

APWU CONGRESSIONAL TESTIMONY

**American
Postal
Workers
Union,
AFL-CIO**

WILLIAM BURRUS
PRESIDENT

Before The

**SENATE COMMITTEE ON HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS**

SUBCOMMITTEE

**FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT
INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL
SECURITY**

AND THE

**U.S. HOUSE COMMITTEE ON OVERSIGHT AND
GOVERNMENT REFORM**

SUBCOMMITTEE

**FEDERAL WORKFORCE, POSTAL SERVICE, AND THE
DISTRICT OF COLUMBIA**

**"Having Their Say: Customer and Employee Views on the
Future of the U.S. Postal Service"**

**TESTIMONY OF WILLIAM BURRUS, PRESIDENT
AMERICAN POSTAL WORKERS UNION, AFL-CIO**

June 23, 2010

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Chairman Carper, Chairman Lynch, and members of the subcommittees: Thank you for providing this opportunity to share the views of the American Postal Workers Union on the difficulties currently facing the Postal Service and on postal management's plans to address them. The request that oral presentations be limited to five minutes restricts my remarks to a summary of our positions on a wide range of issues, but we welcome the opportunity to speak on the subjects of concern.

The APWU has analyzed the current state of hard-copy communication, and we reject the projection that is currently in vogue – that mail is destined to perpetually decline. Our evaluation signals that, in fact, mail volume will experience growth in Fiscal Year 2012. I ask you to make note of our prediction and I suggest we revisit the issue in 2013: *Let's see if the APWU's forecast was right.*

Virtually every other study of mailing trends concludes that mail volume will continue to decline, and this projection serves as the basis for recommendations for radical changes to the USPS structure and to the services we offer.

If we are right in our prediction that volume will grow in the relatively near future, those dire predictions must be discarded as the alarmist projections they are.

What to Do, What Not to Do

After much soul searching, the postal community has concluded that the payment schedule for pre-funding future retiree healthcare liabilities is driving the Postal Service to the brink of insolvency, and must be modified. Correction of the Postal Service's overpayment to the Civil Service Retirement and Disability Trust Fund would more than satisfy this obligation. There seems to be unanimous agreement within the postal community that the pre-funding obligation is the primary source of the USPS' financial difficulties and that it must be corrected. I urge lawmakers to find the appropriate methods to do so.

I would be remiss if I did not include in this summary what not to do: Drastic reductions in service must be removed from consideration. This includes the poster child for service reductions, the elimination of Saturday delivery. We should not even engage in serious discussion of this proposal.

The reason is simple: No service-oriented business can grow by reducing service. The very concept must be abandoned. To the contrary, we believe the USPS can and must expand the services it offers.

In addition, we believe the USPS must eliminate excessive worksharing discounts. These discounts deprive the Postal Service of desperately needed revenue and subsidize major mailers at the expense of small businesses and individual citizens. They are illegal and self-defeating. (I want to digress for a moment and commend Chairman Lynch for holding the first-ever hearing on this crucial topic last month.)

Flawed Business Model

Finally, I cannot miss the opportunity to remind policymakers that the business model that governs the United States Postal Service was a creation of the Postal Accountability and Enhancement Act of 2006 (PAEA). Now, less than four years after its adoption, many of the groups that supported the PAEA are again denouncing the USPS business model as severely flawed.

Those who advocated the passage of the PAEA must take responsibility for the results, and their recommendations must be evaluated in light of their miscalculation of the effect of the law. The GAO, the Office of Inspector General, congressional committees, mailers' associations and others "drank the Kool-Aid" of "postal reform" and now are offering solutions to problems that they created.

Ironically, it seems that hardly a week goes by without these same agencies issuing reports that seek to substitute their judgment for those of postal management. Frankly, their attempts to micromanage the USPS are counterproductive.

I have submitted for the record some of the written testimony the APWU has provided at recent hearings and forums, which expand on our views on these and other important topics.

I would be pleased to respond to any questions that you may have.

Thank you.

Attachments:

Testimony of William Burrus before the House Federal Workforce Postal Service and the District of Columbia Subcommittee. *"The Price is Right, or is it? An Examination of USPS Workshare Discounts and Products that Do Not Cover Their Costs,"* May 12, 2010;

Testimony of William Burrus before the Senate Financial Services and General Government Subcommittee. *"Proposals for Addressing the Current Financial Situation Facing the United States Postal Service,"* March 18, 2010;

Testimony of William Burrus before the Senate Federal Financial Management, Government Information, Federal Services. *"The U.S. in Crisis,"* Aug. 6, 2009.

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SUBCOMMITTEE

U.S. HOUSE COMMITTEE ON OVERSIGHT AND
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**"The Price is Right, or is it? An Examination of USPS
Workshare Discounts and Products that Do Not Cover
Their Costs"**

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May 12, 2010

Chairman Lynch, Ranking Member Chaffetz, and Members of the Subcommittee: Thank you for providing the American Postal Workers Union the opportunity to testify on behalf of the more than 250,000 members that we are privileged to represent. We are proud to work for the U.S. Postal Service, the largest and most efficient postal system in the world.

I want to begin by thanking you for scheduling a hearing on the subject of workshare postage discounts. This is a topic of great and historic interest to our union, and we appreciate the opportunity to share our views. If my predecessor, Moe Biller, is watching us from above, I am sure he is pleased that the egregious abuses of workshare discounts have finally been deemed important enough to warrant congressional attention.

The law that requires the Postal Service to provide universal service at uniform rates is absolute: There are no exceptions for large or small mailers, or for great or short distances between senders and receivers.¹ The USPS must provide mail services to all Americans – rich and poor, urban and rural, young and old, able-bodied and handicapped – at a uniform price.

The universal service obligation justifies the Postal Service's monopoly, and restricts competitors who otherwise would attempt to skim the profitable segments of our nation's mail system, while leaving the disadvantaged, the physically challenged, and those living in outlying communities to fend for themselves.

Unfortunately, the Postal Service, encouraged by major mailers, has implemented discounts that violate the standard of universal service at uniform rates. This is not only illegal, it is also self-defeating: It deprives the USPS of revenue that is essential to maintain the nation's mail network.

Workshare discounts were introduced in the early 1970s, when most mail was sorted manually, as a way to ease the transition to mechanized sortation and eventually to automated mail processing.²

With the transition to automated mail processing essentially complete, workshare discounts have become unnecessary. In fact, as early as 1990, the USPS acknowledged that the "relative value of presort is declining."³

Today, workshare discounts artificially reduce the mailing costs of favored customers – large mailers – at the expense of individual citizens and small businesses. Simply stated, the Postal Service has established different rates for letters originating from the same city, bearing the same barcodes, and going to the same destination.

¹ 39 U.S.C. § 404(c) provides, in part: "(c) The Postal Service shall maintain one or more classes of mail for the transmission of letters sealed against inspection. The rate for each such class shall be uniform throughout the United States, its territories, and possessions..."

² In its 1980 Annual Report (p. 6), the Postal Service stated that in "the past several years, we have depended on presort programs to bridge the gap between the mechanization we now have and the automation we plan."

³ Direct Testimony of Ashley Lyons in R90-1 before the PRC, p. 107.

Attachment A to my testimony serves as a vivid example. I urge you to review it and see if you can find disparities that justify the different rates indicated on the envelopes. Both letters (mailed in 2009) display nine-digit barcodes and are machine-readable on postal equipment. Despite the similarity in the preparation of the mail, one customer paid 42 cents for first-class delivery, while the other paid just 34 cents.

For more than a decade, the American Postal Workers Union has criticized these exceptions to the universal-service at uniform-rate requirements. In contentious debate, we have attempted to expose the illegality of excessive rate discounts, and the detrimental effect they have on the Postal Service.

When Congress enacted the Postal Accountability and Enhancement Act (PAEA), it stipulated that workshare discounts may not exceed “postal costs avoided.”⁴ However, the standard has been manipulated to such an extent that the Postal Regulatory Commission (PRC) has repeatedly found that discounts exceed the costs-avoided standard. Most recently, on March 29, 2010, the commission found that **30 types** of worksharing discounts exceed this standard.

“Postal costs avoided” and the appropriate methodology for determining them are discussed in detail in Comments filed by the APWU in a case pending before the Postal Regulatory Commission.⁵ A copy of those Comments is Appendix A to this testimony.

Revenue to pay for the “institutional costs” of the postal system is generated from various classes of mail, with First Class single pieces contributing a disproportional share. When this mail is segmented into discounted and non-discounted mail, the contribution to institutional costs is significantly reduced, with workshared mail making a minimal contribution. When discounts exceed the postal costs avoided, the result is that individuals and small businesses who pay the unreduced rate contribute a larger share of the institutional cost. This shifting of postal work from the public to private sector through excessive workshare discounts is inefficient and violates sound economic policy for the mailing industry.

Management has invested a kingly sum – more than \$50 billion – in automation, computerization, facility redesign, and enhanced encoding capabilities, and the size of the workforce has been reduced substantially. As a result, the Postal Service has become more efficient and the relative cost of mail processing has declined significantly. However, contrary to sound economic principles, as postal efficiency has increased, workshare discounts also have increased, from 7.6 percent of the postage rate in 1976 to 23.9 percent in 2009. These increases simply cannot be justified.

A Nov. 20, 2009, USPS presentation demonstrates that workshare discounts are excessive: In a report promoting a “new business model,” the Postal Service proudly

⁴ 39 U.S.C. § 3622(e).

⁵ Comments of American Postal Workers Union, AFL-CIO, (Sept. 11, 2009, PRC Docket No. RM2009-3.

announced the low cost of processing automated letters: just \$6.17 per 1,000 pieces.⁶ In other words, it costs the Postal Service six tenths of one cent to sort and process each automated letter, but the USPS deducts 10.5 cents per letter from the price of a stamp for major mailers who print a bar-code and pre-sort their letters to the 5-digit zip code. Discounts of this size are in blatant violation of the law.

However, as the Postal Service confronts reduced mail volume and the crushing burden of pre-funding future retiree healthcare liabilities (imposed by Congress in Postal Accountability and Enhancement Act of 2006), some have opined that postal workers governed by collective bargaining agreements must make wage- and benefit concessions to help the USPS address its financial difficulties.

As a matter of principle, I refer subjects more appropriately addressed at the bargaining table to the proper forum. However, I want to share with the subcommittee that I have issued a challenge to the Postmaster General: I have invited him to set employee compensation at a rate that is lower than the discounts offered to major mailers, which is allegedly based on the “postal costs avoided.”

If rates can be reduced in the amount of 10.5 cents per letter for affixing five-digit barcodes, let postal employees perform that work, and we will guarantee reduced costs. I even volunteered that our members would process parcels for free! The postmaster general has not responded to my challenge, and I do not expect him to reply in the future. Using any standard, the five-digit barcode discount of 10.5 cents per letter far exceeds the postal costs under existing labor contracts.

In recent years, the APWU has appealed to many agencies – including Congress, the Office of the Inspector General, the courts, the Postal Regulatory Commission, and any other entity that would grant us audience – asserting that postage discounts in their current form are indefensible and patently illegal.

So now the Postal Service and major mailers are attempting to change the rules. They seek to change the standard – so that the indefensible rates can be justified. We urge Congress to reject any such change.

Regarding the excessive workshare discounts, the burning question is, “**Why?**” Why are rates for some customers arbitrarily discounted in violation of the universal standard?

Why would the Postal Service forego billions of dollars per year in revenue from its largest mailers when it is suffering from reduced volume, the unachievable payment schedule for future healthcare liabilities, and the cultural shift in communication? Postal data is highly computerized, so management knows the cost of every function involved in mail service. The veil of secrecy must be lifted. How can the Postal Service justify manipulating uniform rates so that postage for a letter sent by a large mailer can be as

⁶ Presentation by Mary Ann Gibbons and Linda A. Kingsley entitled “A New Business Model for the United States Postal Service,” at 5.

low as 19 cents, while an identical letter sent by an individual or small business costs 44 cents?⁷

One anticipated answer to this perplexing question is “volume” – the Postal Service’s belief that discounts spur increases in mail volume. However, history shows that rate increases equal to or below the rate of inflation have only a marginal effect on volume. The record shows that volume has declined by more than 30 percent at a time when postage rates, when adjusted for inflation, are at their lowest level in 50 years. Graph A shows that even as discounts increased, volume followed the downward trend. Despite assertions by the USPS and major mailers, postage discounts don’t increase mail volume.

The use of workshare discounts, drop shipments, summer sales, Negotiated Service Agreements and other give-away programs have peaked at the same time that mail volume has plummeted. If rates indeed drive volume, we would expect the opposite to be true. So, given the historic data, if reduced rates do not increase volume, why would the Postal Service violate the law and set discounts above the legal standard?

A defense that cries out for review is the assumption that if not for the illegal rates, volume would have declined even further – the suggestion that “things would have been worse.” Such a defense shifts the burden of proof to the unknown, and evades the requirement of the law. There are no exceptions in current law, so the only alternatives are to “change the law or comply.”

The American Postal Workers Union will continue to urge Congress to enforce strict compliance with the cost-avoided standard, but we suggest that you take the next step and attempt to uncover the motivation for the deliberate misapplication of the uniform rate standard. Such an investigation is within the province of the Office of Inspector General, but the OIG has ignored clear evidence over a period of 10 years or more. The OIG has abdicated any responsibility to eliminate these illegal subsidies, and cannot be relied upon to reveal the underlying reason for this statutory violation.

We turn to Congress and this Subcommittee and encourage you to require a full accounting of the reasons for the clear violations of the uniform-rate standard. It is well past the time to debate whether workshare discounts comply with existing law. Clearly, they don’t. The American public is entitled to know why this standard has been breached, and I respectfully ask that Congress provide the answers.

Thank you for the opportunity to testify. I would be pleased to answer any questions you may have.

⁷ Mailers pay 19 cents each for standard letters weighing up to 3.3 ounces when they are entered at the SCF where the mail will be delivered, provided the letters are in trays and sorted to the five-digit zip code.

Attachment A



APPENDIX A:

**Comments of American Postal Workers Union, AFL-CIO
September 11, 2009**

Before The Postal Regulatory Commission

“Consideration of Workshare Discount Methodologies”

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

**Consideration of Workshare Discount
Methodologies**

Docket No. RM2009-3

**COMMENTS OF
AMERICAN POSTAL WORKERS UNION, AFL-CIO
(September 11, 2009)**

The American Postal Workers Union, AFL-CIO (APWU) hereby submits these comments in response to the Commission's July 10, 2009, Order on Further Procedural Steps, Order No. 243. The rulemaking came about as a result of Docket No. R2009-2, wherein the Postal Service proposed workshare discounts that were "not based on established workshare cost avoidance methodologies."¹ The Postal Service unsuccessfully sought to abandon these principles in the past.² For the reasons explained more fully below, the Commission should reject proposals by the Postal Service and other participants that would undermine the statutory requirement that workshare discounts not exceed costs avoided by the Postal Service.

The PAEA Requires that the Rates for First-Class Single Piece and Presorted Mail Remain Linked by a Benchmark.

Section 3622(e) of the Postal Accountability and Enhancement Act (PAEA) defines workshare discounts as "rate discounts provided to mailers for the presorting, prebarcoding, handling, or transportation of mail, as further defined by the Postal Regulatory Commission."³ The Act further mandates: "[t]he Postal Regulatory Commission shall ensure that such discounts do not exceed the cost that the Postal Service avoids as a result of the workshare activity."⁴

¹ PRC Order No. 192, March 16, 2009.

² See Docket No. R2006-1 and Docket No. R2008-1.

³ 39 U.S.C. § 3622(e)(1).

⁴ Id. at §3622(e)(2).

The Senate Report by the Committee on Governmental Affairs that accompanied the workshare provision clearly endorses this concept of workshare discounts:

The Committee agrees with the principle, supported by the Postal Service, the Postal Rate Commission, and postal employees, that workshare discounts should generally not exceed the costs that the Postal Service avoids as a result of the worksharing activity. When discounts are kept below the costs saved by the Postal Service, mailers have a financial incentive to do work more efficiently than the Postal Service can do it, yielding savings to the participating mailers, to the Postal Service, and to other postal customers whose rates are kept down by the Postal Service's savings under the program.⁵

The Report also shows that Congress adopted the Commission's previously delineated exceptions to this general rule:

There are four circumstances under which workshare discounts in excess of avoided costs have historically been allowed by the Postal Rate Commission and are warranted, and the Committee has codified these exceptions in the legislation:

The first exception applies when a discount is associated with a new or changed postal product... .

The second exception provides that a workshare discount may exceed costs avoided if a reduction in the discount would – (i) lead to a loss in volume of the affected category of mail and thereby reduce the aggregate contribution to institutional costs, (ii) result in a further increase in rates paid by mailers not able to take advantage of the discount, or (iii) impede the efficient operation of the Postal Service.

The third exception allows a workshare discount to exceed costs avoided if that excess portion of the discount is necessary to mitigate rate shock and will be phased out over time... .

The fourth exception applies to discounts that are provided in connection with subclasses of mail consisting exclusively of material having educational, cultural, or scientific value.⁶

The only way to ensure that discounts do not exceed costs avoided is to compare the workshare piece to a benchmark that differs from the workshared mail only because of a lack of workshare activities. To de-link workshared first class mail from single piece first class mail, to refuse an across-product comparison would completely ignore this requirement of 3622(e) and the protections offered by it to single-piece users.

⁵ Sec. Rpt. 108-318, at 12 (Jul. 22, 2004). While this Report is from the 108th Congress, this was the genesis of the workshare language adopted.

⁶ Id.

As the Commission observed in MC95-1, ¶ 2048, "...the first and most enduring objective of postal policy has been to bind the nation together." The Postal Accountability and Enhancement Act amended many areas of the Postal Reorganization Act, yet this principle remains a constant, central objective of postal policy. Section 404(c) of the Postal Reorganization Act provides, in part:

The Postal Service shall maintain one or more classes of mail for the transmission of letters sealed against inspection. The rate for each such class shall be uniform throughout the United States, its territories, and possessions.

The Commission observes that "[a] class such as First Class is necessary to comply with the statutory command [of Section 404(c)] that ...[t]he rate for [First Class] shall be uniform throughout the United States, its territories, and possessions." *Id.*, at ¶ 3005.⁷ Consistent with this requirement, the Commission consistently adhered to the principle that workshare discounts may not exceed costs avoided. Mr. Taufique, the Postal Service's First Class rate design witness in R2006-1, describes this concept in his testimony.

Since classification reform in Docket No. MC95-1, the structure of and approach to the relationship between the Single-Piece and Workshare rate categories in First-Class Mail have remained relatively constant. Workshare rates are determined by applying discounts to Single-Piece rates. These rate differentials (discounts) are based on estimates of costs avoided through each type of worksharing activity (e.g. prebarcoding and/or various levels of presortation). The cost differentials are developed by estimating avoidance of postal mail processing and related operations costs in comparison to a representative benchmark for workshare mail generally.⁸

Those that are participating in worksharing are compensated only for the costs avoided by the Postal Service and the non-worksharing mailers are no worse off. Thus, the application of the cost avoided standard for workshare discounts is necessary for compliance with the statutory requirement of a uniform First Class rate. If discounts exceed the costs avoided by the Postal Service, costs will shift to non-workshare mailers and rates will not be uniform.

In Docket No. R2006-1 the Commission reasoned that "[d]elinking the rate design [between First Class single piece and presort mail] does not fairly and equitably balance

⁷ The requirement was then in 39 U.S.C. 3623(d).

⁸ R2006-1, USPS T-32, p. 12.

the interests of all First-Class mailers.” PRC Op. R2006-1 at ¶ 5090. The Commission noted that abandoning the benchmark and de-linking single piece and presort mail “allows many costs that are not worksharing related to be avoided” by presort mailers. The enactment of the PAEA did not change this fact. The legislative underpinnings for requiring a uniform rate for First Class mail have not been amended by the PAEA. The central postal policy has been and remains to “bind the Nation together.”⁹ Section 404(c) is unaltered; thus, the requirement for a uniform rate for First Class remains unchanged. To now treat single-piece mail and presort mail as separate, un-linked products would contravene the decision of Congress to continue these enduring postal policies by codifying the principle that workshare discounts not exceed costs avoided.

During the Public Forum, held on August 11, 2009, it was suggested that single piece users may find protection in other areas of the PAEA, namely the objective that rates be “just and reasonable.”¹⁰ While it is true that this provision affords some protection to single piece users, there are practical problems to enforcing this provision. The streamlined rate setting procedure makes it difficult to enforce as it would only be evaluated if 1) a complaint were filed or 2) during the Commission’s Annual Compliance review, usually close to a year after the rates have taken effect.

The new complaint system is mostly untried,¹¹ and it is not clear who would bring a complaint on behalf of single-piece mailers. It is possible that a Public Advocate could represent the interests of single-piece mailers, but Public Representatives are appointed by the Commission **after** a proceeding has been initiated and the Commission has placed it on the docket. There is no incumbent Public Representative to initiate a proceeding whenever it feels as though a rate schedule is not “just and reasonable.” Even if such a complaint were contemplated by a Public Representative or an individual citizen, the just and reasonable standard is too amorphous to be an adequate proxy for legal restrictions on excessive discounts. Furthermore, establishing a violation of an undefined “just and reasonable” standard would likely prove extremely costly, more than likely prohibitively so for the majority of single piece mailers most affected by unjust rates.

⁹ 39 U.S.C. § 101(a).

¹⁰ See 39 U.S.C. § 3622(b)(8).

¹¹ To date, only one Complaint docket has been established under the new complaint rules, C2009-1.

The Annual Compliance Review also does not provide an adequate means of enforcing the “just and reasonable” requirement to protect single piece mailers. From the Annual Compliance Determinations issued thus far, it does not appear that the Commission considers and evaluates all of the factors and objectives of the Act. Also, the annual compliance occurs at the end of the calendar year, usually long after rates have been in effect. The Commission must issue its Report within 90 days of receiving the Postal Service’s annual report. There is little opportunity for public participation or comment during this time. This is especially problematic since the Commission has decided

A written determination finding no instance of noncompliance creates a rebuttable presumption of compliance with the matters regarding rates and fees and service standards in effect during such year in any complaint proceedings filed pursuant to § 3662 of the PAEA. 39 U.S.C. § 3653(e).¹²

The workshare discount language provides a valuable protection for single piece users against impermissible cost shifting. No other protection can sufficiently replace that afforded by the workshare language.

Section 3652(b) Creates No Impediment to Keeping First-Class Single Piece and Presorted Mail Linked.

Section 3652(b) requires that workshare discount information be reported “with respect to each market-dominant product for which a workshare discount was in effect.” This requirement is entirely consistent with Section 3622(e). A product can serve as the smallest unit of a rate category. Requiring workshare information to that level ensures that all of the discounts within the class are based on costs avoided. Thus, the reporting mandates help ensure compliance with 3622(e). The contrary interpretation offered by the Postal Service and supported by some others, is not suggested, much less required by the statutory language. Moreover, it would nullify the protections of the workshare language so recently adopted by Congress.

In statutory construction, “[i]t is well established that [Courts] will not assume Congress intended an odd or absurd result. *Rucker v. Davis* 237 F.3d 1113, 1124 (C.A.9 (Cal.),2001) *citing X-Citement Video*, 513 U.S. at 69-70, 115 S.Ct. 464; *Public Citizen*,491

¹² PRC Annual Compliance Determination Report 2007 at p. 5, March 27, 2009.

U.S. at 453-55, 109 S.Ct. 2558. As the Greeting Card Association has observed, the Postal Service's interpretation could lead to the absurd situation where "the rate difference between [a workshared version of an otherwise identical non-presorted product] would not be a workshare discount even though, apart from the worksharing involved, there would be no reason for it to exist."¹³ To endorse the Postal Service interpretation would read out the workshare language almost entirely from the statute; a result that must not be permitted.

Bulk Metered Mail is Still the Proper Benchmark and Must Be Used to Determine Costs Avoided

There are two purposes for using a consistent benchmark piece in discount calculations. The Commission, in its R2000-1 Opinion confirming the use of BMM letters as the appropriate benchmark [at 5089], stated the primary reason for using the benchmark:

This may mean that the institutional cost burden of First-Class workshare mail is increasing. However, when discounts pass through 100 percent of avoided costs to the workshare mailer, the contribution made by that mailer to institutional costs is the same as the mailer would have made without worksharing. Thus, workshare mailers and non-workshare mailers provide the same contribution, which is fair and equitable.¹⁴

The comparison is not between the workshared mailer and all the single-piece mailers. The comparison has always been to what the presort mailer would pay if that mailer was not worksharing. That comparison is what isolates the worksharing contribution to cost savings. This echoes the comments in the original MC95-1 case where the Commission stated

the most important reason for using a discount approach to recognize cost distinctions brought about by worksharing is that the Commission has determined that this is most fair and equitable to all mailers. Worksharing mailers receive a price reduction based on avoided costs while residual mailers are no worse off.¹⁵

¹³ GCA Reply Comments, at p.7, August 31, 2009.

¹⁴ *Opinion and Recommended Decision* R2000-1, at 5060, page 234 and 5089 at p. 241.

¹⁵ *Opinion and Recommended Decision* MC95-1, at 3079, page III-31.

In discussing its decision to use a benchmark, in R97-1, the PRC quoted Postal Service witness Fronk's testimony:

[n]onpresorted mail includes everything from 'clean' mail (uniform pieces featuring typewritten or pre-printed addresses and often mailed in bulk) to 'dirty' mail (pieces featuring handwritten and incorrect or incomplete addresses) and all the mail in between. Using all nonpresort letters as a benchmark results in a larger discount than using a benchmark which tends to have all the attributes of presort/automated mail, except for the actual presortation or application of the barcode.¹⁶

In its R2006-1 Decision, the Commission identified other major reason for using such a benchmark when it stated a "comparison of pieces that are similar, except for worksharing, is the approach most likely to accurately isolate the savings due to worksharing, and therefore allow for the development of discounts that encourage efficient mailer behavior and minimize costs to society."¹⁷

In order to encourage the most efficient mailer behavior it is necessary that the benchmark used remain constant. Utilizing the same benchmark enables the Postal Service, and mailers to more readily determine the costs avoided and the resulting discounts. This is useful for mailers who intend to make large capital investments in support of workshare activities it intends to perform. If the benchmark were not constant, it would be hard for mailers to accurately predict what the return on any such investment would be year to year. A consistent benchmark easily provides mailers and the Postal Service with critical information that affects the amount of workshare activity performed. If the work can be done more cheaply by the mailer than by the Postal Service, then make the investment and do the work; if not, it is better for society as a whole for the work to be done by the Postal Service.

Opponents of the BMM benchmark err in contending that BMM does not exist. In R2006-1 when asked if the BMM benchmark should continue to be used if the Commission rejected the proposal to de-link First Class single-piece and presort mail Postal Service Witness Abdirahman stated:

Yes, that's why I explained my testimony; that the BMM is still there; and I, myself, observed their existence. And if the Commission decides not to accept the de-

¹⁶ *Opinion and Recommended Decision* R97-1, p.292 at 5092.

¹⁷ *Opinion and Recommended Decision*, R2006-1, February 26, 2007 at 5089.

linking proposal, the only alternative that I see is the BMM, and that's as a costing witness.¹⁸

The BMM benchmark has never been precisely measured with a separate CRA cost analysis. A proxy for BMM costs has always been estimated from the CRA for metered mail letters. Consequently, the cost basis from which the BMM benchmark has always been measured is available and will continue to be available.

The benchmark piece is still important in keeping costs from being shifted from workshare mailers to those that do not participate in worksharing. Any change in the benchmark piece towards an alternative that would provide a larger avoided cost calculation, causes leakage in the system, compensating presort mailers for something they were already doing without benefit of a discount. The resulting loss of network contribution from presort mailers would shift that contribution burden to other mailers not in a position to use workshare discounts. This means that even within the price cap system imposed by the PAEA costs can be shifted to others in the same class or even to mail in different classes. The price cap limits how much a class can be increased overall and therefore how much cost shifting could be done at one time. But, a price cap does not control price increases relative to other classes or to other products within the same class.

The more productive the Postal Service becomes, the more likely it is that discounts based on avoided costs will stay constant or grow very slowly. That is exactly how the efficient component pricing system is designed to work. It only gives mailers the incentive to do the work if they can be more efficient about doing it. It clearly is not efficient to have multiple delivery networks. If the mail is to be combined into a single delivery network, all of it must eventually pass through the Postal Service's processing system to be prepared for that delivery. If the definition of the benchmark piece is changed, or worse is changed on a regular basis, then there will 1) be leakage from the system that covers the joint overhead costs of running the network and 2) a change to both the incentives the mailers are using to make their decisions and also a change in the basis for the Postal Service's return on its investments. Ultimately, the mail must come back together into one processing stream before it can be delivered by the single delivery

¹⁸ R2006-1 Tr. 35/11968-9; see also 12050-51.

system, consequently there must be enough mail left in the system to provide a reasonable return on the investments it has made.

If, as many have observed, worksharing is now a mature industry with little single-piece mail still a candidate for conversion to presort mail, then there is limited rationale for providing mailers with incentives for trying to convert an increasing volume of mail. The universal Postal network that allows everyone to reach out to every other user in the United States is a valuable public service and also a valuable marketing tool. It is valuable to single piece users and it is valuable to business mailers who use it to contact virtually every household and business in the United States at some time during the year. There is no reason why mailers should not make as large a contribution to the support of the network as they would if they were mailing at single piece rates.

Creating A Separate Class Of First Class Single Piece Mail Will Not Provide Adequate Protection For Single Piece Mailers.

It has been proposed by the Public Representative that a new class of mail, “comprised of single-piece First Class Mail letters (and cards) be established as an “alternative to the Postal Service’s efforts to abandon the BMM benchmark.”¹⁹ (PComments page 23). This proposal is clearly impermissible under the PAEA and should be rejected by the Commission.

The PAEA established an “annual limitation the percentage changes in rates...equal to the change in the Consumer Price Index for All Urban Consumers....”²⁰ The Act goes on to state “...the annual limitations under paragraph (1)(A) shall apply to a class of mail, **as defined in the Domestic Mail Classification Schedule as in effect on the date of enactment of the Postal Accountability and Enhancement Act.**”²¹ The DMCS does not include a definition of “class of mail.” Instead, it includes a listing of the classes of mail. Therefore, this provision clearly requires the cap to be applied to a class of mail as it existed on December 18, 2006. In the case of First Class Mail, the annual limitation applies to single-piece AND workshared mail.

¹⁹ RM2009-3 Public Representative Comments, at p. 23, May 26, 2009.

²⁰ Section 3622(d)(1)(A).

²¹ Id. [emphasis added].

The use of a separate class of mail for single piece users has been suggested as a potential protection for them. While being in its own class could provide some protection, it would not result in the same outcome as the current system that keeps the two rates tied together in the same class. The costs to support the shared network cannot be allocated directly to one class of mail and are shared by all the classes. Under a system in which single piece and presort mail are separated into two different classes, there could still be shifting of the costs to support that system from the presort mail to single piece. While both of the new classes could be protected in the sense that their rates could not be increased beyond the rate of inflation, the single piece “class” could well be faced with price increases that are always at the maximum end of the rate cap while the presort mailer is given further discounts or other rate cuts that reduce the contribution they make to sustain the Postal network. In this manner costs would be shifted from the presort mailer to the single piece mailer. The current system puts a fair and equitable cap on how much of a shift can take place since the workshare discounts can not exceed the costs avoided by the Postal Service. What has not been addressed in the rather vague discussions of separate classes is the wide variety of mail that would still remain in First Class single piece mail. It would still be non-homogeneous and run the gamut from hand-addressed birthday cards to type-written business letters and would include everything from consumer reply mail to netflix. Inevitably, the long term rate increases for single piece mail would outpace the rates for workshared mail.

The other danger to a separate class is that it would also leave open the option for there to be different service provided to those two classes. If the contribution to the network provided by presort mailers is decreased, as is certain to happen if the class is separated and/or the rates de-linked, single-piece users will either face an increase in rates or a decrease in service. Either result is clearly prohibited by the PAEA and the requirement there be a uniform rate and service for First Class mail. Therefore, separating the First Class offers little protection to first class single piece users and would lead to results that violate the law.

Postal Service Flexibility

We observe that the Postal Service argument for de-linking boils down to a complaint that the CPI limitation on rate increases and the requirement that workshare discounts must not exceed costs avoided have, in combination, left the Postal Service with too little rate-making flexibility. We have several responses to that complaint. One is that Congress made the policy decisions that underlie the CPI cap and the restriction on workshare discounts; and Congress spelled out the CPI and worksharing standards in the statute. There is no doubt that Congress was aware of the hybrid nature of the system -- that it employs both a rate cap and cost-based standards for rates. Both requirements are written in clear statutory terms. To the extent that there is any tension between the two statutory requirements, and we think the Postal Service overstates that tension, the Postal Service is nevertheless required to comply with both provisions of the law.

It is important to observe that Congress, in codifying the Commission's prior decisions on workshare discounts, included in that codification as temporary exceptions several circumstances the Commission had recognized in its decisions as justifications for flexibility in the application of the costs avoided standard.²²

Finally, we observe that the tension in First Class rates is created not so much by the combination of the CPI cap and workshare discount restrictions as by the tension between whole integer rate increases and the CPI cap. CPI cap banking is one way for any resulting rate-making inefficiency to be resolved over the long run. There also are several other rate-making tactics that have been suggested elsewhere that would address these circumstances without violating the law. Whether the Postal Service or the Commission will seek to adopt those strategies is a topic for a different proceeding.

²² See *supra* p. 2.

Conclusion

For the reasons explained above, the Commission should maintain the link between First Class single piece and presort mail. The Postal Service interpretation of the workshare requirement and its assertion that the workshare discount limitation should not be applied across products undermines the statutory requirement that workshare discounts not exceed the costs avoided and should be rejected. In order to effectuate all provisions of the Postal Accountability and Enhancement Act, and to ensure the continued protection of single-piece users against unjust cost shifting, the Commission must ensure the workshare discounts do not exceed costs avoided. The only way to keep workshare discounts from exceeding costs avoided is through the use of a consistent benchmark piece that isolates the costs avoided by the workshare activity. The proper benchmark remains the Bulk Metered Mail piece.

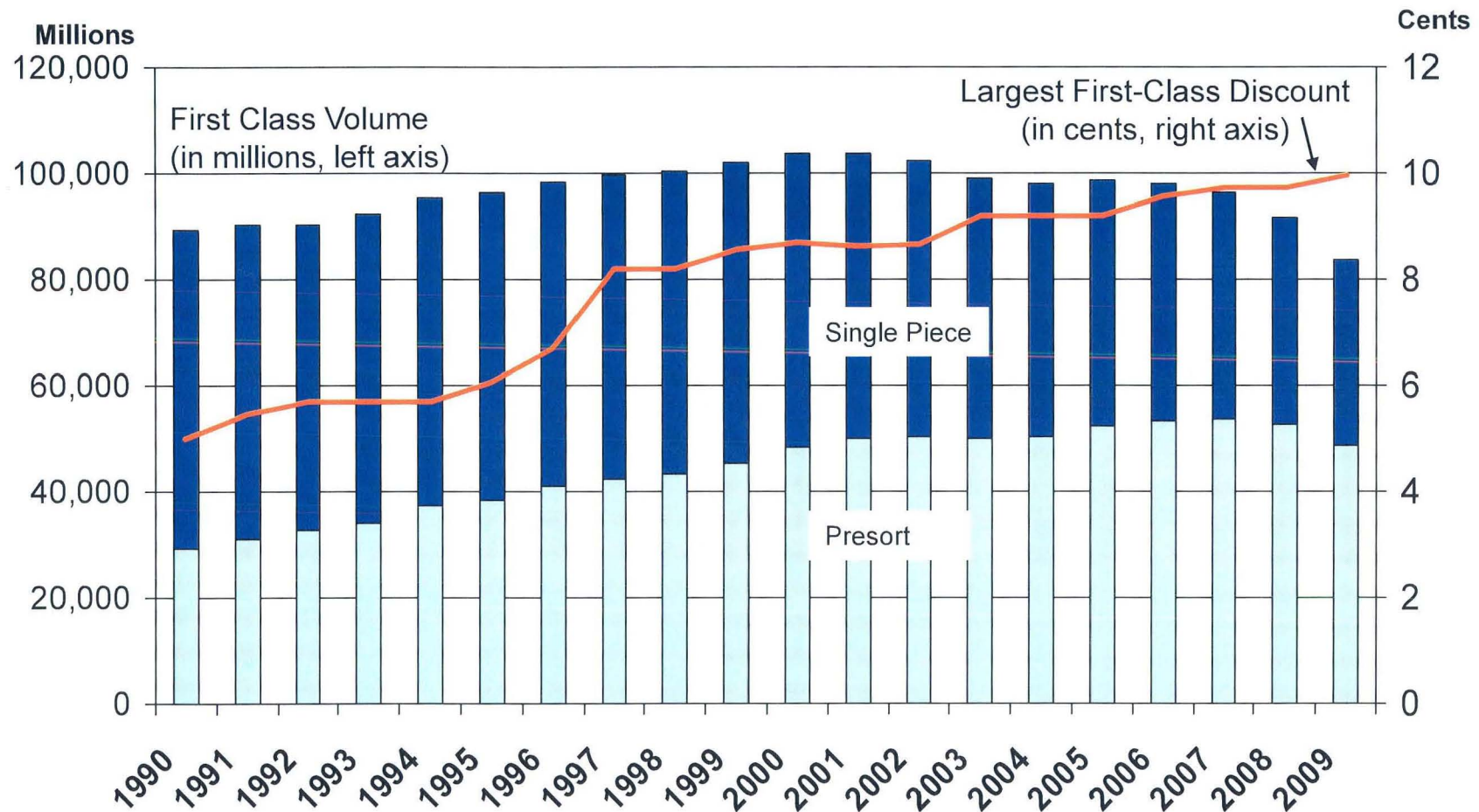
Respectfully submitted,

Darryl J. Anderson
Jennifer L. Wood
Counsel for American Postal Workers Union, AFL-CIO

Graph A

Discounts Do Not Generate Significant Increases in Volume

First-Class Mail Volume and the Largest First-Class Discount
(Volume is Total for the FY and the Discount is the Average for Each FY)



The red line shows the largest discount available for First-Class mail (5-digit automation discount in 2009). Each bar shows the First-Class mail volume for the FY divided into single-piece mail and presort mail. The substantial increase in the discount between 1996 and 1997 did not result in a similar increase in mail volume. The growth in the discount from 2005 forward did not prevent a decline in volume.

APWU **CONGRESSIONAL TESTIMONY**

**American
Postal
Workers
Union,
AFL-CIO**

WILLIAM BURRUS
PRESIDENT

Before The
**FINANCIAL SERVICES AND GENERAL GOVERNMENT
SUBCOMMITTEE
U.S. SENATE COMMITTEE ON APPROPRIATIONS**

**"Proposals for Addressing the Current Financial Situation
Facing
The United States Postal Service"**

**TESTIMONY OF WILLIAM BURRUS, PRESIDENT
AMERICAN POSTAL WORKERS UNION, AFL-CIO**

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March 18, 2010

Mr. Chairman and members of the Subcommittee, my name is William Burrus, President of the American Postal Workers Union, AFL-CIO. On behalf of the 260,000 members of my union, I thank you for holding this hearing today to examine the financial condition of the United States Postal Service (USPS), and for providing the APWU an opportunity to submit testimony.

Since 1775, the Postal Service has sorted, transported and delivered mail throughout the nation. The Service began as a conduit for communication between the Continental Congress and our armies during the Revolutionary War. In 1863, pursuant to statute, the USPS began delivering mail to certain addresses if postage was enough to “pay for all expenses of the service.” By 1896, the Postal Service was making deliveries to certain rural and urban homes six days a week. In some cities, in fact, delivery occurred more than once per day until 1950. In other more remote rural areas, deliveries continued to occur fewer than six days per week. Today, the USPS delivers to 146 million homes and businesses, six days a week. Throughout the Service’s history, however, there have been discussions about reducing the number of delivery days to conserve fuel and reduce costs.¹

The Postal Service’s mission is to provide the nation with affordable and universal mail service. However, the USPS’ authority was revised on December 20, 2006, with the enactment of the Postal Accountability and Enhancement Act (PAEA). Through this legislation, Congress sought to provide the USPS with tools and mechanisms to help ensure that the USPS is efficient, flexible, and financially sound, but the law has had the opposite effect.

USPS Financial Condition

The PAEA has forced the Postal Service virtually into insolvency. It imposed on the Postal Service a \$75 billion obligation to pre-fund retiree health benefits, a liability that is not borne by any other federal agency.

This requirement, more than any other single factor, has created a USPS deficit of alarming size. A 2008 GAO report found the USPS’s \$5.3 billion shortfall in FY 2007 was caused primarily by this provision of the PAEA.²

If the USPS were to release financial records showing liabilities minus this obligation, such documents would clearly demonstrate the disastrous effect the legislation has had. Absent this pre-funding burden, the Postal Service would have experienced a cumulative surplus of \$3.7 billion over the last three fiscal years, despite declining mail volume, an economy in chaos, and electronic diversion.

The APWU is compelled to ask: If funding future healthcare liabilities meets sound accounting standards, why isn’t this requirement applied to all federal and private enterprises? Why doesn’t every branch of government, including Congress, pre-fund future healthcare liabilities?

¹ Congressional Research Service, The U.S. Postal Service and Six-Day Delivery: Issue for Congress, July 29, 2009, p. 1

² U.S. Government Accountability Office, U.S. Postal Service: Mail-Related Recycling Initiatives and Possible Opportunities for Improvement, GAO Report GAO-08-599, June 2008, p.1.

The PAEA was a mistake, a gross miscalculation, which provided no new revenue stream for the Postal Service while imposing massive, artificial new costs. The pre-funding provision is the central cause of USPS financial difficulties, and we urge Congress to correct it. If this single requirement were rescinded, the elimination of Saturday mail delivery would be unnecessary.

USPS Share of CSRS Pension Responsibility

We also strongly urge Congress to give serious consideration to the USPS Office of Inspector General's findings that the methodology for determining the Postal Service's contribution to the Civil Service Retirement and Disability Trust Fund is flawed.

For employees who began their career before the Postal Reorganization Act of 1970, pension responsibility is shared between the federal government and the USPS. The Office of Personnel Management (OPM) established the methodology to be used in determining the contribution of both entities. The USPS OIG commissioned the Hay Group, a well-known actuarial firm, to review the allocation of liabilities for postal pensions between the federal government and the USPS. The Hay Group's findings, *"Evaluation of the USPS Postal CSRS Fund for Employees Enrolled in the Civil Service Retirement System,"* describes the results of its analysis.

Among the findings in the report is that if "the more equitable years-of-service allocation methodology had been used to determine the value of the Postal CSRS Fund, the OIG estimates its value on September 30, 2009, would have been approximately \$273 billion rather than \$198 billion – a difference of \$75 billion." The \$75 billion overpayment would allow the Postal Service to pay a \$10 billion unfunded liability, pay off its remaining debt, and add approximately \$55 billion into the Retiree Health Benefits Fund, which already has an approximately \$35 billion balance. With \$90 billion, the Postal Service would be positioned to fully fund the PAEA obligation.

There is no dispute that the USPS faces a serious financial challenge as a result of the requirement to pre-fund retiree healthcare liabilities and the flawed pension allocation methodology. A more equitable allocation of pension liabilities would offer the USPS stability, which could delay any reduction in the number of mail delivery days and other policies that would undermine its ability to provide universal service at uniform rates to American citizens.

The APWU urges Congress to develop a legislative solution to correct the formula which so unfairly requires postal customers to subsidize pension obligations that should be covered by the federal government.

Recently, Postal Service announcements have included projections of a \$238 billion deficit over the next 10 years. Frankly, these predictions are outlandish and unsupported. The USPS has offered no justification for these wild claims, and, unfortunately, the media has failed to challenge them.

Six-Day Delivery

Following the USPS briefing on March 2, 2010, I was critical of USPS proposals to reduce mail delivery to five days per week, writing to APWU members, "It would be the beginning of the demise of the Postal Service."

In 2008, both the PRC and the USPS conducted studies of mail delivery. The USPS study concluded that the elimination of one delivery day could save the Service \$3.5 billion per year, while the PRC finding was savings of \$1.93 billion.

Congress considered the reduction in service delivery days more than 30 years ago in response to an earlier study by the USPS. After holding a dozen hearings with hundreds of witnesses, the House of Representatives approved a resolution opposing the service reduction by a vote of 377-9.

Then, as now, the key question was: Is the USPS a profit-driven organization, or a public service?

In 1980, Postmaster General William F. Bolger appeared before Congress insisting that reducing the number of delivery days was necessary to ensure the Postal Service's economic stability. He estimated that the switch to five-day delivery would result in the loss of 15,000 to 20,000 Postal Service jobs. Based on statements reported by participants in a 2010 meeting of the Mailers Technical Advisory Council, the 2010 version could result in the loss of as many as 199,000 good-paying, middle-class USPS jobs.

However, the APWU's opposition to eliminating Saturday delivery is not based on a concern about losing jobs. (Approximately 2,500 jobs in positions represented by the APWU would be affected.) We are concerned about protecting the vitality of the USPS for the future, and we support the right of every citizen – including those without Internet access and the disabled – to receive high-quality mail service.

Former Postal Regulatory Commission Chairman Dan G. Blair addressed some of the dangers of the proposal in testimony before the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security on January 28, 2009. Senator Susan Collins stated that the decision to further reduce postal services would cause “an even bigger drop” in mail volume that could lead to a “death spiral” for the USPS.

New Services

It is easy to suggest that the Postal Service should offer new services in order to remain financially sound while ignoring free-market obstacles. However, it is unlikely that a single new service or product would be accepted without challenge by private-sector competitors; furthermore, it is unlikely that such services would result in short-term profits for the USPS.

In testimony before the House Subcommittee on Federal Workforce, Postal Service, and the District of Columbia on November 5, 2009, GAO officials said, “Allowing USPS to compete more broadly with the private sector would raise risks and concerns. As with USPS's non-postal ventures before PAEA was enacted, new non-postal ventures could lose money; and even if they were to make money, issues related to unfair competition would need to be considered.”

How can the USPS be expected to fund new enterprises that would require significant start-up costs while it is saddled with a \$75 billion debt? The reality is that requiring a

payment averaging \$5.6 billion annually for 10 years would bankrupt any American corporation.

Savings and Collective Bargaining

In recent years, the USPS has achieved unprecedented savings through productivity increases, a series of cost-cutting initiatives, and sacrifices by workers. More than 100,000 jobs have been eliminated through attrition over the last two-and-a-half years, and workers have begun paying an increased share of health insurance premiums.

In addition to five-day mail delivery, the USPS has proposed numerous changes that relate directly to workers' rights and benefits and are governed by collective bargaining. We reject any effort to influence the process with threats of severe work-rule changes. Contract negotiations for both the American Postal Workers Union and the National Rural Letter Carriers Association begin in the fall.

We believe it is unreasonable to single out a handful of provisions achieved through bargaining that benefit workers (such as protection against layoffs) from the host of negotiated stipulations that are contrary to workers' objectives.

Conclusion

Mr. Chairman, we believe the rush to five-day mail delivery is an ill-conceived reaction to declining mail volume during an economic slowdown. While volume may never return to 2006 levels, even a modest return, coupled with repeal of the requirement to pre-fund retiree health benefits, would go a long way toward sustaining the Postal Service for many years into the future.

APWU CONGRESSIONAL TESTIMONY

**American
Postal
Workers
Union,
AFL-CIO**

WILLIAM BURRUS
PRESIDENT

Before The

**SUBCOMMITTEE ON FEDERAL
FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION,
FEDERAL SERVICES AND
INTERNATIONAL SECURITY**

The U.S. Postal Service in Crisis

**TESTIMONY OF WILLIAM BURRUS
PRESIDENT
AMERICAN POSTAL WORKERS UNION,
AFL-CIO**

August 6, 2009

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Mr. Chairman and Members of the Subcommittee: Thank you for providing the American Postal Workers Union the opportunity to testify on behalf of the members that we are privileged to represent.

The Postal Service is in midst of a severe financial crisis, caused in large part by the nation's economic difficulties and the resulting decline in mail volume – and compounded by the oppressive burden of pre-funding retiree healthcare costs.

The interest of the Chairman and this subcommittee in drafting legislation that would mitigate the pre-funding requirement was welcomed by the postal community. We were aware of the concerns associated with “scoring” such legislation, and looked to the administration and the Chairman for their assistance in achieving a reasonable solution.

The introduction of the Postal Service Retiree Health Benefits Funding Reform Act of 2009 (S. 1507) gave us hope that legislation would soon be enacted that would provide substantial short-term relief to the cash-strapped agency. Progress was well underway, until the Committee on Homeland Security and Governmental Affairs voted to amend S. 1507.

One amendment, which requires arbitrators in the negotiation of postal labor agreements to “*take the financial health of the Postal Service into account*,” drastically changed the focus of the committee's efforts from assisting a troubled industry to an assault on postal workers. It is a mean-spirited amendment that is intended to shift the payment of the employer's share of retiree healthcare liabilities to employees. The committee did not consider imposing a surtax on postage rates to pay the unfunded liability, but adopted an amendment that would, in effect, assess a tax on postal workers.

Let us be clear, the Postal Service's obligation to pay \$68 billion over an 8-year period was the product of the Postal Accountability and Enhancement Act of 2006 (PAEA) – which was endorsed by senators who serve on this subcommittee. The authors of the PAEA did not anticipate the recession that would soon grip the nation, and failed to appreciate the impact it would have on mail volume and postal revenue. Instead, they erroneously identified e-mail and the Internet as the most serious threats to the viability of the Postal Service.

One goal of the PAEA was to force postal management to reduce its network and labor force; it sought to accomplish this objective by squeezing postal finances to such an extent that management was left with no other options. The advocates of postal “reform” imposed on the Postal Service the burden of pre-funding retiree healthcare payments, exacerbating the crisis. By requiring payments of \$14 billion over the last two years – with more payments to come – the supporters of the PAEA share the blame for the Postal Service's inability to ride out the economic crises.

S. 1507 would have alleviated the problem, but the amendment – which is not at all germane to the subject of the main legislation – would subvert the collective bargaining process. By endorsing the amendment, the Committee has declared war on postal workers.

When I began my government career 55 years ago, postal employees labored under the absolute control of Congress, and suffered from serious neglect. After years of struggle, in 1971, the Postal Service was converted to an independent agency of the federal government, and postal workers were granted the right to organize and engage in collective bargaining. Negotiations over the following 38 years have resulted in postal wages that have tracked the Consumer Price Index.

Arbitrator Clark Kerr, a renowned economist, issued a seminal decision in 1984 that interpreted “comparability,” the standard for postal wages. Since then, the parties have been guided by his decision. The recent action of the Committee would jettison this history, and require the unions and management to embark on a contentious journey aimed at applying competing standards.

In the abstract, supporters can make the case that requiring arbitrators to consider the financial health of the Postal Service is a reasonable standard that should be applied universally. But one only has to look at recent history to see that such application has been selective. Wall Street executives who nearly bankrupted the financial institutions of our country awarded themselves indecent bonuses from the treasuries of the companies they nearly destroyed, and massive bailouts were funded by the taxpayers. If there was ever a time to consider financial health, one would think the Wall Street debacle would have been it.

The financial health of the USPS *has* been a consideration in the arbitration of every contract, but the amendment is intended to elevate this factor above all others. It would leave workers at a severe disadvantage, and make the bargaining process more subject to manipulation. One does not have to be a rocket scientist to understand the purpose: Clearly, the authors of the amendment hope it will constrain wages and benefits.

The amendment to S.1507 is not an effort to be fair or reasonable. It is an attempt to turn back the clock and penalize postal employees. And penalize them for what? For abiding by the rules and managing to attain a middle-class wage. Binding arbitration was intended to replace the constitutional right of workers to withhold their labor. A full range of issues have been presented to contract arbitrators, including the financial health of the Postal Service – without the heavy hand of Congress.

I repeat: This is a mean-spirited amendment that undermines the collective bargaining process. The American Postal Workers Union will oppose S. 1507 because we believe its enactment would be disastrous for the American public and for postal employees.

The crisis facing the United States Postal Service is real, and this union offers positive solutions. The amendment to S. 1507 is not positive, and it will not solve the problems of the United States Postal Service.



American Postal Workers Union, AFL-CIO

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William Burrus
President

October 27, 2009

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The Honorable Joseph Lieberman, Chair
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William Burrus
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Terry Stapleton
Secretary-Treasurer

Greg Bell
Industrial Relations Director

James "Jim" McCarthy
Director, Clerk Division

Steven G. "Steve" Raymer
Director, Maintenance Division

Robert C. "Bob" Pritchard
Director, MVS Division

Bill Manley
Director, Support Services Division

Sharyn M. Stone
Central Region Coordinator

Mike Gallagher
Eastern Region Coordinator

Elizabeth "Liz" Powell
Northeast Region Coordinator

William "Bill" Sullivan
Southern Region Coordinator

Omar M. Gonzalez
Western Region Coordinator

Dear Senator Lieberman:

I am pleased to respond to the questions submitted by Senators McCaskill and Coburn for inclusion in the record of the Senate Homeland Security and Governmental Affairs Committee hearing, which was held on Aug. 6, 2009. I regret that the senators were unavailable during my testimony, when we could have engaged in discussion of the pending legislation, but I respect the competing demands on their time.

1) Keeping in mind your organization's opposition to S. 1507, what are the substantial steps the APWU is willing to take to assist the Postal Service in weathering its severe crisis?

Before I address the substance of the inquiry, I want to point out that the question misstates the position of the American Postal Workers Union: We support S.1507 as it was originally drafted. We oppose the amendment that would require interest arbitrators to consider the financial health of the Postal Service. During the hearing, I explained in some detail the reason for our opposition to the amendment.

In response to the question: The financial problems of the Postal Service transcend the wages and benefits of postal employees. They are caused by three major factors: the nation's economic crisis; the requirement to pre-fund retiree healthcare costs, and excessive workshare discounts. The economy will eventually rebound, and I am optimistic that Congress will correct the pre-funding debacle. Excessive discounts also must be eliminated.

The American Postal Workers Union has challenged the postmaster general to discontinue the excessive discounts the USPS offers to large mailers, and instead to compensate postal employees for processing letters and flats at a cheaper per-piece rate. This would reduce the Postal Service's costs; improve efficiency, and make better use of underutilized equipment and employees. As an added incentive, we propose to process parcels at no charge.

Regrettably, the USPS vigorously defends the excessive discounts, which, under the law, may not exceed the “postal costs avoided.” If the discounts are indeed below the costs avoided, our offer would lower expenses substantially.

The entire postal community has a responsibility to help eradicate the USPS deficit, so I hope that you also have asked other stakeholders what actions they are willing to take to assist the Postal Service. If all postal parties undertake serious steps to enhance the viability of the USPS, we would be willing participants.

2) Do you support Congress allowing the Postal Service the flexibility that was giv[en] to them in the 2006 Postal reform bill to reduce mail delivery from 6 to 5 days? If no, please explain why.

Before I explain the APWU's position, I want to note that the Postal Accountability and Enhancement Act of 2006 (PAEA) did not authorize the Postal Service to reduce the number of delivery days. The Postal Service requested such authority, but the Fiscal Year 2010 Financial Services and General Government Appropriations Bill continued the requirement of six-day delivery.

The American Postal Workers Union strenuously opposes a reduction in the number of delivery days, because we believe it would lead to the demise of the Postal Service. Eliminating Saturday delivery would enhance privatization and undercut the Postal Service's ability to serve citizens and businesses. In the long run, it would undermine universal service at uniform rates.

It is doubtful Congress would dictate that mail *cannot* be delivered on Saturdays; more than likely, legislation would simply abolish the Postal Service's *obligation* to deliver on the sixth day. Private companies would welcome the opportunity to deliver mail on Saturdays – in *some* locations – and the march to privatization would begin.

The proposal to reduce mail delivery to five days per week raises the question: If private firms are permitted to deliver mail on Saturdays, why not on Fridays or Thursdays?

Furthermore, as the economy improves, we expect mail volume to return to the height it reached in 2006. If delivery is reduced in the meantime, the Postal Service would not have the ability to handle the higher volume once it returns.

For example, during weeks with holidays, the Postal Service would be required to deliver 100 percent of the workload during a work week set at 42 percent.

3) Do you support allowing the Postal Service the flexibility to close facilities that are under performing or can be consolidated to improve the financial health of the Postal Service? If no, please explain why.

Existing law limits the right of the Postal Service to close post offices solely because they operate at a deficit, noting that it is the specific intent of Congress to ensure that effective postal services be provided to residents of both urban and rural communities. The APWU supports Congress' intent, and we believe the USPS has sufficient flexibility to optimize its operations.

The basic question we must ask is, "Do we want a Postal Service that generates profits, or do we want a Postal Service that serves the communication needs of the country?" I am convinced that the Postal Service can serve our nation's needs at 1971 costs adjusted for inflation without the significant reduction in service that would be caused by the closure of a substantial number of stations and branches.

4) Besides addressing the Retiree Health Benefits payments, what other solutions are you recommending that Congress, the Postal unions or the Postal Service should do to ensure the long-term financial viability of the Postal Service?

The requirement that the Postal Service fully fund future retiree health benefits over an arbitrary period of time was unwise and unreasonable; it has severely damaged the institution and will continue to do so if it is not corrected. Between 2006 and 2009, the USPS paid approximately \$15 billion from its operating budget to pre-fund retiree healthcare benefits. This requirement has destabilized the Postal Service at the same time that volume was seriously eroded by a weak economy.

I ask that Congress permanently correct this colossal mistake by recalculating the future healthcare costs to reflect reality, and that Congress provide the USPS with a flexible payment schedule, unrelated to the "scoring" process of the federal government.

In addition, any comprehensive review of the Postal Service should analyze the entire postal system, including private providers of mail service. To date, all examinations of the mail system have focused on the USPS, with the stated objective of promoting efficiency and eliminating redundancy. The fallacy of this approach is that it artificially limits the definition of the postal network.

All stakeholders – including postal unions, management, major mailers, private mail consolidators and pre-sorters, transportation providers and suppliers – have a role to play in ensuring the long-term viability of the institution. Focusing on any single entity within an industry that employs 9 million people and generates \$900 billion ignores major components of the vast enterprise and serves only to meet political objectives.

5) Do you think the Federal government should subsidize the Postal Service?

Having spent 52 years as a postal employee or representative of employees, I have personally experienced the effect of federal subsidies on the USPS: My response is an unequivocal *No!*

6) Not taking into account the Retiree health Benefit payments, do you think that the Postal Service currently has a viable business plan?

It is difficult to answer this question because it ignores the fundamental predictor of the Postal Service's future viability. It is akin to asking **if an individual has a plan for crossing the street after being hit by a car.**

However, setting aside our concerns about the retiree healthcare benefits, we must conclude that the Postal Service lacks a viable business plan.

In the 21st century, with advances in computerization, the Postal Service must evolve beyond serving as the conduit of messages generated by others. Over the 230-year history of the Postal Service, hard-copy communications have been generated in sufficient quantity to support a national network. Technology has improved communication in critical areas, often at the expense of mail volume. I believe that civilization will continue to use mail as a means of communication; the question is, communicating what?

Many personal and business transactions have or will migrate to other forms because of the advantages in speed and cost. This is a sign of progress and it serves no purpose to bemoan such change. But mail has unique advantages in conveying graphics and text messages that must be absorbed in order to influence behavior. In a capitalistic environment, this is a golden opportunity for mail. To realize the benefits, the USPS must grow beyond a passive conveyer and become an enterprise that serves as a catalyst for hard-copy communication.

The USPS must combine the benefits of technology and hard-copy communication, enabling commercial enterprises and individual citizens to convey messages. Under the traditional system, a company or citizen purchases paper and envelopes; combines them into a single item (mail); affixes an address and postage, and deposits the product at a post office or collection box for delivery. These multiple steps and purchases can be combined into "one-stop shopping" on the Internet, and can be delivered to the addresses of 200 million homes and businesses, six days per week. The Postal Service can perform the printing or permit the sender to create the message using the Internet. The entire process can be billed after the fact. This is a business model that can survive far into the future.

Sincerely,

A handwritten signature in black ink, appearing to read "William Burrus".

William Burrus
President