



National Association of Postmasters of the United States

Testimony of
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Special Panel on Postal Reform and
Oversight

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Mr. Chairman and distinguished Members of the Committee, on behalf for the 42,000 members of the National Association of Postmasters of the United States (NAPUS), I welcome the opportunity to share with you my thoughts regarding the need to update the Postal Reorganization Act of 1970. Indeed, our nation's postmasters hail the extraordinary endurance and diligence with which you, Chairman McHugh, Ranking Member Davis, and other congressional stalwarts have promoted responsible and much-needed postal modernization.

I would be remiss if I did not publicly thank you, Mr. Chairman, and Mr. Davis for your stewardship of the Postmaster Equity Act last year. With its enactment, the 27,000 postmasters have a new and hopefully effective tool to provide the managers-in-charge of post offices a fair process for discussion of some of the most complex issues confronting postmasters and Postal Headquarters.

As you are aware, the postal reform odyssey began in 1995. NAPUS was there then and remains in the forefront of ensuring that there will be a viable Postal Service for many years to come. We are cautiously optimistic that with the aggressive support of the Bush Administration and bipartisan cooperation by Members of Congress, the eight-year legislative journey may yield its first fruits this year.

The Postal Service's importance to our national economy cannot be overstated. The statistics bear repeating – the Postal Service is the heart of a 9 billion industry, employing 9 million workers, and accounting for approximately 9 percent of the country's Gross

Domestic Product (GDP). A sick Postal Service infects a significant portion of the U.S. economy. What we also know to be true is that economic uncertainty and a national financial slow-down has major ramifications for the Postal Service. The consistent erosion of first-class mail – even in times of plenty – is an ominous sign for the Postal Service. During the third quarter of the last year, the GDP rose by an impressive eight percent. Yet, the Postal Service projects a 3.2 percent drop in first-class mail volume. Moreover, first-class mail volume flattened-out or slumped even before the 2001 downturn in the U.S. economy.

It is true that Standard Mail has helped to shore up total mail volume, but the infrastructure upon which universal service relies cannot live by standard mail alone. Exponentially increasing delivery points combined with meeting long-ignored capital needs demand attention. The Postal Service requires enhanced opportunities to boost revenue and greater flexibility to meet the needs of postal customers.

As you know, this Committee assisted the Postal Service, if only temporarily, by passing Public Law 108-18. The Civil Service Retirement System recalculation legislation provided a short reprieve. It was not a permanent solution. As part of your efforts to reform the Postal Service, Congress needs to revisit the pension issue in order to reverse the decision to shift the military retirement liability onto the Postal Service, and to permit the Postal Service to use the escrow that will accrue as the result of the CSRS recalculation. The military retirement modification shifted a \$27 billion obligation from the federal government to the Postal Service. The President's Postal Commission

recommended that this obligation return to the government. These much-needed funds could be used to pre-fund retiree health obligations. Eliminating the escrow account would reduce the need for a postage rate spike in 2006. NAPUS also believes that such funds could be invested in postal infrastructure that has been ignored for some time. It is important to repeat the fact that remedial CSRS legislation will not in and of itself provide the Postal Service with long-term relief. Over the last two years, the Postal Service has successfully reduced costs to balance shrinking revenue. This has resulted in more optimistic than anticipated bottom lines. However, the Postal Service cannot continue to chip away at costs without influencing the quality of mail service that Americans expect and demand. Rather, we need the tools and flexibility that are essential to grow revenue. A more comprehensive approach is necessary which addresses the operational, regulatory, and financial needs of the Postal Service.

Mr. Chairman, these demands can be best met by legislative change akin to legislation which you, Representative Davis and others have promoted in the past. The time to act is now. It will be too late when we are sorting through the pieces of the Postal Service and attempting to apply band-aids to a mortally wounded patient. President Bush has emerged as a strong ally in your effort to push forward. The five principles that the Administration announced in early December reflect and reaffirm your ongoing legislative efforts. We agree that legislation should encourage the implementation of the best practices, ensure financial and operational transparency, enhance managerial flexibility to adjust rates, promote accountability, and ensure self-financing. NAPUS continues to associate itself with Congressional and Administration efforts and will advance these efforts.

The fundamental mission of the Postal Service remains unchallenged. The institution performs an inherently governmental function and it should continue to provide affordable universal postal services. Universal means everywhere, everyday, to everyone – rural, suburban, and urban settings. This policy matter Congress must reserve to itself and not delegate to a postal regulator.

Universal service encompasses a nationwide retail and delivery network that reaches into every city and town. There are currently approximately 27,000 full service post offices in the nation and 11,000 subsidiary postal facilities. Historically, there were many more post offices. However, during the past century, a large number of post offices were closed or suspended. In fact, over the past forty years, more than 14,000 post offices have been either closed or suspended. It is clear that, under current law and postal regulations, the Postal may, and in fact does close post offices. This authority is not to be taken lightly, since countless communities rely on their post office for basic mail operations. For this reason, section 404 of Title 39 affords communities of specific due process rights should the Postal Service target their post office for closure. NAPUS urges Congress to reject attempts to weaken these rights afforded to American communities. In many situations, this is the only opportunity for communities to appeal post office closures.

NAPUS has worked with communities in safeguarding their legal rights to protect their local post office. Many years ago, NAPUS created the Post Office Closing and Consolidation Committee, which monitors Postal Service proposals to close post offices

and ensures that appropriate local officials understand their rights under the law. As part of this effort, NAPUS publishes and circulates *The Red Book: a NAPUS Action Guide for Preventing the Closing and Consolidation of Your Post Office*. In addition, NAPUS has worked closely with the Congressional Rural Caucus to safeguard a community's due process rights.

Closing small post offices is a dreadful and misguided strategy. Such actions would have a devastating effect on many communities, yet have little impact on postal finances. As Robert Cohen of the Postal Rate Commission testified before the Presidential Commission, closing the 10,000 smallest post offices would only net savings of about \$567 million – considerably less than 1 percent of the Postal Service's operating budget. The postal network is not merely the sum of its parts; it is an integrated system, which relies even on its smallest components.

The growing number of delivery points, approximately 1.7 million per year, cries out for more post offices that are strategically located to help guarantee the reliability and universality that are the essential to a viable Postal Service. Americans expect access to a full service post office. The Postal Service's own Transformation Plan recognized this reality. Despite the fact that 70 percent of postal customers were aware that postal products might have been available elsewhere, 80 percent of stamp sales continue to take place at the post office. Moreover, the President's postal panel commissioned a poll, which found that 72 percent of those surveyed were either extremely satisfied or quite satisfied with service provided by their local post office.

It is crucial that Postal Service have the flexibility to respond to and anticipate customer needs. The U.S. economy rewards dynamic organizations and penalizes those that are incapable of adapting to new market realities. The Postal Reorganization Act did not envision the advent of the digital age and keen competition, both domestic and foreign. Therefore, the thirty-three year old Act saddled the Postal Service with regulatory burdens and rigid rules that preclude a fair opportunity for it to participate successfully in the postal market. In part, the President, his Commission, and legislation considered by the House Government Reform Committee understood the barriers erected by the Act. In response, a consensus emerged that endorsed providing the Postal Service with enhanced pricing strategies, in order to be a nimble player in a highly competitive communications and logistics market. Permitting the Postal Service the ability to adjust postage rates within defined limits would be an appropriate mechanism to grant the agency enhanced pricing flexibility. Moreover, permitting the Postal Service greater opportunities to negotiate with customers over rates would also be a major improvement over the present convoluted postal rate-setting regimen.

The President's Commission on the Postal Service made a number of recommendations relating to the collective-bargaining process with its unions. While NAPUS takes no position on the merits of the recommendation, we are conscience of the controversy surrounding the issue. Nonetheless, I would like to address two of the recommendations. As you may know, postmasters, supervisors and Postal Headquarters recently put into place a new pay-for-performance program. This replaced the controversial EVA program.

The link between performance incentives and achieving corporate goals reflects a strategy employed by the private sector.

It is important to note that it is difficult to manage a postal facility when performance incentives are inconsistent. The managerial force is compensated using a system that rewards performance. The current salary structure for craft employees insulates them from performance. Students of modern management recognize the concept of deviation in workplace performance. Different employees, as the result of different skills and aptitudes, function differently. Unless we are somehow able, through collective bargaining, to create a pay plan that rewards individual or unit achievement, we will miss a crucial opportunity to optimize efficiencies and encourage exemplary performance. In sum, the present pay system compromises the workplace by rewarding and potentially penalizing one set of employees, yet insulating another.

We also need to do better job with our unions to train employees to perform different tasks within the post offices. This would enable the offices to be more agile and to adapt successfully to customer needs. We should work with the crafts to lower or eliminate the barriers that preclude postmasters from assigning personnel different duties within a post office. If long lines are developing in a postal lobby, the postmaster should be able to reassign temporarily an employee from sorting mail in the backroom to working a retail window. Postal employees should have the flexibility and training to cross over and perform a variety of tasks.

Finally, NAPUS remains extremely concerned about the Presidential Commission suggestion to “sunset” Federal Employees Health Benefits Program and Federal Employee Retirement System coverage of postal employees. The proposal would subject health and retirement benefits to collective bargaining. My concerns are: one, the proposal does not address the process by which postal managers would earn their benefits. Two, the proposal does not address the impact upon current and future postal retirees. Three, it is unclear how existing and prospective postal liabilities and assets within the FEHBP Trust Fund would be treated. And, fourth, the proposal ignores the effect that separating postal employees from the health and retirement programs would have on the entire federal workforce and its retirees.

Mr. Chairman, this concludes my remarks. I look forward to working with you and other Members of this panel as we strive to ensure that Postal Service will thrive for many years to come.