

**STATEMENT OF  
POSTMASTER GENERAL/CEO PATRICK R. DONAHOE  
BEFORE THE  
SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL SERVICE AND LABOR POLICY  
OF THE  
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM  
UNITED STATES HOUSE OF REPRESENTATIVES**

**MARCH 2, 2011**

Good morning, Mr. Chairman and members of the subcommittee. It is an honor for me to be testifying before the House for the first time as Postmaster General of the United States Postal Service. I assumed the Postmaster General responsibilities in December 2010 and was officially sworn into office on January 14, 2011. I appreciate being entrusted with such an immense responsibility and thank the Postal Service's Governors for choosing me for this position. I am so proud to be a part of an organization that is vitally important to our country. I look forward to working with all of our stakeholders – the mailing industry, our unions and management organizations, employees and of course, members of Congress – to ensure the future of the nation's postal system.

Since taking office in December, I have spent time meeting with many members of Congress, including some of you here today. I would like to take a moment to recognize our new Chairman, Representative Ross, as well as the Vice-Chair, Representative Amash. There are a number of new members assigned to the Postal Service subcommittee. I look forward to working with all of you and discussing our current situation as well as our future innovative plans.

Since I am new to many of you, it may be helpful to spend a few moments explaining my philosophy and my vision for the Postal Service. First, let me begin by emphasizing that a vibrant, thriving and growing Postal Service is important to the nation. One of the most important partners we have is the mailing industry. A healthy Postal Service translates to a healthy mailing industry; at the same time, an ailing Postal Service will result in a weakened industry, with the potential to have far-reaching negative results for a significant portion of the overall economy. Our partnerships run the gamut from huge mailers who send hundreds of millions of pieces of mail each year, to consolidators, transportation companies, envelope manufacturers, printers, and finally to "Mom and Pop" businesses. In fact, mail contributes to approximately \$1 trillion in global commerce each year. My commitment to the mailing industry, to customers, and to the nation is to provide service that is second to none. We are changing to better serve the American public.

Our core business will always be delivery. That is the one customer need that will not change and it is the very essence of what we do, day in and day out. The scope of our daily operations is tremendous; driven by the most dedicated and committed workforce in the world. We process and deliver, on an average day, 584 million pieces of mail to more than 150 million locations. Our carriers, 260,000 strong, walk or drive virtually every street in the country. We serve some seven million customers at our 36,000 retail locations and 1.2 million Americans visit our online Post Office at *usps.com*.

And all of that happens in just one day. Then tomorrow, we do it all over again. You may have seen photos or videos of our carriers braving the elements to deliver mail in the wake of serious winter storms. At one point this winter, forty-nine of the fifty states had either snow or ice on the ground. Not many companies were out there, but the Postal Service was. The mail got through, because our people make the difference. Service is at the heart of our organization and that will never change.

In this testimony, I will discuss four very specific strategies we have formulated to take us into the future. One year ago today, the Postal Service unveiled a comprehensive Action Plan, that laid out a roadmap for the next decade and beyond. In the year since that plan was made public, the Postal

Service has aggressively addressed the elements which were under our control. This is especially true in the area of managing costs. For the last year, we focused on, and we continue to target, all of the areas in which we can better manage and control our costs. The plans I will discuss in this testimony fit squarely into what we already have in place. Our focus has not shifted and our commitment to addressing these issues has not wavered. We face tremendous challenges. America is changing and we must change with it. By building on the strategies laid out previously, we can adapt and take the lead on formulating our place in the new digital world. I am confident that we will emerge as a more profitable, nimble, and market-responsive organization that competes for customers and delivers even greater value to the American public.

Since assuming office approximately three months ago, we have taken actions to set us on the road to even greater efficiency and to become an even leaner, faster and smarter organization. These are over and above the changes laid out in our March 2010 Action Plan. In January, I announced a 16 percent reduction in the officer ranks and a realignment of some senior management positions. I believe change should start at the top, which is why we sought to flatten the organization by creating a structure that will enhance and strengthen customer services and relationships. We announced the closure of one Area office and streamlined operations in the areas of products, customer interaction and support, engineering and technology, human resources and sustainability. This is just one of several steps in our evolution toward becoming a forward-thinking, fast-acting company; a company that can better serve the public.

Later this month, we will be announcing additional changes that will further reduce staffing and personnel. We will be working closely with management organizations and other stakeholders to ensure our employees have landing spots available where possible. We will attempt to minimize negative effects on employees, but the necessity of this change is clear, as indicated by the financial results from the most current quarter.

Quarter 1 of fiscal year 2011 began on October 1, 2010 and ended on December 31, 2010. This quarter encompasses the holiday mailing season and historically it has been our most profitable quarter. For the last few years, however, that has not been the case – including this year. We ended the quarter with a net loss of \$329 million, compared to a net loss of \$297 million for the same period in FY 2010. Absent the cost of prefunding retiree health benefits (RHB) for future retirees and noncash adjustments to the workers' compensation liability, the Postal Service would have had a net income of \$226 million in Quarter 1. Of even greater concern is the projection that indicates the Postal Service will reach its statutory borrowing limit by the end of the fiscal year, thus resulting in a cash shortfall. Without changes to the law mandating this onerous obligation, the Postal Service will be forced to default on a financial obligation to the federal government, due at the close of the fiscal year, on September 30, 2011.

To fully understand the significant challenges we are facing, it is worthwhile to look at what has happened with First-Class Mail and the effects of the ongoing shift in the mix of mail being sent through our system. While total mail volume figures for the first quarter showed a modest increase of 1.5 percent, our revenue still declined 2.6 percent. Why is that? Because the mail volume consists of less First-Class mail and more advertising mail – what we call Standard Mail. In Quarter 1, the volume of First-Class Mail was 43.1 percent of total mail volume, down from the same period in FY 2010, when First-Class Mail was 46.4 percent of the total mail volume. This represents a revenue loss of \$544 million. Any business that takes this kind of monetary hit is destined to struggle, and the Postal Service is no different. And remember that First-Class Mail has been declining for almost a decade. The continued migration to electronic means of communication is reflected in these numbers. Even though economic indicators suggest that the economy is improving and the precipitous volume declines of the past three years may be behind us, changes in customer habits have long-term effects on our business.

To address these impacts, the Postal Service has continued its aggressive and targeted reductions in work hour costs. We reduced work hours by 6.4 million, or 2.1 percent, in the first quarter of this fiscal year. That is equivalent to approximately 3,600 full time employees. These savings are a continuation of the incredible efforts of the last three fiscal years, resulting in a cumulative reduction in the number

of career employees by 102,721, or 15.1 percent in the past 36 months. In fact, our current employee complement of 574,653 (as of Jan. 31) is similar to workforce figures dating as far back as 1972, when the Postal Service's workforce numbered 570,688. Our productivity gains are even more impressive when you consider that, in 1972, mail volume totaled 87.2 billion pieces, with a much smaller network of delivery points. In 2010, with virtually the same number of employees, the Postal Service processed and delivered 170.6 billion pieces of mail to approximately 150 million addresses. And we don't intend to stop there. Our plans for the remainder of FY 2011 include a total cost savings projection of \$2 billion. This includes a reduction of 40 million additional work hours across the organization. In fact, the Postal Service has, in the last ten years, reduced annual work hours by 443 million hours, the equivalent of saving \$18 billion in 2010. We are proud of these achievements; of doing more with less, and we have no intention of slowing down!

I am proud to report that, in addition to our success in achieving work hour savings, the first quarter showed continued excellence in service performance. The national score for overnight Single-Piece First-Class Mail is at an astounding 96 percent on-time rate. This is an improvement over the same period last year. The commitment of each and every postal employee is reflected in these service scores. Despite our continued financial struggles, and our declines in mail volume, and despite challenges such as winter weather and staffing realignment, our employees go to work each day with this singular goal in mind – to serve our customers. That commitment is unwavering.

Even as we continue to fulfill our commitment to service, we must address one particular area of concern – our liquidity. I would like to discuss this in more detail, to provide a clear picture of our situation and to give some background, especially for the new committee members. Without changes in applicable laws, at the close of this fiscal year, in seven months, the Postal Service will be insolvent, as we will be unable to meet all of our financial obligations. This liquidity crisis is caused by a combination of factors. With enactment of the *Postal Accountability and Enhancement Act (PAEA)* in 2006, the Postal Service was required, beginning in 2007, to prefund retiree health benefits (RHB) for future retirees. The incredible burden of this annual prepayment of \$5.5 billion, due at the end of each fiscal year, is one no other entity, public or private, must bear. In addition to the prefunding, the Postal Service also pays \$2.2 billion for annual health benefit premiums for current retirees. Other issues involving legacy costs have contributed to our financial concerns. The Postal Service's Office of Inspector General (OIG) has found overfunding of the two retirement systems within the Postal Service; the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). The OIG found that the Postal Service has overfunded CSRS by approximately \$75 billion and has also overfunded FERS by approximately \$7 billion.

The effect of these obligations is startling, when you consider that, in the four years prior to enactment of PAEA, the Postal Service saw a net income in each of those years. In fiscal years 2007 and 2008, the Postal Service would have continued to show a positive cash flow, with significant profits of \$3.3 billion and \$2.8 billion, respectively, absent the prepayment requirement. Instead, the Postal Service made the required prepayments of \$14 billion and had losses of \$5.1 billion in 2007 and \$2.8 billion in 2008. Protracted losses for the last three fiscal years have had a cumulative effect on both cash flow and on the debt limit. In fiscal years 2008 and 2010, the Postal Service experienced negative cash flow from operations. Fiscal year 2009 would also have been included in that negative cash flow category, except for enactment of Public Law 111-68, which deferred the required payment to the Postal Service Retiree Health Benefits Fund (RHBF) by \$4 billion. That change, however, was only a short-term, one-year fix and did not address the larger issues of continued future payment to the RHBF. No such exception was made for the fiscal year 2010 prepayment of \$5.5 billion, significantly contributing to a net loss of \$8.5 billion for the year.

By statute, the Postal Service is limited to an annual net increase in debt of \$3 billion, for a total outstanding debt of \$15 billion. At the close of the current fiscal year, the Postal Service will be faced with two substantial cash payments; \$5.5 billion for RHB, due on September 30, and another approximately \$1.2 billion for the annual payment on workers' compensation liability, due in October 2011. An examination of our current cash balance and the remaining borrowing capacity we have, coupled with projected revenue for FY 2011, shows that the Postal Service will have insufficient cash



available to fund these financial obligations, falling short by \$2 to \$3 billion. The consequences of a failure to make these payments are not known.

Congress has tried to rectify the fact that we are running out of cash while we have billions of dollars sitting in the Treasury in overfunded retirement accounts. In the 111<sup>th</sup> Congress, bills were introduced by Representative Lynch and by Senators Carper and Collins. Each sought to find ways to use surpluses to fund the RHB obligation or reduce the Postal Service's total debt. We appreciate the efforts of Congress to find ways to allow the Postal Service to access these overfunded systems. We look forward to continuing our dialogue in the 112<sup>th</sup> Congress – but let me be clear – these issues must be addressed through legislation this year.

Earlier, I mentioned that today marks one year since the Postal Service introduced a comprehensive Action Plan for the future. That plan had its roots in a careful and thoughtful evaluation of trends in American's use of the mail and what the future might hold for our business. Working with independent consultants, we were able to make projections about what the nation's postal system might look like in 2020. We formulated specific strategies to address areas such as migration to digital means of communication, mail volume declines, and a less profitable mix of mail. We realized that, without significant improvement and changes in a number of areas, the Postal Service could be facing a cumulative \$238 billion shortfall in the coming decade. We identified seven key areas of concern and we went to work on those areas.

Since introducing this plan, we have: implemented a strategy to modernize our retail network and increase customer access through retail partnerships, expanded use of kiosks, and improved our online offerings; made strides in establishing a more flexible workforce, in order to better position employees where they are needed; expanded our variety of postal products and services, including building on the success of the Priority Mail Flat Rate Box by introducing additional flat-rate products and offering incentives for Standard Mail; and continued the aggressive pace of cost-cutting, taking out \$3 billion in costs in 2010, on top of the \$6 billion in savings achieved in 2009. In February, the Postal Regulatory Commission (PRC) approved a price increase for market-dominant products, including First-Class Mail and advertising mail. Prices will increase an average of 1.7 percent and will take effect on April 17.

There are crucial parts of our action plan which are not under our control and that still must be addressed. Specifically, there are statutory and regulatory issues which have not been resolved. We asked Congress to examine both the RHB prefunding requirement and the CSRS overpayment. Although there was legislation introduced to address these issues – efforts we appreciate very much – unfortunately, none of these measures were enacted and these matters, in addition to FERS overfunding, still remain. Our hope is that, in the 112<sup>th</sup> Congress, both a short-term and a true long-term comprehensive solution can be found to address these issues.

In the meantime, we are actively formulating strategies that will take us into the future. As these complicated legacy cost issues are resolved over time, the best thing the Postal Service can do is continue to aggressively manage costs, become as efficient as possible and, of course, continue to provide the exceptional service that is our hallmark. Shortly after I took over as Postmaster General, I began communicating four simple but effective strategies that are the cornerstone of our efforts going forward. These strategies will shape our future. I have spoken about them time and time again to help reinforce the message that these concepts are the key to our continued success. I appreciate the opportunity to discuss them with you today.

The Postal Service will never stray from its core business function, which is mail and package delivery. What we are doing is revitalizing the way we approach the marketplace. The way people communicate has changed dramatically and we are changing with it. Our employees know it, our customers know it, and our business partners know it. We are finding ways to fit into and complement the new universe of digital communication. And this is how we are getting there.

First, the Postal Service is strengthening the business to consumer channel. We are a major driver of the American economy and mail remains one of the most highly effective ways of promoting and

marketing business. The value of the mail is unsurpassed and market research shows again and again that, compared to other forms of messaging, the Postal Service delivers the highest return on investment. Direct mail is an especially crucial tool for small and medium-size businesses. We are strengthening the business to consumer channel by improving our products, services and features consistent with the changing needs of the market. We are simplifying our requirements and making it easier to do business with the Postal Service. Working with businesses of all sizes, we are helping them to adopt best practices and utilize the mail in conjunction with their current marketing strategies, allowing them to integrate the mail into the way their business works.

Examples of how we have already started to do this can be seen in our Reply Rides Free product, which encourages the inclusion of marketing messages in bill and statement mailings, and payment of bills using the mail. For qualifying customers, a 1.2-ounce piece is charged the 1-ounce price if a reply envelope or card is included in the mailing. In addition, plans are underway for the Postal Service to host 1,000 "eBay Days" throughout the country. Encouraging people to use eBay – one of our most important business partners – to make purchases and to then ship those items using the Postal Service, reaps benefits for both eBay and the Postal Service. We plan to hold 1,000 "Grow Your Business Days", where interaction with businesses of all sizes will drive growth not only in the Postal Service, but in the economy as a whole.

Our second strategy focuses on improving the customer experience. We are striving to ensure that every experience our customers have with us is a positive one. This includes face-to-face interactions at our retail counters, transactions that take place at alternate access locations and on *usps.com*. Keeping things simple, positive, efficient and friendly will ensure customer satisfaction and will keep customers coming back for more. And improving customer experience is not limited to just transactions. We will keep the experience positive by continuing to deliver mail on time and with the personal touch customers expect from their carriers. As I continue to point out, this is all made possible by the continued commitment of our excellent employees. We are expanding access points through use of retail partnerships and kiosk placement and by giving our customers a choice of when, where and how to do business with us. We need to be accessible where the public lives, works and shops and our strategy to improve the customer experience is ensuring that reliability.

The decision to make every First-Class single-piece postage stamp a Forever stamp is one example of improving the customer experience. The comments we have received on this change have been overwhelmingly positive. Only with reliable feedback can we improve our service performance and fulfill our pledge to making sure each transaction is a positive one. Recently, the Postal Service adopted a new measurement system for evaluating customer satisfaction. The Customer Experience Measurement (CEM) gives us timely and useful information on how customers view us and their interactions with us. Very soon, we will be implementing new guidelines, which include enhanced training methods that will ensure all Postal Service employees who come into contact with our customers will be ready to make that experience a positive one. Whether customers contact us at a retail counter, on the phone, or online, we will make that interaction an excellent one.

One change in our retail outlets has already yielded positive results. Earlier this year, we modified existing guidelines governing retail transactions, in order to allow our retail clerks, who know their customers better than anyone – to be able to tailor their interactions with customers based on the individual. This change was a vast improvement, resulting in simpler and more enjoyable transactions for the customer. It also lets our employees know that their expertise is valued. We also recently launched, in partnership with Hallmark, Postage Paid Greetings, a new pre-paid postage greeting card product. This unique offering uses the cutting-edge technology of the Intelligent Mail barcode (IMb) to allow customers to purchase a card and postage at the same time. They can buy it, address it and mail it, all in one trip to their local Hallmark Gold Crown store or at several other participating retail outlets. The simplicity and convenience of these cards is exactly the kind of result we are seeking as we work to improve the customer experience.

Competing for the package business is our third business strategy. With the continued rise in e-commerce, packages represent a major growth area for the Postal Service. Our incredible network and our extended reach – going to every house every day – is an asset upon which we intend to build.