

**STATEMENT OF
DAVID E. WILLIAMS, JR., VICE PRESIDENT, USPS NETWORK OPERATIONS
BEFORE THE

SUBCOMMITTEE ON THE FEDERAL WORKFORCE, THE POSTAL SERVICE AND LABOR
POLICY
UNITED STATES HOUSE OF REPRESENTATIVES
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Good afternoon, Mr. Chairman and members of the Subcommittee.

My name is Dave Williams and I serve as Vice-President of Network Operations for the U.S. Postal Service. I am responsible for the management of a national network of 512 mail processing and distribution facilities, as well as coordination of automation initiatives. Accompanying me today is Dean Granholm, Vice President of Delivery and Post Office Operations. Mr. Granholm is responsible for all aspects of delivery to the nation's 150 million household and business addresses, as well as operations at nearly 32,000 Post Offices, stations and branches.

It is an honor to appear before the subcommittee today to discuss the Postal Service's infrastructure, in particular our mail processing network and retail facilities. We thank you, Mr. Chairman, for calling this hearing and I appreciate the invitation to testify.

I will provide a general description of our overall network, including information on strategies we have implemented to take costs out of the system. I will discuss some of the obstacles we have encountered, along with options for overcoming those obstacles. Finally, I will highlight the importance of Congressional action this year to address specific issues over which the Postal Service has no control.

The Postal Service has a long history of developing useful strategies and formulating comprehensive plans to cut costs, reduce excess capacity and streamline its operations. These efforts are not new. They stretch back over the last decade and before. In fact, the Postal Service recognized the effect electronic communications would have on mail volumes as far back as 1998, and we have produced regular, comprehensive plans to address these shifting customer habits.

The Postal Service has, since 1998, produced a series of five-year strategic plans, in accordance with the *Government Performance and Results Act of 1993*. In addition to these five-year plans, in 2002 we took steps to both create new strategies and accelerate existing ones with the development of a comprehensive Transformation Plan, which has been updated regularly in subsequent years. We consistently report to Congress, the Government Accountability Office (GAO), the Office of Inspector General (OIG) and the Postal Regulatory Commission (PRC) on our strategies, our network plans, and our future business model. And in March 2010, we developed a ten-year Strategic Action Plan for the Future which identified not only the changes USPS needed to make, but legislative changes as well.

Much of our overarching strategy is focused on making adjustments in the postal infrastructure. I would like to provide a brief overview of our network, which is made up of numerous components. The ones familiar to most Americans are our retail facilities. These Post Offices, stations and branches are where customers purchase stamps, pick up and mail parcels, or perhaps have a P.O. Box. The Postal Service continues to actively explore opportunities to reduce the number of postal-operated retail facilities, as part of our overall strategy to become leaner, faster, and smarter. These efforts are described in greater detail in this testimony.

The other major part of our network consists of facilities that serve as mail processing locations. In 1970, with passage of the *Postal Reorganization Act (PRA)*, the old Post Office Department was transformed into the U.S. Postal Service. At the time of enactment of the PRA, more than 2,000 facilities served as our primary, outgoing mail processing locations. Today, that number has been reduced to less than 300. Throughout the last four decades, the Postal Service has centralized its mail processing system, with large facilities sorting mail for Post Offices and ZIP Codes over a large geographical area. The postal mail processing network has historically been set up to meet service standards between ZIP Codes, subject to capacity and distance constraints.

As operational practices have evolved, a growing amount of mail enters the mail system closer to its final delivery point, which allows the mail to bypass several steps in the processing system. This mail requires less sortation, resulting in fewer total mail pieces being handled and thus, necessitating cost reductions in our network. The Postal Service has, for decades, employed the sound business practice of evaluating and reviewing our processing needs and plant capacity to determine how and where modifications can be made to achieve improved productivity and eliminate redundancies in our network.

Similarly, a combination of factors - especially changing customer habits - has demanded we also continually evaluate both the number and location of our retail facilities. These factors include not only a mail volume decline of 43.1 billion pieces, but an attendant reduction of 200 million in the number of customer visits, a decline of \$2 billion in retail transactions at postal-operated facilities, and the continued expansion of access to Postal Service points. Approximately one-third of all Postal Service retail revenue is now generated through channels other than a Post Office, including the Internet, contract units, and other retail partners. This month, the Postal Service announced more than 1 million downloads of its free mobile application, or "app," to iPhone, iPod touch and iPad customers. As the communications world evolves, the Postal Service is changing with it. Part of that change is the careful, but continuous streamlining of our retail facility footprint.

Recently, the Postal Service proposed changes to existing rules under the Code of Federal Regulations (CFR) which deal with discontinuance of Postal Service-operated facilities. We made these proposals to create a more efficient process; one that is open, fair and equitable and that enhances the way our customers view postal retail operations.

We received comments from a number of stakeholders, including Members of Congress, and currently we are evaluating this input. Before filing the proposed changes, the Postal Service established a solid business case, describing the need for continued evaluation of postal-operated facilities to determine what action was appropriate. When studying the existing retail infrastructure, the Postal Service examined the effects of a proposed discontinuance on the community and postal employees, the ability to provide a maximum degree of effective and regular postal services to the affected community, and economic savings. The proposed rule changes focus on six key areas:

- **Streamlining the process:** The proposed rule improves the administration and management of the discontinuance process by removing redundant steps and utilizing an automated system to reduce what formerly was a nine-month process to only 130 days.
- **Updates criteria/qualifiers that trigger a study:** Under previous guidelines, the Postal Service could close a Post Office for only two reasons – a Postmaster vacancy or because of suspended operations. The proposed rule would enhance our flexibility by adding additional factors when considering a discontinuance study, such as community need, the workload of the Post Office, and alternate access.
- **Conversion of Post Offices to Stations or Branches:** The conversion of a Post Office to a subordinate station or branch would no longer be subject to the notice and comment procedures applied to Post Office discontinuance. This change in naming convention is an internal process and would be transparent to customers. The term "consolidation" would only apply when a Postal Service-operated retail facility is converted to a contractor-operated unit.

- **Station and Branch Discontinuance:** Previously, procedures for discontinuance of a station or branch were more abbreviated and were not subject to the same notice and comment periods applied to Post Office discontinuance. The proposed rule would erase virtually all of these differences and would apply the same time periods and procedures to both.
- **Postmaster to Post Office Ratios:** The proposed rule would clarify that Post Offices may be staffed by postmasters, as is commonly the case, or by other personnel acting under the supervision of a postmaster. Thus, a postmaster could serve in more than one Post Office, or an employee other than a postmaster could be responsible for the day-to-day responsibilities of a Post Office. This change is consistent with the definition of a postmaster under the *Postmaster Equity Act*.
- **Top-Down Process:** Previously, the Postal Service used a "bottom-up" process to identify Post Offices for possible discontinuance. Under the proposed rule, Postal Service Headquarters management can also identify candidate offices for study, thereby using a "top-down" approach.

Implementing these changes will allow the Postal Service to close the right Post Office, as opposed to simply closing the vacant Post Office, which was the case under existing rules. We will continue to partner with other retailers to provide our customers expanded access to our products where they live, work and shop. Today, over 35 percent of retail transactions take place outside of the retail counter. We will continue to follow existing law, as well as adhering to past practices such as consultations with postmaster and management organizations, notification to customers, employees and labor unions, and solicitation of customer comments and feedback. Aligning the number and location of postal-operated retail facilities to fit ongoing customer habits and needs is just one part of a multi-layered effort, reaching into every aspect of our organization, to enhance access, while taking costs out of the system.

The pursuit of realignment of the mail processing network is based on a similar and equally sound business case. Advancements and innovations made in the areas of mail preparation, handling and processing have enabled the Postal Service to capture savings and improve productivity. For example, we introduced barcodes over thirty years ago to improve processing efficiency. These ideas have continued to evolve, from simple barcodes to the POSTNET barcode to today's Intelligent Mail barcode (IMb).

Deployment of cutting-edge mail processing technology throughout the last several decades has allowed us to further enhance productivity. We introduced the first machines to sort letters in 1922 and have been at the forefront of the industry ever since, working with partners in the technology field to develop and utilize increasingly efficient mail processing machinery. These improvements continue with deployment of the Flats Sequencing System (FSS). Redesigning our network is an ongoing process and one with which we have a great deal of experience. Our work and success in this area illustrates how, using an integrated

approach, districts, areas and headquarters all work together to trim and refine our processing network.

One tool we use to address changing network needs is the Area Mail Processing (AMP) study. A key driver of AMP activity, especially over the last few years, has been the steady decline of single-piece First-Class Mail, which requires more handling and sortation. Since fiscal year 2001, this category of mail has declined by 23 billion pieces, or almost 42 percent. Mail volume declines, along with advances in technology and productivity improvement have combined to create an imbalance between operational needs and facility space. Currently, the Postal Service has 90 active AMP studies. Since 2008, we have successfully implemented 48 AMP studies, with an estimated total annual savings of over \$140 million. To date, 33 of these AMP consolidations have undergone Post Implementation Reviews (PIR) which demonstrates that AMP consolidations, combined with other productivity improvement initiatives and volume loss, have resulted in over \$433 million in annual savings.

The Postal Service uses a well-defined and thoughtful process when undertaking an AMP study. This procedure has been honed over time to support and ensure consistency and transparency when making a fact-based sound business decision to consolidate processing operations. When a decision is made to begin a study, the Postal Service utilizes a process which includes strict adherence to existing provisions of applicable collective-bargaining agreements with our unions. We also employ a robust communications process with members of the community, local, state and federal elected officials, local customers and mailers, and the media. This process ensures customer and employee concerns are heard and evaluated as the Postal Service proceeds with making a prudent business decision, taking into account all factors.

Enhancements made to our AMP study process were the result of input expressed by customers, employees, the GAO, the OIG and Members of Congress. We continue to refine the AMP process to fully address the questions and issues raised by numerous stakeholders. In some instances, the Postal Service has declined to move ahead with an AMP study, if our findings suggest service would be unreasonably impacted, or if savings would not be realized. We take a careful approach when making final decisions about consolidation of mail processing needs. Our efforts have led to undeniable success in virtually all cases.

We have, at times, been hindered from successful completion of AMP studies. Many people are under the impression that AMP studies are a new occurrence, something the Postal Service created just in the last few years to combat declining mail volume. In fact, AMP studies have been used since the 1970's, resulting in an 80 percent reduction in our mail processing network since that decade. However, there have been instances where AMP activity was delayed for a time. In the last few years, following such a period of AMP inactivity, the Postal Service began a renewed effort to streamline our network.

This was in response to a variety of factors, chief among them a Congressional recommendation, contained in the *Postal Accountability and Enhancement Act (PAEA)* of 2006, which stated, "Congress strongly encourages the Postal Service to expeditiously move forward in its streamlining efforts." In addition, recommendations regarding network and retail facility rightsizing have been made by both the GAO and the OIG. The direction given by these and other external stakeholders supports the actions of the Postal Service to aggressively address the issue of excess capacity in its network.

To ensure we capture savings while still providing top-notch service to customers, the AMP process consists of two Post-Implementation Reviews (PIR), which must be completed following implementation of an AMP study. The PIR determines whether planned savings, work hour savings, and levels of service are met. One example of a successful AMP is in Kansas City, where the Postal Service consolidated all operations from the Kansas City, KS, Processing and Distribution Center (P&DC) into the Kansas City, MO, P&DC. This consolidation, along with other concurrent productivity improvements, resulted in total annual savings of \$16.9 million, with no change to service performance or service standards. These positive results are not limited to this one example. To date, every PIR has supported the corresponding AMP business case, meeting, and in most cases, exceeding, operational savings goals. In addition, the PIR is not the only means by which AMP studies are evaluated.

The OIG has validated the business case underlying the implementation of AMP studies in numerous parts of the country. Since 2005, they have conducted 35 audits related to AMP studies and consolidations. In each case, the OIG found that a valid business case existed to support consolidation.

Our efforts and our successes are not limited to AMPs. Over the last decade, the Postal Service has addressed its excess mail processing capacity by employing the following realignment activities:

- In 2010, we completed the transformation of Bulk Mail Centers (BMC) into Network Distribution Centers (NDC). We finished the change seven months ahead of schedule, with estimated savings, according to the OIG, of \$111 million in total annual savings.
- As of today, we have one remaining Airport Mail Center (AMC). At one time, the Postal Service operated 80 AMCs, which were often located in high-cost areas on airport grounds. Total program savings to date is estimated at \$99 million.
- In the past ten years, we have reduced the number of Carrier Sequence Barcode Sorters (CSBCS) in Post Offices to 441, down from 3,750. By moving this workload to more productive mail processing equipment located in larger facilities, the Postal Service made significant productivity gains.
- In FY 2010, we closed the Philadelphia Logistics and Distribution Center (L&DC), resulting in savings of \$10 million annually.
- We reduced the number of Mail Transport Equipment (MTE) Service Centers, closing eight of 23 in 2010, resulting in annual savings of \$75 million.
- In the last decade, we closed almost all Remote Encoding Centers (REC), down to only two from a high of 55. The closure of these 53 REC sites resulted in cumulative savings and cost avoidance, from 1999 to today, of approximately \$715 million.

The Postal Service takes a partnership approach to network realignment, using both a top-down and bottom-up process. Local postal officials provide insight and analysis about their specific geographic region. These efforts are combined with the use by headquarters personnel of sophisticated computer modeling and in-depth analysis of equipment needs to achieve savings and improve efficiency.

One example of the collaborative nature of our approach is the recent realignment of operations in Springfield, MA. With implementation of the NDC network transformation plan, local management recognized that consolidation of outgoing operations at the Springfield NDC would allow for mail processing equipment to be removed. This in turn led to a decision to consolidate two additional facilities, each within five miles of the Springfield NDC - the Springfield Surface Transfer Center (STC) and the Springfield L&DC. Through this consolidation effort, the Postal Service was able to close two facilities, consolidate operations and create a package and transportation hub in one facility, allowing for significant economies of scale and transportation efficiencies. The net effect was an annual savings of approximately \$10 million. Most important, this change, as well as our other consolidation

efforts, was implemented with minimal impacts to mail service, no adverse affect to our customers and without layoffs of postal employees.

The Postal Service is extremely effective at implementing these types of cost-saving efforts not only in mail processing, but in delivery operations, through route reductions and carrier placement, and in retail units, through Post Office discontinuances. By taking a multi-pronged approach and aggressively examining all aspects of our operations, we have achieved unprecedented success in cutting costs, trimming work hours, and reducing employee complement, while increasing productivity and efficiency and keeping our commitment to the public by delivering consistently high levels of service.

We continue to pursue new ideas and strategies that will take us as quickly as possible toward the stated goal of a workforce numbering 400,000 employees and costs of \$60 billion or below. We continuously evaluate opportunities to more efficiently utilize all aspects of our operations – our people, equipment, facilities and transportation. It is crucial that we match all these components to ensure we have the right number of employees, machines, facilities, and transportation routes, to collect, process and deliver the type of mail in our system today.

Since 2001, the Postal Service has reduced its total employee complement by over 230,000 – without layoffs. At the same time, we have continued to make enhancements in productivity. Despite a 3.5 percent decline in mail volume, significant efficiency gains were achieved in 2010, improving Total Factor Productivity (TFP) 2.2 percent, compared to 2009. This marked the ninth year of productivity growth since 2000. Productivity gains are a result of effective workforce management, efficient use of supplies and services, including transportation, and maximizing the return on automation investments. The Postal Service continues to realize savings and increase efficiency, even in the face of continual opposition.

Actions taken by external entities have, in the past, slowed or prevented the Postal Service from enacting needed mail processing consolidations and Post Office discontinuances. However, as we approach a critical juncture in our organization's history, another kind of Congressional action is urgently needed this year. The Postal Service is currently facing a liquidity crisis. The inability of the Postal Service to make specific payments to the Federal government is a certainty, absent Congressional action.

Last month, the Postmaster General provided testimony to the Senate that described two scenarios, one of which will occur in the coming months and which will have consequences

stretching into fiscal year 2012 and possibly beyond. To avoid the least palatable of these outcomes – the inability to pay employees and suppliers and the curtailment or cessation of postal operations altogether – the Postal Service needs Congress to:

- Address the Retiree Health Benefit (RHB) pre-funding requirement and Civil Service Retirement System (CSRS) overfunding issue
- Resolve the overfunding of the Federal Employees' Retirement System (FERS)
- Give the Postal Service the authority to adjust delivery frequency

Legislation currently exists to enact all of these changes. We appreciate the efforts of Congress to hold hearings such as these and bring attention to the Postal Service's dire situation. Passage of legislation to address the crushing obligation of making a \$5.5 billion annual pre-payment for RHB would lessen the impact of this significant drain on postal finances. The Postal Service is not seeking to walk away from these obligations. We have been recognized as one of the few entities, public or private, that does an excellent job meeting both its health care and pension benefit obligations. We have already paid \$43 billion into RHB. We will meet our commitment to future retirees; however, a ten-year pre-funding schedule is overly aggressive and simply not possible under current economic and financial conditions.

Similarly, finding a resolution to the long-standing problem of pension overfunding is critical to helping the Postal Service get back on firm financial footing. Numerous agencies, regulators and external consultants have all agreed that a surplus exists in both the CSRS and FERS postal funds. The Office of Personnel Management (OPM) has repeatedly stated it cannot act on this matter without direction from Congress. We ask you to provide that direction as swiftly as possible.

One of the most urgently needed actions is the ability to adjust delivery frequency. If Congress gave the Postal Service this authority, we could move to a five-day a week model, as one example, and realize annual savings of \$3.1 billion. Just as the Postal Service modified its AMP study process in response to concerns expressed by customers, elected officials and others, we adjusted our five-day delivery proposal, based on feedback from mailers, customers, and additional stakeholders. This input resulted in the decision to adjust our plan and keep Post Offices open on Saturday, provide P.O. Box and remittance mail service, and deliver Express Mail. Shifting to a five-day delivery model would involve change, but we believe it is an idea whose time has come.

We know that legislative action alone is not sufficient. It must occur in concert with the continued efforts of the Postal Service, many detailed throughout this testimony, to reduce costs by trimming its network footprint, employee complement and work hours, while exploring innovative ideas to generate revenue with new products and services. We continue to reorganize our management structure, including an ongoing redesign of district, area and headquarters functions, which will be completed in September of this year and will produce an additional \$750 million in savings. Last month, a total of 2,506 career employees separated from the Postal Service. Some chose to accept a Voluntary Early Retirement (VER) incentive, some were eligible to retire and some voluntarily resigned.

All of the efforts discussed here – ranging from network consolidation to Post Office discontinuances, employee reductions, workhour savings, and others – illustrate the commitment the Postal Service has made to address all areas over which we have direct control. But while we have achieved cost-cutting and savings that would be the envy of most companies, these actions alone are not enough to achieve the substantial savings that would be brought about by the ability to adjust delivery frequency, resolution of the RHB prepayment and solving the FERS and CSRS overfunding issues. This combination of actions is what is needed to secure the future of the nation's postal system.

Our situation is dire. We will reach our statutory debt limit of \$15 billion by the end of this fiscal year, along with a cash shortfall. Our goals continue to be aggressive but achievable. We can and will do our part, but we need Congress to act on three key issues: RHB pre-funding, overpayments to FERS and CSRS, and delivery frequency.

The proof of what the Postal Service has achieved, through the relentless efforts of our employees, is seen in the astonishing savings and efficiency gains of the last decade. We have no plans to slow down or curtail our efforts. We know how to do this, Mr. Chairman. By joining our efforts with swift Congressional action, we can stave off a looming liquidity crisis, keep the nation's postal system moving, and continue implementing cutting-edge strategies to boldly push ahead with our evolution into a 21st century Postal Service.

I appreciate again the opportunity to testify today and I will answer any questions you may have. Thank you.

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