

**STATEMENT OF  
POSTMASTER GENERAL/CEO JOHN E. POTTER  
BEFORE THE  
SUBCOMMITTEE ON TRANSPORTATION,  
TREASURY, AND HOUSING AND URBAN DEVELOPMENT,  
THE JUDICIARY, AND THE DISTRICT OF COLUMBIA  
COMMITTEE ON APPROPRIATIONS  
U. S. HOUSE OF REPRESENTATIVES  
APRIL 26, 2005**

Good morning, Mr. Chairman and Members of the Subcommittee. I appreciate this opportunity to talk to you today about the Postal Service's accomplishments in recent years; the continuing challenges we face in the years ahead; and our appropriations request for the next fiscal year.

Since I became Postmaster General in June of 2001, I have focused the Postal Service on transforming into a leaner, more efficient, more modern organization. Our continuing Transformation efforts are delivering results for the American people. In the last few years, we have seen significant positive results in the areas of service, customer satisfaction, finances, and workplace improvements. I am very proud of our employees and our management for helping us achieve these impressive results in these challenging times.

Our record of accomplishment is clear. We again set records for service performance and customer satisfaction in 2004. Last year, we reduced our debt by \$5.5 billion. At \$1.8 billion, our debt is at its lowest level in 20 years. We also recovered all prior years' losses and, for the first time since postal reorganization in 1971, ended the year with positive retained earnings. We have achieved an unprecedented five consecutive years of growth in total factor productivity — the equivalent of \$6.1 billion in cost savings. Financially, we had a second straight year of positive earnings — with a net income of \$3.1 billion. Career staffing has declined from its peak in 1999 to pre-1985 levels, thanks to our embrace of new technologies and greater efficiency. And, this was accomplished without layoffs. The workplace environment is improving, with grievances awaiting arbitration down by 61 percent. Accidents are down by 36 percent. These results can all be directly tied to our 2002 Transformation Plan — a plan that continues to be our guide and that we are in the process of expanding and extending — with the help of our stakeholders — through Fiscal Year 2010.

We remain focused on aggressively managing our business. Our employees are doing an exceptional job utilizing resources efficiently while holding down costs. This focus will not change.

Yet, our success continues to hide the long-term structural problems that are impeding the viability of our outdated business model. Designed to meet the needs of a 1970s marketplace, this business model assumes that the revenue from continually rising mail volumes will offset the costs of an ever-growing delivery base.

The model worked well for the marketplace it faced at the time it was created — long before the advent of electronic communications such as e-mail. Then, we faced little competition in hard-copy mail and package delivery. At that time, the Postal Service was granted a limited monopoly to protect its universal service mandate — that is, the ability to provide quality, affordable mail service to every single home and business in America.

While this model has served the American people well for the past 35 years, communications and normal business practice have undergone profound structural change. Today, we face a competitive marketplace for hard-copy mail and package delivery services. As businesses and individuals make ever greater use of electronic communications to place orders, pay bills, obtain account information and communicate with friends and loved ones, their use of the mail continues to decline.

Since 2000, First-Class Mail volume, which provides the highest contribution to overhead, has fallen by almost 5.6 billion pieces. These changes are evidence that the value of our monopoly has diminished. As recently as 2002, First-Class Mail was by far the largest component of the mailstream. Over the past four years, First-Class Mail volume has declined 5.4 percent while advertising mail volume has grown 6.1 percent. However, it takes nearly three pieces of advertising mail to generate the same contribution as one piece of First-Class Mail.

Last year, First-Class Mail was less than half of total mail volume and we expect that this year, for the first time in Postal Service history, Standard Mail will overtake First-Class Mail as our largest-volume product. The shift in the mail mix from First-Class Mail to lower revenue-per-piece mail has significant implications for our long-term bottom line. At the same time, the number of deliveries continues to grow. In 2004, we expanded our delivery network to accommodate 1.8 million new addresses. That base grew by 1.9 million the year before. Structural changes in societal and business communications have altered the economics of our business model. We are squeezing the margins within that model's narrow parameters.

Without modernization of our business model, the opportunities for savings and efficiencies can only decline and the only available alternative to cutting costs is raising rates. Raising rates normally has a negative effect on volume growth. We could find ourselves in a vicious cycle — a cycle of rising rates forcing volumes to decline which would then force additional rate increases to cover the continued expansion of delivery points. Ultimately, the service that America expects could be in jeopardy.

We have filed a request for a rate increase in 2006. This across-the-board rate filing is not a function of revenue failing to meet operational costs. We expect to end this year in the black, with positive net income of more than \$1 billion. There would be no need to raise rates before fiscal year 2007 were it not for the \$3.1 billion escrow funding required by Public Law 108-18. However, the Postal Service must now begin the process of seeking a rate increase to comply with the requirements of Public Law 108-18, the Postal Civil Service Retirement System Funding Reform Act of 2003. The Act adjusted Postal Service payments to the Civil Service Retirement System so that we would avoid over funding our obligations to the program.

It also stipulated how the so-called “savings” we realized under the Act were to be used. In reality, those “savings” are the difference between our former, higher payment rate that would have resulted in over funding, and the current, lower rate. From 2003 to 2005, the “savings” realized under the Act were used to reduce debt, offset operational expenses and hold postage rates steady. Beginning in 2006, however, the Act requires that we pay \$3.1 billion to an escrow fund.

Postal reform legislation under consideration in the House and Senate would eliminate this escrow fund, but require payments to pre-fund future health benefit liabilities. We will continue to monitor the costs associated with pending legislation and reassess our rates requirements for 2006 as appropriate.

Over the past two years, we have seen a broad consensus — among government leaders, legislators, the mailing industry, customers and postal employee organizations — about the need for reform of the laws governing the Postal Service.

The administration and both houses of Congress have explored new business models for the Postal Service. The Postal Service’s goal throughout this process has been to identify a model that will protect the ability of all Americans to continue receiving affordable, universal mail service well into the 21st century.

I look forward to continuing my discussions with this Subcommittee and others as we work to find a business model that is best for our customers, our economy and our nation. We must define this business model now — before we face a crisis in the Postal Service.

And speaking of now, I am also here today with more immediate needs — our appropriations request for Fiscal Year 2006. This request covers funding for revenue forgone and free and reduced rate mail, as well as additional funding to complete the system modifications that will improve mail safety and security for our employees and for the American people. Our request differs from the amounts recommended by the Administration’s Fiscal Year 2006 budget in several ways.

Our first request is for \$29 million for revenue forgone reimbursements. The Administration's budget does not include funding for the federal government's own debt to the Postal Service for services required by statute. In accordance with the Revenue Forgone Reform Act of 1993, the Postal Service is to receive \$29 million annually through 2035. This payment covers the cost of services we were required to provide in Fiscal Years 1991 through 1993, but for which there were insufficient amounts appropriated. It also covers payment for services provided from Fiscal Year 1994 through 1998.

For two decades after the creation of the Postal Service, Congress continued to fund reduced postage rates for certain categories of mail and mailers through the so-called "revenue forgone" appropriations. Congress required that the Postal Service provide reduced postage rates as well as free mail for purposes which Congress considers to be in the public interest. These favored types of mail included reduced-rate bulk standard mail advertising sent by qualified non-profit organizations, and in-county mailings of local newspapers. These appropriations were devoted entirely to the benefit of these historically-favored mailers, and did not financially benefit the Postal Service.

Under the provisions of the Revenue Forgone Reform Act of 1993, approximately half of the former taxpayer subsidy to non-profit mailers was transferred to regular-rate postal customers, and that portion of the "revenue forgone" subsidy was ended. In this same legislation, Congress authorized a series of 42 annual appropriations of \$29 million, without interest, as reimbursement for \$1.2 billion in costs incurred by the Postal Service (\$515 million in past under-funding of revenue forgone plus the cost of phasing reduced postage rates to higher levels over six years, under the Revenue Forgone Reform Act). The outstanding balance on this debt is approximately \$870 million. This year's appropriation would be the thirteenth in the series of 42 annual payments to reimburse the Postal Service the \$1.2 billion owed for these purposes. Failure to fund this authorized appropriation places the remaining debt of nearly \$870 million at risk of nonpayment.

As the Postal Service continues to responsibly address its long-term obligations, it is counter-productive to increase those costs through non-payment of a debt already deferred by interest-free installment payments spread over a period of 42 years.

The second part of our request is for \$108.5 million in payment for costs imposed on the Postal Service by statute. This \$108.5 million is for current year costs of \$79.9 million and a \$28.5 million reconciliation adjustment for prior years. This appropriation reimburses the Postal Service for the statutory obligations to provide free mail for the blind and others who cannot use or read conventionally printed materials, the mailing of absentee balloting materials that can be mailed free by members of the armed forces and other United States citizens residing outside of the United States, and balloting materials that can be mailed in bulk between state and local election officials.

This request differs from the Administration's budget request of \$87.3 million. The Administration provides \$58.7 million for current year costs plus a \$28.5 million reconciliation adjustment. The Administration's proposal not only provides an amount less than that requested, but also continues an "advance funding" process adopted in recent years of deferring actual payment of the recommended funding until the following fiscal year.

Although this approach provides limited funding for these services, these funds are only made available long after the service has been delivered. These actions place the postage ratepayer at a greater risk of absorbing a social service cost beyond the mission of the Postal Service. The Postal Service does not have the authority to control or limit these mailings to reduce the funding needed. And we have no way to mitigate the shortfall in funding. Providing less than the requested amount will continue to compound the financial burden caused by the current "advance" funding.

The third part of our appropriations request is for costs associated with the nationwide deployment of the Biohazard Detection System, the Ventilation and Filtration System, and a Mail Sanitization Facility to be located in the Washington, D.C. area. We are requesting \$51 million to complete these initiatives. The Administration's budget does not include funding for the Postal Service's efforts to improve the safety and security of the nation's mail system. In the past two years, we have accomplished significant improvements in our emergency preparedness. For example, we successfully decontaminated and re-opened major mail-processing facilities in Washington, DC, and Trenton, New Jersey — rehabilitation projects on a scale never before attempted.

While we agree that funding for homeland security needs must be prioritized, the Postal Service believes that funding to continue efforts to improve the safety and security of the mail for postal employees and customers should be one of those priorities.

I appreciate the support we received for these important initiatives during the 108th Congress, when funding of \$503 million was appropriated to continue these efforts. While those funds will permit the Postal Service to continue to purchase and install state-of-the-art Biohazard Detection Systems and Ventilation and Filtration Systems in our mail processing centers, additional funding is needed to complete this installation process. The Postal Service will continue to cover the operating expenses for these systems from our operating budget.

Both the administration and Congress have recognized that supporting the costs for postal system changes has been a critical element in the enhancement of the security of the nation. These costs have been — and should continue to be — funded by the government as part of its homeland security activities. These are not costs that should be borne by postal ratepayers.

The Postal Service has dedicated its resources to identifying the best and most effective approach to detecting biohazards in the mail. Our Biohazard Detection System continuously gathers air samples as mail passes through the initial pinch point in the mail processing system. Sample analysis occurs at intervals of approximately one hour, followed by a 30-minute analysis cycle. The test intervals help assure that no mail will leave a facility before the analysis is completed.

To date, these Biohazard Detection Systems have performed over 625,000 tests involving more than 12 billion pieces of mail. There have been no false positives. These systems allow for quick response to a positive test result, triggering the local integrated emergency management plan, which includes cessation of operations and facility shutdown, and notification to community first responders, including local public health officials who would make any medical decisions regarding potentially exposed employees and customers.

These automated systems, developed in conjunction with experts from the federal government, the military and the private sector, provide rapid on-site analysis of aerosol samples collected during one of the earliest stages of mail processing. These systems are now operational at 114 locations. By the end of the calendar year, this equipment will be deployed in every state of the nation, at all of our 282 major processing centers.

Since the initial development of the Biohazard Detection System concept, the Postal Service has actively sought to improve this flexible and expandable system. New, improved components of this system are being developed to detect threats in addition to anthrax.

A new technology with promise for expanding our detection ability uses electro-chemical luminescence, "ECL". ECL technology has the capability to detect both biological agents and toxins, such as ricin, that escape detection by our current testing process. ECL hardware and software were integrated into an existing system in March 2004. The technology is being tested to determine its level of sensitivity and reliability before the Postal Service proceeds further. As was the case with previous BDS testing, the Postal Service is working with the U.S. Army at the Edgewood Arsenal facility.

We have also moved forward with the deployment of a Ventilation and Filtration System that, used in conjunction with the Biohazard Detection System, will isolate and contain mail-borne biohazards. The Ventilation and Filtration System draws air across the surface of letter and flat canceling systems through a series of ducts, and ultimately into High Efficiency Particle Air (HEPA) filters capable of trapping one-to-three micron-size anthrax spores, as well as a variety of other potential contaminants that might be released in mail processing operations.

In addition, we are finalizing our plans for the construction of an irradiation facility here in Washington to minimize the delays involved with rerouting government mail to New Jersey for this purpose. The construction of this Mail Sanitization Facility will reduce Postal Service costs and improve mail service to Congress and the Federal Government.

The Postal Service is currently spending approximately \$800,000 of its own funds each month to irradiate mail destined for Congress, the White House and federal government agencies in Washington, D.C. Irradiation is conducted at a leased sanitization facility in New Jersey. In addition to the cost to truck mail to the New Jersey facility, this procedure causes two-to-three day delays in mail delivery. We have not requested funding for these costs in the past, nor will we now request funding for these costs.

The emergency preparedness funds we are requesting today would enable an enhanced level of protection for our nation. Through the field testing phase of the Biohazard Detection System, the Postal Service has forged important and productive partnerships with government and public health officials at the federal, state and local levels. With the events of recent years, the historic responsibility of the Postal Service to safeguard the nation's mail, and those who deliver it, has greatly expanded. We carry this trust all across America, at each Post Office and every postal facility, and at every address in the nation. Your favorable consideration of this appropriations request will help us to fulfill this role to the best of our ability.

In closing, I should note that the Postal Service takes great pride in its success in funding postal operations solely through the sale of postal products and services. While we are authorized by statute to request a public service appropriation every year for costs incurred in providing effective and regular postal services nationwide, even in communities where Post Offices may not be deemed self-sustaining, we have operated without this appropriation since Fiscal Year 1982, saving the American taxpayers more than \$11 billion. Again, for Fiscal Year 2006, we are not requesting an appropriation for public service.

Thank you, Mr. Chairman and members of the Subcommittee for the opportunity to discuss our Fiscal Year 2006 appropriations request. I would be pleased to respond to any questions at this time.

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