

**Statement of Joseph Corbett
Chief Financial Officer and Executive Vice President
U.S. Postal Service
Before the
Subcommittee on Government Operations
United States House of Representatives**

May 21, 2015

Good Morning Chairman Meadows, Ranking Member Connolly, and members of the Subcommittee. Thank you, Chairman Meadows for calling this hearing on best practices in federal large vehicle fleet administration and procurement. My name is Joe Corbett and I am Chief Financial Officer and Executive Vice President of the United States Postal Service. I have served in this position since 2009, heading the organization's Strategy, Finance, Treasury, Accounting, Supply Management, and Regulatory Reporting functions. I am pleased to be here today to discuss the Postal Service's Next Generation Delivery Vehicle (NGDV) Acquisition Program and to explain why upgrading the vehicle fleet is considered a capital infrastructure investment necessary to the organization's future.

Why Fleet Replacement is Necessary

The Postal Service currently maintains a diverse fleet of delivery vehicles including Long Life Vehicles (LLV), as well as delivery vans and light trucks. Going forward, it continues to require a diverse and flexible fleet of vehicles capable of operating in a full range of climates, regions and operational conditions.

The planned useful life of LLVs when acquired was 24 years. The fleet has continued to provide needed delivery service, but at very high maintenance costs and increasing risk of parts supply problems and structural fatigue. The LLV's operational efficiency, safety, and technology are very outdated. Replacing the aging delivery fleet, which is on average over 23 years old, will not only help to reduce vehicle operating and repair costs, it will also improve efficiency of delivery operations.

In its order granting the Postal Service an exigent price increase, the Postal Regulatory Commission noted that "capital outlays must be increased in order for the Postal Service to maintain and continue to develop the Nation's needed postal services," and that "[l]ow levels of capital investment have impaired the Postal Service's ability to maintain and improve business assets". The Commission went on to specifically state that "the consequences of continued low levels of liquidity and related low levels of capital investment are significant to the entire postal system. If the Postal Service is unable to repair, maintain, and replace its fleet of delivery vehicles, it could very quickly lose its ability to meet the delivery requirements of the Universal Service Obligation."

Similarly, in its report entitled "U.S. Postal Service: Actions Needed to Strengthen the Capital Investment Process, GAO-14-155 at 2 (Jan. 2014)," the Government Accountability Office stated that the Postal Service's "limited resources have constrained its funding for capital investments to fulfill its primary mail-delivery mission and restructure and modernize its operations. For example, about 10 years ago, USPS was scheduled to replace large portions of its approximately 210,000-vehicle fleet, but has deferred the replacements—as well as other capital-investment needs—due to a shortage of funds. As packaging and shipping

continue to be an area of revenue growth, it will be important for USPS to invest in vehicles to effectively serve that market and meet its mission of providing prompt, reliable, and efficient mail service to all areas of the country. Effective capital investments can improve productivity, provide much-needed cost savings, and prevent larger, more costly expenses in the future.”

The Next Generation Delivery Vehicle

In order to effectively meet the needs of our customers and employees, the Postal Service must invest in and maintain its existing infrastructure—of which our delivery fleet is a critical component. The goal of the NGDV program is to secure new purpose-built, right-hand drive delivery vehicles that will accommodate a diverse mail mix, enhance safety, improve service, reduce emissions and produce savings.

To determine the requirements for the NGDVs, the Postal Service began by surveying the employees who know delivery vehicles best. Letter carriers and Vehicle Maintenance Facility (VMF) employees were asked to submit their ideas for improved vehicle features and design via national surveys, and their feedback informed the proposed specifications. The Postal Service also hosted a design conference and reviewed suggested specifications with our carriers.

Additionally, input has been solicited from prospective suppliers through the Request for Information (RFI) process, and a comprehensive third-party requirements analysis was conducted. Specifications were updated based on feedback from the vehicle industry.

Taking into account the input received from multiple sources, the Postal Service arrived at a general layout for the NGDVs, which would meet the current delivery demands on 99% of existing routes. The proposed dimensions would allow for better organization of mail and packages, and a more concise delivery sequence. However, our business and the vehicle landscape are changing and will continue to change over the next two decades. Our process allows us to remain flexible and to make changes as our needs evolve.

Request for Information/Supplier Prequalification

The Postal Service is currently in the initial phases of a multi-year process to acquire a long overdue new delivery fleet, having prequalified prospective suppliers—including both traditional and alternative fuel manufacturers—who responded to an open Request for Information (RFI).

The RFI, published on the Federal Business Opportunities Website (<https://www.fbo.gov>) in January 2015, included high-level objectives and specifications for the NGDVs, as well observations, or “lessons learned”, from the existing fleet. Its objective was to inform prospective suppliers of the Postal Service’s preliminary specifications and plans to acquire fleet replacements, invite comments on the specifications and plan, obtain expressions of interest in the acquisition, and receive information on qualifications and capability of potential suppliers. Interested parties were invited to attend a suppliers’ conference in February, providing them the opportunity to ask questions about the technical requirements, acquisition process, and program schedule.

As part of the RFI, a prequalification component was included to narrow the field of prospective suppliers to those most qualified to meet the NGDV acquisition objectives. Those determined to be prequalified suppliers are eligible to receive the Request for Proposal (RFP) for a competitive prototype development. In response to the RFI, prospective suppliers were required to submit their qualifications and capabilities to develop vehicle prototypes and to produce, deliver and provide for national deployment of up to

180,000 vehicles under the acquisition program. Prospective suppliers were requested to submit at a minimum the following information:

- a. An overview of management, vehicle prototype development, and production capabilities to be mobilized to meet USPS acquisition requirements.
- b. Past performance and experience relevant to management, vehicle prototype development, and vehicle production.
- c. Information on the financial strength and resources of the organization or organizational team to manage and execute the prototype development and production requirements of the program, including financials, technical capability, workforce, and facilities.

Generally, the suppliers that were not prequalified failed to meet the manufacturing and production capabilities required to support the national program. Some advertised their particular product or service as if intending to team with another company, while others offered consulting, fleet management and other support services that were not part of the RFI or vehicle requirement. The letter notifying these firms of the Postal Service's decision indicated that there may be opportunities for their organization to subcontract with one of the prequalified firms. It also advised that firms that were not prequalified may contact the Postal Service for feedback and provided contact information for the Contracting Officer should they have any questions. In this case, only one firm inquired about our decision. This firm accepted the explanation provided and no further inquiries have been received.

The Postal Service was inclusive in its process, prequalifying firms with a range of powertrain expertise, in order to be able to evaluate wide product offerings from the market. The list of prequalified suppliers includes firms that specialize in unleaded fuel, electric, compressed natural gas, flex fuel, and hybrid vehicles. The prequalified firms are deemed to be capable of designing and building prototype vehicles within the next phase of the acquisition program and of producing vehicles in the future national deployment that we contemplate.

While we began the RFI process with draft specifications, we are currently evaluating the benefits of standardization versus the value of multiple vehicle platforms and delivery methods, weighing customers' future needs, operational matters and financial tradeoffs. In completing this analysis, the Postal Service will consult with revenue projection analysts, vehicle vendors and other stakeholders.

Request for Proposal/Prototype Development

The Postal Service plans to release its RFP for prototypes—open to eligible suppliers—in the near future. It is important to note that this RFP is not for production vehicles; rather it will require each responding offeror to deliver prototype vehicles for testing and review. The design and build of the purpose-built vehicle prototypes, followed by Postal Service testing, will take over two years to complete. A second competitive RFP, planned for 2017, will solicit our NGDV production requirements and explore financing options.

The prototype RFP will be flexible as to fuel source, as we plan to encourage suppliers to also propose vehicles with alternative fuel powertrains such as Electric, Hybrid Electric, Compressed Natural Gas and Hydrogen. Recognizing that powertrain technology may change significantly over the planned 20-year life of the vehicles, the Postal Service is seeking a flexible design platform that may accommodate different powertrain configurations as technologies evolve. Based on the responses received from suppliers and the maturity of the technologies proposed, the Postal Service remains open to and encourages innovative designs and the potential for a mixed delivery vehicle fleet.

Consideration of alternative fuel powertrains is not a new concept for the Postal Service. In fact, we have tested several platforms and our current fleet includes vehicles powered by E-85/gas, compressed natural gas, hybrid technology, propane, batteries, and even one powered by hydrogen fuel cells. The lessons learned from these tests and the Postal Service's experience with alternative fuel powertrains will inform the design and selection of the NGDV. Furthermore, the Postal Service is discussing its future vehicle fleet with officials at the Department of Energy and the General Services Administration in order to take advantage of their expertise concerning safety, efficiency, alternative fuel technologies, and other areas.

Throughout this process, prequalified suppliers are expected to develop an understanding of the Postal Service's diverse operating environments, including our delivery (and collection) route structures, historical and projected mail and package demand, and other trends in the delivery business. Suppliers will be encouraged to use this data to think out of the box and tailor their proposals for prototype vehicles.

Production Phase

After testing and evaluation during the prototype phase, and possible technical revisions, the Postal Service will issue a production RFP and make a contract award or awards for the NGDVs. While economies of scale and operational benefits associated with a large standardized fleet point toward the selection of only one supplier, we remain open to the possibility that we may select more than one supplier. Also, as we finalize the production requirements we will remain open to considering leasing or other financing proposals. The production RFP and business case analysis will address and evaluate the best value for the Postal Service relative to all aspects of the program.

Production financing is not planned to be included as a component of the design prototype RFP, however, the Postal Service will continue to review options to provide best value in contracting for the delivery of the NGDV replacement. The production phase business case will include a cost-benefits analysis of all financing options. Whether our analysis finds leasing or purchasing NGDVs to be the most cost effective procurement option, questions regarding the Postal Service's decision to pursue a new fleet—given our financial challenges—continue to surface. It is important that I also address this issue. For the Postal Service, the question is not how can we afford to purchase new vehicles at this time, the question is how can we afford not to make this investment as we fight for viability. In fact, it is a fiscally responsible decision.

Conclusion

The Postal Service looks forward to moving ahead with its planned delivery vehicle replacement program. Our current delivery vehicles are rapidly nearing the end of their useful life and it is now time to move into the future with a new generation of vehicles that will better serve customers, employees and the American public.

Thank you, Mr. Chairman, for the opportunity to submit this testimony. I welcome any questions that you and Committee Members may have.

###

Joseph Corbett

Chief Financial Officer and Executive Vice President

Joseph Corbett was named chief financial officer and executive vice president of the United States Postal Service in February 2009, reporting directly to the Postmaster General. He heads the organization's Strategy, Finance, Treasury, Accounting, Supply Management, and Regulatory Reporting functions. He also is a member of its Executive Leadership Team and Chairman of the Investment Review Committee.



The Postal Service has annual revenues of more than \$65 billion and is an independent, commercially funded entity of the Federal Government.

Corbett has more than 25 years of finance, treasury and accounting experience. He has extensive experience in strategy, financial planning and analysis, accounting, SEC and financial reporting and banking and capital market transactions. He began his career working for more than a decade with Big Four accounting firm, KPMG, where he served as a senior member of their Commercial Practice Group, serving publicly and privately held companies in the manufacturing, professional services and transportation industries.

Corbett also spent more than ten years serving in senior management roles at three multi-billion dollar commercial companies: controller, chief accounting officer and executive vice president and CFO at Intelsat, Ltd; CAO and CFO at BearingPoint, Inc.; and before these positions, chief of internal audit at NVR, Inc. At these companies, he led multiple efforts related to all aspects of accounting, financial planning and reporting, and treasury transactions including an initial and numerous other SEC-filed capital market transactions. Corbett's success as a transformational leader in complex environments and accounting situations aligns with the financial needs unique to the Postal Service.

Corbett graduated with honors from George Washington University, where he received his bachelor's degree in business administration and was later admitted to the GWU Athletic Hall of Fame in 1998. Corbett is a member of the Greater Washington Society of CPAs, has chaired Sarbanes-Oxley (SOX) and Retirement Plan committees, and was previously a director on the boards of two private companies.