

**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
HOUSE OF REPRESENTATIVES**

JULY 30, 2009

Good morning, Mr. Chairman and members of the Subcommittee. Thank you for holding this hearing. I am here to talk to you today about the steps the United States Postal Service has taken to make mail delivery as efficient as possible, our future operational plans to continue to improve delivery efficiency and the station and branch optimization initiative. In addition, I would like to take this opportunity to update you on the progress of our internal review concerning five-day delivery. I would also like to thank this Subcommittee and the Oversight and Government Reform Committee for their recent actions on retiree health benefit legislation in the form of H.R. 22. We look forward to working with you as retiree health benefit legislation moves through the process.

The Postal Service has focused on increasing efficiency, reducing costs and generating new revenue. Cost reductions have affected all aspects of postal life from freezing executive salaries to reducing workhours and overtime, renegotiating contracts with major suppliers, and halting new construction projects unless safety and workplace issues required otherwise. From a revenue standpoint, we have embarked on new initiatives such as the Summer Sale and the Collaborative Logistics test, which is a way for the Postal Service to earn revenue from excess capacity on ground transportation. The idea for the Summer Sale is to give mailers an incentive to send more mail. The Postal Service is providing eligible companies a 30 percent reduction in postage for qualifying advertising mail volume. We estimate that the Summer Sale could generate an additional \$50 to \$100 million in incremental revenue for the Postal Service.

As this Subcommittee is well aware, the financial situation of the Postal Service is grave. It would be far worse were it not for the aggressive cost reductions we have implemented. Delivery operations represent a major portion of postal costs and any efficiency that we can obtain from our delivery operations significantly contributes to the bottom line. I am proud to say that, since 2002, we have achieved cost reductions averaging more than \$1 billion annually. In fiscal year 2008, we doubled our efforts and saved more than \$2 billion by reducing 50 million workhours, the equivalent of 28,000 employees. Despite the large cuts in workhours, our service levels reached an all time high — including a remarkable 97 percent on-time delivery rate in 2008 for local First-Class Mail. This year, the Postmaster General challenged the organization to achieve cost reductions of \$5.9 billion, which includes a reduction of at least 100 million workhours from last year's usage, and we are on track to attain this target.

Since the beginning of fiscal year 2000, we have reduced the number of career employees by more than 150,000. At the end of postal quarter two, the number of career employees was slightly more than 641,000. We continue to offer voluntary early retirement to eligible employees. These offers will help us match employee complement to workload by taking advantage of attrition, helping us to realize more cost savings.

This is particularly impressive when you consider that the Postal Service delivery network continues to grow at a rate of about 1.2 million new delivery addresses annually. So, while our mail volume continues to plummet, we have to go to more households, more businesses and more P.O. boxes each year.

Against this background, I would first like to address one of the reasons that I have been asked to testify today, which is delivery efficiency. As the Postmaster General has previously testified, in fiscal year 2000 our letter carriers delivered an average of 5.9 pieces of mail per day to every address they served. Today, that figure has fallen to an average of 4.7 pieces. In essence, we are delivering less mail to more addresses, which means we receive less revenue per address served. Cutting costs in delivery is particularly challenging because a substantial portion of delivery costs are fixed costs. On every delivery day postal letter carriers must deliver all available mail to each designated address, whether the delivery is one piece of mail or several pieces of mail. Within these constraints, we have embarked upon several initiatives that have improved upon delivery efficiency.

The first such initiative I would like to discuss is the Interim Alternative Route Adjustment process that we agreed to with the National Association of Letter Carriers (NALC) in October 2008. This is an example of postal and union leaders coming together to a common understanding regarding the gravity of our financial situation due to the rapid and steep decline in mail volumes, and working together to develop a way to protect both the interests of the Postal Service, and of letter carriers. I would like to take this moment to recognize the NALC for stepping up to the plate to work diligently with us and I thank them for all of the hard work that went into the countless hours of negotiations regarding route evaluation and adjustment issues.

We are proud of our historic agreement with the NALC which enabled us to improve efficiency and adjust service operations by agreeing to a new, more streamlined process to evaluate and adjust routes rather than using the regular route inspection process that under normal circumstances can be more time-consuming and labor intensive. Under this new process, we jointly conducted evaluations on some 93,000 routes and rapidly eliminated approximately 2,500 routes.

As we continued our work, both parties realized that there were additional ways in which we could further improve even the new, more streamlined route adjustment process. And so, in April 2009, we agreed to a new modified agreement, which laid out a plan to evaluate, adjust, and revisit all city delivery routes for the remainder of the calendar year. At every level of the process — National, Area and District — we have identified joint NALC and USPS teams with multiple levels of responsibility. The regular letter carrier on the route is consulted on the existing route's composition, and together union and management teams review the data to jointly determine any modification to the route's composition.

The cost savings from these efforts are estimated to eliminate approximately 25 million city delivery workhours or some \$1 billion over fiscal years 2009 and 2010. With ongoing support from the NALC, we will be able to improve efficiency and adjust service operations based on changing workload and economic conditions to achieve more operational savings. We anticipate that the modified route adjustment agreement will allow us to adjust 2/3 more routes than would have been possible under the formal mail count and inspection process.

Regarding the rural carriers, changes in the evaluated hours of rural routes are generally determined through mail counts. In the two most recent national mail counts, rural route evaluations generally declined due to mail volume losses. The average route decreased approximately two hours per week in evaluation, resulting in further costs savings for the Postal Service.

I also would like to take a moment to thank the approximately 68,000 career and another 56,000 non-career rural letter carriers who serve as "Post Offices on Wheels." Last year, the rural carriers took another important step in helping the Postal Service by formally adopting the "Rural Reach" program. Through the program, these carriers have generated an additional \$47 million in revenue for the Postal Service, simply by recognizing and acting upon new business opportunities.

Another initiative that I would like to highlight is a key tool that we have been using to adjust city routes — our Carrier Optimal Routing (COR) computerized program. We first introduced COR in 2004 and since that time more and more of our postal Districts are recognizing the tremendous cost savings realized by applying COR to local graphic zone databases. By using digital mapping, a Geographic Information System (GIS), and algorithms, COR is able to ascertain the most efficient and safe way to structure city carrier delivery zones. Today, COR has been used to adjust approximately 16,000 postal routes and its usage is expected to increase with the forthcoming route adjustments agreed to with the NALC.

The Postal Service has made additional investment commitments in order to more-fully utilize COR. We currently have about 3,250 COR databases graphically prepared for city carrier delivery zones so that they can be utilized in the route adjustment process, achieving more efficient routing and delivery. This represents approximately 80,000 routes which is more than one half of all city delivery routes in our nationwide system. By using this integrated information technology to more efficiently group routes together, the Postal Service has been able to reduce total miles driven, which yields the dual benefits of fuel savings and a positive impact on the environment. Still another benefit of COR is improved carrier safety due to decreased mileage, and the elimination of unsafe left-hand turns and U-turns.

After much study and planning, we have begun to deploy our Flat Sequencing System (FSS) equipment, a nearly \$1.5 billion investment to improve efficiencies and control costs by automating the sorting of flat mail. Flat mail is mail in the shape of a magazine or Express Mail envelope. About 15 years ago, the Postal Service introduced the concept of delivery point sequencing for letter mail, which improved the productivity of our letter carriers because now they receive the vast majority of their letter mail in the order they deliver their routes. We expect that upon completion the FSS equipment will have the capacity to sort flat mail in carrier walk sequence at speeds of 16,500 pieces per hour, so we anticipate yet another significant change to delivery operations. This technology will mean that carriers will no longer have to case flat mail; large envelopes, magazines and catalogs will arrive in walk sequence order in the same way that letter mail arrives to carriers today.

Beginning in May of last year, we installed preproduction FSS equipment at the Northern Virginia Mail Processing and Distribution Center where we began a series of system tests to certify throughput and sorting accuracy. The Postal Service and its supplier are continuing to work to improve performance so that the machines will meet all of the contract requirements. However, even now three FSS machines are operating at our Dulles facility and are sequencing flats for 18 delivery units, which includes more than 530 carrier routes in Northern Virginia. Route adjustments in FSS offices will eliminate full-time routes; casing equipment will be downsized to capture delivery space; and delivery vehicles will be freed up for redeployment. The bottom line is that, once fully operational, FSS will eliminate costs by reducing carrier in-office time. FSS technology will also improve service consistency.

In June 2009, another FSS site went live in Columbus, Ohio, and we are in the midst of introducing FSS equipment to Kansas City, Missouri, and Phoenix, Arizona. As we prepared for this major operational change for the Postal Service, we named FSS Program Managers and coordinators for each Phase I FSS District and Area, and have deployed field operational training classes and Webinars.

Due to the decline in flat mail volume in this recessionary period, we have revised our FSS deployment plan. Yet — as elsewhere in our system — automation has been the single-most important factor in our service and productivity improvements. As with the introduction of other automated systems in the past, we will be working closely with customers over the next several months to seamlessly make the transition from manually casing flats to automated sequencing for most postal customers. We have begun to work with our mailers on the new address requirements necessary for FSS, as well as on a range of other issues affecting everything from mail preparation requirements to critical entry times.

And, we continue to work with our unions regarding changes in the workplace as a result of FSS equipment. With less mail to sort manually, route adjustments will be made as carriers will need less time in the office and will have more time to deliver mail.

In addition to the referenced delivery initiatives, the Postal Service is continuing its efforts to streamline its processing and retail network across the nation. Most of our mail processing operations are performed in approximately 400 large mail processing plants. However, through our review processes, we know that we can eliminate redundancies and make better use of facility space, staffing, equipment, and transportation. This year, we have approximately 30 active Area Mail Processing studies in various stages and phases of the process. Another consolidation activity that is underway is a review of station and branch locations in larger cities throughout the nation. We are focusing on areas where we have a number of offices in close proximity to determine where consolidations are possible. Each facility will be reviewed individually, on a case-by-case basis.

Just to be clear, let me explain the role of stations and branches in our retail network. A Post Office is managed by a Postmaster and is the principal source for providing access to postal services in a local geographic service area. There are approximately 27,200 Post Offices in operation today. Some Post Offices have subordinate stations and branches and these facilities are managed by a Station Manager, who reports to the Postmaster of that service area. Like Post Offices, these facilities have retail window units where customers can purchase stamps, mail packages, and otherwise access postal products and services. They may contain P.O. boxes. And many have carrier operations.

Changes in letter and flat mail processing technology over time have reduced the amount of space needed for carrier operations in the “back-of-the-house” at many stations and branches. As a consequence, there are opportunities for the Postal Service to consolidate carrier operations in stations and branches into fewer locations without affecting delivery service. In some locations, space vacated by carrier operations at a particular station or branch creates opportunities to improve the space made available for “front-of-the-house” retail operations.

With respect to the “front-of-the-house,” in large measure, many stations and branches were established over a period of time when First-Class Mail volume growth was very robust, there were few means of alternative access to postal services, and virtually all retail postal revenue was generated through window transactions. More recently, the Postal Service has responded to demand for increased customer convenience by developing economical and convenient alternate channels through which customers can conduct many basic postal transactions and obtain ready access to various postal products. These alternate access channels include our website at *usps.com*, Automated Postal Centers, privately-owned Contract Postal Units, and the ability of customers to order postal products by phone or mail and have packages picked up at their doorstep.

Today, about 29 percent of retail revenue is generated through alternate postal product and service access channels. In fact, each year more and more postal transactions are now accomplished online with customers rarely having to leave their home or business to access our products and services. Use of our website, *usps.com* has grown to about 30 million customer visits each month.

We consider this a success. Consistent with the Congressional mandate in the Postal Accountability and Enhancement Act of 2006, we will continue to expand alternate retail access to postal services.

Changes in customer mailing habits and the increased presence of technology have made it incumbent upon us to review the number and location of stations and branches and to determine if there is, indeed, excess capacity in the network. Re-evaluating the need of these stations and determining if they are truly adding value is the type of business-like action required for the Postal Service to be able to compete in today's marketplace and to manage our resources in a responsible way.

Local management will be using existing processes and procedures that are already in place to study activities of approximately 3,200 stations and branches. As local management undertakes this review process, we have asked them to consider factors such as customer access, service standards, cost savings, impact on employees, environmental impact, real estate values and long-term Postal Service needs. In terms of timing, we do not anticipate this review process to generate any changes this fiscal year, which ends on September 30, 2009.

In our review of stations and branches, we began the review with some 3,200 locations that handle the most retail transactions and the most deliveries. We anticipate that out of these 3,200 stations and branches, under 1,000 offices could be considered as viable candidates to study further.

No decisions will be made regarding which, if any, facilities will be consolidated until these reviews are finalized, and we have incorporated a community notification process into the review. Because of our continued commitment to providing customers with alternate retail access points — such as our Automated Postal Centers, Stamps on Consignment, Contract Postal Units, and online at *usps.com* — we feel this is a responsible action in light of our serious financial challenges.

While we know that opportunities exist to merge offices in close proximity of each other due to customers' preferences for alternate access and changes in the public's mailing habits, it is premature for the Postal Service to predict how many stations and branches will be subjected to consolidation, and we have not pre-selected a target for the number of consolidations we are seeking. Even though we don't know the final outcome of the station and branch consolidation, we have asked the Postal Regulatory Commission for an advisory opinion regarding this initiative. In addition, we deliberately did not set cost savings goals through this initiative. Past practices indicate that local management can provide the best insights to determine if and where efficiency gains can be made while maintaining our commitment to excellent customer service. We want our field postmasters and district managers to advise us where consolidations can be made without hurting customer service rather than headquarters mandating specific targets.

We are taking all of these actions to use our resources wisely and position the Postal Service to survive this financial crisis while continuing top-quality service to the American people. Be assured that the Postal Service is not assuming that mail volumes will automatically return to previous levels once the economy improves. Over the past months, we have learned that the economy is in a very dynamic, unpredictable state. Therefore, we will continue to make adjustments to our budgets, and to our networks, and we will continue to aggressively adopt process improvements and realign our resources to help off-set the financial crisis we are facing.

Along this line, I also ask that Congress support the Postal Service's efforts to operate in a business-like manner as we make prudent and necessary decisions, such as reducing window service hours and consolidating our operations. These types of efficiency actions are needed to help lessen our financial burden.

As you know, the Postal Service has alerted stakeholders to the fact that mail volume levels can no longer sustain six-day a week delivery. In fact, in prior testimony, the Postmaster General has asked Congress to consider allowing the Postal Service to change its delivery frequency. At the same time, the Postmaster General has tasked postal management with undertaking an internal review of five-day delivery, so that the Postal Service has sufficient information and data to share with stakeholders on this important matter. Currently, the Postal Service is engaged in a dialogue with the unions to secure their feedback.

We are in the process of finalizing our study and have targeted the next months as the time-frame appropriate to begin sharing information and results with our stakeholders and to begin a series of community outreach meetings. In fact we have already begun some of those discussions and are reacting to customer feedback. When complete, the Postal Service plans to share this study with its customers, mailers, the American public, and Members of Congress.

Allow me to share some preliminary study highlights with you. We are proposing that Saturday be the day of non-delivery but that Post Offices would still be open on Saturday to serve the public, and Post Office boxes would receive mail delivery on Saturday. And, of course, our customers will continue to have 24-hour, 7-day access to our products and services at *usps.com*, and other access through our Automated Postal Centers, Stamps on Consignment, and Contract Postal Units. Further, it is our intent to still deliver Express Mail on Saturday, so that extremely urgent items are delivered in a timely manner.

While there are many more details to work out, I hope the above provides an outline of our concept, which we look forward to sharing with you and other Members of Congress.

In closing, I would like to thank this Subcommittee and the Oversight and Government Reform Committee for their recent action on H.R. 22, and for communicating the importance of this bill to your fellow legislators. I hope that, in the near future, the House will be able to quickly pass retiree health benefits legislation. And, I would like to reiterate our commitment to continuing to make delivery mail operations as efficient as possible, while maintaining our excellent levels of service to the Nation.

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

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