



**STATEMENT OF
LOUIS GIULIANO, CHAIRMAN
BOARD OF GOVERNORS
U.S. POSTAL SERVICE
BEFORE THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES
APRIL 5, 2011**

Good morning, Mr. Chairman and Members of the Committee. My name is Louis Giuliano and I serve as Chairman of the Board of Governors of the U.S. Postal Service. This is my first opportunity to testify before you, and I thank you for the privilege.

The Postal Service is essential to the American economy. It stands at the heart of our nation's trillion dollar mailing industry. It is a critical part of our economic infrastructure and an important part of our social fabric. Therefore, it is essential that every effort be made to ensure its economic viability.

The Board shares the concerns expressed by the Members of this Committee about financial losses at the Postal Service. We also appreciate the fact that some in Congress are concerned about our labor costs, and in particular, the tentative contract that has been negotiated with the American Postal Workers Union (APWU).

For all these reasons, we feel today's hearing is critically important, and the Board of Governors applauds your willingness to explore those issues in-depth. We look forward to working with you to address the situation.

The tentative contract with the APWU, reached after many months of difficult negotiations, is the best that was achievable under existing law. Failure to reach a negotiated agreement places us in binding arbitration – an outcome that would not have allowed us to realize most of the benefits we see under this negotiated agreement.

This tentative agreement provides the Postal Service with three important things: immediate cost control; greater workforce flexibility; and long-term structural changes. Of these, the workforce flexibility and long term structural change offer the most significant potential for lowering total labor costs.

Most importantly, we do not believe these vital changes would have been possible in arbitration. Years of experience have taught us that these types of breakthrough changes in workforce utilization are very unlikely in an arbitrated settlement. Given the law that we negotiate under, we strongly believe that this was the best outcome possible.

At the outset of these negotiations, the Board of Governors established a set of goals consistent with our March 2, 2010 Comprehensive Strategic Plan which laid out seven

key tasks to return the Postal Service to profitability. Throughout the talks, we challenged the negotiating team to adhere to these goals. As in any negotiation, neither side got everything they wanted, but the Postal Service gained significant improvements in labor flexibility.

The Board unanimously supports the tentative agreement.

- This tentative labor agreement achieves one of our most important operational objectives – the ability to apply work hours where and when we need them rather than deal with static work shifts and significant overtime costs.
- It also calls for an immediate two-year real freeze on wages.
- It allows roughly 20 percent of the APWU workforce to be temporary, at a cost 50 percent lower than our permanent employees.
- It establishes a two-tiered workforce, with a lower wage tier for new employees.
- It increases the employee contribution for healthcare.

These provisions of the tentative contract constitute a cost saving of \$3.8 billion. We believe that both labor and management have demonstrated their determination to right this ship.

Our Comprehensive Plan, which we released last year, recognizes the importance of the Postal Service improving its processes and customer service.

Over the last three years, we have taken out more than \$11 billion in costs; and have committed to take out another \$16 billion over the next several years. This has been accomplished while improving delivery performance and adding approximately 3 million more delivery points. This is a tribute to all Postal Service employees.

We have reduced our career workforce by more than 200,000 since 2000, and we have plans to reduce another 170,000 career employees.

Mr. Chairman, we urge the Committee to consider other actions that are necessary to protect the financial viability of this important American institution.

On the top of this list are the Retiree Health Benefits (RHB) pre-payments. First, let me be clear – we are a responsible employer who has been and will continue to pay our fair share for the health care costs of our employees and retirees. But the \$5.5 billion per year accelerated payments, mandated in the 2006 Postal Accountability and Enhancement Act (PAEA), are an extraordinary burden that no other organization – private or public – is required to make. They constitute a hidden tax that is neither fair, nor responsible.

We have been repeatedly told that our pre-payments for future RHB is a scoring issue. During the four years from 2007 thru 2010, we had total net losses of \$20 billion. This would have been a total profit of \$1 billion, had we not paid, and expensed, \$21 billion of RHB pre-funding. Our debt position of \$12 billion at the end of 2010 would have been cash in the bank, with no debt, of \$9 billion. Only Congress can correct this problem and allow the Postal Service to return to profitability.

And it is in everyone's interest that you do so. If action is not taken to address this situation immediately, the Postal Service will default on our payments, on or before September 30 of this year.

Despite the overpayment of \$6.9 billion, we continue to have to pay \$3 billion per year into the Federal Employees' Retirement System (FERS). We are told only a change in the law can fix that. The workers' compensation regulations that we work under are unfair and costly. Workers' compensation represents a \$12 billion liability that cost the Postal Service over \$1 billion in cash last year.

We ask you to consider legislation that has been introduced in the Senate to address this issue. It is a government-wide problem. We also require action to create a more flexible delivery schedule. We would prefer not to go to a five-day delivery schedule, but it is the best of several different alternatives to offset the decline in First-Class Mail.

Management has demonstrated the ability to drive significant improvements in its processes and reduce the size of the Postal workforce – while improving service levels. The tentative labor agreement negotiated with the APWU is a solid step to reducing labor costs. We are hopeful that we will achieve further flexibility in our negotiations with our three other unions. We are eager to work with Congress to effectively resolve these other major issues.

It is my hope that by working together we can enable this venerable institution to reshape itself to meet the future needs of the American public and leave a legacy about which we can all be proud.

Thank you. I look forward to your questions.

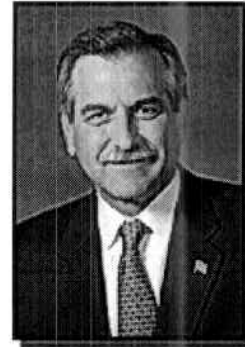
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Louis J. Giuliano

Chairman, USPS Board of Governors

Louis J. Giuliano, Chairman of the Board of Governors and former Chairman, President and CEO of ITT Corp., has a strong private sector background. At ITT, he was responsible for leading the creation of a strategic vision and an effective operating strategy for this Fortune 500 global-industrial company.



He was named a Governor of the U.S. Postal Service by President George W. Bush through a recess appointment on November 3, 2004. He was confirmed by the Senate in June 2005 for the remainder of the term that expired December 8, 2005, and for a full nine-year term that expires in December 2014. He served as Vice Chairman of the Board from February 2009 to January 2010. He currently serves as Chairman of the Operations Subcommittee and is a member of the Compensation and Management Resources Committee.

During his tenure at ITT, he played a key role in improving the company's operating performance, leading to higher margins, increased cash flow, and significant growth in shareholder value. He led the introduction and implementation of a Value-Based Six Sigma strategy designed to streamline processes and increase operating effectiveness of the company. He joined ITT in 1988 as Vice President of the corporation and Vice President of Defense Operations at ITT Defense.

Before joining ITT, Governor Giuliano served in numerous positions with Allied-Signal including President of the Avionics Systems Group, which included seven operating units nationwide.

Governor Giuliano serves on the Board of the John Maneely Company and as a Senior Advisor to The Carlyle Group, and he is an active member of the CEO Forum and the Advisory Board for the Princeton University Faith and Work Initiative.

He is a graduate of Syracuse University with a Bachelor of Arts degree in chemistry and a Master of Business Administration.