

## MINUTES

**Time:** 8:30 am

**Date:** July 16, 2003

**Location:** Hart Senate Office Building  
Washington, DC

**Members in Attendance:** Co-Chair James A. Johnson, Co-Chair Harry J. Pearce, Commissioners Dionel Aviles, Don V. Cogman, Carolyn Gallagher, Richard Levin, and Joseph Wright.

**Staff in Attendance:** Executive Director Dennis Shea, Randall Lewis, Jana Sinclair White, James Cox, Paul Revesz, Stephen Passman, Jennifer Streaks, Ryland Sumner, and Ryan Cunningham.

**Agency Employees in Attendance:** Designated Federal Official Roger Kodat.

### **Matters Discussed:**

Co-Chair James A. Johnson called the meeting to order at 8:30 am. Mr. Johnson stated that during today's meeting the Commission will consider and vote on the recommendations developed by the Co-Chairs and two of the four Commission Subcommittees: the Business Model Subcommittee and the Private-Sector Partnership Subcommittee. He stated that the Commission will consider the recommendations developed by the Workforce and Technology Challenges and Opportunities Subcommittees at the meeting on July 23.

Mr. Johnson stated that the Commission has made a concerted effort to seek out and hear the views of the diverse elements of the postal community. He indicated that the Commission had sponsored a survey of 760 American households to solicit their views on the Postal Service and how to make it better; requested and heard the testimony of more than 70 witnesses during its seven previous public meetings; requested and heard statements from members of the public at Commission meetings in Austin, Los Angeles, Chicago, and at the May 29 meeting in Washington, DC; and initiated three rounds of public comments during which the Commission received more than 340 written responses.

Mr. Johnson stated that all recommendations considered by the Commission, if adopted, will be reflected in some way in the Commission's final report. He stated that the report will provide more detail on each of the recommendations as well as their underlying purpose. He also stated that the final report may address issues and topics not covered by the recommendations considered today or at the Commission's final public meeting on July 23.

Mr. Johnson thanked the Chairman of the Postal Service's Board of Governors, David Fineman, Postmaster General Jack Potter, and the rest of the Postal Service management

team for their assistance during the past several months. He also thanked all those in the postal community who took the time to share their views with the Commission. The meeting continued with remarks by Co-Chair Harry Pearce.

Mr. Pearce stated that he, too, would like to thank the Postal Service and Postmaster General Jack Potter for their assistance and support during the past several months.

Mr. Pearce then discussed the process for considering each of the recommendations. He stated that the Commission will begin with the recommendations of the two Co-Chairs. Mr. Pearce stated that he will read each Co-Chair recommendation and then open the meeting to allow discussion among the Commissioners. He stated that amendments to each of the Co-Chair recommendations may be adopted if approved by a majority vote of those Commissioners present and voting. He also stated that, following a period of discussion, the full Commission will conduct a voice vote on each of the Co-Chair recommendations, unless a recorded vote was requested by any Commissioner. He stated that a vote of “aye” will signal approval of the recommendation and a vote of “nay” will signal disapproval. He added that any recommendation receiving the affirmative votes of at least six Commissioners shall be considered a Commission recommendation.

Mr. Pearce stated that the Commission will follow the same process for considering the recommendations of the Business Model Subcommittee and the Private-Sector Partnership Subcommittee.

The meeting continued with consideration of the recommendations developed by the Co-Chairs, the Business Model Subcommittee, and the Private-Sector Partnership Subcommittee.

### **Consideration of the Co-Chair Recommendations**

Co-Chair Pearce read the Co-Chair recommendations.

1. ***Governance.*** *In order to establish a governance structure that exemplifies the best practices of similarly-sized private-sector corporations, the Co-Chairs recommend that the current Postal Service Board of Governors be transformed into a corporate-style Board of Directors with broad authority to oversee Postal Service operations. Further, the Co-Chairs recommend that the Board of Directors consist of three Directors appointed by the President, the Postmaster General, and eight independent Directors initially selected by the three Presidentially-appointed Directors with the concurrence of the Secretary of the Treasury. Thereafter, the eight independent Directors would be selected by the full Board of Directors with the concurrence of the Secretary of the Treasury. All Directors should be selected based on business acumen and other experience necessary to manage an enterprise of the Postal Service’s size and significance. Terms for all Directors should be three years with a mandatory retirement age of 70.*

Co-Chair Pearce clarified that terms for members of the Board of Directors are staggered and that members would not be limited to one term.

The recommendation was adopted unanimously by voice vote.

**2. Management Flexibility.** *The Co-Chairs recommend that the Board of Directors and senior Postal Service management be given greater flexibility to manage without the limitations imposed by statutory constraints. Specifically, the Co-Chairs recommend: 1) allowing Postal Service management the flexibility to take advantage of corporate best practices as discussed in Subcommittee recommendations; 2) allowing the Postal Service to set rates within limits established by a new Postal Regulatory Board without obtaining prior approval; 3) repealing the sub-limits placed on annual borrowing for capital and operating needs within the existing \$3 billion annual limit on borrowing; and 4) allowing the Postal Service to retain earnings subject to limits established by the Postal Regulatory Board.*

The recommendation was adopted unanimously by voice vote.

**3. Accountability and Public Policy Oversight.** *In order to ensure that a Postal Service management with greater latitude has appropriate oversight, the Co-Chairs recommend that the Postal Rate Commission be transformed into a new Postal Regulatory Board with the responsibility to protect the public interest and promote public confidence in the fairness and transparency of postal operations. The new Postal Regulatory Board should have authority to: review and refine the scope of the Postal Service's universal service obligation; clarify and refine the scope of the postal monopoly; regulate rates for non-competitive products and services; establish limits on the accumulation of retained earnings by the Postal Service; ensure financial transparency; obtain information from the Postal Service, if need be, through the use of new subpoena power; and review and act on complaints filed by those who believe the Postal Service has exceeded its authority. The Co-Chairs recommend that the new Postal Regulatory Board be comprised of three members who are appointed by the President and confirmed by the Senate, and that no more than two should be members of the same political party. Members of the Postal Regulatory Board should be selected solely on the basis of their demonstrated experience and professional standing.*

Co-Chair Pearce discussed the need for the Postal Service to provide complete financial transparency.

The recommendation was adopted unanimously by voice vote.

**4. Rate-setting Procedures.** *The Co-Chairs recommend that the existing rate-setting process be replaced with an incentive-based rate-setting methodology in which the Postal Regulatory Board: 1) establishes base-line rates and rate ceilings for non-competitive products and services; 2) reviews, in advance, rate requests for non-competitive products and services that exceed established rate ceilings; and 3) ensures that rates for competitive products and services are not cross-subsidized by revenues generated by*

*non-competitive products and services. The Co-Chairs also recommend that the Postal Regulatory Board, upon written complaint, be authorized to conduct after-the-fact reviews of rate increases for non-competitive products and services, and, if necessary, to require adjustments to these rates when they are inconsistent with established rate ceilings. The Postal Regulatory Board should also be authorized to review, upon written complaint, whether a rate for a competitive product or service is being cross-subsidized by revenue generated by non-competitive products or services and to take appropriate remedial action. In conducting after-the-fact reviews, the Postal Regulatory Board should ensure that affected parties have an opportunity to participate, but should also ensure that the time-frame for the review is dramatically reduced from those permitted under the existing rate-setting process. The Co-Chairs suggest that participation by interested parties be limited to written submissions, and that all procedures require a final determination within 60 days.*

Commissioner Levin stated that it is impractical to require the Postal Service to attribute all of its costs to specific products. Co-Chair Pearce responded that the Commission does not expect the Postal Service to attribute 100% of its costs to specific products, but that it should attribute more costs than it does currently.

The recommendation was adopted unanimously by voice vote.

### **Consideration of the Business Model Subcommittee Recommendations**

Commissioner Levin read the Business Model Subcommittee recommendations.

1. **Basic Structure.** *The Subcommittee recommends that the Postal Service continue to operate as an independent establishment within the executive branch with a unique mandate to operate as a self-sustaining commercial enterprise.*

The recommendation was adopted unanimously by voice vote.

2. **Mission.** *The Subcommittee recommends that the 1970 Act be amended to clarify that the mission of the Postal Service is to provide high-quality, essential postal services to all persons and communities by the most cost-effective and efficient means possible at affordable and, where appropriate, uniform rates. In doing so, the activities of the Postal Service should be limited to: 1) accepting, collecting, sorting, transporting, and delivering letters, newspapers, magazines, advertising mail, and parcels; and 2) providing other governmental services when in the public interest and where the Postal Service is able to recover the appropriately allocated costs of providing such services.*

The recommendation was adopted unanimously by voice vote.

3. **Monopoly.** *The Subcommittee recommends that the Postal Service maintain its current mail monopoly, and also retain its sole access to customer mailboxes. However, the Subcommittee also recommends that the 1970 Act be amended to: 1) authorize the Postal Regulatory Board to clarify and periodically review the scope of the mail*

*monopoly; and 2) clarify that the Postal Service does not have the authority to alter the scope of the mail monopoly or to determine the extent of access to customer mailboxes.*

Commissioner Levin stated that the parameters of the current Postal Service monopoly should be clarified. Commissioner Cogman stated that the Commission's proposed definition of the monopoly recognizes that the monopoly may need to change as the world changes. Co-Chair Pearce stated that it is unwise to allow a monopoly entity to define the scope of its own monopoly.

The recommendation was adopted unanimously by voice vote.

**4. *Financial Transparency.*** *The Subcommittee recommends that the new Board of Directors voluntarily comply with applicable Securities and Exchange Commission reporting requirements. In addition, the Subcommittee recommends that the Postal Service periodically report on the allocation of costs among mail products and services in accordance with form, content, and timing requirements determined by the Postal Regulatory Board.*

The recommendation was adopted unanimously by voice vote.

**5. *Processing Facilities.*** *The Subcommittee recommends the creation of a Postal Network Optimization Commission (P-NOC), modeled in part after the Defense Base Closure and Realignment Commission, that would make recommendations relating to the consolidation and rationalization of the Postal Service mail processing and distribution infrastructure. The Commission recommends that the P-NOC be comprised of eight members appointed by the President with advice and consent of the Senate. Recommendations of the P-NOC, once submitted to Congress by the President, should become final, unless Congress disapproves them in their entirety within 45 days.*

Co-Chair Johnson asked the Commission's Executive Director, Dennis Shea, to discuss the procedures followed in the military base closing process of the 1990s. Co-Chair Pearce also stated that many manufacturing companies have realized significant savings by rationalizing their networks and that he believes similar savings are available to the Postal Service through network rationalization.

The recommendation was adopted unanimously by voice vote.

**6. *Post Offices.*** *The Subcommittee strongly supports efforts already underway by the Postal Service to expand access to retail postal services at venues other than post offices, such as banks, grocery stores and other convenient locations. When the Postal Service determines that a "low-activity" post office is no longer necessary for the fulfillment of its universal service obligation, the Subcommittee believes that the Postal Service should make every effort to maximize the proceeds from the sale of that facility. If the Postal Service determines that there is no adequate market demand for the purchase of a "low-activity" post office, the Subcommittee encourages the Postal Service to work with state and local governments, as well as not-for-profit organizations, to determine the means of disposition most beneficial to*

*the local community. Such disposition could include transfer to a state or local government or not-for-profit organization, with or without reimbursement, as best serves the public interest. The Subcommittee also recommends that existing statutes limiting the Postal Service's flexibility with regard to the closing and disposition of post offices be repealed and that similar provisions in annual appropriation acts be avoided.*

The recommendation was adopted unanimously by voice vote.

**7. *Real Estate Asset Management.*** *The Subcommittee encourages the Board of Directors to include policy goals and objectives relating to the active management of Postal Service real estate in future strategic plans. As a first step, the Subcommittee recommends that the Board of Directors obtain an independent appraisal of the current market values of its major real estate holdings. Further, the Subcommittee strongly encourages the Postal Service to use its current statutory flexibility to dispose of real estate assets to strengthen the Postal Service's long-term financial position and provide benefits to the public in the form of moderated rate increases and improved products and services.*

The recommendation was adopted unanimously by voice vote.

### **Consideration of the Private-Sector Partnership Subcommittee Recommendations**

Commissioner Joe Wright read the Private-Sector Partnership Subcommittee recommendations.

**1. *Maximizing the Use of the Private Sector.*** *The Subcommittee recommends that those Postal Service functions that can be performed better and at lower cost by the private sector be outsourced to the private sector.*

Co-Chair Johnson stated that the Commission believes that whoever can perform a specific postal function better and at a lower cost should provide the service. He stated that the Commission has a preference for the "best execution" of services and does not favor a particular provider. He further stated that if the Postal Service and its employees can perform a specific postal function better and at lower cost, then they should provide that service.

The recommendation was adopted unanimously by voice vote.

**2. *Utilizing the Postal Service's Core Strength: "The First Mile" and "The Last Mile."*** *The Subcommittee recommends that the Postal Service continue to explore opportunities to utilize its core strengths in the "first" and "last" mile of the mail delivery stream through the development of mutually beneficial partnerships with the private sector.*

The recommendation was adopted unanimously by voice vote.

**3. *Expanding Retail Access to Postal Products and Services.*** *The Subcommittee recommends that the Postal Service develop additional private-sector partnerships to*

*better serve the consumer and expand access to postal products and services beyond the traditional post office.*

The recommendation was adopted unanimously by voice vote.

**4. *Worksharing Discounts for Non-Competitive Products.*** *The Subcommittee endorses the Postal Service's development and offering of worksharing discounts. The Subcommittee recommends that the Postal Service continue to look for opportunities to offer discounts for additional workshared products and to expand opportunities for small mailers to participate in them, particularly as new technologies are developed, that reflect lowest combined private sector-postal costs. The Subcommittee also recommends that the new Postal Regulatory Board be required to conduct an expedited, after-the-fact review of a new worksharing discount upon written complaint by a party that the discount exceeds the costs avoided by the Postal Service. A discount that exceeds the costs avoided by the Postal Service should not be permitted. In addition, the Subcommittee urges the Postal Service to ensure that the expected savings from worksharing discounts are actually captured in the form of reduced costs.*

Co-Chair Pearce stated that worksharing discounts given by the Postal Service should not exceed the costs avoided. He also stated that once worksharing discounts are given, the Postal Service should ensure that it captures the costs saved and passes the value along to Postal Service customers.

The recommendation was adopted unanimously by voice vote.

**5. *Negotiated Service Agreements for Non-Competitive Products.*** *The Subcommittee recommends that the Postal Service be given greater flexibility to enter into negotiated service agreements for non-competitive products. Specifically, the Subcommittee recommends allowing the Postal Service to enter into agreements based on general criteria established by the new Postal Regulatory Board. The Postal Regulatory Board should conduct an expedited, after-the-fact review of such agreements when a written complaint is filed.*

Commissioner Joe Wright stated that negotiated service agreements could greatly benefit the Postal Service. Co-Chair Pearce stated that the current process for entering into negotiated service agreements is too long and time-consuming for many mailers. Executive Director Dennis Shea asked Commissioner Wright whether it was the Private-Sector Partnership Subcommittee's view that, once a negotiated service agreement is established, it should be available to other similarly situated customers. Commissioner Wright responded in the affirmative.

The recommendation was adopted unanimously by voice vote.

**6. *Procurement Reform.*** *The Commission believes that there is a significant opportunity to improve the Postal Service's "bottom-line" through revision of its procurement regulations and the adoption of commercial best practices. Therefore, the Subcommittee*

*strongly recommends that the Postal Service revise its purchasing regulations to maximize the flexibility given to it under current law and to reflect commercial best practices. The Subcommittee also recommends that Congress strongly support Postal Service procurement reform in acknowledgement of its substantial benefit to all ratepayers.*

Co-Chairs Johnson and Pearce discussed how procurement reform has led to substantial savings in the private sector.

Commissioner Levin offered an amendment to change the word “impact” to the word “improve” in the first sentence. The amendment was unanimously accepted by the Commission.

The recommendation, as amended, was adopted unanimously by voice vote.

#### Final Comments

Co-Chair Johnson stated that he believes the Postal Service can be sustained as a break-even enterprise if it adopts the best practices of corporate America. He also stated that the Commission’s goal in developing its recommendations was to create a stable, long-term business model for the Postal Service.

Co-Chair Pearce stated that the Commissioners have worked very well together and that no one has been reluctant to express his or her opinions.

Co-Chair Johnson announced that the Commission would reconvene on July 23 at the Ronald Reagan Building and International Trade Center for the purpose of considering the recommendations of the Workforce Subcommittee and Technology Challenges and Opportunities Subcommittee and to vote on adoption of the final report.

The meeting adjourned at 10:31 am.