

**STATEMENT OF  
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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**

**MAY 20, 2009**

Good morning, Mr. Chairman and members of the Subcommittee. I appreciate the opportunity to speak with you today about the Postal Service and its network—one of the largest, most complex, and most effective logistics systems in the world. Unfortunately, the effects of today's business environment have undermined our ability to finance the network at its current levels.

The purpose of my comments today is to provide you with an understanding of the causes of the situation we are facing; the actions we are taking to adjust to a dramatically changed economic landscape; and the help we are seeking from Congress as we work to reduce the huge gap between our network costs and steep and continued revenue declines.

In providing this information, I will also address the questions you have posed regarding the impact of current cost-cutting efforts on the Postal Service's operations and network:

- What are the hard choices and tradeoffs that need to be considered as mail volumes decline significantly?
- What options should be considered to overcome barriers and facilitate the Postal Service in making significant progress in rightsizing its networks?
- How much cost does the Service need to take out of its network and operations to remain solvent and how will it be achieved?
- What impact, if any, will cuts have on service?

I will begin by bringing you up to date on the financial condition of the Postal Service. As the Postmaster General testified before this panel in March, the Postal Service is in a precarious financial condition, driven primarily by the lengthiest and deepest economic recession in generations, and compounded by the statutory requirement to prefund retiree health benefits at an accelerated pace.

Since the last hearing, we have posted our financial results for quarter 2, which ended on March 31. Our situation has not improved. Total mail volume fell by 14.7 percent, with an accompanying revenue decline of 10.5 percent compared to the same period last year. That contributed to a second quarter loss of almost \$2 billion. We anticipate similar losses for the next two quarters and, even with the price changes that went into effect on May 11, we are projecting a loss of more than \$6 billion for this fiscal year.

This year, only 180 billion pieces of mail will move through our system, a decline of 32 billion pieces from the 212 billion pieces we handled in fiscal year 2007, which ended just before the onset of the recession. This mail volume loss resulted in a revenue decline of \$12 billion, about one-sixth of our annual revenue. Over the same two year period, the number of addresses we serve will increase by more than two million.

In virtually any other industry, this type of income gap could be addressed through price increases, offering new product lines, strict inventory and production controls or changes in service availability. For the Postal Service, with a legal requirement to maintain six-day mail delivery, with significant limits on our authority to develop new products, and with price caps that apply to 90 percent of our products, these are not options that are available to us.

But volume continues to fall. Revenue continues to decline. The mail mix continues to change. And networks costs continue to rise. I am proud of the efforts of our managers in stepping up to this challenge. They have maintained an unwavering focus on cost containment and, at the same time, they have retained their commitment to service excellence, bringing on-time delivery performance to the highest levels in the delivery business.

For quarter two, 96 percent of First-Class Mail with a next-day service commitment was delivered on time—one of the highest national scores we have ever recorded. Performance in other service categories was similarly strong. The special significance of our most recent service scores is that they represent new and more-exacting service standards and new, more robust measurement systems. They were developed and implemented through consultation with our customers and the Postal Regulatory Commission, in response to the requirements of the Postal Act of 2006.

Service scores have continued to increase as the nature of our business—and its financial foundation—have undergone marked changes. When it became apparent in 2002 that a changing mail mix, marked by customer substitution of Standard Mail for First-Class Mail, would inhibit revenue growth, we embarked on an ambitious program to remove \$1 billion in base costs annually. We doubled that goal to \$2 billion in 2008, as the declining economy had an enormous, negative impact on our finances, exceeding the significant but predictable and manageable effects of changing mail-use patterns.

Throughout the organization, we have eliminated a cumulative total of more than \$30 billion in base costs over the last seven years, primarily through operational initiatives. Last year, we removed more than 50 million workhours from our system. We aligned staffing and scheduling to the greatest extent possible to better match changing operational needs.

This year, with volume falling more sharply and quickly than at any other time since the Great Depression, we increased our efforts. We have imposed a hiring freeze. More than 9,000 employees have recently taken voluntary early retirement opportunities, an offer that is being extended to 150,000 eligible employees. Through attrition, we have experienced a reduction of five percent of our career workforce—more than 34,000 employees—in the last year alone. We expect that figure to grow to 43,000 by the end of this year.

We are closing six of our 80 District administrative offices. We have instituted complement reductions in administrative units at Headquarters, Area, and District offices, while also reducing supervisory positions in mail-processing operations.

For 2009, our field managers have committed to achieving a reduction of 100 million workhours, and are on track to do so. By the end of March, the midpoint of our fiscal year, we had achieved more than half that goal—58 million workhours. We are well on the way to meeting an unprecedented cost-reduction target of \$5.9 billion.

That is an impressive figure, but measured against a budget gap of over \$12 billion, it would be necessary for the Postal Service to achieve more than \$6 billion in additional cost reductions to simply break even and achieve a state of basic solvency this fiscal year. But with projections calling for continued decline in mail volume and revenue, at least through fiscal year 2010, this would not provide us with a sufficient cushion to absorb the additional losses we can expect next year.

The Postal Service is taking unprecedented steps to bridge the widening gap between costs and revenue. But without the assistance of Congress, our efforts will be stymied by statutory cost requirements that, while sustainable in a more positive economic climate, are simply beyond our means today.

Before seeking the assistance of Congress, we recognize that it is imperative that the Postal Service continues to intensify its cost-reduction efforts. Beyond those I have mentioned, we have also been examining and modifying the various elements of our network itself. Because they are the largest elements of our system, adjusting our networks affords us the greatest opportunity to align costs with service and operational needs. More than 75 percent of the \$5.9 billion in costs that the Postal Service will eliminate this year—\$4.5 billion—will be achieved by our operations group. Every other organization within the Postal Service is also making important contributions to this goal.

The Postal Service's network is the operational heart of our universal service mandate. The service we provide is dependent on the close coordination, efficient operation and, above all, adequate financing of every element of an extremely complex mail collection, processing, transportation, and delivery system.

The breadth of our network—and the requirements it fulfills—are truly remarkable. Each service day it must be prepared to provide mail delivery to approximately 150 million households and businesses in every neighborhood, town, and city in America—as well as service around the globe—with product and service options that exceed those of any other delivery provider. It is supported by a network of 37,000 Post Offices, stations, and branches; approximately 400 processing facilities; 200,000 vehicles traveling more than one-billion miles each year; and the career employees who skillfully knit every element of this vast system together.

Our network has never been static; rather, it has developed, grown, contracted, and adapted in response to changes in transportation, demographics, technology, and mail volume, as well as the requirements of service, cost, efficiency, and public policy.

Our efforts at improving network efficiency have been concentrated on five distinct elements of our system: Remote Encoding Centers; Airport Mail Centers; Area Mail Processing initiatives; Bulk Mail Centers; and retail services.

Our Remote Encoding Centers were established in 1994 as a temporary solution to automate the processing of mail with handwritten addresses, which generally could not be read by an earlier generation of automated sorting equipment. Today, 95 percent of addresses can be read by our equipment. This has allowed us to phase out 50 of the original 55 remote-encoding sites. By the end of the year, we will deactivate three more sites, reducing the number of remote-encoding centers to two.

Over the last several years, changing transportation and operational requirements have made it possible to withdraw operations from 58 Airport Mail Centers, allowing us to close these facilities and eliminate the high cost of operating facilities on airport grounds. The need for these facilities was reduced as new air transportation contracts placed more mail on the flights of dedicated shippers—including FedEx and UPS, which operate their own air-cargo hubs—rather than commercial passenger carriers.

We also took a hard look at our actual transportation use and found that much of the mail that had been moving by air could meet its service standards through less-expensive ground transportation. By reducing our need for air carriage, we also reduced our need for Airport Mail Centers. Throughout this process, whether moved on the ground or in the air, mail continued to achieve record service performance.

Our efforts also include the consolidation of some duplicative mail-processing operations through our Area Mail Processing activities. This supports improved efficiency and a greater return on our processing-equipment investments—which generally were made with an eye toward increased, rather than decreased, mail volume. The dramatic levels of mail volume decline we have experienced over the last 18 months have elevated processing consolidations from an important priority to an absolute urgency in our efforts to manage through one of the most severe financial crises we have ever faced.

When today's self-supporting Postal Service was created by the Postal Reorganization Act of 1970, more than 2,000 facilities served as our primary, outgoing mail-processing locations. Today, that number has been reduced to approximately 400, automated, centralized facilities. These are separate and distinct from our network of local, retail Post Offices. Most mail is now processed at these centralized mail processing facilities, an operational keystone for more than 30 years.

In addition, a growing amount of mail now enters our system far closer to its final delivery point, permitting it to bypass many steps in our processing system. Area Mail Processing has contributed to better cost-management, more efficient routing and transportation, while improving service.

As a matter of prudent business practice, we continually review our processing needs and capacities to determine where it may be more efficient to combine similar work from multiple locations at a single location, without adversely affecting service. This generally involves the relocation only of a single aspect of the work performed at a particular sorting facility, generally the processing of locally generated, single-piece First-Class Mail. In a far smaller number of cases operational needs and unique conditions may support the closing of an underutilized facility by fully merging its operations with another.

The primary driver of Area Mail Processing consolidation activities over the last several years has been the steady decline of single-piece First-Class Mail letters as consumers and businesses shift a larger number of transactions and correspondence from hard-copy mail to electronic media. Even before factoring in the effects of the recession, volume in this product category had fallen by 20 percent between 1998 and 2005. By 2008, it had fallen by almost 33 percent, or one-third of its total volume. Looked at in a slightly different way, processing capacity for this mail, on average, exceeds processing needs by 50 percent.

From a business perspective, it is vital that we pursue these consolidation opportunities. Responsibility and accountability to our customers—who finance our system through the purchase of postal products and services, not through taxes—demands no less. Necessary processing consolidations will help us to contain costs and increase efficiency, both necessary to our ability to affordably maintain strong service performance.

A well-defined Area Mail Processing policy, developed to support consistency and a transparent, fact-based decision-making process for consolidations, guides us in our efforts to maximize operational efficiency and capitalize on the economies of scale associated with advances in automated mail processing. Our planning process includes strict adherence to the provisions of the collective-bargaining agreements with our unions, as well as early and open communications with community representatives, local and state elected officials, local customers and mailers, and the media. This assures that a decision to proceed with a consolidation is based on sound business rationale and that overall service levels are maintained or improved.

As the need for processing efficiencies has become more pressing, the Postal Service has been encouraged to continue its efforts to streamline its network. The issue of overcapacity in our processing network was addressed by the bipartisan President's Commission on the United States Postal Service when it issued its final report, "Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service," in 2003. The Commission found that, ". . . the postal network as it exists today is far too sprawling and cumbersome for the nation's needs," and recommended that it grow "smaller and stronger."

The Commission's recommendation is echoed in the provisions of the Postal Accountability and Enhancement Act, which was enacted by Congress in 2006, which states, "the Postal Service has more facilities than it needs and the streamlining of this distribution network can pave the way for the potential consolidation of sorting facilities and the elimination of excess costs." The Act is clear in the related goal it has set for the Postal Service, noting that, "Congress strongly encourages the Postal Service to expeditiously move forward in its streamlining efforts."

Both the Government Accountability Office and the Postal Regulatory Commission, independent federal entities with oversight responsibilities for the operations of the Postal Service, recognize the benefits of our consolidation strategy. It is a strategy we will continue to follow.

In inviting me to testify at today's hearing, you asked me to identify the barriers that exist to making significant progress in "rightsizing our networks." I will be candid. One of the primary barriers has been strong local opposition to our efforts to consolidate processing activities, despite the fact that both business needs and the law require that we eliminate excess network capacity and costs. As a result, our progress in this area has not been as substantial as it has for other network initiatives.

The strength of our overall network is dependent on our ability to achieve efficiencies within each element of the network. That is a goal that becomes infinitely more difficult to reach if we are not permitted to objectively review operations at a particular location and act on the results of that review. Ultimately, a more efficient network benefits our employees, our customers, and every community served by the Postal Service.

Over the last five years, we have implemented AMP consolidations at 11 locations. The savings have been considerable, service trends have been positive, and no affected career employees have been involuntarily separated from the Postal Service.

While we had been prepared to examine operations at a far larger number of sites during this period, our program was suspended for approximately 18 months as the Government Accountability Office conducted a study of elements of our consolidation process at the request of Congress. Since the GAO issued its report, just before the beginning of this fiscal year, finding that the Postal Service had improved its AMP process, we have initiated 32 Area Mail Processing feasibility studies. Four have been approved, with combined projected annual savings of \$15 million. A number of others are still undergoing review.

Looking ahead, we believe there is a real potential for over \$100 million in annual cost reductions through system-wide AMP consolidations. I ask for your understanding and support of this initiative as we move forward.

As we intensify efforts to improve operational efficiency, we have also closely considered the role of our 21 Bulk Mail Centers in today's network. This element of our network, established in 1971, primarily distributes parcel post, media mail, standard mail and periodicals in bulk form. First-Class Mail, Priority Mail, and Shipping Services products are handled through other network facilities and transportation systems.

Changes in mail preparation and entry by commercial mailers over the past several decades have resulted in underutilization of the existing BMC network. In 2007, we considered outsourcing some BMC operations. But as we experience sustained and unprecedented decline in mail volume, making it difficult to predict future volumes, it is apparent that this is not the time to outsource an activity of this size and scope. As a result, BMC operations will continue to be performed by Postal Service employees.

We notified our unions of this decision in March, informing them at the same time that we would revamp the BMC network, transforming these facilities into Network Distribution Centers. This will significantly improve the efficiency of the Bulk Mail network through greater levels of shipment consolidation, contributing to more effective utilization of the cargo capacity of mail containers and trucks. This will also allow us to move a larger amount of mail more deeply into the system, earlier in the process, by reducing and eliminating expensive and time-consuming intermediate sort points and transportation moves.

We are also examining the space requirements at many of our retail and delivery facilities. This includes considering the effects of changes in the level of customer retail activity at postal facilities, and the opportunities for consolidating carrier operations where improved processes and equipment, as well as reduced workload, make this possible.

New technology and new services have made it possible for customers to perform many of the most popular postal transactions without the need to visit their local postal retail facilities. This includes the increased transactional ability of our popular website, *usps.com*, visited by almost 30 million customers each month.

Through *usps.com*, customers can have their mail forwarded or held; they can print postage-paid mailing labels; they can purchase postage stamps; they can request next-day package pickup service from their home or office—at no extra charge—and they can order free, eco-friendly Priority Mail and Express Mail packaging.

Customers can also buy stamps at Post Office prices at almost 50,000 supermarkets, convenience stores, and other businesses—more locations than there are Post Offices, generating more than \$1 billion in annual postage sales. With stamp purchases still our most frequent lobby transaction, we want to make it as easy as possible for our customers to get the stamps they need without having to make a side trip to the Post Office. And just about anything that can be mailed at the Post Office or in a street collection box can be mailed by our customers right at their home or office mailboxes. Fully 28 percent of retail revenue is generated through alternate channels.

Against the backdrop of this expanded access, we must weigh the effects of the dramatic contraction of our business base, as measured in declining mail volume and revenue over the last two years. We know that in our cities, the geographic concentration of postal retail facilities far exceeds that available to customers in less-densely populated areas, and usage has declined. In some locations, stations and branches may be within walking distance of each other.

At the same time, with mail volume down considerably, and average delivery volume per address down as well, there may be opportunities to combine delivery operations into fewer locations. This can help to improve efficiency as we reduce lease and other facility costs, with no adverse effects on local delivery service.

We believe there is the potential for substantial annual savings by exploring opportunities for consolidation at 3,000 stations and branches located in cities of all sizes, particularly as the expansion of alternate access has increased the availability of our retail services. This is the same approach being taken by many national and local retailers who are facing declining sales. Retail infrastructures that were created to meet the needs of higher-levels of consumer spending now exceed current needs.

The Postal Service has been able to serve America for more than two centuries by adapting its network to the needs of the nation. It cannot remain static, because the nation we serve has not—and will not—remain static.

Congress, in enacting a new postal law in 2006 was clear in its expectations that the Postal Service operate in a more businesslike manner than had previously been possible and that it pursue every opportunity for network efficiencies. As you have indicated, significant and ongoing mail volume declines will require hard choices and tradeoffs.

We recognize that the notion of reducing mail delivery from six to five days a week is certainly a hard choice but, given the gravity of our financial situation, it is a necessary choice, and one we are pursuing only reluctantly. In the simplest words I can find, we can no longer afford the costs of six-day mail delivery. In my mind, it is no longer a question of “if”, but rather “when”, will economics require this change. The time, I believe, is now.

The facts are clear. In fiscal year 2000, our carriers delivered an average of 5.9 pieces of mail per day to every address they served. This year, that has fallen to 4.7 pieces --- a decline of 20 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. In addition, the ratio of higher-contribution First-Class Mail to lower-contribution Standard Mail has declined, further eroding revenue per delivery.

With the existing six-day delivery requirement, we simply do not have the ability to adequately adjust to the very-real financial pressures this situation has created. However, under a five-day delivery model, the number of pieces per daily delivery would return to the levels of 2000.

Reducing the frequency of delivery would be an important step in helping to close the gap between costs and revenue—a situation that is unachievable in today’s environment, one that does not permit us to alter this basic product feature. By acting sooner rather than later, we can sharply reduce our losses and return to a firmer financial footing. In mail processing and retail operations, workhour reductions have essentially tracked mail-volume declines, but the high ratio of fixed costs in delivery operations has held reductions to only half that rate, reflecting a structural issue that impedes our ability to fully offset system overcapacity.

We understand the significant questions this would bring for the users of the mail and the need to work closely with all of our stakeholders as we study this issue and plan for its possible implementation. Reducing the frequency of delivery would have an impact on service. That is why Postal Service leadership has begun to engage customers at all levels. It is important that we understand their needs and concerns as we consider operating in a different delivery environment.

For example, we recognize that most business, professional, and government offices operate on a traditional five-day week, Monday through Friday. Mail delivery is an integral part of that five-day business cycle. For that reason, and owing to the fact that delivery volume is generally lighter on Saturdays, it is not our intention to reduce delivery frequency during the regular business week.

In considering our options, everything should be on the table. I believe we have no other choice but to consider solutions that were previously considered off limits.

Structural change will be necessary to enable us to finance universal service over the long term. Within the context of our immediate financial challenges, we believe a necessary step in the right direction is to examine our service infrastructure and act to align system capacity with significant and ongoing reduction in system use. We do not see any signs of this trend abating.

If we do not act to address this critical issue, we risk undermining the viability of the world's greatest postal system by creating insurmountable deficits and levels of debt that will simply compound the dire situation we are facing today. This will impede our attempts to effectively come to terms with the realities of today's business environment, making our recovery far more difficult than it might otherwise be and making future success all but impossible.

In the current business climate, with the diminished demand for mail services, today's network requirements are beyond our financial means. I am convinced that providing the Postal Service with the ability to reduce delivery from six days to five, is an appropriate and effective response to the sobering reality of our fiscal challenges.

When I appeared before this Subcommittee in the summer of 2007, I was asked about the future of six-day mail delivery. I responded that if there were to come a time when our cost burden was so out of line with our revenue, this could become the matter of a public policy debate that would ultimately require the attention of Congress.

At the time, we at the Postal Service recognized that we were facing a number of long-term issues stemming from changes in mail use patterns and a flattening growth curve. These were difficult problems, to be sure, but problems that we had anticipated and planned for. But the extent to which the economy has accelerated these trends has been nothing short of staggering. In effect, what some scenarios suggested would be a ten-year volume decline has been compressed into less than two years—and we expect additional volume losses next year.

As a consequence, we have proposed that Congress permit the Postal Service to change from our current six-day delivery to a five-day delivery schedule to allow us to continue providing superior mail-delivery service at a cost that can be better supported by current mail volumes. Independent surveys show that the majority of Americans would prefer this to other options, such as a price increase, in addressing the financial needs of our nation's postal system.

But without legislative change—sooner rather than later—we will be unable to overcome the financial pressures that threaten the viability of the Postal Service. Our most pressing need is a change in our payment schedule for retiree health benefits.

The Postal Service strongly supports and encourages the prompt enactment of H.R. 22, which originated with members of this Subcommittee, and today enjoys the support of over 300 members of the House of Representatives. By adjusting the method by which the Postal Service funds retiree health-care benefits, this bill would provide the Postal Service with welcome annual savings of approximately \$2 billion, beginning this year, and continuing over the following seven years. And enactment of this legislation would not require a Congressional appropriation. Unfortunately, as mail volume continues to plummet, even H.R. 22 will be insufficient to close the gap between costs and revenue. That is why we must make fundamental changes to our service network—including reduced delivery frequency.

The Postal Service will continue to implement the cost-reduction and efficiency programs I have discussed today. We will seek out new opportunities to expand their range and increase their effectiveness. And as we do that, we will remain focused on improving service.

Mr. Chairman and members of the Subcommittee, I appreciate your interest in building a stronger, yet leaner, Postal Service for the people of our nation and I look forward to working with you in reaching that goal. I would be pleased to answer any questions you may have.

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