

**STATEMENT OF
POSTMASTER GENERAL/CEO JOHN E. POTTER
BEFORE THE
SUBCOMMITTEE ON TRANSPORTATION/TREASURY
AND GENERAL GOVERNMENT
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
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Good morning, Mr. Chairman and Members of the Subcommittee.

I appreciate this opportunity to speak with you today about the Postal Service – its accomplishments over the last year; the continuing challenges it faces; and its appropriation request for the next fiscal year.

Before I do that, however, I want to thank the Senate for its leadership and support in the successful passage of legislation last year that reduced the Postal Service's payments to the Civil Service Retirement System. By helping to avoid a potential overpayment of \$105 billion to this retirement fund, the legislation allowed us to reduce our debt by more than one third, from \$11.1 billion to \$7.3 billion in fiscal year 2003. It provides us with the means to continue reducing debt this year. And it will help us hold rates steady until at least 2006.

Since I assumed the role of Postmaster General, transformation of the Postal Service has been our central focus. And it has paid off. Our overall results in 2003 – in the areas of service, customer satisfaction, workplace improvement, and financial results – were directly tied to our Transformation Plan, which we implemented in 2002.

Last year, service performance and customer satisfaction reached their highest levels. We have improved the workplace environment, measured both by reduction in grievances awaiting arbitration and the results of quarterly employee surveys.

Consistent with our Transformation Plan goal of enhancing a performance-based culture, we have established pay-for-performance systems for managers, executives, postmasters and supervisors. The new system links 100 percent of any pay increase to performance.

We have achieved an unprecedented four consecutive years of growth in total factor productivity. We have delivered \$5 billion in cost savings since 2000. This includes \$2.7 billion in savings resulting from Transformation Plan initiatives over the last two years. We are on track to surpass the \$5 billion in savings called for by the Plan over the five-year period ending in 2006.

To date, we have reduced our career employee complement by over 85,000 – a reduction of more than ten percent from its peak in 1999 – without layoffs. That is a significant achievement when you consider that fewer than 70 American businesses have as many as 85,000 employees on their rolls. But more significant is the fact that over the same period, we added more than seven million new addresses to our delivery network – while achieving record service performance.

We are doing more – and doing it better – with less. We are aggressively managing the business. Our people are doing a remarkable job of making the best use of our resources while minimizing our expenditures. This will not change.

Yet our success masks long-term trends negatively affecting the viability of our outdated 1970 business model – which assumed that the revenue from continually rising mail volumes would offset the costs of an ever-growing delivery base. And the Postal Service was granted a limited monopoly to protect its ability to provide universal service. That model was created at a time when the Internet, e-mail and other electronic communications were no more than the dreams of visionaries. There was little competition in hard-copy and package delivery.

That world no longer exists. There has been a profound structural change in how people do business and communicate. They are increasingly taking advantage of electronic alternatives to place orders, pay and send bills, send greetings, obtain account information and communicate with friends and loved ones. Just a few short years ago, all of these activities would have taken place only through the mail. In today's environment, the value of our monopoly has diminished considerably.

In 2003 alone, our system grew to accommodate 1.9 million new addresses. That part of our business model – delivery expansion – has not changed. But mail volume growth has moved in the opposite direction, declining for the third straight year. And First-Class Mail – which provides the highest contribution to supporting our growing delivery network – fell by more than three billion pieces. For the first time, it was less than half of total mail volume. We are challenged to find new ways to reduce expenses and increase revenue to compensate for the decline in this source of funding.

At the same time, we recognize that without reform of the laws governing the operation of the Postal Service – without modernization of our legislatively defined business model – the opportunities for savings and efficiencies will also decline. The only alternative to cutting costs is raising rates. That is an option that now, more than ever before, can be expected to have a negative impact on volume growth. We simply cannot afford to create a cycle of rising rates resulting in declining volumes that must be offset by still more rate increases.

Against this reality, I am pleased that the administration and both houses of Congress have taken action to actively explore new models that will protect the right of everyone in America – no matter who, no matter where – to affordable, universal mail service long into the new century. The mail – and all who depend on it – is simply too important to our economy to be left to chance. Over the past months it has become clear that there is broad consensus – among government leaders, legislators, the mailing industry, customers and postal employee organizations – about the need for reform. I look forward to continuing my efforts with this Subcommittee and others as we work to find the solutions that are best for our nation – before we face a postal crisis.

As this critical process unfolds, we are also here today regarding more immediate needs and we are submitting our appropriations request for Fiscal Year 2005. This request covers funding for revenue forgone and free and reduced rate mail, as well as additional funding to complete the system modifications that will improve mail safety and security for our employees and for the American people. Our request differs from the amounts recommended by the President's Fiscal Year 2005 budget in several ways.

Our first request is for \$29 million for revenue forgone reimbursements. In accordance with the Revenue Forgone Reform Act of 1993, the Postal Service is to receive \$29 million annually through 2035. This payment covers the cost of services we provided in Fiscal Years 1991 through 1993, but for which there were insufficient amounts appropriated. It also covers payment for services provided from Fiscal Year 1994 through 1998. This would be the twelfth in a series of 42 annual payments to reimburse the Postal Service \$1.2 billion for this purpose.

In an unusual departure from past Presidential budget submissions, the 2005 budget is silent on this statutory reimbursement. The Postal Service is required under generally accepted accounting principles to reduce the value of an amount receivable to reflect any uncertainty as to full payment. As a result, the failure to receive these funds may require the Postal Service to treat these remaining payments, which amount to nearly \$900 million, as a bad debt, significantly increasing our costs. As we work to address our long-term obligations in a responsible manner, it is counterproductive to increase costs by writing off a debt deferred by interest-free installment payments spread over a period of 42 years.

The second part of our request is for \$75.9 million for free mail for the blind and for overseas voting materials, as defined by statute. This provides funding for the free mailing of materials used by the blind and others who cannot use or read conventionally printed materials. It also includes absentee balloting materials that can be mailed free by members of the armed forces and other United States citizens residing outside of the United States, and balloting materials that can be mailed in bulk between state and local election officials.

Our appropriations request for free mail differs from the President's budget proposal of \$61.7 million. The President's budget proposes to continue the practice of "advance" funding the amount requested for free mail. This means that funding is "advanced" until the fiscal year following the actual mailings and not made available to the Postal Service until after these mailings have been handled and delivered. The Postal Service is not authorized to control or limit these mailings to reduce the funding needed. And while that is not a role we seek, the simple fact is that we have no way to mitigate the shortfall in funding. Providing less than the requested amount will only compound the financial burden caused by the current "advance" funding.

The third part of our appropriations request is for emergency preparedness costs of \$779 million. Under the President's budget, no funding is recommended for the Postal Service's efforts to improve the safety and security of the nation's mail system. While we understand that funding for homeland security needs must be prioritized, the Postal Service believes that funding for efforts already underway to improve the safety and security of the mail for our employees, our customers and the communities we serve should be one of those priorities.

The fact remains that of the two waves of terrorism unleashed against our nation in the fall of 2001, one relied exclusively on the mail. The targets were neither the Postal Service nor its employees – although, tragically, two of our employees lost their lives. The targets were lawmakers and media. The casualties, however, included other postal employees and members of the public. In providing initial funding of \$762 million to assist the Postal Service in its response to acts of terrorism, both the administration and Congress recognized that these costs for system changes were a critical element of enhancing the security of the nation. As such, they have been – and should be – funded by the government in connection with its homeland security activities, not by postal ratepayers.

In the two short years since the anthrax attacks, the Postal Service, Congress, other government agencies, schools and businesses have become acutely aware of the emotional and business costs of the simple discovery of an unexplained powder. There have been too many false alarms. There have been too many hoaxes. But, as we have learned from our anthrax experience and the three recent ricin incidents, there have been too many real incidents. In a democratic society marked by free and open communications, there will always be the possibility that some person or group will use the mail's unequalled tradition of privacy to mask an agenda of hate and destruction. As a nation – and as a government – we must be prepared to do what is necessary to neutralize, to the extent possible, that very real threat.

In 2002, the Postal Service submitted its Emergency Preparedness Plan to Congress. It identifies the actions we are taking to minimize the potential of the mail as an effective tool for new acts of bioterrorism. We updated this plan last spring.

The costs of the initiatives described in the Plan have not been insubstantial. They include providing personal protective equipment for our employees. They include treating mail for the legislative, executive and judicial branches of the federal government that receive mail here in the nation's capital to neutralize any biohazards that may be present. They include the successful decontamination of major mail-processing facilities in Washington, DC, and Trenton, New Jersey – projects of a scale never before attempted. They include the development, testing, purchase and deployment of state-of-the art biohazard detection equipment to 282 mail processing facilities in every state in the nation. They include the development, testing and deployment of a Ventilation and Filtration System that, used in conjunction with the Biohazard Detection System, will isolate and contain mail-borne biohazards. They include planning for the construction of an irradiation facility here in Washington to minimize the delays involved with rerouting government mail to New Jersey for this purpose.

Every penny of the \$587 million provided by Congress for the Postal Service to carry out its role in homeland security efforts is accounted for through these initiatives. Additional activities by the Postal Service, indeed, completion of some already under way – including full deployment of the Biohazard Detection System and the Ventilation and Filtration System and the actual construction of a local mail-irradiation facility – are the basis of our 2005 appropriations request.

Our request covers only the system expense of obtaining this equipment. Operation and maintenance would become part of the Postal Service's normal operating expenses.

The Postal Service has worked long and hard to identify the best and most effective approach to detecting biohazards in the mail. Leadership in this area is not a role we sought, but it is a responsibility we could not refuse. The men and women of the Postal Service are welcomed at the door of every American home, every day. We fully recognize the need to honor that trust by doing everything we can to keep the mail safe. We can do no less.

The technologies we are relying on have been identified and developed with the support and cooperation of various agencies of the federal government, the military, universities and the private sector. We could not have come this far without their help. The technology solutions we are implementing are those we have been pursuing since 2002. They offer optimal effectiveness within the unique parameters of the mail processing environment.

Yet we recognize that this is a dynamic situation. Since beginning this process, it has become clear that the threats we face – both real and potential – can be different from those we actually experienced. With this in mind, we are evaluating other technologies that offer added levels of protection, both from biological hazards and from toxins such as ricin. As a result, we are looking at ways to expand the detection capabilities of our Biohazard Detection System through modifications to the existing platform.

Our deployment strategy positions detection equipment at one of the initial steps in our mail-processing system – at the automated canceling operation. However, we are examining the feasibility of placing detection equipment at an operation even earlier in our process. This could help to enhance protection by allowing us to identify harmful agents and react to them sooner. It could also reduce future equipment needs, since fewer units would be needed at an earlier point in mail processing.

Our goal through our emergency preparedness initiatives is to minimize costs and maximize results. Expansion of detection capability can result in added costs. But these costs can be offset by the efficiencies that may be possible by adjusting the location of detection equipment within our facilities. Ultimately, this would mean that the emergency preparedness funds we are requesting today would provide an enhanced level of protection for our nation.

Through the field testing phase of the Biohazard Detection System, the Postal Service has forged important and productive partnerships with government and public health officials at the federal, state and local levels. The need for a coordinated response in the event of the detection of a biohazard requires mutual planning and cooperation among all involved organizations for success. That testing, in 15 different locations – with the full partnership of community first responders – has contributed to defining the protocols and specific equipment that will be necessary in any response activity.

Perhaps Dr. Eddy Bresnitz, New Jersey's State Epidemiologist, best described the value of our work together as we tested the Biohazard Detection System. "It has provided positive challenges, real examples, and a point of focus," he said.

As we continue deployment of the Biohazard Detection System at all 282 locations, we look forward to working with first responders in those communities. And we are grateful for the courtesies, cooperation and support we have received from every first responder group with whom we have worked.

The Postal Service, through its unparalleled reach and the high level of trust the nation has in its employees, recognizes that it can contribute to homeland security in other ways, as well. In February, I met with Secretary Tommy Thompson of the Department of Health and Human Services and Secretary Tom Ridge of the Department of Homeland Security. We formally agreed to the development of a plan in which the Postal Service's letter carriers could be called upon – voluntarily – to deliver antibiotics to affected Americans in the event of a catastrophic incident involving a biological agent. Procedures under consideration would augment, not replace, those of local communities.

The Postal Service, perhaps more than any other federal agency, is a daily presence in virtually every city and town in the nation. We are a community based organization. Our people represent the heart and soul of each of those communities. The people they serve are not simply customers. They are friends, relative and neighbors. As an organization of home-town Americans, the Postal Service, through the events of the last two years, has found itself in a unique position. We have a new role in defending those who deliver the mail and those who receive it. Your favorable consideration of this appropriations request will help us to fulfill this role to the best of our ability.

I have attempted to be as clear and helpful as possible in explaining the need for our Fiscal Year 2005 appropriations request in the limited areas of revenue forgone, free mail for the blind, and emergency preparedness. At the same time, I should note that the Postal Service takes great pride in its success in funding postal operations solely through the sale of postal products and services. While we are authorized by statute to request a public service appropriation of up to \$460 million per year for costs incurred in providing effective and regular postal services nationwide, we have operated without this appropriation since Fiscal Year 1982. Again, for Fiscal Year 2005, no appropriation for public service is being requested.

Thank you, Mr. Chairman. I would be pleased to respond to any questions at this time.

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