



**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**

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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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