs
Actual Consumption for Facilities in the State of Texas	$25,070,653	$0.09	279,981,789		
Consumption Based on Regional Average		$0.10	254,524,398	-25,457,391	-9.09
Consumption Based on Federal Average		$0.08	313,383,165	33,401,376	11.93

The Postal Service also reported two energy credits[4] as part of its energy reduction. The first was an 8 percent credit in FY 2000 for increases in automation and the second was a 4 percent credit in FY 2006 for installation of the Ventilation Filtration System (VFS) and the Biohazard Detection System (BDS). This was also updated in the 2007 annual report to reflect a revised 1.5 percent credit for VFS and BDS. The Postal Service could not provide supporting documentation for the 8 percent automation credit taken in FY 2000 and the revised credit was based on estimates rather than actual consumption.

Without accurate consumption data, the nationwide impact for energy reduction cannot be validated. In addition, the Postal Service cannot accurately determine whether its strategy or activities are achieving approximately 3 percent[5] annual reductions to keep pace with federal legislation.

Opportunity to Collect Actual National Consumption Data

The Postal Service has not collected actual consumption data systematically on a national basis since updates to the Energy Consumption System ended in 1992. During the audit, we noted that energy providers can send electronic consumption data through an electronic data interchange and the Postal Service can store this data in its eBuy system.[6] However, the Postal Service has not taken full advantage of this opportunity for all of its sites. At the time of our review, the eBuy database listed 44 utility providers. Nationwide, the Postal Service made payments to 7,349 utility providers and less than 1 percent of these providers accounted for approximately 65 percent of utility payments, averaging $22.5 million monthly for the first three quarters in FY 2007. The Postal Service could require or negotiate an electronic data interface (EDI) from at least its largest energy suppliers.

[4] Energy credits are adjustments provided for the increase in energy consumption through new or increased automation or an increase in facility space.
[5] The Postal Service has 10 years (2006-2015) to reduce consumption by 30 percent when considering the 2005 EPACT and the 2007 EISA, or approximately 3 percent per year.
[6] eBuy is an all-electronic purchasing system developed for the Postal Service. It includes electronic utility invoicing and payment.

We recognize the Postal Service has contracted for data collection primarily at its 500 largest sites. Expanding EDI could provide a low-cost alternative for consumption data at a larger universe of sites.

APPENDIX C
SUMMARY – ENERGY MANAGEMENT LEGISLATION

Energy Policy Act of 1992

- Specifically mentions the Postal Service.
- Calls for a 20 percent energy reduction at facilities through FY 2000.
- Section 166 subjected the Postal Service to the same requirements as other federal agencies in Section 543 of the National Energy Conservation Policy Act (NECPA).
- Energy initiatives are to be implemented to the maximum extent practical.

Energy Policy Act of 2005

- Amended many provisions of building energy requirements.
- Set energy reduction goals to 20 percent between 2006 and 2015.

Energy Independence and Security Act of 2007

- Passed before the Postal Service implemented many of the 2005 EPACT recommendations.
- Section 431 expands energy reduction goals to 30 percent between 2006 and 2015.
- Section 432 amends NECPA Section 543 to require each federal agency to designate a federal energy manager responsible to reduce energy use at each facility that is included in a group of facilities that constitute 75 percent of the energy use at the agency. The energy manager shall complete a comprehensive energy and water evaluation study for 25 percent of the facilities within the 75 percent energy usage group each calendar year. The energy manager will use a web-based certification process the DOE established for the identified facilities.
- Section 435 states that, 3 years after enactment, no federal agency may lease space that is not Energy Star labeled unless there is no space available that meets the functional needs of the agency.
- Section 517 requires training for agency contracting officers in (1) negotiating energy savings performance contracts, (2) concluding effective and timely contracts for energy efficiency services with all companies offering these services, and (3)

reviewing federal contracts for all products and services for the potential energy efficiency opportunities and implications of the contracts.

APPENDIX D: MANAGEMENT'S COMMENTS

UNITED STATES POSTAL SERVICE

March 31, 2008

JOHNSON JOHN

SUBJECT: Transmittal of Draft Audit Report – Facilities Energy Management Strategy (Report Number DA-AR-08-DRAFT)

We are pleased to provide the attached response to the recommendations in the Office of the Inspector General (OIG) Draft Audit Report. We are in agreement with the three recommendations to strengthen our energy management strategies for facilities to meet federal requirements.

The subject audit report and this response contain information relating to potential vulnerabilities that, if released, could possibly be exploited and cause substantial harm to the Postal Service. Therefore, this information should be classified as "restricted" and exempt from disclosure under the Freedom of Information Act.

If you have questions regarding our response, and would like to discuss them further, please contact Robert McNiece (336) 665-2828 or Carolyn C. Cole at (202) 268-4136.

Tom A. Samra
Vice President, Facilities

Carolyn C. Cole
Acting Executive Director, Energy Initiatives

Attachment

Facilities Energy Management Strategy
Management Response March 31, 2008

We recommend the Vice President, Facilities, in coordination with the Acting Executive Director, Energy Initiatives:

Recommendation 1: Finalize and publish a National Energy Management Plan. This plan should establish a long-term vision and goals that encompass facilities referenced in the Energy Independence and Security Act of 2007.

Response We agree. We are in the process of developing the National Energy Management Plan. Our goal is to publish the plan by August 1, 2008.

It is prudent for us to provide legal interpretation and clarification of the law as it applies to the Postal Service.

The material in this draft OIG report on the energy reduction mandates does not accurately reflect the fact that the Postal Service, while required to meet certain specific building energy reduction goals, is authorized by statute to reach the goals through its own program, independent of the programs applicable to the rest of the government. The Postal Service is not to be treated the same as other government entities and has been recognized as having a unique status within the federal government.

The Postal Service is an independent establishment of the executive branch of the federal government. It is part of the federal government but not an executive agency as that term is defined in section 105 of title 5. The legislative history of the Postal Reorganization Act repeatedly emphasized the need for the Postal Service to be separate from the governmental controls of the executive and legislative branches of the government.

The Energy Policy Act of 1992, in section 166, set forth the building energy management requirements for the Postal Service. The Energy Policy Act of 1992 amended the National Energy Conservation Policy Act. (42 U.S. C. 8251 et seq.). Section 166 of the Energy Policy Act of 1992 applied the same building energy reduction goals to the Postal Service as it applied to the rest of the government under section 152 that amended section 543 of the National Energy Conservation Policy Act -- energy consumption was to be reduced so that in fiscal year 2000, in federal buildings, energy consumption per gross square foot was to be at least 20 percent less than it was in 1995. However, special provision was made for the Postmaster General to either (1) make the reductions to maximum extent practicable, or (2) exclude from the requirements any facility or group of facilities if the Postmaster General finds compliance with the requirements to be impracticable based on the energy intensiveness of activities carried out in such facility. In 1992, in the initial version of the legislation that was considered, the activities of the Postal Service were to be covered in the same way as other agencies. Based upon testimony by postal officials, the legislation was amended to direct the Postal Service to establish its own program for monitoring and reducing building energy. The decision to have the Postal Service adopt its own energy management program was based on the fact that to do otherwise would fly in the face of the intent of Congress when it enacted the Postal Reorganization Act to exempt the Postal Service from most government-wide legislation. The Postal Service was required to operate in a businesslike, efficient manner with responsibility for its own budget and funds. It also has its own independent contracting authority. Having the Postal Service manage its own energy management program was consistent with this mandate.

The Energy Policy Act of 2005 amended the National Energy Conservation Policy Act Section 543 to require that agencies reduce facility energy consumption 20% by the year 2015, as compared with 2003 levels. Beginning in 2006, agencies were to reduce energy consumption in increments of 2% per year until 2015.

The Energy Independence and Security Act of 2007 (EISA), in section 431, further amended the National Energy Conservation and Policy Act (42 USC 8253) to require that federal agencies reduce energy in federal buildings 30% by 2015 based on a 2003 baseline.

Facilities Energy Management Strategy
Management Response March 31, 2008

For specific comments, on page 5 of the draft report it is mentioned that the Postal Service selected the largest 500 facilities. This is within the purview of Section 166, and the mandate under EISA to cover 75% of the energy use is not an applicable requirement upon the Postal Service. Rather, the Postal Service is required to reduce overall energy use by 30% and how it achieves that requirement is within management discretion. Further, the 75% energy coverage for buildings is subject to guidance yet to be developed by DOE.

Under Appendix C, the discussion of the Independence and Security Act of 2007 mentions that federal agencies must designate facility energy managers but this requirement is not applicable to the USPS under the general exclusion from application of federal laws that cover employees to the Postal Service under Title 39 and the EPACT Section 166 language dealing with compliance with energy management requirements. Also, Section 435 of EISA dealing with leased facilities is not applicable to the Postal Service under Title 39 and EPACT Section 166.

Section 517 of EISA on training contracting officers requires development of the training by DOE. Management will send appropriate personnel to this training

Target Completion Date: August 1, 2008

__**Recommendation 2**__**:** Update the *Facility Energy Management Policy and Guide*. This should clarify the organizational structure for carrying out energy management responsibilities.

Response: We agree. We are in the process of revising based on the organizational changes and the new process and procedures to perform work.

Target Completion Date: October 1, 2008

__**Recommendation 3**__**:** Continue to develop systems for reporting actual energy consumption baselines and progressing toward energy reduction goals. In this regard, management should consider expanding electronic energy billing interfaces to collect actual energy consumption data or develop other long-term solutions.

Response: We agree. The Utility Management System (UMS) currently provides actual consumption information on the top 500 facilities and 100 smaller sites. It is our goal to develop the Business case to support the national expansion of UMS. We expect to have this Business case completed by August 1, 2008, which will include a strategy for implementation.

Given our infrastructure of 34,000 buildings with 24,000 of these being smaller than 5,000 square feet, it is critical that we fully determine the cost benefit relationship with having actual consumption information for every building. We are also ensuring that capital improvements performed in any size facility are as energy efficient as cost effective or as a minimum meet very strict energy performance guidelines. Since the USPS will spend ~$500 million in FY2008 alone on these types of projects, considerable improvement will be made in facilities of all sizes and not just the top 500.

Target Completion Date: August 1, 2008

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

March 31, 2009

MICHAEL J. DALEY
VICE PRESIDENT, PACIFIC AREA OPERATIONS

MICHAEL J. FANNING
MANAGER, ENVIRONMENTAL POLICIES AND PROGRAMS

SUBJECT: Final Audit Report – Recycling Opportunities – Pacific Area
(Report Number DA-AR-09-005)

This report presents the results of our self-initiated audit of U.S. Postal Service recycling programs in the Pacific Area (Project Number 08YG034DA000). Our objective was to evaluate recycling programs at high-revenue facilities to identify opportunities to expand on those successes. See Appendix A for additional information about this audit.

Conclusion

The Pacific Area has a profitable recycling program. Specifically, two of the eight Pacific Area performance clusters, San Diego and Santa Ana, are among the top 10 recycling revenue-generating districts in the nation.[1] However, there are opportunities to expand recycling programs in the Pacific Area, particularly in the Los Angeles and Honolulu Districts, due to insufficient management support and the absence of formal recycling contracts in some districts.

There are also opportunities to strengthen controls over contractor pickups. This occurred because management at Postal Service facilities in the Pacific Area did not use consistent methods to verify the volume of recyclable material collected by vendors. Consequently, the volume of recyclable materials generated and related revenues could be less than optimal. Strengthening these controls would give the Pacific Area added assurance that recycling revenue is properly collected and accounted for.

[1] The San Diego and Santa Ana performance clusters ranked number one and four, respectively.

Additionally, recycling revenue in the Pacific Area accrued in Account Identifier Code[2] (AIC) 149, Sale of Paper, Plastic and Other Recyclables, is inaccurate. For example, the Los Angeles and San Diego Districts were offsetting trash hauling and recycling-related expenses with recycling revenue, and portions of recycling revenue generated in the Santa Ana and San Diego Districts were credited to the wrong account. These conditions occurred because districts were not aware of current guidelines for recording recycling transactions. As a result, the Pacific Area cannot adequately assess if recycling goals were achieved. See Appendix B for our detailed analysis of this topic.

We recommend the Vice President, Pacific Area Operations:

1. Provide additional recycling training to maintenance and operations personnel responsible for conducting recycling activities and expand recycling programs throughout the area.

We recommend the Manager, Environmental Policies and Programs, improve awareness of policies and procedures that:

2. Require appropriately designated site personnel to certify the tonnage of recyclable material and trash collected by contractors.

3. Require accurate recording of recycling revenues.

Management's Comments

The Postal Service agreed with the recommendations and will take appropriate actions to resolve the issues by July 31, 2009. Specifically, the Pacific Area agreed to take steps to ensure additional training is provided to appropriate personnel. The Environmental Policies and Programs office will work in coordination with the Memphis Commodity Management Center (CMC) to provide the resources for site personnel to evaluate and certify tonnages of recycled material. Further, they will provide training resources for site personnel to ensure they are aware of the proper AICs to be used for each type of recycled material and will post procedures for cross checking the accuracy of contractor monthly reports.

While the Postal Service agreed with the recommendations and recognized there are opportunities to expand the existing recycling program, they disagreed with the conclusion that these opportunities exist due to insufficient management support. They stated the Los Angeles District's successful recycling program was developed with support of the Memphis CMC under its Total Waste Management initiative. In addition, the Pacific Area stated the Environmental function recently reorganized and established 17 positions nationwide to focus on recycling. See Appendix C for management's comments in their entirety.

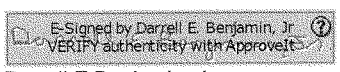
[2] AICs are three-digit codes that assign financial transactions to the proper account on the general ledger.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations and management's corrective actions should resolve the issues identified in the report.

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Miguel A. Castillo, Engineering, or me at (703) 248-2100.



Darrell E Benjamin, Jr.
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Attachments

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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Recycling is the process of returning used material to a manufacturer for reprocessing and reuse. The Postal Service's environmental policy requires recycling programs to be established at every level of the organization, including headquarters, area offices, and the performance clusters. At a national level, the Postal Service has targeted three materials for 100 percent recycling:

- Undeliverable standard mail (USM)
- Discarded lobby mail (DLM)
- Old corrugated cardboard (OCC)

In addition to the general advantages of environmental sustainability, recycling USM, DLM, and OCC results in reduced disposal costs and generates revenue where markets are favorable. In March 2008, the Postal Service established annual goals for increasing its recycling revenue from $7.5 million in fiscal year (FY) 2007 to $40 million by FY 2010. As of FY 2009, the Postal Service has tracked revenues generated from recycling activities in two AICs – AIC 149 and AIC 156, Sale of Miscellaneous Items and Non-Capital Equipment.[3]

A recent Postal Service study entitled "Business Case Evaluation for Postal Service Recycling"[4] concluded that recycling paper, cardboard, and other materials:

- Will substantially decrease Postal Service solid waste disposal costs.
- Can generate new revenue.
- Does not interfere with normal postal operations.
- Requires only modest incremental effort.

Postal Service recycling programs can be administered through local agreements or national contracts. National recycling contracts are negotiated and managed by the Eastern Services CMC in Memphis, TN.

[3] AIC 149 tracks revenues generated from the sale of paper, plastic, and other recyclables. AIC 156 tracks revenues generated from the sale of miscellaneous items and non-capital equipment, including scrap metals and unserviceable postal and building supplies. In FY 2008, the Postal Service also tracked recycling revenues in AIC 151, Vehicle Supplies and Service Reimbursements.

[4] Study prepared August 31, 2007, by URS Group, Inc.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to evaluate the Pacific Area's recycling programs at high recycling revenue facilities to identify opportunities to expand on those successes. We focused on the Pacific Area in response to concerns expressed by Environmental Policy and Program (EPP) management at Postal Service Headquarters that there were disparities in recycling programs within some areas, particularly the Pacific Area. To obtain an understanding of Postal Service recycling programs, we reviewed relevant documentation, including pertinent Postal Service handbooks and manuals, and conducted interviews with EPP management. To assess the recycling revenues generated in the Pacific Area during FYs 2007 and 2008 and identify high recycling revenue facilities, we reviewed recycling revenue performance reports prepared by EPP staff. We also reviewed a sample of invoices for recycling and trash hauling services in the Pacific Area. To identify recycling program successes and opportunities for improvement, we conducted site visits to judgmentally selected Pacific Area facilities and interviewed the Pacific Area Manager, Environmental Programs, as well as various Pacific Area Environmental Specialists.

We conducted this performance audit from September 2008 through March 2009 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We reviewed policies and procedures for internal controls, discussed our observations and conclusions with management officials on February 26, 2009, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
Estimated Supply Chain Management Impact Associated with Waste, Trash, and Recycling Services	CA-MA-08-001	January 10, 2008	The OIG determined that management practices could be strengthened for waste, trash, and recycling services contracts. We recommended standardized procedures for file management, and payment tracking for waste, trash, and recycling services contracts. In addition, we recommended developing reports and procedures that adequately account for revenue from recycling contracts. Postal Service management agreed with the findings and recommendations.
U.S. Postal Service, Mail-Related Recycling Initiatives and Possible Opportunities for Improvement	GAO-08-599	June 2008	The U.S. Government Accountability Office (GAO) identified opportunities for the Postal Service to increase the recycling of mail-related material and to encourage mailers to increase the amount of mail with environmentally preferable attributes. They recommended EPPs revise the agency's recycling goals to include savings from lower waste disposal costs or adopt additional goals that would reflect the full financial benefit attributable to mail-related recycling. In addition, GAO recommended that these programs ensure that the mail-related recycling plan specifies how the Postal Service will (1) measure progress toward its goals and (2) ensure that the data it uses for these measurements are accurate, reliable, and collected using a consistent method. Postal Service management agreed with the findings and recommendations.

APPENDIX B: DETAILED ANALYSIS

Opportunities to Expand Recycling Programs

Although Postal Service policies[5] call for strong recycling programs in each area, there are opportunities to enhance and expand recycling programs in the Pacific Area, principally due to inadequate management support and the absence of formal recycling contracts in some districts. Specifically:

- No environmental specialist is assigned to the Honolulu District to coordinate environmental and recycling programs.
- The Los Angeles District has not been provided dedicated resources to implement its recycling program, such as personnel, workhours, and funding, since 2001.
- Most field managers in the Pacific Area have responsibilities other than recycling and focus mainly on compliance issues.

Expanding the Pacific Area's recycling program would increase the overall success of the Postal Service's recycling program and enhance the associated revenue.

Internal Control Improvements Needed Over Pickups

The Pacific Area had opportunities to strengthen controls over contractor pickups because facility managers did not use consistent methods to verify the volume of recyclable material collected by vendors. Specifically, the Pacific Area:

- Did not have a formal process to confirm how much trash or recycling waste was actually being picked up by the contractors.
- Relied primarily on vendors to provide data on recycling tonnage.

Consequently, the volume of recyclable materials generated and related revenues could be less than optimal. Also, there is an increased risk that recovered recyclable material is not properly collected and accounted for.

In response to our audit findings, the EPP office has tasked the Acting Manager, Recycling, to work directly with the Los Angeles District Manager to assess and improve recycling and waste disposal activities.

[5] Postal Service Handbooks, AS-550-A and AS-550-B, *Paper and Paperboard Recycling Guide and Plan*, dated September 1997, outline the Postal Service's policy for recycling, recycling goals and strategies, and information about the purchase and sale of recyclable material and program development and implementation. Handbook HBK-EL-890, *Paper and Paperboard Recycling and Plastics from Postal Operations*, and Management Instruction MI-EL-890-2007-5, *Integrated Waste Management*, are currently being updated.

Reported Recycling Revenue Is Not Accurate

Recycling revenue in the Pacific Area accrued in AIC 149 was inaccurate. For example, some Pacific Area Districts, including the Los Angeles and San Diego Districts, offset trash hauling and recycling-related expenses with recycling revenue. In addition, recycling revenue in some districts was credited to an incorrect AIC. Specifically, portions of recycling revenue generated in the Santa Ana and San Diego Districts were credited to incorrect accounts, including a general account for miscellaneous revenues, instead of being credited to AIC 149. These conditions occurred because districts were not aware of current guidelines for recording recycling transactions.

Postal Service accounting policy[6] requires revenue to be classified by source. By misclassifying recycling revenue, Pacific Area Districts may be understating amounts in reports that convey their progress in meeting recycling revenue goals.

In response to our audit findings, the EPP office alerted facilities in the Santa Ana and San Diego Districts to the proper procedure for accounting for recycling revenue. The EPP office also instructed all field offices to discontinue commingling waste disposal costs with recycling revenue. To facilitate this transition, field budgets allocated additional funds to cover trash hauling and recycling-related expenses that had previously been offset by recycling revenues.

[6] Handbook F-23, *Accounting Policy Reference*, establishes general accounting policies for the Postal Service. It requires the Postal Service to prepare its financial statements in accordance with Generally Accepted Accounting Principles (GAAP). According to proper accounting procedures in GAAP, recycling revenue and costs should not be combined and reported as net revenue.

APPENDIX C: MANAGEMENT'S COMMENTS

UNITED STATES
POSTAL SERVICE

March 24, 2009

Lucine Willis
Director, Audit Operations
1735 North Lynn St.
Arlington, VA 22209-20202

Subject: Draft Audit report – Recycling Opportunities – Pacific Area
(Report Number DA-AR-09-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report.

We have determined that the draft report contains no confidential or sensitive proprietary business, personal or law enforcement information that would be exempt from disclosure under the Freedom of Information Act.

While the Pacific Area agrees that there are opportunities to expand the existing profitable Area recycling program, the conclusion that these opportunities exist due to "insufficient management support" is inaccurate. The Los Angeles District operates a successful recycling program, developed with the support of the Memphis Commodity Management Center under its "Total Waste Management" initiative. This initiative used revenue from recycling to offset trash removal costs. As a result, trash costs were eliminated from the Los Angeles District operating budget, and a revenue stream from recycling was generated. Pursuant to new Finance policies, the Los Angeles recycling contract has been re-issued as a revenue-only contract. Therefore the Los Angeles District will re-establish a budget for its trash removal costs, and will generate increased revenue for recyclables. Los Angeles District management supports recycling and has earned several prestigious awards for its efforts.

In addition, the Environmental function recently reorganized and established 17 positions nationwide to focus on recycling. This audit validated the business case we identified to capture recycling opportunities.

Recommendation 1

- 2 -

We recommend the Vice President, Pacific Area Operations provide additional recycling training to maintenance and operations personnel responsible for conducting recycling activities and expand recycling throughout the Area.

Response

The Pacific Area agrees with this recommendation. We will take the following steps to ensure additional training is provided to appropriate personnel:

- Review available cost-effective training resources with Environmental Policy and Programs, Maintenance Policy and Programs and Memphis CMC.
- Determine which Pacific Area sites have contracts and identify and schedule training.

Target Implementation Date: September 30, 2009

Recommendation 2

We recommend the Manager, Environmental Policy and Programs, improve awareness of policies and procedures that require appropriately designated sites personnel to certify the tonnage of recyclable material and trash collected by contractors.

Response

We agree with this recommendation. Environmental Policy and Programs working in coordination with the CMC will provide the resources for site personnel to evaluate and certify tonnages recycled. The certification of tonnage will provide estimating procedures in those instances where recyclables are collected on cubic yard basis without certified weight slips. Specifically, our actions are:

- Environmental Policy and Programs, working with the CMC, will provide net meeting briefings using the monthly "trash talks" forum to communicate proper estimating procedures for recycling tonnage and validation checks on recycling weight slips.
- Estimating procedures and weight verification procedures to be posted on CMC and EPP websites.

Target Implementation Date: July 31, 2009

Recommendation 3

We recommend the Manager, Environmental Policy and Programs, improve awareness of policies and procedures that require accurate recording of recycling revenues.

Response

We agree with this recommendation. Environmental Policy and Programs working in coordination with the CMC will provide the training resources for site personnel to ensure they are aware of the proper AIC codes to be used for each type of recycled material. In addition, Environmental Policy and Programs will post procedures for cross checking the accuracy of contractor monthly reports.

Target Implementation Date: July 31, 2009

for Michael J. Daley
Vice President, Pacific Area

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Manager, Environmental Policy and Programs

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