THE HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

TESTIMONY OF CLIFF GUFFEY, PRESIDENT
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(July 17, 2013)

Mr. Chairman and members of the Committee; I am Cliff Guffey, President of the American Postal Workers Union, AFL-CIO – the APWU. On behalf of the APWU, thank you for providing me this opportunity to testify on behalf of our more than 200,000 members.

Repeal Retiree Health Benefits Pre-Funding Requirement

The most important postal-related task facing the United States Congress is the urgent need to repeal the requirement that employee retirement health benefits be pre-funded. Seldom has there been such universal consensus in the postal community on any issue. The pre-funding burden is unbearable. It is also wrong and unfair to postal customers. As we have pointed out in testimony here and elsewhere, no other enterprise, either public or private, is required to pre-fund 100 percent of its retiree health benefits liability. Without this burden that was imposed on the Postal Service and postal customers beginning in 2006, the Postal Service would today be in reasonably sound condition

Virtually the entire current debt of the Postal Service has been caused by this pre-funding requirement. Pre-funding payments have grown to nearly $50 billion. That is more than enough. Large companies that have chosen to pre-fund for retiree health benefits typically do not fund to a level of more than 30 percent. The pre-funding requirement should be repealed effective immediately.

We appreciate the efforts made to compromise on this issue so that postal reform

legislation can be enacted. While we think reducing the funding requirement to 80 percent does not go far enough, that step in combination with re-amortizing the pre-funding obligation over a period of 40 years would provide the Postal Service significant financial relief.

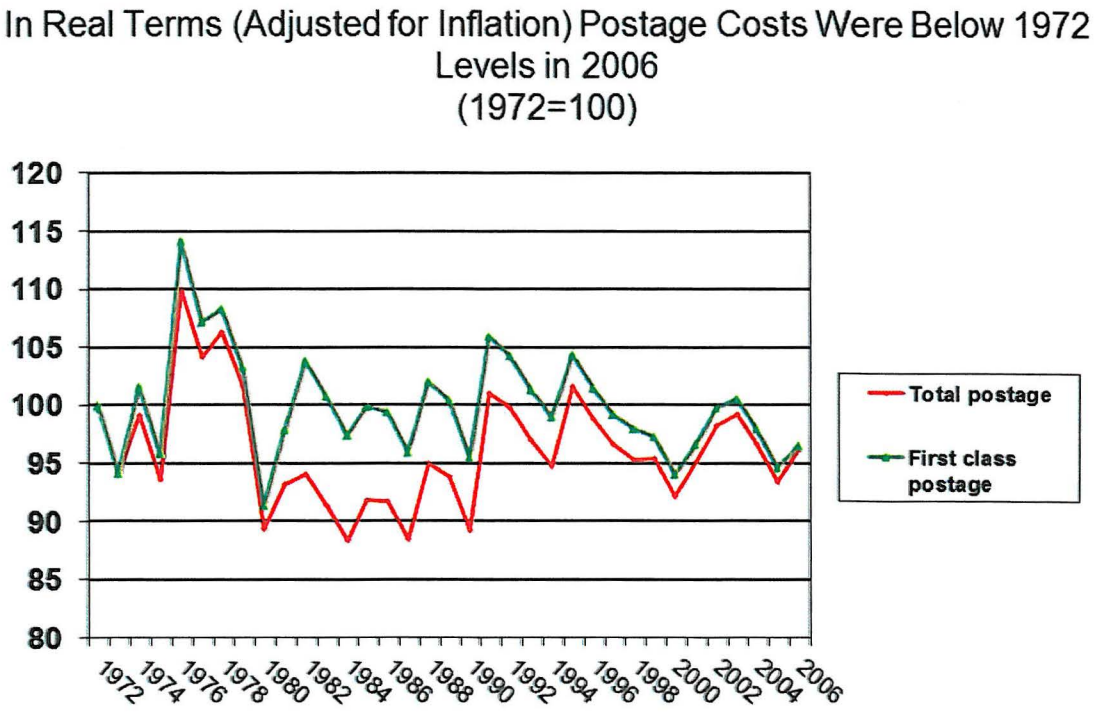
There also is virtually universal agreement that Postal Service overpayments into CSRS and FERS should be made available for the use of the Postal Service. It is critically important, in addition, that the amount of those overpayments be calculated on the basis of Postal Service and postal employee actuarial data.

The APWU has made a concerted effort over the past two years to inform the American public that the Postal Service does not receive any government subsidy. It is self-sustaining on the basis of income from postal ratepayers. In fairness to postal ratepayers, Postal Service costs, including in particular the cost of funding its employees' retirement benefits, should be calculated on the basis of an accurate measurement of the real cost of postal employees' benefits. This is not only required to be fair to postal ratepayers and the Postal Service, it is also the most appropriate and businesslike approach to an important financial and public policy issue. So, as an initial step in preserving the Postal Service for the American people, Postal Service overfunding must be returned to the Postal Service for its use; and that overfunding should be calculated on the basis of actual Postal Service costs. Actual Postal Service costs also should be used as the basis for calculating future Postal Service contributions to its retirement funds.

For the same reasons, we oppose restrictions on how the overpayments to be returned to the Postal Service may be used. Postal management has the obligation to manage the Postal Service. It should be left to postal management, with the policy guidance of the Board of Governors to determine how to utilize available funds. We strongly oppose any restriction that would require that excess retirement funding be deposited in the retiree health benefits fund.

The CPI Cap Should be Repealed

The issue of repealing the CPI cap on postal rates should be considered by looking at how postal rates changed when there was no CPI cap. As Table I shows, rates increased overall at approximately the same pace as the CPI during the 35 years the postal reorganization act permitted rates to be set to cover postal costs instead of strictly limiting them to changes in the CPI. By restricting rate increases to CPI changes and confining increases to separate classes of mail, the 2006 legislation in effect took a system that was not broken and fixed it in a way that has made it too confining and unworkable.



Source: Bureau of Labor Statistics-Producer Price Indexes for USPS and CPI-W

When the 2006 law was passed, Congress recognized that there is a relationship between service and rates. The Postal Service and the Postal Regulatory Commission were required to

establish service standards to provide service to the American public at fair and reasonable rates. That service includes providing universal First Class service to the American public at a uniform rate. Because of changes made due to the lack of funds, it is clear that we are now at a point where mail is being delayed and postal facilities are being closed, and the American public is no longer receiving the service it deserves from the United States Postal Service. These circumstances require that Congress reconsider the statutory CPI cap on postal rates.

There are sound policy reasons for repealing the CPI cap. It is no longer possible to argue that first-class letter mail is a monopoly that requires protection against excessive rates being exacted from mailers. Quite the opposite is true. The postal service monopoly on letter mail is necessary to protect and preserve the postal network and to continue providing universal service to the American public. But there is a lot of competition with the Postal Service, and there is no economic reason to deny the Postal Service the right to set rates that are appropriate for the amount of demand in the marketplace for postal services.

Comparison of postal rates in the United States to postal rates in other industrialized economies shows that our postal rates are unusually low. Table II in this testimony shows a comparison of rates in this country as compared to other countries on a basis that provides a fair economic comparison.

TABLE II

Comparative First Class Letter Mail Rates for Different Countries

Country		Cost in US$
United States	Up to 1 oz. (28.3 grams)	$0.44
Canada	Up to 30 grams (1.08 ozs.)	$0.61
Australia	Up to 250 grams (9 ozs.)	$0.62
Japan Post	Up to 25 grams (0.9 ozs.)	$0.71
German Post	Up to 20 grams (0.7 ozs.)	$0.78
France	Up to 250 grams (9 ozs.)	$1.07
Royal Mail (UK)	Up to 100 grams (3.5 ozs.)	$0.74

Source: Various Posts, April 4, 2011 exchange rates
Cost is for sending a letter to a domestic destination that weighs approximately 1 ounce

The CPI cap is too restrictive, and it has damaged the Postal Service. It should be repealed. We recognize, however, that repealing the CPI cap may not be possible. If repeal is not possible, we think it is important to take steps suggested in a draft of postal legislation recently published for comment. The CPI should, at least, be applied across all postal products and not limited to individual postal services separately. A study by the Office of Inspector General shows that the limitation of CPI increases to each class has had a significant detrimental effect on postal ratemaking.

In addition, we support the proposal to permit the Postal Service to re-set rates in 2014 at a level necessary to cover all postal costs. In our view, even that step will not be enough, and the

CPI cap will prove to be too restrictive. But a recalibration of rates would be a healthy step in the right direction. The need for this adjustment shows that the exigent rate increase provision in current law is too tight. The Postal Service proposed an exigent rate increase that was denied by the Commission. Even though that Commission's decision was vacated by the Court of Appeals and the case remanded to the Commission, it is clear that the difficulty of obtaining an exigent rate increase is too great.

We oppose proposals to create a new class of business mail for many of the same reasons. There is virtually unanimous agreement among economists that Efficient Component Pricing (ECP) is the most efficient way of determining how to set prices for mail that is workshared. This means that, as required by current law, workshare discounts may not exceed costs avoided due to the worksharing activity. Proposals to create a new business class of mail which would receive First-Class service but which would not be compared to individual First-Class mail for purposes of ratemaking would violate this principle. It also would be unfair to individuals and small businesses that are not in a position to take advantage of workshare discounts. First Class mail must be preserved for all Americans, not just for large business mailers. The Postal Service should be permitted to set rates that reflect current economic realities in the postal marketplace. Establishing a business mail rate would be a step in the wrong direction.

Maintain Service Standards and Preserve the Mail Processing Network

Congress also must give immediate attention to the need to preserve the Postal Service mail processing network. Failure to do so will lead to a significant degradation of service and ultimately to the demise of the Postal Service itself. Network consolidation was the subject of lengthy hearings and a comprehensive report by the Postal Regulatory Commission. (Advisory Opinion on Mail Processing Network Rationalization Service Changes; N2012-1.) On May 17, 2012, the Postal Service announced a modified plan for network consolidation that would have preserved approximately 80 percent of previous overnight service until January 31, 2014. Under that plan, intra-SCF mail would, in theory, have continued to receive overnight service until February 31, 2014. That network consolidation plan was followed by a July 1, 2012, announcement in the Federal Register of interim service standards that provided for the elimination of overnight service for inter-SCF First-Class Mail. 77 FR 31190 (May 25, 2012).

The Postal Service plan called for closing or consolidating 229 plants in two phases. Phase 1 would include the closing of approximately 140 plants to be completed by February 2013. Phase 2 was to require the closing of approximately 90 more plants beginning in February 2014.

This Postal Service plan was never a good one. Evidence presented to the Postal Regulatory Commission showed that potential cost savings would be offset by very substantial loss of postal revenue that would result from the lowering of service standards. The Commission concluded that the net savings from these substantial cuts in service could be as little as $46 million annually. Id., at 2.

It is important to recognize, as did the Postal Regulatory Commission, that the most negative impacts on service and on revenue that would result from the network closing and

consolidation plan would happen because of the phase 2 closings and consolidations that were scheduled for 2014. Notwithstanding that fact, and the Commission's strong cautionary language that the Postal Service should reconsider its plan for phase 2, the Board of Governors has instructed postal management to proceed to implement 57 of the planned 90 closures for 2014. This action by the Board of Governors is irresponsible and unjustifiable. The Board can speak for itself about why it chose to take this action, but it seems very clear on the public record that it flowed from a sense of desperation on the part of the Board because it could find no other way to reduce costs or avoid the impact of the retiree health benefits pre-funding requirement in the near-term.

The APWU has received reports from our locals around the country that strongly suggest that the consequence of this mistaken policy of excessive facility closures is that the Postal Service is now violating its own service standard regulations. There also have been numerous reports in the press about mail being delayed. Unquestionably, network consolidation is having a very negative effect on postal customers. It is delaying mail not just one day but as much as two or three days.

An example will serve to illustrate the effects of network consolidation. Prior to consolidation, mail is first processed in the Sectional Center Facility (SCF) near where it originates, call it SCF-A. This means that mail picked up from mail drop boxes all over the area, is transported from stations, branches and Area Offices (AOs) in the area around SCF-A for processing. This occurs in the late afternoon and early evening. Typically, collection times from the AOs, stations and branches are around 5 p.m. that is, around the normal close of business. That collection time permits carriers, who left early that morning to deliver their routes, to return to their AO, Station or branch with mail they have collected from postal customers and from

collection boxes on their routes. It also permits individuals and small businesses to prepare mail during the day and mail it at the end of the day. Mail collected at the end of the day in these ways is then processed at SCF-A that evening and throughout the night, if necessary.

Mail that is addressed to a person in the area serviced by SCF-A is then dispatched early the next morning to all the AOs, stations and branches served by the SCF-A mail processing facility. This permits overnight delivery of mail that originates and destinates in the same SCF.

When that facility, SCF-A, is closed, the mail must be transported from stations, branches and AOs in the vicinity of the closed SCF-A to a more-distance SCF-B. Several things then happen that prevent overnight delivery of the mail. One is that mail that is transported longer distances may not arrive in time for overnight processing and redistribution. In an effort to solve this problem, the Postal Service typically requires that mail be collected at an earlier time in the area of the closed SCF-A so that it can be transported to the more distant SCF-B for processing. This means that the mail of businesses and individual mailers who deposit their mail after the earlier collection time, and all mail picked up by letter carriers that day, will not be counted and mail received on that day for the purpose of determining delivery standards. All that mail is being delayed because it must wait for processing until the next day. It is being delayed an entire day but that delay does not show up in Postal Service on-time statistics.

In the case of large mailing businesses with their own separate mail pickup arrangements, or which deposit their own mail at SCF-A, the effect of this sort of change is to require that they prepare their mailing for pickup earlier in the day or transport it longer distances for mailing. These requirements are imposed by the Postal Service by changing its business practices. In this case, it changes the critical entry time (CET) after which mail cannot receive the service it would have received Typically when the Postal Service changes a pickup time, a box closure time, or a

Critical Entry Time, the Postal Service does not acknowledge that it is not meeting its service standards. Therefore, while the customer experiences a substantial cut in service, the Postal Service does not acknowledge that fact and reports that it is still meeting its service standards.

The other thing that happens when SCF's are closed is that mail sent to a distant SCF for processing, although it may be processed overnight if it can be transported to the SCF in time for that to occur, may not be transported back to the original SCF or to the AOs, stations and branches surrounding the original SCF in time to be sent out with the letter carriers for delivery the next day. Mail that arrives too late either delays the carrier in leaving to deliver a route or it is left in the carrier station for delivery the following day. At times, this results in idle time while the carrier waits for mail or overtime due to carriers having to work an extended day. And it is unsafe for carriers and annoying to the public to have carriers delivering mail after dark.

The unintended delays due to closings and consolidations compound the effects of the Postal Service's formal change of delivery standards. Where the Postal Service may intend that overnight mail delivery continue, or that it be changed from one-day service to two-day service, the actual effect is greater for the reasons I have explained. Substantial amounts of mail are being delayed two or even three days. This means that mail that should have been delivered on Wednesday may not be delivered until Friday. Mail intended for delivery late in the week is not being delivered until the following week.

In the case of time-sensitive mailings this means that mailers must plan and complete their mailing preparations days in advance. These problems no doubt explain why research on the effects of network consolidation and service standards changes has shown that the Postal Service will lose a substantial amount of business by delaying the processing of mail.

The unwarranted closing of mail processing facilities threatens to further weaken the

Postal Service's competitive position in the critical parcel market. Studies have shown that the parcel mailing industry is one that is strong and growing, and that will continue to grow. The Postal Service is well-positioned to provide competitive low-cost services to the American public in this area. It would be very counterproductive to permit the Postal Service to so deplete its network that its ability to provide these services cannot be maintained.

The dismantling of the essential Postal Service mail processing network is tragic and unnecessary. The evidence is very clear that cost savings and efficiencies can be obtained, and many have been obtained, through less drastic closing and consolidation actions that preserve essential services.

It also is important to recognize the impact these unnecessary facility closings have on our communities and on postal workers. Where mail processing plants are closed, communities suffer economic hardship, and postal employee's lives are disrupted. Postal workers are extremely dedicated and have continued to perform at the highest levels to provide postal services. It is wrong for the Postal Service to demand sacrifices from its workers where, as in the case of these excessive facility closures and consolidations, these actions cannot be justified by net financial benefit to the Postal Service.

We support proposed legislation that would require that service standards be maintained at the level established beginning in February 2012 and that would prohibit the closing of mail processing facilities where those Delivery standards could not be met. In addition, legislation should strengthen the procedures the Postal Service must follow before closing a mail processing facility and the postal regulatory commission should be given the authority to delay, stop, or reverse facility closing decisions.

Preserve and Strengthen Retail Services and Rural Services

As in the case of its mail processing network, the Postal Service is taking actions that are harmful to communities by closing or consolidating post offices. These actions cannot be justified by the relatively small cost savings to be gotten from them. Again, the Board of Governors seems to have been stampeded into taking actions that it knows, or should know, will be counterproductive in the long run.

We support legislation that would impose a temporary moratorium on the closure of post offices and require Postal Service to establish retail service standards. The Postal Service should be required to conduct a detailed review and provide full disclosure of its findings at least 90 days in advance of a post office closing. The public should be given a full and adequate opportunity to oppose the closure, and the Postal Regulatory Commission should be given the authority to provide a thorough de novo review of a post office closing decision and to suspend or reverse that decision.

Legislation that would require reliance on Contract Postal Units (CPUs) would be inefficient and counterproductive. Too often today there are CPUs that are unnecessary because they duplicate postal services available from nearby post offices. This expensive duplication of postal retail outlets is inefficient; and such duplication should be eliminated. This is not to say that the APWU opposes the provision of postal services in alternative ways. We are available to work with the Postal Service in finding creative ways to extend the official Postal Service presence into non-traditional outlets.

Non-Postal Services Must Be Authorized

The need for authorization of non-postal services to be provided by the Postal Service is also extremely urgent. The subject is closely related to the subject of the Postal Service retail

network. By offering non--postal services through its retail facilities, the Postal Service can strengthen its network, maintain more facilities, and provide important public services – both postal services and non-postal services. Authorized non-Postal Service and should include:

- Micro-banking
- Check cashing
- New technology and media services
- Warehousing and logistics
- Facility leasing, and
- Public internet access services
- Driver licensing
- Vehicle registration
- Hunting and fishing licenses
- Notary services, and
- Voter registration

Wherever necessary, the Postal Service must be authorized to enter into cooperative arrangements with other federal agencies, state and local governments, and private enterprises.

A full discussion of these services, how they should be provided, and their importance to the communities served by the Postal Service is beyond the scope of this testimony. However, the APWU will be more than happy to provide information and assistance to the committee and its staff to facilitate legislation to authorize these services.

Oppose Interference with Collective Bargaining

The APWU strongly opposes legislation that would interfere with collective bargaining rights. We know that Chairman Issa and other legislators oppose collective bargaining provisions that protect against layoffs and propose to legislate restrictions on collective bargaining rights for no-layoff protection. We have several responses to such proposals. The first is that there is no justification for restricting collective-bargaining in this manner. The Postal Service has drastically reduced its workforce without laying off its workers. There is no need for layoffs. This might not be true, of course, if some of the more aggressive privatizing legislative proposals

some have suggested were to be enacted. Of course, if the United States Postal Service is to be handed over to private enterprise, there will be far less need for postal employees.

No layoff provisions in collective-bargaining agreements have been negotiated for many years and are part and parcel of the agreement between postal unions and the Postal Service. It would be fundamentally unfair to take away protection for which postal employees have bargained over the years.

In this connection, I want to remind the committee that the 2010 APWU National Agreement is one that will save the Postal Service billions of dollars. Postmaster General Donohoe testified before this committee in 2011 that implementation of the APWU 2010 national agreement could save the Postal Service more than $3.5 billion. To accept the flexibility and monetary savings that agreement provided the Postal Service and to deny APWU-represented employees the job security they bargained for would be a violation of our contract rights and would be grossly unfair.

We also oppose any change in the standard of comparable pay and benefits that must be paid to postal employees. Proposals that would require that postal employees' compensation be compared to the compensation of all employees in our economy are unsound as a matter of economics. Postal employees are highly trained and highly responsible workers who protect the sanctity and safety of mail. Most employees work with mechanized or automated equipment and are very productive. In fact, postal productivity in the United States is the best in the world.

We also oppose proposals to require that last best final offer (LBFO) arbitration be used invariably to resolve deadlocks in postal bargaining. It is not that we invariably oppose LBFO interest arbitration, but it would be a mistake to take away from the parties their flexibility to use

other possible means of resolving disputes. Our experience has shown that no one method should be used to the exclusion of all others.

Oppose New Governance Structure or Temporary Board or Commission

Notwithstanding the fact that the APWU has been critical of the Board of Governors, we oppose proposals to replace the Board of Governors with a temporary or permanent board of a different sort. The Postal Reorganization Act of 1970 was based upon careful consideration of the need to de-politicize the Postal Service. History has shown the wisdom of that decision. Even though the Board of Governors has often been lacking, it has at least been partially insulated against political pressures. Proposals to appoint a short-term body to engage in a quick review and supposedly corrective change in postal management would inevitably subject the Postal Service to political pressures. Those who wish to privatize the Postal Service would seize upon such an opportunity to attempt to make wholesale changes that this Congress would never approve.

We suggest that it is instructive to look at what happened when President Bush appointed a commission to examine the Postal Service. That commission found that even -months of intensive study was insufficient for outsiders to comprehend the postal industry and to make useful recommendations. In effect, those appointed to the commission issued a report reflecting the views and positions they brought to that task.

Oppose Expedited Consideration of Service Standard Changes

We oppose legislation that would require expedited consideration of service changes for several reasons. First, our experience with postal regulatory commission consideration of service changes has convinced us that no important service standard change can receive the consideration it needs in 90 days. Setting a standard of 90 days for consideration of serviced

standard changes would, therefore, be unrealistic. The Postal Regulatory Commission is in the process of changing its procedural regulations concerning service standard cases. It appears that the Commission is headed in the direction of setting an unrealistically short standard for such proceedings. We hope that they will be persuaded to leave considerable flexibility to extend such proceedings if, as we believe will be the case, it is necessary to take a longer period to give important service standard changes sufficient consideration. In any event, legislation in this area would be unnecessary and unwise.