

**STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON FINANCIAL SERVICES AND GENERAL GOVERNMENT
OF THE
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE**

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Good afternoon, Chairman Durbin, Ranking Member Collins, and members of the Subcommittee. I appreciate the opportunity to discuss the serious financial situation facing the United States Postal Service and to provide details of our plan for reducing the number of mail delivery days, should a frequency change be approved by Congress. I also would like to share aspects of our new action plan for the next decade titled, *"Ensuring a Viable Postal Service for America."*

For over 235 years, the Postal Service has provided trusted, affordable universal service to the nation. Our goal is to continue to do so. As the members of this Subcommittee are well aware, the Postal Service is in a dire financial situation. The situation has occurred despite the efforts of Congress through passage of the *Postal Accountability and Enhancement Act of 2006* (Postal Act of 2006). Our current financial circumstances have come about in spite of the massive efforts of Postal Service management and employees who have adopted aggressive cost-cutting measures to save over \$1 billion each year since 2001. For 2009 alone, the savings exceeded \$6 billion.

Our financial situation has many causes: a severe national recession that significantly affected the financial and housing sectors, which were important users of the mail; the powerful and rapid evolution of new technologies that have diverted mail to other channels; and the changing use of the mail to communicate and conduct business. This situation could not have been avoided and no one is to blame. No one could have envisioned the economic crisis that has rocked this country.

Further complicating the fiscal health of the Postal Service are limitations under which we operate, including:

- A statutorily mandated requirement to provide six-day a week delivery.
- Accelerated annual payments to pre-fund a significant portion of our retiree health benefit obligation.
- A restriction to not close Post Offices solely on an economic basis.
- The requirement to submit to binding arbitration to finalize labor contracts.
- Constraints on our ability to restructure and streamline our processing and distribution networks.
- Restrictions on the types of products and services the Postal Service can offer.
- A lack of clarity between the role of the Governors of the Postal Service and the Postal Regulatory Commission (PRC), and an oversight model that adds unnecessary burden and time to decision-making.

Without critically needed fundamental changes, the Postal Service expects significant losses in fiscal year (FY) 2010 and in each year into the near future. Our FY 2010 financial plan estimates a revenue decline of roughly \$2 billion and a net loss of approximately \$7 billion. These projections assume there will be no changes this year in the number of mail delivery days per week or in the current retiree health benefits prefunding schedule. If we were not to react and simply move forward with business as usual, the Postal Service is likely to have a cumulative loss of \$238 billion by 2020.

The Postal Service ended FY 2009 with a net loss of \$3.8 billion, despite cost-cutting efforts that yielded more than \$6 billion in cost savings and a \$4 billion reduction in the required 2009 payment to the Postal Service Retiree Health Benefits Fund (PSRHBF) provided by the enactment of Public Law (P.L.) 111-68. We are very grateful to Congress and the Administration for that legislation. However, P.L. 111-68 did not restructure the PSRHBF payments beyond 2009, and the Postal Service continues to be in financial crisis. We urgently need retiree health benefits legislative restructuring from Congress.

In FY 2009, mail volume continued to drop. At 177 billion pieces, volume was down 26 billion pieces or 12.7 percent from the previous year—representing the largest volume decline in Postal Service history. Our volume losses continue against a backdrop of an ever growing mail delivery network that presently has more than 150 million delivery points.

The \$6 billion in savings we successfully achieved during FY 2009 included a reduction of 115 million workhours—the equivalent of 65,000 full-time employees. For FY 2010, our plan is to cut an additional \$3.8 billion of costs, including the elimination of approximately 90 million more workhours. In addition to workhour reductions, our targeted activities will include maximizing operational efficiencies, re-negotiating contracts with major suppliers, continuing the freeze on construction of most new facilities, and using our pricing flexibility to grow new revenue. We have also worked closely with our union representatives to agree on adjustments that reduced costs and increased delivery efficiency. We also will continue to aggressively pursue initiatives to generate new revenue.

Given that the mail volume declines and financial pressures will continue throughout the next decade, the choices for overcoming this serious situation are not easy and there is no single remedy that can return the Postal Service to good financial health. But we do have an action plan for the next decade—one that is both ambitious and aggressive. Through a careful and comprehensive effort, we have identified a set of the most reasonable business choices for the Postal Service and the customers we serve.

To help develop our plan we engaged three of the world's most experienced and respected management consulting firms: McKinsey & Company, The Boston Consulting Group, and Accenture, LLC. We asked each of these firms to act independently and to conduct studies and have conversations with postal customers, mailers, labor associations, regulators, and mailing industry stakeholders. We wanted them to gather information to help us determine the likely state of the mailing industry and the Postal Service over the next decade. Our expectation was for the consultants to produce ideas that would allow the Postal Service to close the growing gap between our revenues and expenses without undue impact on our stakeholders.

The consultant's key findings included the following:

- Without fundamental changes, the Postal Service's losses will continue. By 2020, cumulative losses will exceed \$238 billion.
- Mail volume will decline by roughly 15 percent to about 150 billion pieces in 2020, from a 177 billion pieces in FY 2009.

- The mix of mail received by the Postal Service will change; First-Class Mail will fall sharply and Standard Mail will stay fairly flat. First-Class Mail contributes more toward covering institutional costs, which supports the processing and delivery network.
- The Postal Service could close the gap by as much as \$123 billion, without statutory or regulatory changes, by taking product and service actions, by continuing to improve processes and productivity, by adopting workforce flexibility improvements, and by pursuing purchasing savings. Achieving this level of savings will be extremely challenging.
- Key areas were identified and options provided to close the remaining \$115 billion gap. However, legislative and regulatory changes are needed to achieve them.
- The best way to address the financial challenges and preserve the strength of the Postal Service and the entire mailing industry is through a comprehensive approach that balances the needs of all key stakeholders.

The Postal Service created its plan—*Ensuring a Viable Postal Service for America*—upon thorough review and consideration of the consultant’s recommendations. The plan provides options to address the challenges we face and is a balanced and reasonable approach to creating a financially sound future. No single option will be able to close the whole \$115 gap; if it came to pass that only one option were used to close the gap, it would likely cause severe disruptions that would have significant adverse impacts. To implement the plan, a number of fundamental changes are necessary, some of which would require legislative changes from Congress. Our solutions are as follows:

- Restructure the Prefunding of Retiree Health Benefits – We request that Congress permit these payments to be deferred and shifted to a “pay-as-you-go” system comparable to what is used by the rest of the Federal government and the private sector. This would provide the Postal Service with an average of \$5.6 billion in cash flow per year through 2016. In addition, overpayments to the CSRS pension fund by the Postal Service also need to be resolved.
- Delivery Frequency – We request that we be permitted to adjust the number of mail delivery days to better reflect current mail volumes and customer usage.
- Expand Access – We will continue to modernize our channels for alternate access by providing services where our customers are. We also will continue to increase and enhance customer access through private sector retail partnerships, kiosks, and improved online offerings. However, the Postal Service needs to be relieved of the statutory prohibition against closing a Post Office for solely economic reasons.
- Workforce – We will work during our upcoming collective bargaining negotiations to establish a more flexible workforce that is better positioned to respond to changing needs of our customers and take advantage of the over 300,000 voluntary separations projected to occur over the next decade. We would also ask that Congress pass legislation that requires an arbitrator to take the financial health of the Postal Service into consideration in making an arbitration determination.
- Pricing – We request that Congress apply the Consumer Price Index price cap to the entire basket of Market-Dominant products, rather than the current restriction which caps prices for every class at the rate of inflation. This will allow pricing to respond to the demand for each individual product and its costs. In addition, we will use our existing flexibility to pursue an exigent price increase. Assuming other parts of our plan can be implemented, the exigent price increase will be moderate and not occur before 2011.
- Expand Products and Services – We ask that Congress permit us to evaluate and introduce more new products and services consistent with our mission. This will allow us to better respond to changing customer needs.

- Oversight – We ask that Congress provide us with more clearly defined, appropriate, and agile oversight and more streamlined processes. This will help to achieve the solutions in our action plan.

As you can see, some of these solutions could be implemented relatively quickly within the short-term, while others would require much more time to achieve. No one solution is the answer to reversing our financial condition. And doing nothing—the status quo—is not an option. We believe a balanced approach that provides the Postal Service with the flexibility to respond to market dynamics and the speed to bring products to the market quickly, and that incorporates initiatives focused on cost, service, price, new product, and changes in the law would be the best approach. It is also the one that is most likely to perpetuate a financially sound Postal Service, able to meet the needs of the American people.

We are ready to proceed with our plan. But we need Congress to provide the legislative reform necessary for us to begin our recovery and move forward.

Now, I would like to discuss in greater detail the financial burden the Postal Service faces with respect to retiree health benefits. A provision established in the Postal Act of 2006 requires the Postal Service to prefund 73 percent of all future retiree health benefits—a 75-year liability—in just a ten-year period ending in 2016. This prefunding mandate is not shared by other federal agencies or private sector companies. The aggressive schedule, a product of budget scoring rules, requires the Postal Service to make annual prefunding payments averaging \$5.6 billion into the PSRHBF. In addition, the law requires the Postal Service to make separate insurance premium payments for retirees that average \$3.4 billion annually through 2016.

When the prefunding payment schedule was being considered in 2006, the Postal Service envisioned that it would be able to make the payments, while knowing it was a challenging goal. Since then, however, circumstances have changed dramatically. Between 2006 and 2009, mail volume fell by 17% and revenue fell by 6%. We no longer have the ability to meet this unique statutory requirement to prefund retiree health benefits at the accelerated pace. The enormous obligation costs the Postal Service and its customers—not taxpayers—\$55 billion in prefunding over the ten year period. The Postal Service recognizes its obligations to fund its retiree health benefits; however, our financial circumstances must be recognized. I would note that the trust fund holding the Postal Service's payments had a balance of more than \$35 billion at the end of FY 2009. Thirty-five billion dollars is sufficient to pay the premiums for all of our roughly 500,000 currently participating retirees through their expected life times.

The Postal Service greatly appreciates the action taken by Congress last year to enact legislation that restructured the payment for 2009. However, for 2010 and beyond, there is no assurance that similar adjustments will be granted. A restructuring of the payment obligation is urgently needed to allow the Postal Service to continue to fulfill its mission now and in the future. Legislative change would also reduce the need for the Postal Service to borrow funds from the U.S. Treasury for the sole purpose of depositing the money into the PSRHBF. We recognize there are a number of options, ranging from making no changes to the statutory payments schedule to adopting the Postal Service's Inspector General (IG) recommendation that Congress remedy a Postal Service over-funding of its Civil Service Retirement System obligation. The Postal Service supports the IG's recommendation. However, what the Postal Service needs is a relatively quick decision by Congress on how this issue will be addressed to provide the Postal Service clarity as we consider other options to close the gap.

Next, I would like to provide greater details on our request to change the frequency of the number of mail delivery days each week. The statutorily mandated requirement for six-day mail delivery has been in existence since 1983 and it places a very large financial burden on the Postal Service. Due to the unprecedented decline in mail volume, there no longer is sufficient volume to sustain the cost of the current six-day delivery network. The number of pieces of mail per delivery has declined from an average of 5 pieces in 2000 to 4 pieces in 2009, which represents a 20 percent

reduction. Assuming a scenario of five-day delivery and FY 2009 mail volume, the amount of mail per delivery would increase to more than 5 pieces. Revenue per delivery point dropped by 24 percent between 2000 and 2009, because our largest volume declines occurred in profitable First-Class Mail.

Moving to five-day delivery is absolutely necessary to ensure financial viability, both now and into the future. Reducing the frequency of delivery is the single most effective way for the Postal Service to substantially reduce operational costs—allowing us to reduce annual net costs by approximately \$3 billion. It would greatly assist us with regaining a portion of our financial footing and help to ensure that affordable universal service is maintained nationwide.

Market surveys conducted independently and on behalf of the Postal Service show that customers want to see the Postal Service survive and flourish. Most are willing to accept the elimination of Saturday delivery to reduce the Postal Service's losses. And, most would rather have Saturday delivery eliminated than have stamp prices increased significantly, as would be needed to ensure the Postal Service's financial stability. I would also like to cite the results of a Gallup survey conducted in June of 2009. The survey showed that 66 percent of those polled favored a change to five-day delivery "as a way to help the Postal Service solve its financial problems" over other alternatives such as increasing postage prices or closing local Post Offices. This result was echoed by studies conducted by Rasmussen in 2009 and 2010.

In anticipation of a possible change, we have conducted extensive stakeholder outreach through dozens of meetings with customers. We identified mailer issues and ensured their consideration in our planning. These exchanges helped us to understand and address the needs of the mailing industry and the public concerning a potential change in the frequency of mail delivery. The Postal Service has developed a comprehensive operations plan for five-day delivery that addresses all possible impacts from required software programming modifications to workforce adjustments and that addresses issues raised by our customers, to the extent possible. Two major assumptions guided the development of the concept: existing service standards would be maintained and any changes would comply with existing collective bargaining agreements.

Our plan for five-day delivery, which we will file with the PRC later this month, will present an overview of our five-day delivery concept and include cost and revenue impacts. As currently envisioned, our concept for five-day mail delivery service would include the following:

- Residential and business delivery and collections would be discontinued on Saturday.
- Post Offices that are usually open on Saturdays would remain open.
- Post Office Boxes would receive mail delivery on Saturday.
- Express Mail would continue to be delivered seven days a week, including Saturday and Sunday.
- Remittance mail (bill payments) addressed to Post Office Box and Caller Service customers would be made available to recipients seven days per week.
- Firm hold outs (mail that a business picks up at the Post Office) would be available for Post Office Box addressed mail Monday through Saturday, nationwide.
- No mail pick-up from blue collection boxes on Saturdays except for dedicated Express Mail collection boxes.
- Acceptance and drop-shipping of destinating bulk mail would continue on Saturday and Sunday.
- Alternate contract locations would remain open seven days a week on their normal schedules.
- Access to all of our online services via *usps.com* would continue to be available 24/7.

The Postal Service is fully aware that before a change in the number of delivery days could be adopted, legislative action would be required by Congress to amend the appropriations language that mandates six-day a week delivery. Should Congress approve a change that grants us the latitude to change the frequency of mail delivery, know that we are committed to implementing an in-depth communications plan for our customers and our employees to make the transition as smooth as possible. Upon approval, we intend to provide our customers with six months notice prior to implementing a change which we estimate would be no earlier than mid-2011. The impact on our employees would be minimal and it would occur through attrition, not layoffs.

Another issue for the Postal Service involves limitations that delay or prevent adjustments to our network operations and workforce. Despite these constraints, we are continuing to identify, pursue, and implement various solutions and strategies to make operational activities more efficient and reduce costs to help mitigate the impact of our financial difficulties. Some of the efforts we have adopted to improve efficiency and produce cost savings include consolidating functions, adjusting delivery routes, and restructuring administrative and processing operations—all while continuing to maintain excellent service levels.

The Postal Service needs more flexibility to respond quickly to a changing business environment. We need legislative and regulatory changes to allow us to modernize our network of facilities to meet changes in customer needs and mail volume. We are completing a process of reviewing retail facilities located in larger urban and suburban areas to identify sites where we have a number of facilities in close proximity. This process will help us determine where consolidations are possible so that we may conserve our resources and adapt our customer access to current needs. Related to these efforts, on March 10, 2010, the PRC issued an Advisory Opinion to the Postal Service concerning our Station and Branch Optimization and Consolidation Initiative. In its opinion, the PRC agreed with our approach and made a number of recommendations which we are in the process of reviewing.

Business processes that involve evaluating and relocating or consolidating retail outlets are reasonable and warranted practices used by many companies to streamline their operations and reduce costs. Often when a business is losing money, they resort to selling a portion of their assets, closing locations, or other options such as laying off employees. Here are just a few examples of business actions taken by private companies to improve their financial condition:

- In 2009, Sears closed 62 underperforming stores and initiated an aggressive global digital strategy.
- In November 2009, L.L. Bean announced it would be closing an outlet store in Portland, ME.
- In September 2009, a news item reported that Citigroup was considering shutting or selling some of its 1,001 branches in North America following a \$45 billion federal bailout. In 2008, Citigroup announced it was cutting its workforce, worldwide, by 14 percent, through the sale of some units or through layoffs.
- In 2008, Starbucks announced it was closing 5 percent – more than 600 – of its stores. In 2009, it announced it would close an additional 300 stores.
- In 2009, GM told 1,100 dealerships that it would drop them from its retail network effective October 2010; GM also discontinued the Saturn, Pontiac and Hummer lines of cars.
- A January 2010 news item reported a 10 percent cutback in the number of available airline seats, caused by airlines using smaller planes or reducing the number of flights.

If the Postal Service were provided with the flexibilities used by businesses in the marketplace to streamline their operations and reduce costs, we would become a more efficient and effective

organization. Such a change would also allow us to more quickly adapt to meet the evolving needs, demands, and activities of our customers, now and in the future.

The Postal Service is committed to continuing to fulfill the needs of customers. To help alleviate the concerns of our customers and to better match their changing retail needs, we have been emphasizing the easy and convenient availability of our expanded alternate access points. Today, 30 percent of retail revenue is generated by means other than a Post Office counter. Increasingly, customers are paying for postage stamps and conducting business at thousands of supermarkets, drug stores, and other postal retail partners, and by using our automated kiosks, and our website, *usps.com*. Our world class web site is available 24/7 to everyone with online access. The Postal Service continues to be committed to fulfilling the needs of customers. Postal customers now can access the services they need using a variety of readily available options including free carrier pick up of outgoing mail at every address. For many customers, these alternatives are simply more convenient and more suited to their lifestyles. Largely as a result of changing customer preferences, Post Offices had 117 million fewer transactions in 2009 than in 2008.

Throughout this difficult period, our employees continue to deliver very high levels of service. As just one example, during quarter one of FY 2010—and for the fifth straight quarter—our employees attained a score of 96 percent for the on-time delivery of single-piece overnight First-Class Mail. Our dedicated and hard working employees deserve tremendous credit for their successful efforts to provide excellent service under very challenging conditions.

Even so, the financial picture for the Postal Service is grim and without changes the situation will surely worsen. Mail volume has sharply declined from a peak of 213 billion pieces in 2006 to 177 billion pieces in 2009. Despite extraordinary efforts to cut costs, the Postal Service incurred multibillion-dollar net losses in the last three years. With many fixed operational costs that cannot be eliminated without diminishing service levels, we are running out of ways to cut more costs.

Nonetheless, the Postal Service is continuing to pursue available options to grow revenue during these challenging economic times. We understand that to best serve the American people in 2020 and beyond, we must be able to quickly offer products and services that meet the mailing and shipping needs of our customers. However, at present we must work within the framework provided in the Postal Act of 2006.

One excellent example of how we employed the full range of strategies available to us to successfully compete and generate revenue was our popular Priority Mail Flat Rate Box promotional campaign during 2009. The campaign offered customers a simple, economic way to ship their goods. We used a highly integrated media plan that incorporated TV, direct mail, print and digital advertising and we encouraged our retail clerks, letter carriers, and other employees to actively participate in and support the campaign. By being aggressive, we managed to avoid the double-digit revenue declines in the expedited market. We attribute this success to the pricing freedoms provided to us under the Postal Act of 2006, proven advertising, and outstanding customer service.

In 2009, we also introduced our first Summer Sale. Working with the PRC, we developed the Summer Sale concept that provided a 30 percent price discount on incremental volume of advertising mail available for three months during the summer. Over 400 of our largest customers participated in the sale and mailed a significant number of incremental pieces of Standard Mail.

The success of the Summer Sale led to the design and launch of a similar stimulus program for First-Class Mail. This program offered a 20 percent credit on the volume of presorted and automation First-Class Mail cards, letters and flats exceeding an established threshold. We know that mail is a powerful tool to help businesses grow. These sale programs help to ensure our customers know that they matter to us and we want to help them grow their business.

Another positive aspect of the Postal Act of 2006 has provided the Postal Service the ability to offer contract pricing to commercial customers. Prior to this time, everyone paid the same price no matter how much volume they shipped. With contract pricing, we can now compete somewhat more effectively with private carriers on price, which has allowed us to grow our profitable package business. Contract pricing has become a key strategy to grow our commercial business with large and medium sized customers. However, these pricing freedoms fall short of the freedoms our competitors enjoy, since each postal contract must be approved by both by our Board and our regulator, the PRC, in advance of implementation. Streamlining these requirements would enable us to capture more revenue opportunities with sufficient oversight to limit risk.

By 2020, the Postal Service plans to expand products and services across targeted mail and package segments to increase profits by \$2 billion. We will continue to work to increase direct mail use among small and medium-sized businesses, and to increase volumes in both First-Class Mail and advertising mail through targeted promotions. We also will continue to leverage our last-mile network to deliver packages to all households, forming partnerships with others serving the growing e-commerce industry. We also will continue to grow other retail services, such as passports and Post Office Box rentals to increase revenue. However, if we had the authority to offer a wider range of products and services consistent with our business, we could bring in more new revenue.

We urgently need legislative change from Congress. Without it, the Postal Service may have difficulty paying all of the obligations due this year. At present, our financial situation raises significant uncertainty about our ability to generate sufficient cash flows to fund the large cash obligations due in September. In addition, we believe the liquidity of the Postal Service will be seriously threatened beginning in early FY 2011, to the point where it will impact our ability to meet payroll and other financial obligations, as we will come dangerously close to running out of cash.

At present, the two most immediate changes the Postal Service urgently needs from Congress involve legislation that provides a restructuring of the prefunding payments for retiree health benefits and allows the Postal Service to reduce the frequency of mail delivery. Although these two changes will go a long way in helping to alleviate the financial pressures facing the Postal Service, by themselves they will not be enough to make the Postal Service profitable. The Postal Service must address the fact that mail volume is declining, especially First-Class Mail volume which has historically made a substantial contribution to support the overall network. Therefore, we need the flexibility to adjust our operations network to reflect this rapid decrease in today's mail volume, which will continue to decline for sometime into the future. We also need the ability to expand our products and services, and ensure prices for our Market-Dominant products are based on the demand and cost of each individual product. And finally, all of these changes need to be reinforced with more clearly defined and appropriate oversight roles for our many regulators and with more streamlined processes.

We understand that to best serve the American people now and in 2020 and beyond, the Postal Service must be leaner and have the ability to quickly respond to customer mailing needs. Our action plan is a path to a future in which the Postal Service will remain a vital driver of the American economy and an integral part of every American community, and will continue to deliver the greatest value of any comparable post in the world. If given the flexibility to respond to an evolving marketplace, the Postal Service will continue to be an integral part of the fabric of American life for a long time to come.

The mail and the Postal Service will continue to play a vital role in the personal and commercial lives of all Americans over the next 10 years and beyond. Even in an increasingly digital 2020, the mail will remain a powerful delivery and marketing channel; a preferred means of commercial and personal communication for many purposes; and a complement to e-commerce. In order for

this to happen, today's constraints must be removed so that over the next decade the Postal Service can become as dynamic and adaptive as the marketplace and customers we serve.

Thank you for your support of our ongoing efforts to ensure a solvent and sound Postal Service. I look forward to working with you and other members of Congress to achieve the passage of legislation that will address our near-term and future challenges.

I would be pleased to respond to any questions you may have.

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