

MINUTES

Time: 9:00 am

Date: July 23, 2003

Location: Ronald Reagan Building and International Trade Center
Polaris Suite
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, Norman Seabrook, Robert Walker, 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 Harry Pearce called the meeting to order at 9:00 am. He stated that during today's meeting the Commission will consider and vote on the recommendations developed by the Technology Challenges and Opportunities Subcommittee and the Workforce Subcommittee. He stated that the Commission will also consider a draft of the Commission's final report.

Co-Chair Pearce clarified the recommendation adopted by the Commission at its July 16 meeting regarding "low-activity" post offices. He stated that it is the Commission's view that any "low-activity" post office necessary for the fulfillment of the Postal Service's universal service obligation should remain open, even if that facility is operating at a substantial economic loss. He also stated that if, on the other hand, the Postal Service determines that a "low-activity" post office is no longer necessary for the fulfillment of the Postal Service's universal service obligation, then the Postal Service should have the flexibility to dispose of that facility as it sees fit, including through the facility's sale. He stated that under these circumstances, the Postal Service should work closely with local leaders to determine the means of disposition most beneficial to the local community. The meeting continued with remarks by Co-Chair James A. Johnson.

Co-Chair Johnson stated that the recommendations adopted today will outline broad principles that will be explained in substantially greater detail in the Commission's final report. He further stated that the Commission expects the final report to be submitted to President Bush by the scheduled deadline of Thursday, July 31. Mr. Johnson thanked Postmaster General Jack Potter and the Postal Service management team for the contributions they have made to the Commission's work during the past several months. He

also thanked the leaders of the major Postal Service unions for their active participation in the Commission's deliberations.

Mr. Johnson discussed the process for considering the recommendations.

The meeting continued with the consideration of recommendations developed by the Technology Challenges and Opportunities Subcommittee and the Workforce Subcommittee and consideration of a draft final report.

Consideration of the Technology Challenges and Opportunities Subcommittee Recommendations

Co-Chair Walker read the recommendations of the Technology Challenges and Opportunities Subcommittee.

1. **Automation Technology.** *The Subcommittee recommends that the Postal Service balance capital expenditures on new automation technology with consideration of outsourcing elements of the processing network. The Postal Service should neither acquire excess capacity that would only be used during peak periods nor undertake functions that the private sector could perform more effectively and at less cost than the Postal Service itself. Nonetheless, the Subcommittee acknowledges the steps the Postal Service has taken to automate its system for processing single-piece letter mail and welcomes the progress made in the automation of the processing of flats and packages. The Subcommittee recommends the continued development of an effective merging system that is responsive to customer needs and culminates in one bundle of mixed letters and flats for each delivery point.*

The recommendation was adopted unanimously by voice vote.

2. **Processing Standardization.** *The Subcommittee recommends that the Postal Service study the problem of mail processing with the possible goal of redesign of the whole mail system, using the latest in 21st century technology. The Subcommittee further recommends that the Postal Service examine every one of its "legacy systems" and question its purpose and whether it is needed. In addition, the Subcommittee recommends that mail processing redesign include a standard or common footprint for each processing facility, with an identical level of technology and machinery in each. This would allow easy shifting of personnel to manage the mail flow more efficiently. The Subcommittee views this redesign study as complementary to the Postal Service's current network rationalization initiative.*

The recommendation was adopted unanimously by voice vote.

3. **Intelligent Mail.** *The Subcommittee notes that the ability of the Postal Service to track individual pieces of mail can improve internal efficiency and satisfy postal customers that mail is delivered to the right location and on time. The Subcommittee recognizes that technology to achieve this goal exists today and is now being used by some of the*

competitors of the Postal Service. The Subcommittee recommends that the Postal Service work to put mail tracking technology in place on a timely and more comprehensive basis, so that it is available to all users, large and small, at an affordable price.

Commissioner Walker stated that the Commission believes intelligent mail can help the Postal Service improve its efficiency and develop premium products.

The recommendation was adopted unanimously by voice vote.

4. *The Transportation Network.* *The Subcommittee recommends that the Postal Service integrate its facility automation efforts with its transportation network by using Intelligent Mail technology, GPS, and onboard computer technology. The Subcommittee also recommends that the Postal Service put in place a cost-effective system capable of tracking every vehicle on its route and allowing each vehicle to communicate in real time, either by voice or electronic communication, with appropriate fixed facilities.*

The recommendation was adopted unanimously by voice vote.

5. *Improved USPS Website and Personalized Stamps.* *The Subcommittee recommends that postal services available at post offices should also be generally available on the USPS website and at Postal Service kiosks and contract stations at reasonable prices for all postal customers, from the individual to the large mailer. The Subcommittee recommends the development and production of “personalized” stamps that are made available through appropriate sources, beginning with the USPS website. These stamps should be offered to postal customers at a reasonable premium.*

The recommendation was adopted unanimously by voice vote.

6. *Security.* *The Subcommittee believes that the events of 9/11 and the Postal Service anthrax incidents have increased the need to ensure security in the mail system. The Subcommittee believes that a more secure system could be built using sender identified mail. The Subcommittee recommends that the Postal Service, in coordination with the Department of Homeland Security, explore the use of sender identification for every piece of mail, commercial and retail.*

The recommendation was adopted unanimously by voice vote.

7. *Evaluation, Acquisition and Deployment of Technology.* *The Subcommittee acknowledges that the Postal Service recently created the new Mailing Technology Strategy Council to provide assessments of technology trends. It recommends that the Council be strengthened to be an independent advisory body empowered to do more than provide assessments. The Subcommittee believes the Council should not only originate ideas for improving the mail system, but should accept them from all sources, including the individual Postal Service user. It should study, evaluate and recommend to the Postmaster General technologies that could be used to upgrade the mail system. The*

Subcommittee recommends that the Postal Service management provide an annual report to the Board of Directors on the work of the Mailing Technology Strategy Council.

The recommendation was adopted unanimously by voice vote.

Consideration of the Workforce Subcommittee Recommendations

Commissioner Gallagher read the recommendations of the Workforce Subcommittee.

1. *Developing an Appropriately-Sized Workforce.* *As the Postal Service works to meet the challenges of the 21st century, it must develop a world-class workforce appropriate to fulfilling its universal service obligation. Fortunately, the Postal Service will soon be presented with a unique attrition opportunity with some 47% of current career employees eligible for retirement by 2010. The Subcommittee urges the Postal Service to take full advantage of this attrition opportunity and to exercise maximum discipline in its hiring practices in order to right-size and realign its workforce with minimal displacement.*

Commissioner Wright offered an amendment adding the words “both rightsize and” in the last sentence before the words “realign its workforce with minimal displacement.” The amendment was adopted by unanimous consent.

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

2. *Collective Bargaining: Process Improvements.* *The Subcommittee affirms the collective bargaining process and recommends that it be retained. However, the Subcommittee believes that the collective bargaining process can be improved to create additional incentives for the parties to reach negotiated settlements, and, when the parties fail to reach a negotiated settlement, to ensure that arbitration awards are made within a reasonable period of time. In particular, the Subcommittee recommends the following:*

- *Basic process. A negotiation process, beginning 90 days prior to the expiration of an existing agreement, followed by a 30-day mandatory mediation process and, if mediation fails, an immediate 60-day interest arbitration process.*
- *Mandatory mediation and “Med-Arb.” The 30-day mandatory mediation process would be conducted by a mediator who would become a member of the arbitration panel should mediation fail. The purpose of the mediation process would be to either reach a negotiated settlement or to narrow the range of issues to be submitted to interest arbitration.*
- *Interest arbitration. The 60-day interest arbitration process would be conducted by a three-person arbitration panel comprised of three neutral arbitrators, one having served as the mediator. The interest arbitration process would incorporate the Last Best Final Offer (“LBFO”) mechanism, and a 10-day period during which the parties would have a final opportunity to reach a negotiated settlement prior to the arbitration panel’s final award.*

Commissioner Seabrook stated that he disagreed with the recommendation. He further stated that is dangerous to put a timetable on arbitration because it forces the parties to cross lines they would ordinarily not cross.

Commissioner Levin stated that there is an informational advantage to having a mediator participate as one of the arbitrators. He stated that the mediator will enter the arbitration process with a better basis for finding a reasonable compromise. He also stated that the Last Best Final Offer mechanism forces the parties to be realistic about the types of things they can offer. Commissioner Levin further stated that the Commission was influenced by the testimony of Professor Goldberg and others who suggested the establishment of a 10-day period during which the parties would have a final opportunity to reach a negotiated settlement prior to the arbitration panel's tentative award.

The recommendation passed without amendment by a vote of 8 to 1. Commissioner Seabrook voted against the recommendation.

*3. **Collective Bargaining: New Subjects.** The Subcommittee believes that the Postal Service's pension and post-retirement health care plans should be subject to collective bargaining – meaning that the Postal Service and its unions should have the flexibility to develop new plans that are separate and apart from existing Federal pension and retiree health care plans. However, the Subcommittee is also concerned about the uncertain impact such a change would have on the Federal system as a whole and on other Federal employees in particular. As a consequence, the Subcommittee recommends that the Postal Service work with the Department of the Treasury, the Office of Personnel Management, and any other persons or entities deemed necessary to determine the impact separate Postal Service pension and retiree health care programs would have on the existing Federal systems. As a first step, the Subcommittee recommends that:*

- The Postal Service be authorized to negotiate Federal Employee Retirement System (“FERS”) eligibility requirements and employee contributions;*
- The Postal Service be authorized to negotiate the eligibility and retiree contribution requirements for the post-retirement health care component of the Federal Employee Health Benefit Program (“FEHBP”), specifically for future Postal Service retirees; and*
- The current statutory requirement that “[n]o variation, addition, or substitution with respect to fringe benefits shall result in a program of fringe benefits which on the whole is less favorable to the officers and employees than fringe benefits in effect on [July 1, 1971]” be repealed.*

The recommendation passed without amendment by a vote of 8 to 1. Commissioner Seabrook voted against the recommendation.

4. Pay Comparability. *The Subcommittee recommends that the 1970 Act be amended to clarify the meaning of the term comparability, and that the new Postal Regulatory Board be authorized to determine comparable total compensation for all Postal Service employees. In determining comparable total compensation, the Subcommittee recommends that the Postal Regulatory Board be authorized to determine the appropriate sector(s) of the private sector workforce to be used as the basis of comparison. The comparability determination of the Postal Regulatory Board should be enforced as a cap on the total compensation of new employees. In addition, if the Postal Regulatory Board determines that a total compensation premium exists for current employees, the Subcommittee recommends that it be authorized to determine the appropriate period of time during which the premium must be eliminated, and to review periodically its initial determination and the Postal Service's progress in eliminating the premium.*

Commissioner Levin offered an amendment to strike the factors listed in the recommendation that the Postal Regulatory Board should consider in determining comparable total compensation. The change was accepted by unanimous consent.

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

5. Pay-for-Performance. *The Subcommittee believes strongly that performance-based compensation programs are effective tools that, when designed correctly, can be used to align the goals of management and labor and result in improved efficiency and service quality. The Subcommittee, therefore, recommends that the Postal Service undertake a careful study of performance-based compensation programs for both management and represented employees, and that it work with the unions and management associations to design and implement a performance-based compensation program that is meaningful to Postal Service employees and assists the Postal Service in meeting its productivity and service quality goals.*

Commissioner Seabrook stated that pay-for-performance is dangerous when dealing with represented employees. He stated that pay-for-performance can become a "good-old-boy system" where individuals are taken care of because they are associated with management. He also stated that under pay-for-performance systems, exceptional employees may not receive bonuses because management is not aware of the employee's work. He expressed his belief that every employee should be paid on an equal scale. He suggested that a better approach would be to allocate a certain amount for bonuses and to distribute that amount equally among all employees.

Commissioner Cogman responded that a pay-for-performance system is very difficult to implement, but that if correctly designed, it can be a tremendous motivator for employees. Commissioner Gallagher stated that communication of a pay-for-performance plan is critical to its success. Co-Chair Pearce added that a well-executed system can help ensure that compensation is tied to actual performance. Commissioner Wright stated that when a proper pay-for-performance system with clearly identified

metrics (i.e. how much mail you are processing or how much mail you are delivering) can be a very effective incentive program if it is properly monitored and audited.

The recommendation passed without amendment by a vote of 8 to 1. Commissioner Seabrook voted against the recommendation.

6. Grievances. *The Subcommittee believes that the current dispute resolution process must be revised if the Postal Service is to operate in accordance with the best practices of private sector companies with highly unionized workforces. As a first step, the Subcommittee recommends that the Postal Service work diligently with its unions to implement best practice grievance procedures, including those recently implemented by the Postal Service and the National Association of Letter Carriers.*

Co-Chair Pearce commended the Postal Service for working with one of its unions to reduce the number of grievances. He further stated that the Postal Service should aggressively pursue a better relationship with its other unions. He also stated that managers should be encouraged through increased compensation and other incentives to establish good working relationships between the represented workforce and management.

The recommendation was adopted unanimously by voice vote.

7. Workers' Compensation Claims. *The Subcommittee recommends that the Postal Service be provided relief from certain requirements of the Federal Employees' Compensation Act (FECA). Specifically, the Subcommittee recommends the following:*

- *The Postal Service should not be required to pay benefits until after the expiration of a three-day waiting period;*
- *The Postal Service should be allowed to limit benefits to 2/3 of the maximum weekly rate; and*
- *The Postal Service should be allowed to transition individuals receiving workers' compensation to the Postal Service's retirement plan at such time as the employee would have become eligible for retirement notwithstanding the injury giving rise to the workers compensation benefits.*

Commissioner Levin proposed to substitute "2/3" for "66 2/3" in the second bullet of the recommendation. The amendment was adopted by unanimous consent.

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

8. Executive Compensation. *The Subcommittee recommends that the current statutory salary cap be repealed. The Subcommittee further recommends that the Board of Directors be authorized to establish rates of pay for officers and employees at levels competitive with the private sector, and that performance be considered by the new Board of Directors as a key component of the pay for senior executives.*

The recommendation was adopted unanimously by voice vote.

9. **Management Structure.** *The Subcommittee recommends that the Postal Service restructure its management to eliminate redundant positions and geographical divisions and standardize and clarify job functions. The Subcommittee also recommends that the new Board of Directors conduct a review of the entire management structure, size and cost to determine whether they are necessary and consistent with the best practices of the private sector and to require managers to justify their functions and the size of their staffs.*

Commissioner Wright offered an amendment to revise the second sentence of the recommendation to read as follows: “The Subcommittee also recommends that the new Board of Directors conduct a review of the entire management structure, size, and cost to determine whether they are necessary and consistent with the best practices of the private sector and to require managers to justify their functions and the size of their staffs.” The amendment was adopted by unanimous consent.

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

10. **Accounting for Retiree Health Care Obligations.** *The Subcommittee recommends that the new Board of Directors review the current Postal Service policy relating to the accounting treatment of retiree health care benefits, and work with the Postal Service’s independent auditor to determine the most appropriate treatment of such costs in accordance with applicable accounting standards and in consideration of the Postal Service’s need for complete transparency in the reporting of future liabilities. The Subcommittee also recommends that the Postal Service Board of Directors consider funding a reserve account for unfunded retiree health care obligations to the extent that the Postal Service’s financial condition allows.*

The recommendation was adopted unanimously by voice vote.

11. **Funding Military Service.** *The Subcommittee recommends that responsibility for funding CSRS pension benefits relating to the military service of Postal Service retirees be returned to the Department of the Treasury.*

The recommendation was adopted unanimously by voice vote.

Consideration of the Final Report

The draft final report was adopted unanimously by voice vote. The Commission then closed the meeting at approximately 11:14 a.m.