

**TESTIMONY OF
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OF THE UNITED STATES OF AMERICA
BEFORE THE
UNITED STATES SENATE
SUBCOMMITTEE ON INTERNATIONAL AFFAIRS,
PROLIFERATION AND FEDERAL SERVICES
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS**

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Good morning, Mr. Chairman and members of the subcommittee. I appreciate this opportunity to meet with you today to report on the progress of the United States Postal Service during the past year.

That progress is a reflection of the efforts not only of Postal Service employees, but of the entire mailing industry – a \$900 billion part of the national economy. Our industry runs the gamut from entrepreneurs operating out of home offices, to some of the largest corporations in America. Over the past year, we've worked to build a foundation of trust and confidence in the nation's mail system. That system has become an increasingly integrated, interdependent national network of 9 million men and women.

We all have a responsibility to strengthen and maintain the public trust and confidence that has been invested in our industry by the American people.

In the past year, we have kept our eye on our core mission: to provide dependable, universal mail service to every American, regardless of where they live, where they do business and regardless of their economic status.

I offer my thanks to this Subcommittee for its commitment to the Postal Service and the people it serves. Your assistance over the last year has contributed to a level of success that, in the first months of the fiscal year, did not seem possible.

It was a year marked by challenges and measured by innovation. We focused on new ways to use the mail and control costs. Working with the Postal Rate Commission and our customers, we brought about an unprecedented, negotiated rate settlement. Together, despite the horror of September 11th and the bioterrorism attacks, we helped keep this nation connected as never before.

Thirteen months ago, I laid out a business plan to refocus the Postal Service on its core business. Six months ago, when we released our Transformation Plan, I also made two pledges. First, I said we would continue our strong focus on improving service performance. Second, I promised we would do our part to

make the Transformation Plan a reality by beginning to make changes that are possible now under the current legislation. In essence, our management team committed to managing the business like never before.

Today, I want to give you a progress report on those commitments.

First, even before the tragic events of September 11th and the anthrax attacks, we foresaw declining mail volumes, even as the universal mail delivery network continued to expand by 1.7 million new deliveries a year.

We knew we had to take some strong steps. We did. They included sweeping organizational changes that started at the top when we reduced the number of officers by 20 percent. We eliminated 800 Headquarters positions. We realigned our field management structure, eliminating 20 percent of our area offices. We reduced administrative staffing by 10 percent – some 2,000 positions in districts and mail processing plants across the country.

After the terrorist attacks, it became apparent that volumes would decline faster than our forecast for 2002. We focused on balancing our use of resources against the lower workload. The employees of the Postal Service realized that we needed to take dramatic steps to manage our finances. The strategy worked.

I am pleased to report that we have pulled \$2.9 billion out of our bottom line this fiscal year by reducing workhours by more than 77 million and reducing career employees through attrition by more than 23,000. Our total complement today is similar to what it was in 1995. Since then, mail volume has risen 21 billion pieces and our delivery network has added 12 million new addresses.

Our operating group destroyed the myth that they couldn't react quickly and decisively in periods of declining mail volume.

Employees and managers rose to the challenge and delivered positive total factor productivity for the year – as well as a 1.9 percent increase in labor productivity.

There were service issues earlier in the year as a result of last fall's attacks on America. Major realignments in our transportation system and major adjustments to our national processing networks were required.

We are all proud of the fact that service performance across the country rebounded in quarter three. By the recently ended fourth quarter, we reached record levels of performance for overnight, 2-day and 3-day First-Class Mail and Priority Mail. Express Mail scores are the highest they've been in four years.

What brought about the quick turnaround? Our employees. They rose to the challenge and focused on service.

We made better use of our transportation partnership with FedEx to move mail by air. And we made adjustments to our processing-time windows in plants throughout America to extend the reach of our surface transportation.

We made better use of our automated equipment – in particular, the use of 530 new automated flats sorting machines. Today, only 10 percent of flats mail in our plants is processed manually.

The Transformation Plan sets aggressive goals for improving service and focusing on our core business: processing and delivering America's mail and doing it affordably with top notch service. We are well on our way to achieving those goals.

Let me assure you, this Transformation Plan is not the "plan du jour." As long as I am Postmaster General, we will use the Plan to advance universal service and America's mail.

We do face a continuing challenge – a communications challenge. It is a challenge to keep our customers, our employees, and members of this Subcommittee and others informed on the progress we are making.

This past year, we have worked with all stakeholders to gain broad understanding of our long-term goals. We leveraged that understanding to open a dialog with our customers that led to an historic rates settlement. We joined with the Postal Rate Commission (PRC) and customer groups to discuss proposals to improve and streamline future ratemaking.

Last week, we filed with the PRC a negotiated service agreement with our largest end-user of First-Class Mail to give them an incentive to grow their business and ours. This week, we filed another proposal with the Rate Commission that would offer small-circulation periodicals a way of achieving work-sharing discounts so common with larger, mass-circulation periodical mailers.

We listened to customers and took advantage of what we can do under the existing laws to offer pricing flexibility to our mailers. We are building a foundation for future growth.

But we must not lose sight of the fact that the Postal Service continues to operate with an outdated business model. The current model needs adjustment.

We worked hard with Congress on a bipartisan reform bill earlier this year. Although it did not move from the House Committee, we are pleased that more and more lawmakers are showing interest in the future of the Postal Service. Our ongoing discussions with the Congress and with the Administration have made us hopeful for the future.

We are working with our unions and management associations to achieve a common understanding that for the Postal Service to move forward, all parties must take an active role.

For instance, this year we reached an historic agreement with the National Association of Letter Carriers to work together to advance Transformation and to explore workplace flexibility.

Looking ahead, there are many things we can and will do in 2003. We are focused on four objectives:

- First, we will continue our commitment to improve service performance. As part of that commitment, we will continue to focus on making improvements to reduce the risk our systems face against another bio-terrorism attack.
- Second, I am committed to exploring, with the Postal Rate Commission, alternatives to the ratemaking process within the current legislation. Those alternatives include additional negotiated service agreements and phased rates.
- Third, we will use our Transformation strategy to grow our business by enhancing existing products and services -- and expanding access and convenience to postal services.
- Finally, we will continue to manage our finances and reduce costs. Fiscal Year 2003 will be the second year in our five-year Transformation commitment to take \$5 billion out of our costs by 2006.

Last year this Subcommittee raised concern about postal debt and asked us to put together a plan for debt reduction. We shared those concerns and focused on finances. We went into FY 2002 projecting a \$1.35 billion negative net income. We also forecast that we would raise our debt by \$1.6 billion. However, we faced other challenges – a declining economy, September 11th, and the anthrax attacks.

As a result, we renewed emphases on managing our finances. For instance, we took dramatic steps to reduce expenditures, including a freeze on facility construction. Those and other efforts mean our projected negative net income will be less than \$1 billion. This also means that our debt will increase by less than \$500 million.

Looking to FY 2003, our efforts will result in a positive net income. These projections reinforce the pledge I made six months ago that there will be no

general rate increase until 2004. This positive net income also means we will be able to reduce our debt by almost \$1 billion at the end of Fiscal Year 2003.

My expectations are high for the Postal Service, for the nation's economy, and for the entire mailing industry over the next couple of years.

Keeping our rates affordable and improving service are at the heart of the Transformation Plan. The need to execute the entire Transformation Plan remains as critical today as it was 12 months ago when we faced dire circumstances.

I want to thank everyone – our customers, our postmasters, managers, clerks, letter carriers, mail handlers, our unions and management associations – and the members of the Subcommittee – all who helped us keep our commitment to provide universal service to the American people this past year. Together, we have accomplished a great deal. We've begun to chart the course for the future of the United States Postal Service and the mailing industry.

Before I close, it is imperative that I ask your assistance in one key area. As I mentioned earlier, the Postal Service will continue its focus on reducing risk from any future bioterrorist attack. We have submitted a comprehensive Emergency Preparedness Plan to help us identify the long-term needs to safeguard our mail processing systems, our employees and our customers.

The President and Congress came to our aid earlier this year and appropriated \$750 million for costs related to the anthrax attacks to help reduce the risk to our national mail system from biohazardous materials. We are grateful for this assistance in helping to reduce the risk to the mail.

But we continue to deal with some sensitive issues that require your assistance. To that end, we are considering the purchase of bio-detection and vacuuming/filtration equipment for use at some 280 of our mail processing facilities, using the funds generously appropriated earlier this year.

To facilitate the procurement of this equipment, we support and ask for your support of Senator John Warner's amendment to HR 5005, the Homeland Security Bill. This amendment would include the Postal Service among those agencies, such as the Department of Health and Human Services and the Department of Transportation, who are engaged in procuring the means to reduce biohazardous risks. We believe this is the right thing to do.

I thank you for your support and for helping us stay the course during the last year. And I look forward to our continuing work in the years ahead.

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