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Statement of

Arthur B. Sackler

Executive Director
National Postal Policy Council

Before the

Subcommittee on the Federal Workforce, Postal Service
and the District of Columbia

Committee on Oversight and Government Reform

U.S. House of Representatives

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Good morning, Mr. Chairman, and Members of the Subcommittee. The National Postal Policy Council (NPPC) greatly appreciates the opportunity to present its views on the Station and Branch Optimization and Consolidation Initiative (Initiative) and Route Alterations, as proposed by the Postal Service. In a nutshell, our members are not troubled by this initiative, and support it both as one specific response to help address the current financial contraction facing USPS, and in the larger context of providing the Postmaster General and his team true flexibility to manage.

My name is Art Sackler, and I am the Executive Director of NPPC. NPPC is the trade association for large business users of letter mail, primarily in First Class. Before the downturn, our members collectively mailed about 39 billion pieces, and contributed some $9.5 billion in postage, every year.

Composed of members from the telecommunications, banking and financial services, insurance, utilities and mail services industries, NPPC has long been a strong supporter of a robust postal system; seeing it as a key not only to its members' business success, but to the health of the economy generally. In this time of severe shared financial stress, NPPC remains convinced of the intrinsic value of the postal system, how vital it remains to commerce and communications in the United States, and that it must be preserved as efficiently, effectively and affordably as possible.

We are pleased to be able to discuss this Initiative with you today, for it is necessary not only in the short term, but in the longer term. NPPC has not undertaken a formal survey of its members, but the consensus, admittedly unscientific, view of the senior postal executives for 30 of the largest mailers in the system which belong to our group is that, when the economy comes back, mail will not follow. There should be some significant recovery in Standard, especially if promotions such as the Summer Sale continue, but First Class, which is the most lucrative for USPS, as you know, will continue its decline, albeit at a slower rate.

Station and Branch Optimization Initiative

As we understand the Initiative, simply stated it would provide for closing and/or consolidation of various postal units located in and around cities, largely in geographic proximity and often producing services that would be redundant when compared to a rationalized, consolidated system. We support it for several reasons.

First, the current system of post offices and other facilities grew up largely haphazardly with population growth and shifts. Many facilities have been in place for decades, if not longer. There has not been an orderly rethinking of the system incorporating national and regional perspectives with the most efficient way to provide local service. We believe that doing so is long overdue, and that efficiencies in services are very likely to be obtained.

Second, USPS is motivated to undertake this step now because of the huge drop in volume it has experienced during this recession. From a system built, we understand, for up to 300 billion pieces annually, there now needs to be an adjustment to volume in the range of 150 – 180 billion pieces annually for the foreseeable future. This Initiative will help streamline the system and better gear it toward the reduced workload.

Third, a carefully planned and thought through effort to close or consolidate facilities should yield considerable cost savings. Given the steep decline in revenues caused by the volume drop, USPS needs savings such as these to weather this financial storm, and emerge more prepared to deal with different volume and revenue realities once it passes.

Fourth, the closings and consolidations will occur largely, if not exclusively, in metropolitan jurisdictions. The emotional content that suffuses the closing of a small town post office should be absent from these closings. A significant part of the identity of a city or suburb is not bound up in its post office(s) the way that smaller communities often are, and it is thus far less likely that there will be community opposition. Any potential opposition should be further diffused given that there are other post offices or facilities nearby, so there will be little, if any, inconvenience to the public.

Fifth, and most importantly, NPPC believes that the Postmaster General and his team need to have as much flexibility to manage the system as possible. Over this decade, Postmaster General Jack Potter, Deputy Postmaster General Pat Donahoe and their management team have demonstrated an unprecedented ability to drive costs out of the system. Amazingly, they have done so while improving service and reducing the workforce without alienating the unions and management associations. So, not just because of sound managerial theory, although that would recommend it, as well, but because of that outstanding track record, the senior postal management team should be granted as much latitude as possible to manage the system – including optimizing stations and branches.

Therefore, NPPC supports this plan, and urges Members of the Subcommittee to ensure that the Postal Service has broad managerial flexibility to implement this plan and whatever other changes of this nature are essential in USPS' judgment, while continuing to hold its managers accountable as you traditionally have.

The Financial Challenge

The urgency animating this plan and much else being undertaken by and for USPS is the daunting financial challenge it confronts. Projecting 175 billion pieces of mail this year, USPS would be off some 37 billion pieces from its peak, just two short years ago. At the rate of approximately $3.6 billion per 10 billion pieces of mail, according to USPS, that is a dizzying drop of some $13.2 billion in revenues for an institution with a former overall budget in the neighborhood of $70 billion. It is a massive hole to fill.

That is why, Mr. Chairman, NPPC is grateful to you, Ranking Member Chaffetz, the rest of this subcommittee, and Chairman Towns, Ranking Member Issa and the members of the full committee, for rapidly reporting out HR 22. We are particularly appreciative of the foresight and leadership of the prime sponsors, Messrs. McHugh and Davis. And we urge the passage of this important legislation by the entire House at the earliest opportunity.

But regrettably, USPS is going to need further financial attention to right itself. When HR 22 was introduced and pursued last winter, it seemed an appropriate remedy that would give USPS enough relief to address its shortfalls. Unfortunately, the accelerating loss of volume since has simply overwhelmed the relief offered through HR 22. So, NPPC's view is that HR 22 is necessary and much appreciated, but is not sufficient.

We do not pretend to have the solution. Many possibilities have been raised in this Subcommittee and elsewhere. In general, we believe that any long-term solution should be balanced and call on all postal stakeholders to make equivalent sacrifices to maintain the system.

However, we feel compelled to address one element that must not be part of any longer-term solution: an exigent rate increase, and especially one that would be used to substantially or fully close the multi-billion-dollar deficit USPS currently confronts. Since no proposal is on the table, NPPC is not prepared to address whether such an increase in the current financial set of circumstances would satisfy the legal requirements for an exigency case, as set out in 39 USC 3622(b)(1)(E). Nonetheless, regardless of its ultimate legal status, the laws of economics would make an exigency increase a non-starter, and quite likely counterproductive, in a situation such as this.

We know neither the Postal Service, nor Members of Congress, have called for such an increase. For the recognition of what the business implications of such an increase would be, and that position of restraint, we are grateful. However, others in the postal community have raised the issue of an exigent increase.

So, let us be direct. Mailers simply cannot afford an increase, period. They are doing everything they can to restrain costs as their own businesses severely decline in this recession. The numbers of layoffs in the affected postal-based and –related industries is, at minimum, in the hundreds of thousands. Major businesses that depend on the postal system, or use USPS as a supplier, such as in the financial services industry, have merged, shuttered business units or even gone out of business.

Budgets for all items in these industries are under tremendous pressure. That includes postal budgets, including those of many companies whose business is not postal-based, adding further to the pressure. Problematically for the postal system, that pressure is accompanied by unprecedented availability of alternatives to the mail: primarily, but not exclusively, online. So, it is no longer true that if rates are raised, there will be a small dip in volume, and then life will go on as before. In the current environment, even a small increase may have a significant adverse reaction. But an increase large enough to begin to address USPS' losses would force companies to move even larger quantities of mail online than they have to date, consolidate mailings and otherwise find a way to make do with less. Postal budgets would not stretch to meet the higher prices. Those who have been teetering on the edge of moving into the electronic world sizeably would have that decision made for them.

Based on this reaction, in all likelihood an exigent increase in this economic environment would be a net revenue *loser* to USPS because so much additional volume would depart the system.

Thank you once again for this opportunity to present NPPC's views. I'd be pleased to answer any questions you may have.