STATEMENT OF S. DAVID FINEMAN, CHAIRMAN
UNITED STATES POSTAL SERVICE BOARD OF GOVERNORS
BEFORE THE
UNITED STATES SENATE
COMMITTEE ON GOVERNMENTAL AFFAIRS
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Good afternoon, Chairman Collins and Members of the Committee.

Thank you for the opportunity to talk with you about the critical issue of comprehensive legislative reform for the United States Postal Service. In particular, I look forward to discussing the vital role of appropriate governance of this indispensable engine of American commerce and communication. As always, I appreciate the interest of this committee in assuring the continuance of affordable universal mail service for each and every American.

Let me point out at the beginning that the views I am going to share with you today are the result of my years of experience as a member of the Board of Governors. The Board of Governors is a very diverse group, and not every member would necessarily agree with every position I mention today. But I have tried to capture the essence of the Board's position in most cases.

Since 1970, the Postal Service Board of Governors has directed the exercise of the power of the Postal Service. It establishes strategic policies, basic objectives, and long-range goals for the Postal Service. We take these responsibilities very seriously.

I have had the pleasure of being a member of the Board of Governors of the United States Postal Service since 1995. Over the course of those nine years, I have worked closely with my fellow governors to conscientiously carry out our legal mandate to "direct and control the expenditures and review the practices and policies of the Postal Service". I also came to realize early on that the law under which we operate is both antiquated and inefficient. I have had the pleasure of getting to know many of you and your staff as I have worked with you towards bringing about change to this law.

I have also come to appreciate more than ever the value of mail service to the American people and the role it plays in making the United States economy the greatest in the world. I am proud of the thousands of dedicated Postal employees who manage to get the mail delivered regardless of the obstacles faced.

There can be no doubt that we have faced some significant challenges in the last few years. I want to thank every member of this Committee, the General Accounting Office, and the Administration for their assistance in helping us address them.

Despite those challenges, the United States Postal Service has continued to deliver for our nation. In fact, in 2003, we set records in service, productivity and customer and employee satisfaction, while also maintaining universal mail service and generating a positive bottom line for the business. We closed the year with a net income of $3.9 billion, reflecting both our success in managing costs and improving efficiency and the positive effects of the Civil Service Retirement System funding reform legislation.

But these successes are masking a basic flaw in the business model upon which the Postal Service was founded. The assumption that growth in mail volume will provide sufficient revenues to meet the cost of providing universal service to an ever-growing number of delivery points is no longer valid. Since 2001, as First-Class Mail volume has been decreasing, our delivery network has expanded by 5.5 million new delivery points. We do not see this trend reversing.

Given the limitations of our current business model, this trend offers a daunting prospect for the viability of our current outdated legislative charter.

Nonetheless, the Board of Governors has the legal obligation to manage within the constraints of the current business model, so that is what we have been doing – and in my opinion, doing quite well. We are managing for results. We have asked management to focus on three key strategies: improving operational efficiency, adding value for our customers, and enhancing our performance-based culture.

With the help of management, Congress, and stakeholders, we identified each of these strategies in the Transformation Plan we developed in 2002. We know the Postal Service must continue to change to meet the needs of a changing nation. The Transformation Plan is helping us do that.

The Board of Governors has taken steps to take full advantage of all the flexibility granted to us by current law. Let me give you some examples, starting with the Board's fiduciary responsibilities. In February 2001, when the Chairman of the Board's Audit and Finance Committee reported that the trends in Postal Service finances were "alarming and unacceptable…", we quickly moved to re-examine how this organization was conducting business on all levels.

Management was directed to temporarily freeze all new facility commitments, reduce planned new facility commitments for the year by $1 billion, and limit future capital commitments to levels that could be funded from cash flow.

In the last three years capital commitments have been limited to those projects that have an acceptable return on investment, are required by law, or have been necessary to insure customer and employee safety. New commitments, which had averaged $3.5 billion per year in the five years leading up the temporary freeze, have averaged $1.6 billion per year in the three years since.

These measures have worked. Cash flow has been adequate to fund capital spending in the last three years and debt has fallen.

Perhaps the most important way in which the Governors provides direction to the Postal Service is through the selection of the Postmaster General. In selecting Jack Potter, a career operations veteran to lead the organization, the Governors sent a clear signal that service, performance, cost control, and productivity improvement were the priorities.

The organization responded. Service performance scores climbed to record levels and the number of our career employees declined by 24,000 in 2003. Our Fiscal Year 2004 operating plan calls for a reduction of 25 million work hours. We are on track to achieve that – in fact, through February we have already experienced a reduction of over 15 million work hours. During that same time frame, we have reduced our career complement by over 14,000 employees, and best of all, we have reduced these positions through attrition, voluntary retirements, vacancies and reassignments. No employees were laid off.

The Board's focus on the bottom line has strengthened financial management within the Postal Service. The spread between long-term and short-term interest rates last year created an opportunity to refinance our debt, reducing our average interest rate from 5.1 percent to 1.1 percent. As a result, we saved $62 million in interest in 2003. And, we expect to save an additional $336 million in 2004.

There is another area where the Board has asked management to take a long, hard look at current practices – the vast network of facilities and transportation infrastructure that has developed over the years. In my opinion, the opportunity to consolidate operations and streamline our network represents a significant cost reduction opportunity. A leaner plant network would drive transportation and facility costs down. That benefits everyone.

Along the same lines, I think the Postal Service must be allowed room to implement infrastructure changes including – but not limited to – changes in the number and location of post offices and processing plants, and changes in our transportation networks. That simply makes good business sense.

We are also enhancing existing products and services – and expanding access and convenience to postal services.

By providing focused leadership and support to an able top management, the Board of Governors has helped the organization effectively address a number of difficult problems. We are fortunate to have the management team we do as we face the challenges ahead of us.

But let us be clear about those challenges. The combination of declining First-Class Mail volume, increasing delivery points, and expanding fixed costs over which we have no control – such as statutorily-mandated employee benefit costs – has put the Postal Service into a box. And that is a box which no amount of good management, cost cutting, or improved efficiency can get us out of. We cannot, and we will not, get out of the box – because the current business model will not allow us to.

Each year, as we aggressively pursue additional improvements, the margin of return becomes smaller as efficiency increases. Essentially, the more we improve our efficiency, the less room there is to make up for the gap caused by the fixed costs inherent in our current business model. We must have legislative change.

In March 2001, the Governors sent a letter to Congress and the President specifically stating the need for significant statutory reform in pricing and labor flexibility. The letter stated: "We see alarming trends that seriously threaten the future of America s mail service… Without change to our regulatory framework, universal service will be difficult to maintain. We foresee rapidly rising rates and reduced service if legislative reform is not enacted promptly…"

That is why we were so pleased by the creation of the President's Commission on the United States Postal Service. During the eight months that the nine-member bipartisan commission held public meetings and met with stakeholders, we provided the Commission with a great deal of information and documentation about our organization's needs and concerns. The Postmaster General and I testified before the Commission. Other Postal Service leaders testified in detail about their areas of expertise as well.

The Commission, in its final report, offered recommendations for change in several key areas: the Postal Service business model, private-sector partnerships, technology and workforce. The President publicly urged Congress to enact postal reform legislation based on five principles that were in the Commission's report. We agree with the goals of these five principles – Best Practices, Transparency, Flexibility, Accountability, and Self-Financing. In many ways, they mirror our Transformation Plan for the Postal Service. The President's Commission also said the Postal Service should set the standard for financial transparency by which all other Federal entities are judged. I agree.

In fact, last August, at the Board's direction, the Postal Service began to enhance the transparency of its financial reporting. Our 2003 Annual Report includes enhanced disclosure in the footnotes and the Management Discussion and Analysis section. And, earlier this year, the Board of Governors met with senior Postal Service officers to discuss the topic of more transparent annual disclosures. We continue to work on ways to further enhance our annual financial reporting as well.

But, let me turn to the crux of the matter. When the Commission issued its final report, it stated that: "the Commission envisions a strong, independent, and experienced Board of Directors that reflects the size, scope, and significance of the Postal Service's work…" I agree with that assessment. However, the Commission recommended significant changes to our governing board. I cannot agree with all of their recommendations, and I want to tell you why.

Today, the Governors are appointed by the President with the advice and consent of the Senate. They serve staggered nine year terms, and by law, no more than five members may belong to same political party. This structure has allowed the Postal Service to enjoy bipartisan oversight and consistent governance of this $68 billion national service provider. I am concerned that the Commission's proposal for a new Board of Directors could change this.

Under the Commission's recommendations, the President would appoint three Board members, who would then select the first eight independent Board members, with the concurrence of the Secretary of the Treasury. After that, independent members would be selected by the Board as a whole, again with the concurrence of Secretary of the Treasury. But there would be no limits on the political affiliation of Board members.

In addition, the proposal allows the President or the Secretary of the Treasury great latitude to remove what the Commission calls "independent" Board members.

My concern is that, if enacted as proposed, the Senate's statutory role of "advice and consent" would be greatly diminished. The lack of party affiliation requirements and the ability of the President and Secretary of the Treasury to remove members of the Board could potentially result in highly-partisan Boards in the future. Under this arrangement, the Commission would actually reduce the independence of individual Board members, who could be perceived as fearing replacement for voting against the interests of the current Administration in power.

Rather than becoming more impartial and businesslike, a Board of Directors as envisioned by the Commission could be less impartial, less knowledgeable, and possibly more political. This could affect public opinion of the impartiality of the Board as well. Certainly, I do not believe this would make the Board more independent.

The Commission has recommended a mandatory retirement age for the Board as well. Certainly, I believe an age requirement of some sort may be appropriate, but 70 seems to be on the low end of what an experienced Board may require.

As for the recommendation that members serve three year terms, I think that too seems to fall on the low end of practicality. A five year term might make more sense, and it would allow Board members to be perceived as less partisan by serving across Presidential terms of office.

And, I have a final point on Board membership. I agree with the Commission that qualifications are appropriate for members of the Board of Directors, as they are for members of the proposed Postal Regulatory Board.

I would also like to share some concerns I have with the Commission's recommendations concerning another aspect of governance – the proposed Postal Regulatory Board. I fully understand that with an increased level of management flexibility must come an appropriate level of oversight. This provides the necessary balance to protect the public interest.

The Commission proposes that this oversight be largely provided by a new Postal Regulatory Board, with discretionary policy authority in a wide range of areas, to replace the current Postal Rate Commission, which has a more limited mandate.

I understand the rationale for the discretion the President's Commission has defined for the Postal Regulatory Board. Yet regulators are normally required to operate within limits and guidelines. Regulated private companies and their shareholders have legal protections against arbitrary action by the regulator that the Postal Service cannot have as a government institution.

At the least, there should be standards drawing a clear line between what is appropriately a managerial function within the oversight of the Governors or Directors, what is a regulatory function committed to the regulator, and what is a public policy function reserved to the nation's lawmakers.

For instance, the Postal Regulatory Board can revisit the vital national issues of the postal monopoly and universal service. From the perspective of the Postal Service Board of Governors, I think these are clearly issues of broad public policy that should be resolved as part of our management responsibilities, as determined by Congress.

They are not regulatory issues. Without defined limits or guidelines, the regulator could conceivably limit the monopoly in such a way as to jeopardize universal service or even redefine the scope of the nation's mail service itself.

Similarly, the Commission's recommendations would remove the determination of how much money is needed to run the nation's postal system from the operators – those with the day-to-day responsibility of running the postal system – and transfer it to the Postal Regulatory Board. This would occur through the new rate-setting mechanisms recommended by the Commission. At the very least, I believe those provisions should recognize that the Postal Service is a labor-intensive industry which operates as part of our economy's service sector.

The powers of the proposed Postal Regulatory Board could also affect the outcome of the collective-bargaining process. The Postal Service has been, and continues to be, a strong supporter of collective bargaining. This process of give and take assures that the interests of our employees – and the unions that represent them – are considered within the larger picture of the Postal Service's financial situation and the needs of our customers.

Since the advent of collective bargaining in the Postal Service in 1971, there have been voices from all sides on whether postal wages were or were not comparable with private-sector wages, as required by current law. The Postal Regulatory Board would be charged with making a "comparability" determination that would presumably end that argument.

But the issue of comparability is dynamic and depends on economic factors and job skill requirements that can change with time and circumstances. A wage comparability determination made by an independent Postal Regulatory Board may be useful during periodic contract negotiations, but I firmly believe it is important to permit the Postal Service and its unions to engage in direct negotiations which balance the needs of all parties without requiring strict adherence to the results of any specific comparability determination.

By determining the range within which wages may be negotiated, I think the Postal Regulatory Board could impede the ability of the parties to successfully negotiate agreements.

In conclusion, as I have mentioned, under the current Board, the United States Postal Service has delivered some incredible successes, despite growing competition, new electronic forms of communication, and a difficult economy.

In spite of continuing challenges, I know the Board of Governors will continue to do everything possible to protect the basic right of affordable, universal mail service for everyone in America. We will take all positive actions available to us within the current law to make the Postal Service more efficient and customer responsive.

Yet we must face the simple fact that our business model — established by the 1970 Postal Reorganization Act — is no longer valid. We can no longer expect that the costs of serving a continually expanding delivery base will be offset by increasing revenue from continued mail volume growth.

We cannot be asked to conduct ourselves in a businesslike manner when the tools to do so are not available to those running the business. The Governors of the Postal Service need additional flexibility in directing the activities of the Postal Service. The Postal Service's ability to adjust its retail network is constrained by current law. We have a burdensome rates process. We are being asked to operate in a very competitive marketplace without the ability to negotiate prices and service with our major customers. We need legislative reform of the way we do business, not of the way we manage that business.

This is my last year of service on the Board, so I have some perspective on the process. I intend to continue working with the entire mailing community on these critical issues. And I know the Board of Governors will continue to direct the organization with the full range of tools available to us under current law.

The Board of Governors will continue to do everything in our power to assure that the Postal Service of the 21st century will continue providing affordable, universal mail service for all customers and all communities in America. But we are reaching the limits of the current opportunities available to us without a change in the laws.

Thank you, Chairman Collins and Members of the Committee.

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