

**STATEMENT OF POSTMASTER GENERAL JOHN E. POTTER  
BEFORE THE  
SUBCOMMITTEE ON TRANSPORTATION,  
TREASURY AND INDEPENDENT AGENCIES,  
COMMITTEE ON APPROPRIATIONS  
U. S. HOUSE OF REPRESENTATIVES  
MARCH 27, 2003**

Good morning, Mr. Chairman and Members of the Subcommittee.

I appreciate this opportunity to tell you about the successes the Postal Service has achieved in the past year to improve service nationwide while maximizing use of our resources and minimizing our expenditures. I am here today to accomplish two missions: I will be providing you with our appropriations request for Fiscal Year 2004; and I will be addressing the topic of this hearing, legislation related to our contributions to the Civil Service Retirement System.

Legislation changing the Postal Service's schedule of payments to the Civil Service Retirement System poses a unique opportunity for our customers—the American public—as well as the Postal Service and the entire mailing industry of this country.

We are grateful to the members of this Committee, the Administration and to all the Members of Congress for the progress that has been made in moving this legislation forward.

Passage of this legislation will enable us to stabilize postage rates for a long period of time. America's mailers and everyone who sends and receives mail will directly benefit. For us, a healthy and thriving mail industry translates into a strong Postal Service.

Our employees are working hard to provide universal service for all Americans. All of our employees share my enthusiasm and pride in the strides we have made to improve service to our customers. I am proud to say that today, service performance across the country is the highest it's ever been in the history of the Postal Service—for all classes of mail.

After a year of working through the effects of the recession, the terrorist attacks of 9/11 and anthrax, First-Class Mail service in our nation is just that—First Class.

I can't say enough about our employees—all 740,000 of them, from postmasters to station managers, from letter carriers in our largest cities to those in rural offices, to our clerks and mail handlers in major processing plants—they all have performed superbly this past year.

For the third consecutive year, our productivity has increased. In fact, this year, we are on pace to exceed our productivity of the past three years

And, for the first time in 31 years, our operating expenses for 2002 were below the expense level for the previous year. As we like to say, "We Deliver!"

Our productivity gains came with the assistance of our postal unions and management associations who joined with management to explore ways to trim costs without impacting service to our customers. The entire team is focused on providing high levels of efficient service.

Every dollar we spend is important because it is a dollar we have to get from our customers. For example, we adopted a judicious approach to capital expenditures and limited construction of new facilities. We recognize that we cannot stand still where improvements are necessary. We will continue to make capital investments in projects with positive returns on investment.

As a result, we have maintained our focus on transformational goals that were possible under the Postal Reorganization Act of 1970. We are well on our way toward our goal of \$5 billion in cost reductions by 2006.

Our efforts to increase productivity and control spending paid dividends. In 2002, we decreased our debt to the Treasury by \$200 million. That was the first time in five years that we ended the year with a debt obligation less than the previous year's. Our plan for this year calls for an additional debt reduction of at least \$800 million.

But against this backdrop of effective cost control and record service performance measures, the fact remains that the effects of bioterrorism, a sluggish and uncertain economy, competition, and electronic diversion bared fundamental flaws in our business model as outlined in the Postal Reorganization Act.

We need your help. Which is why we are grateful to you for calling this hearing and inviting us to discuss this critical approach to rate stability, which is also our approach to revitalizing mail volume growth.

We have lost volume in each of the last two years. This has never happened before. Since 2000, we have seen a steady decline in Priority Mail and Express Mail. Last year, First-Class volume was down 1.3 billion pieces from the previous year. We have already experienced a further decline of more than 1 billion pieces this year. The only projected volume growth is in the Standard Mail category.

This decline in volume growth has triggered a sharp decline in projected revenue which means we must rely on cutting costs. The only alternative to cutting costs is raising rates. And we can only cut costs and raise rates for so long.

Clearly, recent rate increases, along with the events I previously mentioned, have had a negative impact on volume growth. It is a cycle that must be broken, and I am committed to finding innovative solutions to reverse that trend.

First, with the support of the Postal Rate Commission, we are exploring creative alternatives to the ratemaking process, including negotiated service agreements with our large volume mailers to incent growth.

Second, we are adding value to existing mail products through information technology. We are developing services that permit mailers to track movement of their mail through our system, which they can use to their business advantage.

Third, we recognize the need for short-term legislative measures that will help foster volume growth. The current legislation to prevent the Postal Service's overfunding of the Civil Service Retirement System offers a unique opportunity to stimulate volume growth and provide rate relief for our mailers.

Late last year, the Office of Personnel Management conducted an analysis of the Postal Service's CSRS payments and concluded that the Postal Service was on track to overpay its CSRS obligation.

A subsequent review by the General Accounting Office also concluded that the Postal Service was on track to overpay its CSRS obligation.

If enacted, the legislation to correct this situation would allow us to continue to significantly pay down our current debt and enable us to hold rates stable until 2006.

This stability would give businesses an economic incentive to expand their use of the mail and help drive volume growth. In these times of uncertainty, this stability would also give the entire mailing industry a booster shot to speed recovery from a sluggish economy. Given the size of the mailing industry, this could also serve as an economic stimulus.

I want to thank the Members of this Committee and all the members of Congress for supporting this legislation. We are especially grateful that the House Committee on Government Reform and the Senate Committee on Governmental Affairs have acted favorably on this proposed legislation.

We are hopeful that this important first step toward legislative reform will lead to opportunities for long-term legislative changes.

Besides focusing on short-term measures, our Transformation Plan addresses the need for long term reforms to assure affordable universal mail service for future generations.

To survive and to thrive in today's technological and fiercely competitive marketplace, we must have a new business model—a model that gives us the flexibility we need to: modernize the ratemaking process; enhance our products and services and increase access and convenience for our customers; and maintain universal service at affordable rates.

We are pleased that the President has created a Commission on the Postal Service to assess the future postal needs of the American public and to recommend steps leading to legislative reform.

At the heart of their deliberations, the nine members of the Commission will analyze key public policy issues related to the role and mission of the Postal Service—issues that have been debated by the Congress and the mailing industry for the past decade. We remain supportive of their efforts and continue to provide assistance and information for members of the Commission.

While Congress is considering legislation that would affect our payments to the Civil Service Retirement System, and the President's Commission on the U.S. Postal Service is considering the needs of America's postal system in the long term, we are also here today regarding more immediate needs and we are submitting our appropriations request for Fiscal Year 2004. Our request covers three distinct areas.

The first request is for \$29 million for revenue forgone reimbursements. This would be the eleventh payment in a series of 42 annual payments to reimburse the Postal Service \$1.2 billion. This figure represents insufficient funding in Fiscal Years 1991 through 1993, and subsequent costs of implementing the Revenue Forgone Reform Act of 1993.

The second part of our request is for \$36,521,000 for free mail for the blind and overseas voting materials. This provides funding for the free mailing of materials used by the blind and others who cannot use or read conventionally printed materials. It also includes 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.

The third part of our request is for emergency response funds of \$350 million for activities arising from the 2001 anthrax attacks. These funds will be used to provide further safeguards to protect our employees, our customers and the mailstream from future attacks.

The Postal Service is authorized by statute to request appropriations for public service costs of up to \$460 million per year. However, the Postal Service has operated without this appropriation since Fiscal Year 1982. Again, for Fiscal Year 2004, no appropriation for public service is being requested.

Finally, Mr. Chairman, I want to say a few words about the impact of the war in Iraq on postal services in the United States. The Postal family has responded to the call to service in this time of armed conflict in the Persian Gulf.

So far, approximately 4,400 postal employees out of more than 12,500 who are members of the Reserve or National Guard have been called to active duty. Our first concern, of course, is for their safety and for the welfare of their families during this period of separation.

At the same time, I am very aware of how important mail call is for the troops. Even in a time of e-mail, nothing replaces traditional letters and packages.

We are working with the Military Postal Service to keep the mail connection open between our service men and women in the Gulf and at bases and posts throughout Europe with their families and loved ones at home.

We are proud to do our part to bring a photo or card or letter from a parent or spouse. In times like this, our universal service obligation to provide that fundamental communications link for all Americans is never more important.

We join with all people of this nation and the world in our prayers for a swift conclusion to this war and for the safe return of all service men and women to heir loved ones.

Thank you Mr. Chairman. I would be pleased to respond to any questions you may have at this time.

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