

## MINUTES

**Time:** 8:30 am EST

**Date:** May 29, 2003

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

**Members in Attendance:** Co-Chairs James A. Johnson and Harry J. Pearce, Commissioners Dionel Aviles, Don V. Cogman, Carolyn Gallagher, Rick Levin, Norman Seabrook, Robert Walker, and Joseph Wright.

**Staff in Attendance:** Executive Director Dennis Shea, Randall Lewis, Jana Sinclair White, and James Cox.

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

**Members of the Public Providing Oral or Written Statements:** The Honorable David M. Walker, Comptroller General of the United States; Vincent Palladino, President, National Association of Postal Supervisors; Jane Weizmann, Senior Consultant, Watson Wyatt Worldwide; Robert A. F. Reisner, Executive Managing Director, Global Insight; The Honorable John E. Potter, Postmaster General of the United States.

### **Matters Discussed:**

Co-Chair James A. Johnson called the meeting to order at 8:30 am. Mr. Johnson announced that this meeting concluded the testimonial portion of the Commission's work. He noted that the Commission has heard from many different people representing the diverse elements of the postal community. He thanked everyone who participated in the public meeting process. He also thanked Postmaster General Potter and the entire Postal Service leadership team for their cooperation and help during the past several months. The meeting continued with remarks by Co-Chair Harry J. Pearce.

Mr. Pearce thanked all of the witnesses who testified before the Commission during the public meeting process. Mr. Pearce discussed the agenda for the meeting and reviewed each panel of witnesses.

### Panel One: The Key Elements of Postal Reform: The Perspective of the General Accounting Office

Testifying on this panel was David Walker. Please see attachment A for his prepared written comments.

*Questions for Mr. Walker:* In response to questions concerning ways to enhance the flexibility of the Postal Service to manage its business, Mr. Walker stated that the Postal Service needs flexibility to rationalize its infrastructure, establish employee compensation, and set rates. He elaborated that with regard to infrastructure rationalization, certain restrictions are statutory and some are self-imposed. He recommended the Commission consider a process modeled on the Defense Base Closing and Realignment Act for the closure of postal facilities. He further stated that GAO has not considered how much of the Postal Service's infrastructure could be outsourced. He also noted that in January 2003, GAO put real property for the entire Federal government on its "high risk" list.

When asked what lessons can be drawn from the recent private-sector debate on corporate governance, Mr. Walker stated that the Postal Service Board of Directors (Board) must add value, manage risk, and be held responsible for results. He further stated that the Board must be comprised of people with comparable experience and that it must be proactive. Mr. Walker stated that the Postal Service should operate as a business with a public purpose. He agreed that utilities might be a good model, but stated that the government is in many areas today that perhaps it shouldn't be, including the rural electricity market. When asked whether the Postal Service uses its monopoly to compete unfairly with the private sector, Mr. Walker stated that the Postal Service should perform functions that the private sector can not perform. He also stated that the Postal Service should make the best use of its assets to develop partnerships with the private sector where it might generate revenue.

In response to questions concerning the appropriate accounting treatment of the Postal Service's \$40-\$50 billion unfunded liability for retiree health care, Mr. Walker stated that GAO believes it would be more appropriate for the Postal Service to account for these costs on an accrual basis as a multiple employer plan. He elaborated that the Postal Service has a statutory requirement to pay benefits and that the Postal Service should recognize this economic reality. He also stated that the Postal Service should build the liability into postal rates now to spread the costs over more time. He further stated that the method used is a matter for the Board and management to decide. If the Postal Service decides to accrue the costs, Mr. Walker asserted that it would need to have extensive discussions with the Financial Accounting Standards Board (FASB) to decide the best method to transition. When asked whether he agreed that the CSRS legislation provides an opportunity to fund the unfunded retiree health care liability, Mr. Walker responded affirmatively.

In response to questions concerning financial transparency, Mr. Walker stated that the Postal Service would satisfy the transparency concerns raised by GAO if the Postal Service voluntarily complied with SEC reporting requirements. In response to questions concerning the Postal Service's Transformation Plan, Mr. Walker stated that the plan did not go far enough in that it did not address infrastructure issues, workforce issues, and governance issues. He stated that the Transformation Plan focused on issues within the Postal Service's span of control and did not focus on issues that would require action by Congress or that would be considered controversial by Congress. When asked

Congress's response to GAO placing the Postal Service on its "high risk" list, Mr. Walker stated that Congress understands reform is necessary and stated that Congress is waiting on recommendations from this Commission. He noted that the Postal Service is still on GAO's "high risk" list because there are structural issues that need to be addressed.

In response to questions concerning "pay-for-performance" and salary caps, Mr. Walker stated that the government as a whole should link all employees' pay to performance. When asked whether the management structure of the Postal Service should be simplified, Mr. Walker stated that management for government organizations as a whole is too hierarchical, too vertical, and too inwardly focused.

When asked whether pension and retiree health care should be subjects of collective bargaining, Mr. Walker stated that he did not have an opinion. When asked about the cost attribution methodology employed by the Postal Service, Mr. Walker stated that he did not have an opinion at this time. When asked what GAO found in its investigation of worksharing discounts, Mr. Walker stated that the investigation was not yet complete. When asked about the potential diversion of First Class Mail, Mr. Walker stated that GAO has not attempted to quantify the diversion, but that he thinks the diversion trend will continue.

#### Panel Two: "Pay for Performance" and Incentive Compensation

Testifying on this panel were Vincent Palladino and Jane Weizmann. Please see attachments B and C for their prepared written comments.

*Questions for Mr. Palladino:* In response to questions concerning outsourcing, Mr. Palladino stated that the Postal Service is doing as much as it can under existing law to outsource Postal Service functions. In response to questions concerning the number of grievances filed by Postal Service employees, Mr. Palladino stated that the number of grievances currently filed is an improvement. He stated that there will be an increase in grievances any time an organization strives to increase productivity. When asked why rural letter carriers file fewer grievances than other Postal Service employees, Mr. Palladino stated that there are naturally more problems in large plants, which are located in urban areas. He also stated that the reduction of employees is aimed at urban areas. He stated that the different compensation methods employed for rural letter carriers and other Postal Service employees plays a role in the number of grievances filed, but asserted that the rural compensation system would cost too much in urban areas. When asked whether urban letter carriers should be allowed to perform retail services, Mr. Palladino stated that there is no demand for urban carriers to perform retail services.

*Questions for Ms. Weizmann:* In response to questions concerning variable incentive pay, Ms. Weizmann stated that two factors are most important for a successful incentive compensation system: (1) an effective design that provides incentives for both quality and productivity (2) and communication of the design. When asked her point of reference for determining that Postal Service "employee compensation levels below the management levels are market competitive except in high cost-of-living areas, and that employee

benefits are generally market competitive, enhanced by the economic value of job security offered by the Postal Service,” Ms. Weizmann stated that she did not have a specific point of reference. She elaborated that the statement was based on interviews with the Postal Service and testimony filed before the Commission and not on any independent assessment. When asked the kind of environmental and cultural decisions that need to be in place for an incentive based system to be successful, Ms. Weizmann said that the system must be open, that there must be opportunities for employees to report options for improvement and to participate in problem solving and decision making, and that there must be a rigorous management feedback system. Ms. Weizmann elaborated that no one wants a system that rewards employees who are not working as hard as others. When asked about reactions she received during interviews with the Postal Service and its employees, Ms. Weizmann stated that Postal Service management believes an incentive program could work, supervisors think an incentive system could work but that there are cultural issues that must be addressed, and other employees think an incentive system might help to address cross-organizational issues. When asked whether Postal Service union leadership is open to an incentive compensation system, Ms. Weizmann stated that she was not able to talk to all of the union leaders, but that some were open to a well-designed system. When asked how an incentive compensation system is designed in a union-based environment, Ms. Weizmann stated that working in organizations whose employees have union representation requires solidarity between the unions and management. In addition, the parties must agree on the criteria used in the system and the measurement systems must be perceived as credible and reliable. She further stated that, in organizations with incentive based compensation in the technician and skill trades areas, 10% to 15% of compensation is incentive based.

#### Panel Three: Price Cap Regulation: Key Issues to Consider

Testifying on this panel was Robert A. F. Reisner. Please see attachment D for his prepared written comments.

*Questions for Mr. Reisner:* When asked how he would design an appropriate rate-setting system that included a price cap component, Mr. Reisner stated that he would set broad principles and goals, recognize that there has to be an adjustment process, and remove litigation from the process. He further stated that a lot can be learned from international models, including the German Post. When questioned how price caps work in an organization with a break-even mandate, Mr. Reisner agreed that there would be concerns about the organization outperforming the price cap every year and building a large surplus, but that he believes there are solutions to these problems. He also stated that, in theory, if a successful system were designed any surpluses should go back to the rate-payers.

#### Panel Four: The Postal Service’s Transformation: Status Report

Testifying on this panel was Postmaster General Jack Potter. Please see attachment E for his prepared written comments.

*Questions for Mr. Potter:* In response to questions concerning the boldness of the Transformation Plan (the Plan), Mr. Potter responded that he believed the policies outlined in the Plan were very aggressive. He further stated that the Plan recommended all actions the Postal Service could take without Congress passing substantial changes in the law, but stated that the Plan made suggestions for changes in law. In response to questions concerning the accounting treatment employed for the \$40 to \$50 billion unfunded liability for retiree health care, Mr. Potter stated that the Postal Service is accounting for the liability in accordance with FASB rules. He further stated that he disagrees with Comptroller General David Walker's contention that the auditor makes the decision regarding the appropriate accounting treatment for the unfunded liability and asserted that the Board of Governors and management decide on the appropriate accounting treatment. With regard to the actual unfunded liability, Mr. Potter said that it appears large, but that revenue over that same time frame is predicted to be \$3 trillion. When asked whether the Postal Service could use pension contribution savings resulting from the recently-passed CSRS legislation to fund retiree health care, Mr. Potter stated that the Postal Service would still have to raise rates 4% plus the amount necessary to defray operations costs in order to do so.

In response to questions concerning retiree health care, Mr. Potter stated that an employee who works the last five years before retirement for the Postal Service gets the same retirement health benefits as someone who works 20 or 30 years for the Postal Service. In response to questions concerning any premium that may exist, Mr. Potter said that pension and retiree health care should be included as subjects of collective bargaining. He also stated that the collective bargaining process should address the business needs of the Postal Service.

When asked whether the Postal Service could reduce costs if all constraints were removed and it was allowed to operate like a publicly-held corporation, Mr. Potter said that the Postal Service could reduce costs in the short-term. He stated, however, that it would be difficult to reduce costs in the long-term given reducing mail volume levels.

In response to questions concerning mail diversion, Mr. Potter said that people are cautious with diversion estimates because diversion has not occurred as quickly as originally predicted. When asked to define universal service, Mr. Potter stated that it is the delivery of messages, merchandise, and publications to the American public on a 6-day-a-week basis. When asked to expand on the "trigger mechanism" Mr. Potter described in his prepared statement, he responded that it is a mechanism that would reduce service if volume declined below a certain level. He stated that there is an advantage to 6-day delivery and that it should be retained, but stated that it may have to change in the future.

In response to questions concerning the Postal Service's mission, Mr. Potter stated that the Postal Service should be allowed to leverage its infrastructure to provide services that provide revenue to the Postal Service. He cited as an example the provision of passport services at Postal Service facilities. In response to questions concerning the rate-setting system Mr. Potter recommended in his testimony (a rate-setting procedure with "after the fact" review), he stated that the system must ensure that there are no cross-subsidies and that all mail classes cover attributable costs plus a certain percentage. He also stated that the

problem with a price cap system is that it sets a “hard” rule and that sometimes relief is needed from the rule.

Testimony from the audience

*John Hegarty, National President, National Postal Mail Handlers Union:* Mr. Hegarty inquired as to whether the Commission would accept final comments from stakeholders. Co-Chair Jim Johnson responded that the Commission would accept final comments from stakeholders. Executive Director, Dennis Shea, responded that the comments would be posted on the Commission’s website.

*Thom Green, President of Local Letter Carriers Union in Ft. Wayne, Indiana:* Mr. Green stated that he disagrees with the assertion that Postal Service employees receive a 34% compensation premium. He also stated that prior to 1970 Postal Service employees were working in poverty. He further stated that the Commission did not seem to understand the activities of Postal Service employees.

*Roberta Klemer, letter carrier in Indiana:* Ms. Klemer stated that she does not want the Postal Service to be like the telephone companies. She also stated that she likes that extra services are available from the Postal Service, but that consumers are not required to buy them as part of a package plan. Ms. Klemer also stated that she hopes the Commission makes recommendations that strengthen the Postal Service and enhance its ability to fulfill its public-service mission.