

**STATEMENT OF
DEPUTY POSTMASTER GENERAL/CHIEF OPERATING OFFICER
PATRICK R. DONAHOE
BEFORE THE
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE,
AND THE DISTRICT OF COLUMBIA
OF THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES
WASHINGTON, DC**

July 24, 2008

Good morning Chairman Davis, Ranking Member Marchant, and members of the Subcommittee. I am Patrick Donahoe, Deputy Postmaster General and Chief Operating Officer for the U.S. Postal Service. It is my pleasure to be here today to discuss the Postal Service's Network Plan.

It may be helpful if I provide some context for the discussion of the Postal Service's processing and distribution network. Our network has evolved over more than two centuries to serve the nation's growing population as it continued to expand across the continent. We adapted our infrastructure to meet the nation's changing demographics as it has shifted from a largely rural base to one that became increasingly urban and suburban.

To provide universal service throughout the United States and its territories, the Postal Service must manage one of the largest, most complex distribution and transportation networks in the world. Today's mail processing network is comprised of more than 400 mail processing plants and related logistics and transfer facilities, and distributes mail to and from some 930 3-digit ZIP Code service areas, which contain over 37,000 post offices and other retail units. The Postal Service accepts and processes over 200 billion pieces of mail annually and delivers to nearly 148 million addresses, six days a week. Mail of various product categories and shapes is entered at a number of acceptance points in the network and flows through complex, often highly automated processing streams, which take into account different product-based dispatch priorities and service standards.

The Postal Accountability and Enhancement Act (PAEA) of 2006 has changed the way that the Postal Service is administered and regulated. However, it does not change the basic mission of the Postal Service. As stated in the Postal Reorganization Act of 1970, our basic mission is to bind the nation together through the personal, educational, literary and business correspondence of the people and to provide prompt, reliable and efficient services in all areas and to all communities.

Since its creation in 1970 as an independent establishment of the Executive Branch, the Postal Service has become financially self-sufficient while continuing its long-standing commitment of providing products and services that meet the needs of households, businesses and other institutions throughout the United States. The PAEA charts a new course for the U.S. Postal Service to follow as it continues to fulfill this commitment. And, as recognized by that Act, an effective and efficient mail processing network is critical to accomplishing this mandate.

Upon passage of the new law in December 2006, the Postal Service began the work of complying with its provisions, which included numerous amendments to the Postal Service's charter, title 39 of the United States Code.

Among its many provisions, the PAEA specified three requirements which, after consultation with the Postal Regulatory Commission (PRC), the Postal Service had to fulfill in relation to service standards for its market-dominant products.

The first objective required the Postal Service to establish, by regulation, a set of modern service standards for its market-dominant products. In December 2007, the Postal Service published its new service standards in Parts 121 and 122 of title 39, U.S. Code of Federal Regulations.

The second objective required of the Postal Service was to provide a system of objective external performance measurements for each market-dominant product, or seek the Commission's approval of internal measurement systems. Measurement systems for many products, such as Single-Piece First-Class Mail, have long been in existence. The Postal Service is now in the process of implementing either expanded measurement systems or introducing new measurement systems. The Intelligent Mail barcode, which will provide reliable and objective information about mail preparation acceptance, processing and delivery, is an integral component of these systems. The Postal Service conducted extensive consultations throughout 2007 and 2008 with the PRC, as well as commercial mailers who will be expected to utilize the Intelligent Mail barcodes. In June 2008, the Postal Service submitted a refined measurement system plan to the Commission for review. The Commission solicited public comment through the Federal Register.

The third objective required by the PAEA was that, as soon as the service standards were published in December 2007, the Postal Service had six months to establish performance goals and to submit a plan to Congress for meeting its modern service standards. This plan was required to include a description of changes to the Postal Service's processing, transportation, delivery and retail networks necessary to meet those performance goals.

Since February 2008, I, along with other senior postal officials, have met monthly with Chairman Blair, PRC Commissioners and PRC staff to discuss postal network rationalization and related issues. Network-related consultations were completed in June, and the Postal Service submitted its Network Plan to Congress on June 19, 2008. The Postal Service is grateful to the Commissioners for their insight and to the Commission's technical advisory staff for sharing their expertise during these consultations.

The Network Plan establishes continuous improvement as the Postal Service's over-arching performance goal and describes the timetable by which the USPS Board of Governors and senior postal management will establish baseline FY 2009 performance targets for various market-dominant

products. These performance targets will be based on the global Postal Service objectives set by the Board of Governors, who give senior management strategic direction, guidance and vision. These "percentage on-time" targets will be shared with the Commission and will serve as the basis for its annual review of our service standards compliance. Postal management embraces this enhanced transparency and accountability, and we look forward to sharing our performance targets, successes and progress with the public, the Board, Members of Congress, and all postal stakeholders.

The Network Plan also describes a variety of postal management initiatives that have been implemented, or that are being implemented, to ensure that mail processing operations managers can meet the service standards established in December 2007. Collectively, these initiatives are referred to as "operationalizing" the service standards. They are intended to improve the consistency of internal mail flow-management practices so that the service standards can be met.

A key element to the Postal Service moving forward on service standards was to ensure that the voice of the customer was heard. Numerous meetings with commercial customer groups, large and small, were held and some of these work groups continue today. Incorporating the concerns of our customers was critical as commercial mail preparation requirements would be changing, and solving the logistic issues for affected commercial customers was of primary importance to the Postal Service. All facets of operations were evaluated to ensure that the Postal Service either met or exceeded customer expectations. We also felt it was appropriate to involve the PRC in these discussions, and shared customer feedback and proposals with the PRC as we moved forward.

An operations team with dedicated resources is in place to provide the appropriate training to our 600,000-plus workforce to help the field implement these changes.

I would like to now highlight three integrated core elements of network rationalization, which all support our bottom line of either meeting or exceeding our existing service standards. These are:

- Continuation of the ongoing consolidation of postal Airport Mail Centers, in conjunction with changes in air mail transportation operations;
- A review of the mail processing network to identify facilities where outgoing and/or incoming operations could be consolidated; and
- The transformation of the postal Bulk Mail Center (BMC) network, whose capacity is underused due to price incentives for mailer presortation and the marked increase in mailers' destination entry of Standard Mail and Package Services over the past several decades.

We have stated on a number of occasions that the Postal Service was considering issuing a Request for Proposal for a Time-Definite Surface Network. On July 1, 2008 the Postal Service did, indeed, issue a draft Request for Proposal. We are now in the process of receiving comments from various vendors able to provide the type of network reach and capability necessary.

As we implement the Network Plan, we expect to consolidate mail processing operations at some locations. This could involve transferring some operations from one facility to another facility. When it considers potential operational consolidations, the Postal Service carefully evaluates the impacts on both service standards and customer service. We are always reluctant to implement network changes that could result in diminished service to the American public. Accordingly, as outlined in the Network Plan submitted to Congress, as it consolidates mail processing operations and transforms its Bulk Mail Center network, the Postal Service will implement changes that promote efficiency, but that aggressively minimize any diminution in service to the American public.

The PAEA recognized that network rationalization would likely impact postal employees. Moving forward on these necessary network changes would be impossible without the commitment of our employees, the Postal Service's most valuable resource. We are sensitive to the impact that network rationalization could have on our employees who work in affected mail processing plants, and we have held numerous consultations with our unions. We are proud of the fact that we have

relied upon employee attrition to reduce 100,000 employee positions since fiscal year 2000. By using attrition, we have had a minimal adverse impact on employees.

Accordingly, we adhere to a number of policies and collective bargaining agreements that are designed to provide advance notice to potentially affected employees. The Postal Service has long-standing practices in place to minimize employee impact and the potential disruption resulting from organizational change. Our personnel policies and procedures are designed to treat employees in a fair, equitable and objective manner.

We are also pleased to announce that the Postal Service has requested authority from the Office of Personnel Management to offer certain crafts a Voluntary Early Retirement Option. This action helps our bottom line, but more importantly provides our employees with the option of retiring early.

Finally, the Act directed the Postal Service to outline its plans for expanding and promoting the availability of alternate retail access channels. Retail postal customers have traditionally purchased postal products and services at post offices. Over time, the Postal Service has developed alternate retail-access channels to improve customer convenience. In our Plan, we describe each of the retail-access alternatives that have been implemented or that are being tested. The Postal Service is committed to continually improving the quality, accessibility, and ease-of-use of its retail network. In addition to the traditional post office retail outlets, we offer a variety of easy-to-use alternate retail options close to where customers live, work and shop. We will develop further retail network initiatives based on an assessment of customer needs through market research, and will monitor and encourage the development of new alternatives and technologies that enhance customer access.

The PAEA acknowledged the need for the Postal Service to streamline its distribution network and to rationalize the postal facilities network. The PAEA encourages the Postal Service to expeditiously

move forward in its streamlining efforts. To achieve this vision and sustain its ability to provide the nation with affordable universal service, the Postal Service will need the support of this Subcommittee, and of the Congress.

We ask you to understand that operational consolidations or mail processing facility closures are a component of a strategy designed to serve the overall needs of the postal system and its customers nationwide. As this effort progresses, you may be assured that we will keep all postal stakeholders informed, including our employees through their unions and management associations, Members of Congress, mailers, local elected officials, the news media and others, and provide opportunities for public input. We also will continue to work closely with our employee unions and associations.

The Network Plan that we have submitted to Congress is not the last word on these programs. In accordance with the PAEA, and in concert with our goal of continuous improvement, the Postal Service will submit annual progress reports to Congress on actions taken to improve efficiency, the impact of various other postal initiatives on rationalization plans, and how statutory and regulatory obstacles may impede realignment plans.

The Postal Service must continually assess and adapt to changes in the marketplace, to its competitors and to the economy. The Network Plan is a fluid approach, one that must be responsive to changing conditions. The Plan serves as our roadmap, but we must have the flexibility to make adjustments as necessary.

Congress recognized the need for such flexibility in order for the Postal Service to continue developing an effective and efficient network. Moreover, current economic conditions highlight the importance to the Postal Service of utilizing such flexibility as a weak economy continues to put a strain on our finances. Weakness in the financial, credit, and housing sectors, which are traditionally heavy users of mail, has affected mail volume. Through the first two quarters of

2008, total mail volume declined by 3.2 percent over last year, resulting in a net loss of over \$700 million. This decline continued in the third quarter. Under such conditions, flexibility to manage the network is even more vital in meeting the challenges facing the Postal Service.

I would be pleased to discuss elements of the plan in more detail and answer any questions that you may have. Thank you.

####