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S. Hrg. 103-107

OVERSIGHT OF THE U.S. POSTAL SERVICE

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Oversight of the U.S. Postal Servic...

HEARING

BEFORE THE

SUBCOMMITTEE ON FEDERAL SERVICES,
POST OFFICE, AND CIVIL SERVICE

OF THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

MARCH 18, 1993

Printed for the use of the Committee on Governmental Affairs



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OVERSIGHT OF THE U.S. POSTAL SERVICE

THURSDAY, MARCH 18, 1993

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL SERVICE, POST OFFICE,
AND CIVIL SERVICE, COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:07 a.m., in room SD-342, Dirksen Senate Office Building, Hon. David Pryor, Chairman of the Subcommittee, presiding.

Present: Senators Pryor, Stevens, and Cochran.

OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR. Good morning, ladies and gentlemen. We welcome all of you to this hearing this morning.

It has been about 2 years since this Subcommittee heard from the Postmaster General. Last year, because the Service was in transition between PMGs, we heard from the Postal Board of Governors at that time. I found that, by the way, to be a very, very enlightening and educational meeting. That was in April of 1992.

Among the issues of concern raised by the Governors was the need for a thorough review of the Service's projected financial position over the coming years to determine the need for future rate changes.

Shortly thereafter, all of us will recall, the Governors at that time engaged the services of Marvin Runyon to be our new Postmaster General. As I understand the story, or maybe rumor, Mr. Runyon was advised by staff that the Service was facing a \$2 billion shortfall in revenue. Rumor has it that when the staff told him they could cut the red ink in just \$1 billion of this, it is alleged that Mr. Runyon formed a circle with his thumb and index figure to indicate the zero deficit is the only one that he would accept.

Now I don't know whether this is true. Maybe he might want to comment on this. But I do know what followed was an order from the new PMG for the most significant reorganization and downsizing anyone in the postal community can remember. And despite predictions of dire consequences, service, it is claimed, did not suffer a serious decline and the Postal Service appears to be operating in the black.

However, the transition has not been without problems. We know those problems, and I think many of us feel as though we may be operating in the dark about exactly what is happening with our Postal Service. That is the purpose of our hearing this morning. I hope today's hearings will afford an opportunity to shed a

little light on some of the questions about the state of the Postal Service.

Mr. Runyon, our new Postmaster General, I want to welcome you. I look forward to hearing your statement. It is our understanding that our colleague, Senator Stevens, has several conflicts this morning but is going to attempt to come by this hearing and perhaps make a statement and ask a few of the questions.

Also, our colleague from Michigan, Senator Levin, has a statement that he has sent. He was headed for the meeting. He was called to the White House for a meeting, and perhaps if he gets from the White House back to the Hill in time, he himself may, Mr. Postmaster General, want to come and ask these questions and make a short statement.

PREPARED STATEMENT OF SENATOR LEVIN

I am pleased to be here today for this annual hearing on the Oversight of the Postal Service chaired by my good friend from Arkansas. The Postal Service in a very direct way affects the lives of every single person in this country and it's important that we stay on top of how well, or not well, it is running. I think this year, a review is particularly important due to the significant changes the Service is undergoing with the current reorganization. Unfortunately due to a scheduling conflict that recently came up, I am unable to stay for questioning, so there are a couple of issues I want to touch upon now and then I'll be doing some follow-up questions for the record.

Essentially, Mr. Runyon, you are the CEO of a very large and extremely important business. If the quality of service delivery lapses, it can mean the loss of business for a corporation or financial hardship for a person waiting for a social security check. We all know to have quality service you need a quality work force—a quality work force is virtually impossible with poor management. I am all too familiar with what can develop if the quality of management within the work force lapses.

In the case of the Royal Oak Mail Sectional Center, we had a situation in which retaliation and fear had become accepted management tools and little attention was paid by postal officials to the complaints of employees. Cutting costs, at all costs, had become the motto. This led to the demoralization of a dedicated and committed work force. The great majority of these postal employees wanted to do their job and do it well, but they were frustrated by a management system that was paying attention to nothing other than getting their "numbers" up. This is an unacceptable way to treat individuals and it ultimately had a significant effect on the quality of service.

We know this situation was fairly representative of the Postal Service as a whole, given former Postmaster General Frank's parting comments in which he referred to the "paramilitary" character of the organization. As a result of this situation, Senator Pryor and I have requested a GAO review of labor relations within the Postal Service. GAO has indicated to my staff it is one of the biggest jobs they have ever undertaken. That report is expected to be completed sometime in October.

What I'm interested in today is the specific steps taken by Postmaster General Runyon to address this important issue.

I met with you, Mr. Runyon, just after you took the position of Postmaster General. At that meeting, you indicated that you were aware of and committed to changing that "paramilitary" culture. You also spoke at length regarding your plans to reorganize and revitalize the Postal Service—an activity that you have moved forward on with great speed.

I remain concerned that such actions not be taken without regard for their effect on the work force and that sound management of the work force does not become the "lost step-child" of this reorganization. The problem of poor labor relations cannot be swept under the rug, especially in such a labor intensive organization—to ignore this is to court disaster.

Mr. Runyon has indicated he knows this to be true and that he is willing to do the work that needs to be done to address these issues. I'm here to remind him of the importance of that work and to see how it is progressing. As I said before, I will be submitting questions on this issue for the record.

I also wanted to mention one other issue. I have been contacted by certain post offices in Michigan regarding the current freeze on construction projects. They, obvi-

ously, want to gain some idea of when they will be able to at least gain a review of their proposed project and a specific indication as to when the Postal Service will be moving ahead. In fact, I have a letter I'd like to hand over to you regarding two of these facilities that have already been waiting some time—one since 1987. It is my understanding that that particular post office recently got the green light to resume negotiations with the Postal Service over a proposed new facility and I appreciate that. I hope you can move forward quickly on these and other pending projects.

Once again, I am sorry I am unable to stay for questions, but I will be doing some follow-up for the record, and I thank my good friend from Arkansas for this opportunity to participate in this hearing and voice my concerns.

Senator PRYOR. Mr. Postmaster General, we look forward to your statement and the floor is open.

Pardon me, I will amend that, Mr. Postmaster General.

Senator STEVENS, I was just commenting on your schedule this morning. I know you have a lot of conflicts. I have finished my statement and the floor is open to you, our esteemed colleague from Alaska.

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Thank you very much. I am sorry to be late. Through the cooperation of Senator Ford, we wound up a long Rules Committee meeting in a very short time so I could join you here this morning, Mr. Chairman.

I do want to express my appreciation to the Postmaster General for what he has done so far and to listen to the report. You have had a fantastically successful season, really, in terms of the massive Christmas rush that you took care of so well, you and your people. I do think that you have been very successful in your efforts to keep us informed as you have made your changes. I can't say we have agreed with all of them, which will probably come out during some of the questions today, but I do not want to delay it.

I will put my full statement in the record and I apologize for being late.

PREPARED STATEMENT OF SENATOR STEVENS

It is good to see you, Mr. Runyon. You have made a few changes in the Postal Service since the last time you were before our Committee. I appreciate your efforts to keep us informed along the way.

This has not been an easy period for you and the Postal Service but there have been some triumphs. The Postal Service was successful in keeping up with the Christmas mail volume during a massive reorganization. Congratulations!

The biggest problem facing the Postal Service is educating Members of Congress on the issues. Most of the new members don't know what revenue forgone is and have even less of an idea why or how it should be restructured.

You recently told the House Appropriations Subcommittee that it will take more than \$1 billion to cover the 3-year shortfall in the revenue forgone appropriation. The Postal Service should not be asked to continue to absorb such losses. On the other hand, as you know, tough decisions will have to be made as we work to reduce the deficit. The only alternative is to reform the eligibility for the subsidy.

Redefining eligibility for the revenue forgone subsidy is not easy, but it is necessary. Our Nation's taxpayers should not be asked to pay the increased costs of mailings for those who do not pay full rates.

Senator PRYOR. Thank you, Senator Stevens.

I would like to also place the statement of Senator Sasser in the record.

PREPARED STATEMENT OF SENATOR SASSER

Good morning. Let me associate myself with my good friend and colleague, Senator Pryor, in welcoming Postmaster General Marvin Runyon to the Subcommittee on Federal Services, Post Office, and Civil Service. Since you assumed your position only last summer, Mr. Runyon, this is your first opportunity to deliver the annual report of the Postal Service. We look forward to many more such occasions.

I am well acquainted, Mr. Chairman, with the new Postmaster General's hands-on management ability from his tenure as Chairman of the Tennessee Valley Authority, headquartered in my State. He came to that agency at a time of concern over steady increases in power rates and the competitive future of TVA.

Your accomplishments at TVA, obviously, are relevant to the challenges you now face at the head of the Postal Service. Your efforts to reorganize the service, to control costs and to put a stop to the repeated 3-year increases in postal rates, are to be commended. Let me also point out, as you did in your opening statement, that the Postal Service is getting out of sidelines unrelated to its critical and primary task of delivering the mail, on-time and cost-effectively. I was one of those critics of the tee-shirt and coffee mug business and I am pleased that you have seen fit to do away with it.

More importantly, I think, you have shown sensitivity to the personal aspects of the Postal Service's downsizing effort. This cannot, in my opinion, be underestimated. One thing that has impressed me greatly, in dealing with postal issues as a member of this Subcommittee, is the obvious zeal and dedication that postal employees bring to their task. As I know you have learned, they take a lot of pride and satisfaction in the mission they perform for the American public. And I think that not just for the sake of their morale, but out of fundamental fairness, we owe it to postal workers to see that cost-cutting is done in such a way as to minimize the personal effects of employee transitions.

I know that you are also concerned about the future of appropriations for revenue forgone. I have consistently supported adequate funding of the Postal Service's mandate to serve certain mailers, such as non-profits, at reduced rates.

But like other members of this Subcommittee, including the ranking member, Senator Stevens, I have also questioned whether some organizations ought to be entitled to these reduced postal rates. It has come to our attention that any number of groups, which are essentially engaged in commercial enterprises, have taken shelter in the "non-profit" designation. I encourage you to persevere in efforts to review these entitlements, to see if more of these privileged mailers should be paying a greater share. That would go some way toward relieving the revenue forgone situation. That would also produce greater fairness toward mailers who were really intended to have the benefit of reduced rates.

Again, Mr. Runyon, let me congratulate you on the energy and success you have displayed thus far in "reinventing" this, one of the oldest agencies in our government. I look forward to continuing to work with you to keep the American Postal System the best, and the best value, in the world.

Thank you, Mr. Chairman.

Senator PRYOR. Mr. Postmaster General, we look forward to your statement.

TESTIMONY OF HON. MARVIN RUNYON,¹ POSTMASTER GENERAL, U.S. POSTAL SERVICE; ACCOMPANIED BY MICHAEL S. COUGHLIN, DEPUTY POSTMASTER GENERAL, JOSEPH R. CARAVEO, CHIEF OPERATING OFFICER AND EXECUTIVE VICE PRESIDENT, AND MARY S. ELCANO, GENERAL COUNSEL AND VICE PRESIDENT

Mr. RUNYON. Thank you, Mr. Chairman.

With me this morning are Deputy Postmaster General Mike Coughlin, Chief Operating Officer and Executive Vice President Joe Caraveo, and General Counsel and Vice President Mary Elcano. We welcome the chance to talk with you this morning about the work that we are doing to build a better Postal Service.

¹ The prepared statement of Mr. Runyon appears on page 29.

We have accomplished a lot in the last 8 months, and I will talk about that more in a minute. But, I can still remember my first appearance at Postal Service headquarters in May of last year. It was a very exciting day and I was glad to have the opportunity to join this great organization and help it serve the communication needs of our nation. Then came the questions on the postal issues, classes and subclasses of mail, guidelines, the rules and regulations, and right away, I recognized that there was a lot that I didn't know about the Postal Service.

I sort of felt like a first-time parachutist who jumped out of a plane and on the way down the parachute didn't open, and he looked down and he saw another fellow that was headed up toward him. And as he passed by the other fellow he said to him, say, do you know anything about parachutes? And the fellow going the other way says, no, do you know anything about gas stoves? [Laughter.]

Well, this is my first appearance before this Subcommittee, and not wanting to jump in here without a parachute, one of the things I did to prepare for today was to look back at a summary of your last postal oversight hearing. I wanted to get a historical perspective on the issues and your assessment of our performance and the direction that we were taking at that time.

At that time, this Subcommittee raised a number of concerns. You were troubled by rising postal rates and substantial postal losses. You felt that service was deteriorating, particularly to rural America. You said that the Postal Service was putting too much effort into selling T-shirts and coffee cups and not enough into getting the mail delivered. And, you voiced your support for protecting postal rate payers from the continuing adverse impacts of deficit reduction legislation and revenue forgone.

I found a solid consensus of opinion on the Postal Service. Virtually everyone believes that this is a good organization with dedicated employees and a mission that is vital to the economic health and competitiveness of the United States.

But, I found the same consistency in their perceptions of the problems facing the Postal Service, too much bureaucracy and too little responsiveness, spotty, inconsistent service, rate increases that have been too large and too frequent, rising competition from private companies and evolving technologies that are eroding our mail base, and priorities that kept changing, to the confusion and frustration of customers and employees alike.

In the past 8 months, we have taken a number of steps to respond to these concerns.

First, we changed our management structure, something the *Washington Post* described as the biggest restructuring of government since the Eisenhower days. The new alignment is flatter, less bureaucratic, and more responsive to customer and employee needs. We have improved communications, reduced non-essential programs and some of the paperwork, cut out the T-shirts and coffee cups, and focused on the basics of our business, delivering the mail.

At the same time, we have worked to minimize the adverse impacts of the changes on our employees. We have eliminated 30,000 overhead positions. But, unlike thousands of companies in the pri-

vate sector, we haven't closed our plants or laid off a single employee due to restructuring. We implemented the restructuring with the input and help of our employee organizations. We offered retirement and early-out incentives to create vacancies for affected employees, and our placement efforts continue.

Our finances are much improved. We turned a break-even proposition last year into half-a-billion dollars in net operating income. So far this fiscal year, we are ahead of plan. And thanks to the efforts of the employees and additional business from our customers, we are going to keep postage rates stable at least until 1995, and maybe longer.

Most importantly, we have made service quality our primary goal, and by all accounts, our performance has improved. Independent service measurement shows it, headlines say it, and customers have confirmed it.

I have gotten letters and positive comments from mailers all across the country. Last week, at a mailing industry convention, I spoke to an audience of 1,500 business customers. During the question and answer session, several people got up just to tell me how happy they were with the service they are receiving from their local post office.

Some industry experts are saying this is the best the Postal Service has ever done. I like to hear that, particularly from people who know, like the Mailers Council, which is an independent group of mailers and mailing associations that together represent about three-quarters of our mail volume. I like to see the numbers of satisfied customers in Springfield, Massachusetts, Lexington, Kentucky, Fargo, North Dakota, Salt Lake City, Utah, and cities all across the country. The credit for our success goes to our employees. They are doing a great job.

However, the best news may be that we are just getting started. We are doing more to improve service quality. We raised the goal on service performance as measured independently by Price Waterhouse to 90 percent on-time delivery for overnight committed first-class mail and we are working to get there.

Priority Mail volume has grown more than 10 percent since last year, so a lot of customers are clearly pleased with the value they get from this product. But, we have disappointed some people, providing prompt delivery one time and delays the next.

We are taking steps to improve our Priority Mail performance. We are going to do a better job identifying and sorting out Priority Mail at our windows, back docks, and collection boxes. We are deploying 51 bulk small parcel sorters this year, equipment that will help us get Priority Mail sorted earlier in the evening so we will have more commercial airline flights to choose from to get it delivered on time. And, we are working with these airlines to improve our transportation performance. By the end of the fiscal year, we are committed to delivering 90 percent of identified Priority Mail in 1 or 2 days.

We are extending our external measurement systems to cover newspapers, magazines, and advertising mail. We are expanding retail service hours permanently in many post offices. And, we are working to simplify our guidelines and regulations and make mail

acceptance procedures more consistent from one post office to the next.

I believe that one of the keys to customer satisfaction is employee satisfaction. To do their best, employees need to feel good about their company and the work they do. Last year, we conducted an employee opinion survey and identified a number of areas we needed to work on to make the Postal Service a better place to work.

We focused on improving relationships among managers and employees, making better treatment of people a management priority, and basing compensation on teamwork and organizational success. It is a big challenge, changing the corporate culture of an organization more than 2 centuries old. It will take cooperation and patience, but I am confident that we can do it.

To get the most from our capital investment dollars, we are working to build technology partnerships with universities and private companies, win-win relationships that will minimize our risk and up-front expenses and maximize benefits for all. Our sophisticated mail processing equipment is getting better and smaller, so we are reevaluating our facility needs for the future. We are working to improve our procurement processes to get the best value for each purchase.

And, we are developing new services for business mailers and enhancing old ones so that we can bring in more revenue. New volume and revenue will help relieve budget pressures so service can improve and keep postage rates low and steady for all Americans.

The Postal Service is on the leading edge of reinventing government. We are already doing many of the things that the administration, the Congress, and this Committee want to do for the Federal Government as a whole. We are streamlining bureaucracy, focusing on customer satisfaction, building teamwork with employees and partnerships with private industry, taking the lead on environmental issues like recycling and vehicles powered by alternative fuels, and emphasizing quality service and responsible finances.

It is natural for the Postal Service to help lead the way for government in becoming more businesslike and responsive to its consumers. The first step in reinventing this organization was taken 25 years ago.

In 1968, the Kappel Commission reported to the President that the post office simply couldn't be operated as if it were an ordinary government agency. To avert catastrophe, the Commission said, the post office had to be run as a business, not a cabinet agency. What was required, the Commission said, was a "fundamental change in the anachronistic relationship between the post office and the rest of the government."

Together, Congress and the President heeded this advice. You took the Postmaster General out of the President's cabinet, transformed the old Post Office Department into an independent establishment. You freed the new Postal Service from partisan politics and gave it the tools and authority to operate independently in a businesslike manner. We are working to deliver on that vision today.

I know that some observers, and perhaps some of you, are concerned about the terms that we are using. I have been asked, what do you mean, the Postal Service is a communications business? Why do you need to compete? What is the big deal about financial and political independence?

To succeed in our mandate as a government agency, to provide universal service at a uniform, economical price, we have to succeed in the marketplace.

On the one hand, we provide a fundamental government service. Ninety-four million households rely on us as a primary means of communication that can reach anyone from their relatives to their representatives in Congress.

Last week, I received a letter from Geralyn Kuehr of Speedway, Indiana, inviting me to her wedding. It seems that in January 1991, she wrote to "Any Service Member" in Operation Desert Storm and met Chief Warrant Office Michael Koehler by mail. She said they corresponded for 4 months until they had a chance to meet, and, "2 years and countless letters later, we are to be married in April. Without the excellent mail service during the Persian Gulf War, we would never have met." Well, that is what I call a special delivery.

We also serve as an important pipeline for the Nation's economy. Eight million small businesses use us to do business with their customers. Just one product line, advertising mail, provides an estimated 3.5 million jobs and generates more than \$200 billion a year in sales and donations. The services we provide and the prices we charge have a direct economic impact on the Nation, and the individual competitiveness of millions of American businesses here and abroad.

On the other hand, we are not like any other agency or department of the government that I know of. We are not funded by tax dollars. We operate solely on our ability to sell a service in the communications marketplace. The quality of our service and the prices we charge must be competitive and we must represent value to our customers, or those who can will simply turn to other means of communications, fax machines, private couriers, alternative delivery companies, and electronic communications, and those that can't will be left holding the bill for a universal communications service with little mail volume and revenue to support it. We must be a competitive business so that we can be an effective government agency.

To meet this dual mandate, one of the things we must do is resolve several public policy and legislative issues so that the financial burden doesn't shift from the taxpayers to the postal rate payers. If the practice of the past several years continues, the rate stability we have worked to bring to 250 million customers will be in jeopardy and the competitiveness so important to all of us will be at risk.

The first issue is revenue forgone. Since 1991, Congress has failed to pay us more than half-a-billion dollars for revenue forgone. Adding in the estimated costs for 1994, the total bill is about \$1 billion. The budget to be proposed by the President will call for revenue forgone funding next year of only \$92 million. Instead of revenue forgone, it really ought to be called revenue gone.

I recognize that this program is intended to fulfill a very worthwhile public goal and benefits many worthy organizations. But as a public policy program, it was also intended to be paid for from tax revenues, not as a cost passed on to postage rate payers in the form of a stamp tax.

We are working with all the parties, this Subcommittee and other members of Congress, the administration, non-profit mailers, and other customers to find an acceptable solution. We are looking for ways to reform eligibility requirements, phase in increases in postage rates for qualified non-profit mailers, and retire the revenue forgone debt. Our goal is to find an answer that represents the best interests of all postal customers.

The second issue is additional deficit reduction legislation. The Office of Management and Budget once again says that we owe more money, more than \$1 billion, for interest on costs we assumed under the Omnibus Budget Reconciliation Act of 1990. We believe, and Congress has twice agreed, that we have settled this issue in full.

Since 1985, we have been asked to ante up four times in deficit reduction legislation, each time agreeing to take on new costs that the Federal Government as a whole had originally committed to pay. The combined cost of these assessments, just through 1995, will total about \$9 billion. This is an enormous amount of money, more than our fair share to help reduce the deficit. Here again, we must work with all of our constituencies to get this issue resolved.

This is a time of tough decisions for Congress and the administration. I can appreciate the difficult choices facing you and your colleagues. We have had to face some very tough decisions of our own in the last 8 months. But in only a short time, we have made important progress toward achieving the mandate Congress set forth more than 20 years ago.

If we can just have the operational and financial independence to balance our books, latitude that Congress prescribed in 1970, I am confident that we can deliver on the vision that went with it, which is a Postal Service that is a model for government, a powerful force for American business, and an effective communications system that connects the people of this great nation.

I know that you are fundamentally committed to the success of the Postal Service and to bringing good, sound business principles to government, and I appreciate that. I am committed to those same goals.

We stand ready to work with you to serve the best interests of all postal customers and to help you and our President apply the lessons we have learned to other parts of our government.

Thank you, Mr. Chairman. That concludes our opening statement.

Senator PRYOR. Thank you, Mr. Runyon.

Because of Senator Stevens' schedule this morning, I am going to yield to Senator Stevens and allow him to ask the first series of questions, Mr. Runyon.

Senator Stevens.

Senator STEVENS. Well, you are very thoughtful, Mr. Chairman. I thank you very much.

Mr. Postmaster General, it was a nice statement. I again congratulate you. I know that we have to do something about the revenue that we take away from the rate payers. Whether it is gone or forgone, it is still not there.

We just reported a bill out of the Rules Committee, I have just come from there, the new campaign reform act which says that you will deliver at least one piece of mail for each candidate for the Senate to every person in that candidate's state at the bulk, non-profit mail rate.

I would like to ask you to give us an estimate of what that is going to add to revenue forgone so that we may have that available when we get to the floor. I don't think anyone really has costed it out unless you have given someone costs on it. I think it is another twist of revenue forgone that we have to take a look at.

You have this reorganization. It has taken some time for it to filter down to the local level. I understand that that is the case. It does take time, a reorganization. Have you got a timing for completion? Is there a completion date now scheduled for that?

Mr. RUNYON. I will provide the information on what the campaign finance reform bill would add to our revenue forgone request.

LETTER FROM MR. RUNYON TO SENATOR FORD

U.S. POSTAL SERVICE,
475 L'ENFANT PLAZA S.W., WASHINGTON, D.C.,
March 3, 1993.

HON. WENDELL H. FORD,
Chairman, Committee on Rules and Administration,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: Campaign reform legislation is once again receiving serious consideration in the Congress. I am writing to express concern about one aspect of the legislation, reduced postage rates for qualified candidates. S. 3 provides that reimbursement to the Postal Service for these reduced rates will be made through the revenue forgone appropriation.

In my testimony before the House Appropriations Subcommittee on Treasury, Postal Service, and General Government on February 4, I noted that the Postal Service has been short-paid by more than half-a-billion dollars over the last 3 years for revenue forgone. If that trend continues in the Fiscal Year 1994 appropriation, the total shortfall will increase to around \$1 billion. That is roughly equivalent to a one-cent postage increase.

Subcommittee members asked me to help identify ways to limit the organizations and the kinds of mailings that benefit from the revenue forgone appropriation. In the absence of adequate funding for the existing recipients, the Subcommittee is looking to contain, if not reduce, the total program cost.

Given this situation, the Congress may want to consider ways other than the revenue forgone appropriation to fund reduced postage rates in campaign reform legislation. The job of cutting back the current revenue forgone program would be that much more difficult with the addition of new beneficiaries and costs estimated at \$16 million per general election.

I would be pleased to work with you on a mutually satisfactory resolution to this problem.

Best regards,

MARVIN RUNYON,
Chief Executive Officer PMG

Mr. RUNYON. We think that we will have the majority of those people placed in April. We are now down to the point to where we

have done everything we know how to do to allow people to move into jobs that they would like to move into or that are open. We are now down to a point to where we think that we are going to have to make some directed transfers, and we are not going to do that until sometime in April.

Senator STEVENS. Well, that was going to be my next question, really. I heard about the directed transfer concept. That, in effect, is going to be an offer that the employee can't refuse, right? At that point, there will be layoffs?

Mr. RUNYON. There won't be layoffs, no sir. It is the employee's option.

Senator STEVENS. Well, all right. That is a nice euphemism. I understand it is a take-it-or-leave-it proposition. Here is a job. You can move from Nome to Little Rock or stay in Nome without a job.

Mr. RUNYON. I don't think that we will have any such arrangement as that. We are making every effort to move people that want to move where they want to move. As a matter of fact, in Alaska I think there are 16 people that we are looking at now to determine where they would move to if they moved.

They also have the option of moving from, let us say, a supervisor's job into a craft job, and we are compensating them in addition for that. They would receive a cash payment if they wanted to do that—that would be the equivalent of the difference in pay from the supervisor's pay to the craft's pay for 2 years, not to exceed \$20,000. So that is another thing that we are going to be doing.

Senator STEVENS. Has that gone into effect yet?

Mr. RUNYON. It is in effect in New York and it is going to go into effect in the other locations very soon.

Senator STEVENS. I understand you had an open period for people to retire, and it was fairly successful. Have you thought about another open period?

Mr. RUNYON. No sir, we have not considered another period. We are just now getting over that period. We had a period, it was until October 1, I believe, and we opened that for some period longer for those employees, but we have not considered doing that again.

Senator STEVENS. Was that a cost-effective way to bring about attrition?

Mr. RUNYON. We think it was very cost effective. We needed to have 30,000 less overhead positions. We analyzed what we thought would incent people to leave. We looked at a year's pay, we looked at 6 months' pay, we looked at 3 months' pay. As we looked at it, 3 months' pay, we thought, would yield about 15,000 people, which wasn't enough. A year's pay, we thought, would yield about 90,000 people, which was way too many.

So we settled at 6 months' pay, a lump-sum payment. We thought that that would get us about 40,000 people. We had 30,000 jobs that were going away. It turned out to be, I believe it was about 47,500 people that actually accepted that benefit.

Now we offered that to most everybody in the Postal Service but not to everybody in the Postal Service. For example, we didn't offer that to rural carriers. We didn't offer that to electronic technicians, we didn't offer it to postal police, or to postal inspectors. The reason we didn't is that we had more of a shortage than a surplus

there, and we knew we were having trouble finding people like electronic technicians. So it didn't make sense to do that there.

We offered it everywhere else. We even offered it to postmasters, and there was no reduction intended of postmasters, because we didn't eliminate any post offices in the process that we were going through, but we did offer it to postmasters so that we would have an opportunity to place some of the people whose jobs would be going away in other jobs, and so we offered it to them. There were about 5,000 postmasters that actually took that incentive.

Senator STEVENS. On another subject, my memory is that when we had some reductions in force in the past that we allowed people in a Grade 11 to compete for a Grade 13 position rather than just have to transfer to another area to maintain the Grade 11.

As I understand your reorganization, a postmaster that was eliminated was not able to compete for a higher-level position in the same area. Why was that?

Mr. RUNYON. We didn't eliminate any postmaster jobs. And we also didn't have a reduction in force. What we had was some overhead positions that were going away, and a lot of those overhead positions were upper positions.

For example, we had 42 officers in the Postal Service and we now have 23. It was over a 40 percent reduction in officers.

We had regional offices, we had division offices, we had management sectional centers. Those were all eliminated.

Senator STEVENS. Well, now I met with the postmasters and this was one of the complaints they made to me and my staff personally, that the vacant postmaster positions were not available to displaced supervisory personnel.

I may have misstated my question. Where there is a vacancy in the postmaster's position, the displaced supervisory personnel, why weren't they able to compete for those positions?

Mr. RUNYON. They were able to compete. What I think the problem is, that the postmasters who were in a smaller post office weren't able to move up to a higher postmaster's position. That was their concern, I think. The problem we had was we had other people who didn't have a job and what we did was put them in some of those postmaster jobs, which filled those jobs, and the normal procedure where a postmaster in a lower position could move up was not done. It was done in some cases, but not overall.

Senator STEVENS. Well, it was the postmasters' suggestions that displaced personnel be given that opportunity. You say they were given the opportunity?

Mr. RUNYON. Displaced personnel were, yes sir. There were no displaced postmasters.

Senator STEVENS. There is a misunderstanding about that. As Ms. Reynolds says, she answered one of those pieces of mail, too. She has a new name here. But the postmasters felt that that had not been available to displaced personnel. We will look into it, and I will get back to you again.

Is there any incentive for displaced supervisors to return permanently to craft positions? You mentioned temporary—

Mr. RUNYON. Yes, that is an incentive, and it is to make a permanent move.

Senator STEVENS. It is only a temporary adjustment in pay.

Mr. RUNYON. Yes.

Senator STEVENS. They are not grandfathered in on the level they are in?

Mr. RUNYON. No sir. What we are doing is compensating them for 2 years the difference in pay that they have today and the difference in pay they would have on the craft job. We compensate them for 2 years, and after that it reverts back to the craft pay.

Senator STEVENS. I have some questions I will put in the record, Mr. Chairman. I don't want to belabor this too long.

I think I did contact your office about the complaints that had come from veterans' organizations about veterans' preference and I think you had some litigation over that.

What is the status of veterans' preference as far as the job elimination decisions that were made in your reorganization?

Mr. RUNYON. Well, we have followed all of the rules and regulations concerning veterans' rights. I think one of the things that the veterans had wanted us to do was to conduct a RIF, which is a reduction in force. We did not conduct a reduction in force. We did not have any layoffs.

Now I am not familiar with any cases we have. Maybe our General Counsel is familiar with cases. Are you?

Ms. ELCANO. We have had about five to seven decisions from the Merit Systems Protection Board in the reassignment and some of the retirements, whether they were coercive or not, and to date, the trend going is that it is not a RIF and the Postal Service's process is being upheld.

There was one decision I found out just this morning about, as fate would have it, that went the other way, and in that case we think that there were some factual questions and misinterpretations of the regulations, and we have petitioned for a rehearing on that.

But the basic trend going on out of the Merit Systems Protection Board, which, as you know, protects veterans' rights in personnel actions, is coming down on the side that the Postal Service's actions were within the standards of the law and that there was not a problem with the way veterans were treated.

Senator STEVENS. If they are actually veterans and displaced, are they given the preference for another job? I was told that you did not.

Ms. ELCANO. We did not activate RIF procedures, so the bumping and the different preference-eligible mechanisms were never activated. In other words, individuals were treated the same in terms of what jobs they were in. It was a downsizing in the administrative positions, and we did it through voluntary reassignments and voluntary retirements at this point, and are about ready to start some directed reassignments.

But we never activated a RIF, so therefore no veterans' rights ever factored in. We gave everyone saved salary and saved grade indefinitely, so there was never any need for the RIF procedures to be implemented, and that is what the Merit Systems Protection Board has said was correct in the way we approached it.

Senator STEVENS. I think, Mr. Chairman, we are coming into a period now of substantial reduction in force, and I understand

what you are saying. You are not calling it a reduction in force, but you brought about a reduction in force.

Mr. RUNYON. There are less people there, but there are less because 47,500 chose to leave.

Senator STEVENS. I am anxious to know if veterans' rights were protected for those who remained as well as those who—if they left voluntarily, obviously you don't have a veterans' problem.

Mr. RUNYON. Right.

Senator STEVENS. But for those who left, whether their veterans' rights were protected, and I think it is important to look at the now upcoming reduction in force, a substantial one in the Department of Defense and other Federal agencies, and if veterans' preference can be avoided by just a nomenclature of the personnel action, instead of a reduction in force having a, you will pardon my phrase, forced reduction, I mean, it is still happening and their rights are not protected, as the veterans claim.

They brought five actions against you.

Ms. ELCANO. Yes, Senator, that is correct.

Senator STEVENS. And you won all five. There are five veterans that have lost, as far as they are concerned.

Ms. ELCANO. What it turned on was, was there a demotion, furlough, or a firing, a removal, and the cases said that what we did cannot be defined as a demotion, a firing, or a furlough because we gave saved salary and saved grade indefinitely, and none of those actions are defined as a furlough or a reduction or a demotion or a firing.

While I don't want to appear too technical about it, if it is not within the definition of those terms, it is not considered a RIF within the meaning that veterans' rights would be activated.

Senator STEVENS. That is what I am telling the chairman. I think we need a hearing to see if the veterans' preference is precise enough to deal with the changing circumstances in government today, because we are going to face a substantial number of forced reductions. If it is not going to be called a RIF, maybe veterans' preference has to be restated. I do believe those who are in that category, and they are declining in number, but they should be protected.

One last question, and that is I understand you are working, you said you are working, on the revenue forgone area. I have had some problems; we have dealt with it in the past. The 501(c)(3) eligibility concept comes into play. It does seem to me that we may want to work with you when the tax bill comes up to really make sure that the 501(c)(3) is limited to those people and those entities who are really performing a specific function and it is not just a mechanism that is used by direct mail houses to go out and send more direct mail and raise more money for causes that never see the money because 90 percent of the cost goes into the mailing and 10 percent comes back in, and by the time you pay salaries there are really no beneficiaries to those 501(c)(3)s.

Now have you done anything about that in your approach?

The 501(c)(3) is not going to limit forgone unless 501(c)(3) has parameters.

Mr. RUNYON. You are correct. Now we are looking at the people who are qualified. You know, back in 1952 there were 12,000 orga-

nizations who were eligible for revenue forgone. Today, there are over 400,000. Not all of those fit the 501(c)(3) category. In what we are looking at now, we are looking at who doesn't fit the 501(c)(3) category, who still fits some other categories. Part of our recommendation, as it stands now, is going to be that only if you meet the 501(c)(3)—now you are taking that a step further and saying, do they really meet the 501(c)(3).

Senator STEVENS. Well, I think there has to be a standard for eligibility for revenue forgone.

Mr. RUNYON. Yes sir.

Senator STEVENS. If you are going to get a subsidy from the postal system, that some specific amount of the money that is raised has to be dedicated to the goal of the classification, the 501(c)(3) classification.

I did hear about one, just as I mentioned it. Only 10 percent of the money was coming into the 501(c)(3) corporation. Ninety percent was going into the solicitation, the PR, and everything else.

Mr. RUNYON. Right.

Senator STEVENS. Ten percent was coming in, and after paying the salaries, there was very little money for the beneficiaries of that entity.

I think we have to have some sort of a gauge and say that you lose your 501(c)(3) category of tax preference—it is under the IRS code—unless whatever it is going to be, 65, 70 percent goes to the beneficiaries and can be established. If you fall less than that, you can't use 501(c)(3). If you can't use 501(c)(3), you can't use the postal system on a less than cost basis. I would hope that you would take a good look at that, because I think it has to be both, not just your limiting it to 501(c)(3). You are liable to give the spark plug for expanding 501(c)(3) even further—

Mr. RUNYON. Right.

Senator STEVENS [continuing]. And have a million entities using it.

Mr. RUNYON. Right. We would certainly be glad to work with you.

Senator STEVENS. Thank you. Again, I think I have some specific questions that are Alaska-oriented. I do thank you.

I know we have a thorny job still up north. We have changed since the Postmaster General has come in, Mr. Chairman. We have mail going that is going by surface that used to go by air, some by ferry, some by boat, and we are even going to experiment on an air-cushioned vehicle, I hope, but it is still going to be a long haul for those of us who live in this area.

I think you ought to give us a stamp that shows the map of Alaska on top of the map of the south 48 so everyone would learn. The eastern part of the United States is in Baltimore, the end of the Aleutian Chain is right off San Francisco, Point Barrow is right at Duluth, and Ketchikan is almost to New Orleans, and most people just don't understand that, including people in your organization. That is a long, long lifeline you give us in that rural part of America and hope that we can work together to make sure it doesn't go down.

I saved it for last. Why don't we have an airmail stamp again?

Mr. RUNYON. I don't know the answer to that question. A lot of our first-class mail goes by air.

Senator STEVENS. I know, but there is no guarantee today if you mail that it will go by air. Why can't we go back? I think people are paying for your Priority Mail, but that is two pounds. I am talking about a grandma sending a letter to her granddaughter. Why can't she, if she wants, guarantee that it goes by air?

Mr. RUNYON. Well, we can certainly look at that. It is not a subject that has come up to me before, but I will certainly be glad to look at it.

Senator STEVENS. Thank you very much.

Thank you, Mr. Chairman.

Senator PRYOR. Thank you, Senator Stevens. You always ask good questions and I think you certainly asked some good ones this morning. Do you have a statement?

Senator STEVENS. Senator Roth asked to have questions submitted for the record, and I will have some later. Thank you very much.

Senator PRYOR. Those will be submitted to the Postmaster General. Thank you, Senator Stevens.

Mr. Runyon, I want to deal with you for a few moments about Priority Mail. I am concerned about the advertising campaign. In fact, we have here an advertisement. I believe this advertisement recently ran in the *Washington Post*: Two pounds, 2 days, \$2.90, with anybody else, you are paying too much.

Now any average citizen out there would read this and say, if I walk down to the post office and plunk down \$2.90, in 2 days this letter is going to get to the recipient. Now I am sad to say, this is not happening.

Let me, if I might, just cite this article from Consumer Reports,¹ which is pretty reliable. I think it is reliable. This is dated March 1993, and I will read the bottom line. I am going to place this article in the record of our hearing this morning, Mr. Runyon.

Senator PRYOR. The final line in this article says, the post office may be promising more than it can deliver. What sort of complaints are you getting on Priority Mail?

Mr. RUNYON. We had some complaints that we don't get it there in 2 days. I have received letters that they haven't got Priority Mail in as many as 8 days. We do get those kind of complaints, that is true.

Senator PRYOR. While we are showing this printed advertisement, if we might, let us show also the video of the commercial advertisement now being aired on television and see if not a reasonable person would be led to believe that their \$2.90 was going to buy them 2-day delivery.

[The videotape was played.]

In the spirit of the Olympic Games, the Postal Service would like to present—

Two!

Two!

Two!

¹ The March 1993 article from Consumer Reports appears on page 51.

Two-day Priority Mail.

Two!

That's delivery in just 2 days of up to 2 pounds for just \$2.90.

Two!

Remember—

Two!

—2 days—

Two!

—two pounds—

Two!

—two-ninety.

Two!

Two!

Two!

Two-day Priority Mail from your Postal Service.

We deliver for you.

Official sponsor of the 1992 Olympic Games.

[The playing of the videotape was concluded.]

Senator PRYOR. Any comments on that?

Mr. RUNYON. That is an old commercial.

Senator PRYOR. But it is running.

Mr. RUNYON. We don't sponsor the Olympic Games. [Laughter.]

There is another commercial that is very similar to that.

Senator PRYOR. They are running new ones now, but they—

Mr. RUNYON. Yes, we have a new one.

Senator PRYOR. They don't have the Olympic Games on there.

Mr. RUNYON. Yes sir.

Senator PRYOR. I don't think we could get the one without the Olympic Games on there.

Mr. RUNYON. Yes.

Senator PRYOR. Do you have any comments on this?

Mr. RUNYON. I think I would assume what you have said, that I would see the package delivered within 2 days.

Senator PRYOR. Do you—

Mr. RUNYON. Now that is one of the things that I am looking at, because of that we need to make sure—we know that every package is not going in 2 days. We know that. And there are disclaimers put on advertisements, such as is on the bottom of that one up there. It is a normal advertising technique that you put a disclaimer, under certain conditions these things apply. Now I am not too sure that that disclaimer on that ad right there is properly displayed.

Senator PRYOR. I don't think it is.

Mr. RUNYON. Yes—

Senator PRYOR. I think in fairness, it is not.

Mr. RUNYON. I agree with you. And we have—

Senator PRYOR. In fact, does anyone have a magnifying glass in the audience? [Laughter.]

No, it is a very hard disclaimer to see, at the very bottom.

Mr. RUNYON. It says that there are some restrictions that apply. Please check your local post office for details. I can read it from here, but it is a big blow-up.

Senator PRYOR. Yes sir. I can't read it from here. I think that the local post office, the people there, the clerks, the people who are

dealing with the public out there, I think their response is, when we have sent people out there to make inquiries about this and to ask about the restrictions, the response generally has been, well, we do our best.

Mr. RUNYON. Right.

Senator PRYOR. We do our best to get this there in 2 days, but there is no guarantee.

Now if Federal Express, UPS, or a private enterprise company ran this printed advertisement and ran the TV commercial implying that a 2-day delivery was going to be in effect for the \$2.90, if that were not the case, I think the FCC would be all over these companies for fraudulent advertising. Is that not true?

Mr. RUNYON. Well, I don't think it is fraudulent advertising because the disclaimer is there. I think from a good business practice the disclaimer should be more open, bigger, larger, where you could see it better. I think it needs to be improved. And when I saw that, I said that, and we need to do that, and we will.

Senator PRYOR. Unless you do that, I am going to suggest that you give the consumers a refund if they, in fact, don't get their letter delivered within 2 days. I think we have to be very, very careful how we put the stamp of the United States Government on an advertising program that, as shown in *Consumer Reports*, may go further than it can deliver, promising more than it can deliver, the Postal Service.

Mr. RUNYON. I agree with you. The disclaimer should be better viewed and done better and we are working on that. Plus, our clerks in the post office need to be better informed on what specifically can happen.

Senator PRYOR. All right, let us ask that question. What would the restrictions be? How would you inform our clerks to tell our general population—

Mr. RUNYON. Well, there are certain locations that we can't reach in 2 days, and we need to know what we can do. Now we have a system that we use. We use commercial air on this, and sometimes—for example, I am sure that this past week everything didn't get there in 2 days, and I don't know whether the disclaimer should say, bad weather is going to stop this or what, but it is definitely going to happen.

But we need to tell them the areas, that outside of larger areas it may take longer than 2 days. You can get it from here to there, to a major center in 2 days, but if it is going to have to go another 100 miles into a rural area, it may not make it.

Senator PRYOR. Well, Senator Stevens was just talking about the uniqueness of his State of Alaska.

Mr. RUNYON. Right.

Senator PRYOR. I have been there and I can testify to that fact. The enormity of that State is so awesome, and I imagine there would be some restrictions in Alaska. I can understand this.

Mr. RUNYON. There might be—

Senator PRYOR. But I think in fairness to the consumer that we have to be very careful about what we are doing in these types of marketing devices. I know you want business, but I think business at any cost, especially in not being able to deliver the promise, I think is tough.

We have a wonderful community in south Arkansas, Fordyce. It is the county seat of Dallas County, by the way.

Mr. RUNYON. My roommate at Texas A&M was from Fordyce, just by happenstance.

Senator PRYOR. Well, it has produced a lot of fine people and one of them was Bear Bryant. He was born in Fordyce. People think he was born in Alabama and he was not. He was born and raised in Arkansas and he drifted over to Alabama.

But they have a wonderful bakery there. It is a new business, about 7 or 8 years old, and it has gotten a lot of national acclaim. In 1991, in the Christmas season, they used Priority Mail, so satisfied, no complaints. I even think there may have been a letter on record somewhere written to the Postal Service about what a great service this was. Nineteen-ninety-two was a different deal, 7, 8 days delivery. It was a chaotic situation.

Now something happened in that year, and I would like for us to look at situations like that because next year, this particular business is not going to use this service. They are going to be using a competitor of yours, I think, and I think that we should look into the situation to see what happened.

Mr. RUNYON. I agree with you.

Senator PRYOR. The purpose, once again, of these hearings is to bring these matters out into the open, to allow Senator Stevens, myself, and others on this Committee to bring constituent problems to you and to the Service, and we just appreciate the opportunity to do it and we appreciate you looking into these matters as we do.

Do we know what percentage of Priority Mail is meeting the 2-day promise? Do we have a figure on that?

Mr. RUNYON. I think the number is 84 percent for Postal Quarter II. And as I said in my testimony, we want to get that to 90 percent by the end of this year.

Senator PRYOR. Do we also have any indication whether the Express Mail is on the increase or decrease?

Mr. RUNYON. I think our Express Mail is on a decrease of about 2 percent this year. Priority Mail, however, has increased 10 percent this year. Priority Mail is up—

Senator PRYOR. So Express Mail is on the decrease; Priority Mail is increasing?

Mr. RUNYON. Yes.

Senator PRYOR. Is the Priority Mail taking away from the Express Mail, the Express Mail sort of being the flagship, as we call it now, of the Postal Service?

Mr. RUNYON. I don't think that it is. I think that we have to improve our performance on Express Mail. I think that that is on the decrease because of our performance and we need to improve our performance on Express Mail.

Senator PRYOR. Now there was a story about you, Mr. Runyon—by the way, there are a lot of great stories about you and I won't go into many of them, but one that I found intriguing was that you received a Federal Express envelope in your office—

Mr. RUNYON. I receive a lot of them.

Senator PRYOR. Now this story said that you threw it in the wastebasket. I don't know whether—

Mr. RUNYON. Right.

Senator PRYOR. All right. Now I think rather than throwing that in the wastebasket, I think the proper question might be, wait a minute, why did the sender choose to use a competitor of ours. Would that not have been the proper question?

Mr. RUNYON. Well, it might have been, but I would like to give you the circumstances under which that letter went in the mail. First, it didn't come to my office, it came to my home. It was sent to me by a friend who was attempting to do business with the Postal Service. It is my opinion that if people want to do business with me they should use my business. He didn't do that. So I threw his letter away.

I sent him a letter, though, through the mail, and explained to him that I had received this Fed Ex package from his address and assumed it was from him and that if there was anything of value in there that he was sending me, he probably ought to check his insurance on that and get that back. If it was mail, he could just kind of resend it to me by plain letter or Express Mail.

In fact, he did send it back to me. He was a very embarrassed person, because companies who deal with other companies usually use the service of that company if they're going to deal with them.

For example, let me go back a little bit further into the days when I worked in the automobile industry. In the automobile industry, there are suppliers to the industry that supply all automobile companies and they come calling on the automobile companies. And when you call on Ford Motor Company, you drive a Ford to that parking lot. You don't drive a Chevrolet, and that is just the way it works. If you have to go rent a car, you go rent a car to call on those people, and that is what you do.

I feel that the same thing ought to apply if people want to do business with me. They should use our service, and that is the reason I did that.

Senator PRYOR. There is no overall instruction or mandate out to the regional offices that if you get a Federal Express or UPS letter or document that you throw it away, is that right?

Mr. RUNYON. Absolutely not.

Senator PRYOR. This was a—

Mr. RUNYON. As a matter of fact, I receive and open an awful lot—more than I would like to—of Fed Ex letters because our customers, some of our customers, choose to use Fed Ex. If they do, it is OK. Every express package I get from Congress comes Fed Ex. [Laughter.]

None come Express Mail, none. And the reason for that is that that has been bid and Fed Ex has the lowest price. Now we can't bid because the way our rules are set is that it has to be \$9.95 and I can't make a discount for bulk purchases. It would be nice if I could, or for bulk sales, and we are working up a situation where we would like to go back to the Postal Rate Commission and say, look, we need to be competitive in this business and if you have 50,000 packages, it ought to be less. That is the way everybody buys things. Bulk is cheaper, except with us.

Senator PRYOR. Now I am going to move off of this—

Mr. RUNYON. By the way, I open those Fed Ex packages from Congress when I get them. [Laughter.]

Senator PRYOR. You do? [Laughter.]

I must say that is better than some agencies out in the Federal Government. They hire consultants and contractors to open our letters and to answer them, and I am glad that you answer those yourself.

And by the way, I might say that those times when we have had to call you or your office, there has been a very quick response time in accepting those and listening to us and our concerns that we are expressing.

Tell us now how many—I want the record to show—how many fewer people today we have within the Postal Service than we had a year ago, or whenever you began. How long have you been in your present position as Postmaster General?

Mr. RUNYON. Eight months.

Senator PRYOR. Eight months. How many fewer people than 8 months ago do you have?

Mr. RUNYON. I would have to submit that for the record. I think in the past year—

Senator PRYOR. All right.

Mr. RUNYON. I was looking at those charts on my screen the other day and I think it is 54,014 less.

Senator PRYOR. Sixty-two-thousand fewer employees—

Mr. RUNYON. In 12 months, but how many of that is the last 8 months, I don't know, but it is a considerably lower number.

Senator PRYOR. All right.

Mr. RUNYON. I will supply that for the record.¹

Senator PRYOR. Are you characterizing, maybe, the Postal Service as leaner and meaner? I mean, is it as efficient, more efficient, less efficient than, say, a year ago?

Mr. RUNYON. I think we are much more efficient. We have less levels of management. We have delegated down some responsibilities to people at lower levels so that they can do that.

Our CSI, customer satisfaction index, that we just recently received—

Senator PRYOR. Right, I was going to ask about that.

Mr. RUNYON [continuing]. And I don't have a complete printout on that, is 89 percent, the highest it has ever been. It was 87 percent the last reports that we got. So 89 is the highest it has ever been, and that is through the very last period of reporting. The very good and excellent ratings are up 4 percent, which is a good increase.

So we think that we are doing well from the service standpoint. We think that we are more efficient. One of the reasons that goes up is because people are receiving their mail quicker. So I think that we are leaner. We are not meaner, we are kinder, but we are leaner.

Senator PRYOR. Now what is your No. 1, in the downsizing process, what is your No. 1 complaint that you are hearing, not from the public but from, let us say, the employees. What are you hearing from the people who are actually out there delivering the mail and standing behind the counter, dealing with the public? What is the No. 1 complaint or concern being expressed?

¹ The figure supplied by Mr. Runyon was 54,014.

Mr. RUNYON. It depends on what job the person has. We get different complaints. Now Senator Stevens mentioned about postmasters. We get some complaints from postmasters that they were not allowed to go into a higher postmaster job, so we get some of those complaints.

There are 18,000 less supervisors, so there are some supervisors that are not too happy about that situation.

On the other hand, there are a lot of people out there that thank me. When I was at the League of Postmasters and spoke to them, it was less than 2 weeks ago, several of those postmasters stood up and said, thank you for giving us the opportunity to do our job. We can now do what we need to do and we couldn't before. You have removed those rules of what we had to abide by.

So we are eliminating a lot of our regulations. Our DMM, which is a fairly good-sized book, we are eliminating half of that, so we are not going to have as many regulations and rules.

Senator PRYOR. Don't tell me all those regulations, but tell me the types of regulations that you are taking off the books. And can you do that unilaterally, just by, say, executive order? Do the Postal Governors have to subscribe to what you are doing?

Mr. RUNYON. No, they don't have to approve it. They might have to subscribe to it. If they didn't like it, we wouldn't do it, but they do not have to rule on it.

An example would be, we had probably a chapter on how you can receive mail in a post office, all the things the postmaster has to check and do, and we are going to cut that down to a paragraph that says that the postmaster has the authority to receive the mail. That is it.

Now some like it and some don't, because we have always been government, we have always had these regulations, and now we don't have them to go by and that bothers some people. Other people it doesn't bother.

I had a woman who owned a company that I was addressing in an audience about a week ago. She stood up and said, now you say you are being friendlier and you are customer friendly and all that stuff. Will you please explain to me why when I took 400,000 pieces down to a post office to mail, they said to me, you are 10 minutes late, we can't take it? I told her I did not know why anybody would say that, but the reason is that there is a regulation, probably, that says it gets here by 5 o'clock or it goes out tomorrow.

We have got to fix that. That postmaster or supervisor or employee should be empowered to take that mail. That is business, and that is a customer, and we should treat that customer correctly. So that is the way we are changing some of these things.

Senator PRYOR. We are talking about customer satisfaction and we are talking about some of the employee concerns. One that has been raised with me is do you think that there is a buddy system out there as far as who are becoming the local postmasters? Are we moving some of the top echelons out, they are leaving early, they are leaving the Postal Service and there is another layer out there that then automatically move up to become eligible to be postmasters out in the communities across America?

How is that system working? Is there a buddy system there?

Mr. RUNYON. Yes sir, there is.

Senator PRYOR. How do you deal with it?

Mr. RUNYON. There is a buddy system in this whole world. The way it works is that people, when they go to hire somebody, as a general rule, without any constraints put on them, will hire somebody like themselves. That is just the way it works. When you go to select somebody, you examine them and if they meet your criteria, and your criteria is of yourself, sort of—

Senator PRYOR. I am just looking at some of these people I have hired behind me to see—[Laughter.]

I am just having a little fun.

Mr. RUNYON. Well, at any rate, I will skip that example. [Laughter.]

Senator PRYOR. Listen, you say anything you want to.

Mr. RUNYON. I don't think so. [Laughter.]

But there is sort of a system that you really want to be sure that you can trust the person and all that kind of stuff, so you have that. Now what we have tried to do is to put some constraints on that. We have in the Postal Service, in the reorganization, put in what we called a Diversity Development Vice President, and we have a group of people working in that. Those people are helping us in making some selections.

Now when you have 650,000 people out there, you cannot change that thought process overnight, but we certainly are working on it to change that process so that people get promoted on merit and ability and not on the good old buddy system, because it certainly does happen and we are doing everything we can to change the culture. That is the culture in the Postal Service, and we have got to change the culture. That is just one part of it, and we are working very hard to do that.

Senator PRYOR. Now I hate to just bring up an isolated incident, but in Pennsylvania in the last several weeks, one of the post offices there, the local employees wrote a letter to the editor in Conneville, Pennsylvania, the *Daily Courier*, and it is signed by—it looks like 10 or 15 local employees of the post office. Sorry for poor service. We are sorry that we didn't give you better service during Christmas.

Now this is pretty unique. Is this happening anywhere else? Do you know, is this an isolated incident? It is the only one that has come to our attention.

Mr. RUNYON. It is the only one that I am aware of.

Senator PRYOR. You are aware of this one?

Mr. RUNYON. Yes, I have seen the clipping and we are checking into it to see what is going on.

It is isolated because most of them that I have been getting are about the good service that we gave, and I don't know why they didn't give good service. We didn't have budget restrictions on people that would cause them to have to do that.

Now here again, we have individuals in each one of our locations that carry out the instructions of the Postal Service, and whether that person or some persons didn't do it that way or not, I don't know. I don't know the reason for that. We are checking into it, and when we get the answer we will give it back to you.

Senator PRYOR. It says, as long as the public settles for poor service, we will keep providing it. After all, it lowers the budget! We

employees feel we can do better for you. In fact, the television ads are true. We have the technology, the hard-working clerks and carriers to provide the best, fastest delivery service if our managers would let us. I think this is one of the points being driven home by several of these employees.

I wanted to bring this to your attention. Now this is the only one of these that I have seen, but I do think it deserves the opportunity, at least, for these employees to tell their story.

Mr. RUNYON. Yes.

Senator PRYOR. Senator Levin of Michigan had to go to the White House for a meeting. He couldn't make it, evidently. He has concerns, I think, expressed in his statement, perhaps even some of his questions—we are going to leave the record open for a few days for members to submit questions for the record about the employee-employer relationships.

Give us an idea of how we are doing there. What is going on? What is the morale of the employee out there? And what are we doing to improve it?

Mr. RUNYON. That is our big concern also. As I said before, the culture of the Postal Service has got to change. We have had a very autocratic-type culture where people were told what to do, when to do it, how to do it, and we have to change that, and we are trying to do that.

In the restructuring, we have tried to arrange it so that employees have more to say about what they do. Such things as hours of work, it would be nice if they could kind of pick and choose their hours of work. We are looking at that.

Another way that we are really going to make it come home, I think, is by the way that we rate our people. All of our top managers this year and from now on are going to be rated on three things: A commitment to employees, customer service, and revenue generation. There is nothing in there about cost, which is what that thing refers to. We think that if we only have those three things to grade people on rather than the 80-some-odd that we had under the old system, that we will be able to get people to start thinking the right way about their culture.

They need to think that we have customers. We do have customers. A lot of people didn't understand that the post office had customers. If they want to mail their letters, they can bring them to us. Well, that is not going to work. We will go out of business like that.

We have employees that have feelings and we understand that, and we need to be sure that we have programs to take care of them.

Now before I came to the Postal Service, there was a survey run. I had a copy of that survey in May before I came to the Postal Service and I studied not the whole survey, this was 37,000 employees, this was a preliminary survey or an initial survey. We now, though, have the results of the survey of some, I think, 540,000 employees, and we took that survey into consideration in what we are doing in restructuring the organization.

There are a lot of things in there that are not pleasant to hear. That has been published also. We released that to the media, the results of that survey. They like their pay, they like their work,

they don't like their supervisors. They don't like how they are selected, the buddy system. So we know all of those things.

We are trying to fashion all the programs that we have now to correct those problems, and this summer we are going to go back to the employees again and ask for another survey and hopefully it will improve. If it doesn't, then we didn't do the right things. We are going to go back and try it again.

But those are the kind of things that we are trying to do. We meet with employees. We just had a town hall meeting, that is a good, popular way of doing things, in Dallas. We had about 250 employees come in. There were four vice presidents and myself that were there. We took questions from that group, answered their questions, found out their concerns. Then we aired that to all of our 670,000 employees, and we are going to continue to do that.

So we are working every way we can to try to improve the relationships.

Senator PRYOR. I think that is healthy and I hope you will continue that.

By the way, when you mentioned four vice presidents, this is sort of a new phenomenon, having new titles, right? I noticed when I received this annual report here, up at the top of the page it has Marvin Runyon, Chief Executive Officer, PMG, and then you have vice presidents. Is this new? How long have we had a CEO, and how long have we had vice presidents of the Postal Service?

Mr. RUNYON. About 6 months. It is new——

Senator PRYOR. Is this a Runyon innovation here?

Mr. RUNYON. Oh, I don't know about that.

Senator PRYOR. I am not saying it is bad, I am not saying it is good——

Mr. RUNYON. It is the way business is done. We would like to be seen as a business and not government. We are government, we know that, but we want to be recognized that we are competitive and we want to be looked at like a business.

Now when you take an outside business that we deal with, and we don't have any of those outside businesses that have postmasters in their title or assistant postmasters. What we have out there that we deal with are CEOs, presidents, vice presidents, and we want them to deal with us on an equal basis. They recognize those titles, they recognize that we are becoming more businesslike.

We are doing that in many ways. As a matter of fact, we have decided to start paying postage, for example. The post office doesn't pay any postage, and when I got into that and got to checking into it, I found out that we don't know how much postage we use. Well, we need to know. It is a cost. I now know that we spend about \$200 million a year on postage. That is a big hunk of money, and we need to make sure that we are spending it right.

I know that, for example, we were sending out our newspaper publications to our employees first class. Why do that? Well, it gets there overnight. So why don't we send it out like the rest of the people send out their newspapers? It is cheaper, isn't it? Yes. Well, we ought to do it that way.

So we are looking at all those kinds of things. We are trying to become more business-like, more accountable, more credible, and

we think that there is something to be said for looking like a business if we are going to act like a business.

Senator PRYOR. One thing I have been derelict in doing, Mr. Runyon, is having you introduce, and I would like to have you introduce for the record, those who have joined you at the witness table this morning.

Mr. RUNYON. Well, Mike Coughlin is our—

Senator PRYOR. You are certainly no stranger to this Committee.

Mr. RUNYON [continuing]. Deputy Postmaster General. Mary Elcano is our General Counsel and also a Vice President. We have substituted the title of Vice President for that of Assistant Postmaster General. And Joe Caraveo is our Executive Vice President and our Chief Operating Officer. He is responsible for delivery of the mail.

Senator PRYOR. Could I have your home phone number, please? [Laughter.]

I think I am going to call you sometime.

Mr. CARAVEO. You are welcome to call at any time.

Senator PRYOR. Let me switch gears a minute from the employee side. I think we have another letter I want to ask you about that customers are getting out there.

Years ago, in fact, I remember one morning in this Committee we heard about the proposal for cluster boxes at curbs and so forth to be installed at street corners. That was an attempt to cut down costs. I think the claim at that time, Mr. Runyon, was that this was a totally voluntary program, that there was no nationwide plan to change things.

But now we are getting a few complaints as to some recent letters going out. This one went out, for example, February 1, 1993, just a few weeks back. The notice that goes out implies that the individual customers of the Postal Service do not have a choice, that to help the Postal Service save money they must erect curbside boxes. It is only when someone asked a question that they are told this is not mandatory. But this letter being received today by citizens and Postal Service customers implies this is mandatory.

Would you address this, please?

Mr. RUNYON. I think I would like to ask our Chief Operating Officer to address that.

Mr. CARAVEO. Yes, you are correct that that was a program that we implemented when we went to neighborhood delivery and collection boxes. It was supposed to be voluntary if anyone chose to move from their door delivery to curbside or to the NDCBUs.

I am not familiar with this particular letter except I see the word requested on there, and it is not a requirement. There is no policy or any other directive that came from any of our areas that I am aware of that said that we would require people to get delivery at the curbside.

Senator PRYOR. It says the placement of a curbside delivery box is requested.

Mr. CARAVEO. Yes.

Senator PRYOR. I know if the IRS writes me a letter and they request some additional taxes, I send it in—[Laughter.]

But coming in a government envelope, wouldn't this have sort of the effect of saying that this was going to happen?

Mr. CARAVEO. Well, if it said required, that probably would be the case.

Now my feeling is that somebody did not use proper wording. I am not even aware of why they were doing that. As Mr. Runyon pointed out, we are not stressing budget at the expense of service, and certainly if I was aware of any of that going on, I would stop it.

Senator PRYOR. It says, the mode of delivery for your area has been selected for a change. That is pretty—

Mr. CARAVEO. But that is—

Senator PRYOR [continuing]. Clear language—

Mr. CARAVEO. Yes, but that is contrary to our instructions.

Senator PRYOR. Once, again, this has come to our attention, the purpose—

Mr. CARAVEO. Yes, I appreciate it, and if it weren't blocked out, I tell you, I would be double-checking where it occurred.

Senator PRYOR. Mr. Runyon, one final thing, and I want to go back to this. The only reason I am doing this is because I think it sets a tone sometimes, and I want to go back to that Fed Ex letter you received that time and threw it in the wastebasket.

I know where you are coming from and I don't want to belabor this, but I just want us to always believe that the Postal Service basically is granted a monopoly. We are not just another business. It is a very, very special business. I don't want the word to go out that we are not sensitive to that. I know that you are sensitive to this, and I know that in that particular situation, I think I know what you were trying to do. You may have properly explained it.

But I hope that is not going to be sort of the attitude of the Postal Service throughout, that those people who do not use the Postal Service throughout or from time to time use a competitor are not going to get good treatment by the Postal Service.

I just think we are a monopoly. The Postal Service has been around here as long as the country has been here. We are part of the constitution, and I hope we will just always be sensitive to that fact.

Mr. RUNYON. We certainly will be sensitive to that. We are a monopoly. In some areas, we are not a monopoly. We do have strong competition. Fed Ex happens to be one of those competitors.

Senator PRYOR. We understand that. Now you are the 70th Postmaster General in the history of the United States, and I want to say this has been a very constructive hearing. I have further questions I would like to submit for the record.¹

Due to time limitations and votes on the Senate floor, I am going to adjourn our meeting. I want to thank you and your friends for coming this morning. I am going to place your annual report in the record and other matters that you desire to have placed in the record.²

Senator PRYOR. Thank you very much, Mr. Runyon.

Mr. RUNYON. Thank you.

Senator PRYOR. We thank your staff.

[Whereupon, at 11:30 a.m., the Committee was adjourned.]

¹ Questions and answers appears on pages 32-48.

² The Postal Service Annual Report from Mr. Runyon appears on page 52.

APPENDIX

PREPARED STATEMENT MR. RUNYON

Thank you, Mr. Chairman.

With me this morning are Deputy Postmaster General Mike Coughlin, Chief Operating Officer and Executive Vice President Joe Caraveo, and General Counsel and Vice President Mary Elcano. We welcome the chance to talk with you this morning about the work we're doing to build a better Postal Service.

We've accomplished a lot in the last 8 months, and I'll talk about that more in a minute. But, I can still remember my first appearance at Postal Service Headquarters in May of last year. It was an exciting day . . . I was glad to have the opportunity to join this great organization and help it serve the communication needs of our nation.

And, then came the questions . . . on postal issues . . . classes and subclasses of mail . . . guidelines, rules and regulations. Right away, I recognized how much I didn't know about the Postal Service.

One of the things I did to prepare for today was to look back at a summary of your last postal oversight hearing. I wanted to get a historical perspective on the issues, and your assessment of our performance and the direction we were taking.

At that time, this Subcommittee raised a number of concerns. You were troubled by rising postage rates and substantial postal losses. You felt that service was deteriorating, particularly to rural America. You said the Postal Service was putting too much effort into selling T-Shirts and coffee cups, and not enough into getting the mail delivered. And, you voiced your support for protecting postal rate payers from the continuing adverse impacts of deficit reduction legislation and revenue forgone.

I've found a solid consensus of opinion on the Postal Service. Virtually everyone believes this is a good organization . . . with dedicated employees . . . and a mission that is vital to the economic health and competitiveness of the United States.

But, I found the same consistency in their perceptions of the problems facing the Postal Service—

Too much bureaucracy, and too little responsiveness . . .

Spotty, inconsistent service . . .

Rate increases that have been too large and too frequent . . .

Rising competition from private companies and evolving technologies that are eroding our mail base . . .

And, priorities that kept changing, to the confusion and frustration of customers and employees alike.

In the past 8 months, we've taken a number of steps to respond to these concerns.

First, we changed our management structure—something the *Washington Post* described as the biggest restructuring of government since the Eisenhower days. The new alignment is flatter, less bureaucratic, and more responsive to customer and employee needs. We've improved communications . . . reduced nonessential programs and some of the paperwork . . . cut out the T-shirts and coffee cups . . . and focused on the basics of our business—delivering the mail.

At the same time, we've worked to minimize the adverse impacts of the changes on our employees. We've eliminated 30,000 overhead positions. But, unlike thousands of companies in the private sector, we haven't closed our plants or laid off a single employee due to restructuring. We implemented the restructuring with the input and help of our employee organizations. We offered retirement and early-out incentives to create vacancies for affected employees, and our placement efforts continue.

Our finances are much improved. We turned a break-even proposition last year into half-a-billion dollars in net operating income. So far this fiscal year, we're ahead of plan. And, thanks to the efforts of employees and additional business from

our customers, we're going to keep postage rates stable at least to 1995 . . . and maybe longer.

Most importantly, we've made service quality our primary goal, and by all accounts, our performance has improved. Independent service measurement shows it . . . the headlines say it . . . and customers have confirmed it.

I've gotten letters and positive comments from mailers all across the country. Last week at a mailing industry convention, I spoke to an audience of 1,500 business customers. During the question and answer session, several people got up just to tell me how happy they were with the service they're receiving from their local post office.

Some industry experts are saying this is the best the Postal Service has ever done. I like to hear that, particularly from people who know . . . like the Mailers Council, an independent group of mailers and mailing associations that together represent about three-quarters of our mail volume. I like to see the numbers of satisfied customers in Springfield, Massachusetts . . . Lexington, Kentucky . . . Fargo, North Dakota . . . Salt Lake City, Utah, and cities all across the country. The credit for our success goes to our employees. They're doing a great job.

However, the best news may be that we're just getting started. We're doing more to improve service quality. We've raised the goal on service performance as measured independently by Price Waterhouse to 90 percent on-time delivery for overnight committed First-Class Mail . . . and we're working to get there.

Priority Mail volume has grown more than 10 percent since last year, so a lot of customers are clearly pleased with the value they get from this product. But, we've disappointed some people, too, providing prompt delivery one time, and delays the next. We're taking steps to improve our Priority Mail performance. We're going to do a better job identifying and sorting out Priority Mail at our windows, back docks, and collection boxes. We're deploying 51 bulk small parcel sorters this year, equipment that will help us get Priority Mail sorted earlier in the evening so we'll have more commercial airline flights to choose from to get it delivered on-time. And, we're working with these airlines to improve our transportation performance. By the end of this fiscal year, we are committed to delivering 90 percent of identified Priority Mail in 1 or 2 days.

We're extending our external measurement systems to cover newspapers, magazines and advertising mail. We're expanding retail service hours permanently in many post offices. We're working to simplify our guidelines and regulations, and make mail acceptance procedures more consistent from one post office to the next.

I believe that one of the keys to customer satisfaction is employee satisfaction. To do their best, employees need to feel good about their company and the work they do. Last year, we conducted an Employee Opinion Survey, and identified a number of areas we needed to work on to make the Postal Service a better place to work.

We're focusing on improving relationships among managers and employees . . . making better treatment of people a management priority . . . and basing compensation on teamwork and organizational success. It's a big challenge, changing the corporate culture of an organization more than 2 centuries old. It will take cooperation and patience, but I'm confident that we can do it.

To get the most from our capital investment dollars, we're working to build technology partnerships with universities and private companies, "win-win" relationships that will minimize our risk and up-front expenses and maximize benefits for all. Our sophisticated mail processing equipment is getting better . . . and smaller, so we're reevaluating our facility needs for the future. We're working to improve our procurement processes to get the best value for each purchase. And, we're developing new services for business mailers and enhancing old ones so that we can bring in more revenue. New volume and revenue will help relieve budget pressures so service can improve, and keep postage rates low and steady for all Americans.

The Postal Service is on the leading edge of reinventing government, already doing many of the things that the Administration, the Congress, and this Committee want to do for the Federal Government as a whole. We're streamlining bureaucracy . . . focusing on customer satisfaction . . . building teamwork with employees and partnerships with private industry . . . taking the lead on environmental issues like recycling and vehicles powered by alternative fuels . . . and emphasizing quality service and responsible finances.

It's natural for the Postal Service to help lead the way for government in becoming more businesslike and responsive to its consumers. The first step in "reinventing" this organization was taken 25 years ago.

In 1968, the Kappel Commission reported to the President that the post office simply couldn't be operated as if it were an ordinary Government agency. To avert catastrophe, the Commission said, the post office had to be run as a business, not a

Cabinet agency. What was required, the Commission said, was a "fundamental change in the anachronistic relationship between the Post Office and the rest of the Government."

Together, Congress and the President heeded this advice. You took the Postmaster General out of the President's Cabinet, transformed the old Post Office Department into an independent establishment, freed the new Postal Service from partisan politics, and gave it the tools and authority to operate independently in a business-like manner. We're working to deliver on that vision today.

I know that some observers, and perhaps some of you, are concerned about the terms we're using. I've been asked, "What do you mean, the Postal Service is a communications business?" "Why do you need to compete?" "What's the big deal about financial and political independence?"

To succeed in our mandate as a government agency—to provide universal service at a uniform, economical price—we have to succeed in the marketplace.

On the one hand, we provide a fundamental government service. Ninety-four million households rely on us as a primary means of communication that can reach anyone, from their relatives to their representatives in Congress. Last week, I received a letter from GERALYN KUEHR of Speedway, Indiana, inviting me to her wedding. It seems in January 1991, she wrote to "Any Service Member" in Operation Desert Storm, and met Chief Warrant Officer Michael Koehler by mail.

She said they corresponded for 4 months until they had a chance to meet in person, and "two years and countless letters later, we are to be married in April . . . without the excellent mail service during the Persian Gulf War, we would never have met." That's what I call a special delivery.

We also serve as an important pipeline for the nation's economy. Eight million small businesses use us to do business with their customers. Just one product line—advertising mail—provides an estimated 3.5 million jobs and generates more than \$200 billion a year in sales and donations. The services we provide and the prices we charge have a direct economic impact on the nation, and the individual competitiveness of millions of American businesses here in America and abroad.

On the other hand, we're not like any other agency or department of the government that I know of. We're not funded by tax dollars. We operate solely on our ability to sell a service in the communications marketplace. The quality of our service and the prices we charge must be competitive—and we must represent value to our customers—or those who can will simply turn to other means of communications—fax machines, private couriers, alternative delivery companies, and electronic communications—and those that can't will be left holding the bill for a universal communications service with little mail volume and revenue to support it. We must be a *competitive business* . . . so that we can be an *effective government agency*.

To meet this dual mandate, one of the things we must do is resolve several public policy and legislative issues so that the financial burden doesn't shift from the taxpayers to postal rate payers. If the practices of the past several years continue, the rate stability we have worked to bring to 250 million customers will be in jeopardy . . . and the competitiveness so important to all of us will be at risk.

The first issue is revenue forgone. Since 1991, Congress has failed to pay us more than half-a-billion dollars for revenue forgone. Adding in the estimated costs for 1994, the total bill is about \$1 billion dollars. The budget to be proposed by the President will call for revenue forgone funding next year of only \$92 million. Instead of revenue forgone, it ought to be called "revenue gone."

I recognize that this program is intended to fulfill a worthwhile public goal, and that it benefits many worthy organizations. But, as a public policy program, it was also intended to be paid for from tax revenues, not as a cost passed on to postage rate payers in the form of a hidden stamp tax.

We're working with all the parties . . . this subcommittee and other Members of Congress . . . the Administration . . . non-profit mailers . . . and other customers . . . to find an acceptable solution. We are looking at ways to reform eligibility requirements, phase in increases in postage rates for qualified non-profit mailers, and retire the revenue forgone debt. Our goal is to find an answer that represents the best interests of all postal customers.

The second issue is additional deficit reduction legislation. The Office of Management and Budget once again says we owe more money—more than \$1 billion—for interest on costs we assumed under the Omnibus Budget Reconciliation Act of 1990. We believe—and Congress has twice agreed—that we've settled this issue in full.

Since 1985, we've been asked to ante up four times in deficit reduction legislation, each time agreeing to take on new costs that the Federal government as a whole had originally committed to pay. The combined cost of these assessments—just through 1995—will total about \$9 billion dollars.

This is an enormous amount of money . . . more than our fair share to help reduce the deficit. Here again, we must work with all our constituencies to get this issue resolved.

This is a time of tough decisions for the Congress and the Administration. I can appreciate the difficult choices facing you and your colleagues. We've had to face some tough decisions of our own in the last 8 months. But, in only a short time we've made important progress toward achieving the mandate Congress set forth more than 20 years ago. If we can just have the operational and financial independence to balance our books—latitude that Congress prescribed in 1970—I confident we can deliver on the vision that went with it . . . a Postal Service that is a model for government, a powerful force for American business, and an effective communications system that connects the people of this great nation.

I know that you are fundamentally committed to the success of the Postal Service and to bringing sound business principles to government, and I appreciate that. I am committed to those same goals. We stand ready to work with you to serve the best interests of all postal customers . . . and to help you and our President apply the lessons we've learned to other parts of our government.

Thank you.

QUESTIONS SUBMITTED BY SENATOR PRYOR

AVAILABILITY OF INFORMATION

1. *Question.* As I mentioned in my opening statement, your Annual Report seems to contain less information and a bit more white space than in the past. Among the missing are tables summarizing financial history, analysis of income and expenses, analysis of mail volume and composition, notes to the financial statement and the certification by an independent public accountant. Also, the Committee has not as yet received the Service's Comprehensive Statement on Postal Operations.

Is there some new policy or a problem concerning the public availability of this information (which pertains to the operation of a government entity—not a private corporation)?

Answer. There is no new policy concerning release of information concerning USPS financial or operating results. However, our restructuring resulted in a 40 percent reduction in our Headquarters Finance and planning staff. Consequently, we have made a concerted effort to reduce redundancy in our published reports and to have them reflect a consistent and more businesslike appearance. We will soon be publishing a new quarterly report on postal operations which will provide expanded details on financial results and service performance including productivity. These reports will be provided to your staff.

2. *Question.* Senator Stevens and I asked the Postal Rate Commission to do a study of international postal rates. I recently asked how that study was going. Much to my dismay, I learned that the Postal Service is being less than cooperative. Apparently, in a letter dated December 16, 1992, you advised the PRC that you "have serious doubts about the Commission's authority to undertake a study of (international) rates." You also, as I understand it, asked for special treatment of information you might provide the PRC; treatment different than might be accorded business sensitive domestic information.

a. Do you understand that the Commission derives its authority for this study directly from a request made by officials of the U.S. Congress operating within the jurisdiction of a duly authorized committee?

b. Can I have your commitment for full and timely cooperation with the PRC on this study? Who will be the responsible USPS official on this effort?

c. It is important to know, among other things, whether domestic mail users are subsidizing the Service's international activities. Do you keep your accounts in a manner that shows whether each class and/or type of inter-national mail covers its attributable costs? If not, explain.

Answer. My comment regarding the Commission's authority was a reference to the recent case of *Air Courier Conference of America v. U.S. Postal Service*, 959 F.2d 1213 (3d Cir. 1992). In that case, the U.S. Court of Appeals for the Third Circuit concluded that the Commission does not have jurisdiction over international rates. In addition, unlike the situation with our domestic services, the Postal Service's entire international business is subject to aggressive competition, in large part because the Postal Service, by administrative action, has suspended the Private Express Statutes for outbound international mail.

The Postal Service remains willing to respond fully to any reasonable requests for information about our international services. We cannot, however, consistent with

our responsibilities to our customers, provide information that can be used by other international service providers and foreign postal administrations to place the Postal Service at a competitive disadvantage. I have designated Frank Heselton, Manager, Rate Case Formulation, as the Postal Service's contact for the Commission's study.

The annual Cost and Revenue Analysis provides information on whether international services, as a whole, cover their attributable cost. For example, in Fiscal Year 1991 international revenues exceeded costs by \$201.5 million, indicating that domestic mail users are not subsidizing the Postal Service's international activities. Class specific cost information for international services is gathered through systems that are fundamentally similar to those used for domestic costs, although the calculation of international costs has some additional dimensions. For instance, an important part of the cost of an international product is the terminal dues paid by the Postal Service to the destinating country. The process by which such international settlements are made is a complex one, so that some assumptions must be made in calculating international attributable costs which are not required for domestic cost estimation.

3. *Question.* I understand that the legal department and the Inspection Service have raised some questions about your use of Postal Service resources for unofficial activities and suggested that a log be maintained for tax and other purposes. Is this so? Provide a copy of any related advice or guidance on this subject. Are you maintaining such a log? If not, why?

Answer. In late January, I received a memo from the General Counsel and the Chief Inspector advising me of various tax and ethics concerns raised in connection with other agency head's uses of government cars and planes. The memo also advised that the Inspection Service had obtained authority to protect members of my family should that become necessary. When I met with them I asked if anything I have been doing causes them concern and they said, "No." The memo did contain a recommendation that a log be maintained of all trips I make accompanied by my security detail. When we discussed this recommendation, the Chief Inspector suggested that this may not be a good idea because the log could fall into the wrong hands and it would reveal my daily travel schedule to anyone who might wish to assault me. Accordingly, I have not maintained a log of my daily travel. In early March, Mr. Gleiman, of your staff, requested a copy of the memo I have described. Our Government Relations Department advised that we would be happy to supply the memo but preferred to do so in person to explain several aspects of the memo which might cause security concerns if they became public. Mr. Gleiman was unable to meet with us and we continue to be ready and willing to meet with him for this purpose.

4. *Question.* What is the status of previously published document entitled "Financial and Operating Statement by Accounting Period"—is it still being prepared and made available to the public? If not, explain.

Answer. The cited report is no longer being compiled and published. This was done in our restructuring effort which resulted in a 40 percent reduction in our Headquarters Finance and Planning staff. Much of the statistical information contained in that report will be available in a new Quarterly report on postal operations. The new report will provide expanded details on financial results and service performance including productivity. The report will also reflect our efforts to eliminate redundancy and present USPS information to the public in a more businesslike manner.

FAIRNESS AND EQUAL TREATMENT

1. *Question.* It was reported last summer that you destroyed a package that was sent to you via Fed-Ex, I believe, with a warning that if the company in question wanted to do business with the Postal Service it had best use Express Mail. More recently, it was reported that, angered by the failure of a certain computer company to provide prompt service, you dashed off a note to the company's chairman advising him that you "have instructed your purchasing department and others that they are not to provide any (of that company's) equipment for your use in the future."

a. Do you not see, perhaps, some parallel between your irritation with and reaction to the lack of service offered by the computer company and concerns that the individual who used Fed-Ex may have had about the level of service the USPS had provided him in the past?

Answer. I was not aware of what, if any, difficulties he may have had with our service in the past. The letter was sent to my home, by a friend who was attempting

to do business with the Postal Service. It is my opinion that if people want to do business with me they should use my business.

b. That Fed-Ex incident last summer took place on the heels of a similar incident involving rank-and-file employees in the northeast region who proposed a boycott of a certain cola product because the cola company used UPS to deliver promotional cases of soda. Norma Pace, then Chairman of the Board of Governors, wrote me that the reaction of postal employees should have been to recognize the situation as a call to positive action—to improve the quality and value of postal services. How do you feel about that proposed boycott—don't you think people should have the right to use whatever means of delivery they choose?

Answer. Certainly individuals and businesses have the right to use whatever means of delivery they choose. I agree with Governor Pace that employees efforts should be devoted to improving our own competitiveness rather than taking action against those who choose not to use our services.

c. Regarding the computer equipment company, is the Postal Service breaking any procurement rules by excluding them from providing equipment for your use and does this prohibition change the company's standing with respect to other procurement actions?

Answer. Due to the lack of attention provided by the supplier in instance, we do not feel that the actions taken were unjustifiable. Maintenance and service are often key in contract performance, especially when the product being bought is any sort of ADP equipment. The fact that no response was received from the computer equipment company more than 2 months after the original contact certainly explains both my frustration with this company and my reluctance to use their equipment for my personal use. The Postal Service does not prohibit any company from doing business with us unless it has been debarred, suspended or declared ineligible.

In a larger light, the facts will show that there is no Postal Service prohibition against the company or against the purchase of its equipment. So far in Fiscal Year 1993, the Postal Service has already placed 34 contracts or purchase orders (worth \$94,000) with this particular company. Much of this equipment was purchased after my experience with this firm.

2. *Question.* During the last Congress, Senator Stevens introduced a number of bills which I cosponsored. One of those bills proposed to establish the right of the Postal Rate Commission to represent itself in court cases involving disputes over postal rates. The Service opposed enactment of that legislation. Since then, the Service has had, as you are well aware, a battle over its own right to go to court without first obtaining approval of the Department of Justice. The courts have affirmed your rights. Would the Service now support equal rights for the Postal Rate Commission?

Answer. Regarding the Commission's right to represent itself in court cases involving disputes over postal rates, we have never opposed self-representation by the Commission in cases to which it is a party. Therefore, in situations like the case currently pending before the court of appeals in which the Governors have petitioned for review of the Commission's recommendations regarding the Public's Automation rate, the Postal Service fully supports the Commission's ability to represent itself as respondent. The Postal Service sees no need in such circumstances for the Commission to be represented by the Department of Justice. As shown by the pending case, in which the Commission filed its own pleadings apparently without even attempting to solicit permission to do so from the Department of Justice, the Commission already acts as though its rights are commensurate with, or greater than, those of the Postal Service in this regard. (The recent court of appeal's opinion still requires the Postal Service to seek consent from Justice prior to taking any unilateral action in court).

The Commission, however, is only a party in court litigation in instances in which the Governors themselves petition for review of a Commission recommended decision. In all other instances, in proceedings initiated by private parties, the statute makes very clear that it is the Governors decision alone that is subject to judicial review. In those instances, the Commission is not a party to the litigation. Therefore, the issue of self-representation does not arise. The Postal Service continues to believe that the Commission appropriately has no role in litigation to which it is not a party.

SERVICE AND DELIVERY STANDARDS

1. *Question.* I notice that the Service reports a significant increase in both the volume and on-time delivery rate for Priority Mail—that's the 2 pounds in 2 days for \$2.90 service. I would also note that we receive more complaints about Priority

Mail than any other single type of service. Apparently, we are not alone in this—a recent edition of Consumer Reports featured criticism of Priority Mail.

a. What percentage of Priority Mail is destined for delivery within the Service's standard 2-day delivery area—do you think the public should be enticed into paying \$2.90 for mail that is supposed to be delivered in 2 days for just 29 cents? How many people are paying \$2.61 more than they should?

Answer. The percentage of Priority Mail delivered within 2 days is 86 percent YTD FY 1993.

Priority Mail has a 2-day service standard while First-Class Mail has a one-to-three-day service standard. For some of the same reasons that businesses and households make the choice of using Express Mail and our competitors' overnight and second-day services instead of First-Class Mail, they choose to use Priority Mail.

In that we keep statistics on a postage paid (billing determinants) basis, we do not have statistics on how many people are making the choice to upgrade their one-ounce pieces to Priority Mail. However, we believe that the vast majority of the Priority Mail priced at \$2.90 weighs between 11 ounces and 2 pounds and that the number of 1-ounce Priority Mail pieces are minuscule.

b. The overall delivery rate on Priority Mail is reported to be in the 85% range. Do you have any figures on Priority Mail on-time delivery for the 1, 2 and 3 day standard service areas? Please provide any figures the Service has compiled during the past 2 years (on monthly or A/P basis). Is this delivery measured in terms of delivery to destinating post office or final delivery destination?

Answer. Priority Mail service has commitment areas of only 1 or 2 days. Performance is measured in terms of delivery to the destinating post office. Official estimates are available only on a quarterly basis. The volume of Identified Priority Mail delivered within 2 days is also shown for comparison, below:

Priority Mail Delivered On-Time

Period	Overnight	Two-Day	Identified Priority Delivered In Two Days
FY91 PQ II.....	79	47	62
FY91 PQ III.....	84	53	71
FY91 PQ IV.....	86	65	83
FY92 PQ I.....	84	65	83
FY92 PQ II.....	84	61	77
FY92 PQ III.....	85	68	85
FY92 PQ IV.....	86	69	87
FY 93 PQ I.....	85	67	85
FY 93 PQ II.....	84	61	77

c. I notice that some of the Postal Service's Priority Mail ads now mention that "some restrictions may apply." What are these restrictions? Are your clerks trained or instructed to make these restrictions known to customers? Why do some of the newer ads no longer carry the warning?

Answer. In response to concerns raised by Congress and some customers, we have withdrawn Priority Mail advertising until we can make sure that our advertising accurately represents the service we provide. We are working to improve the quality of our Priority Mail service. We have taken steps to separate it out at our retail windows, back doors, and collection boxes. Additionally, this year we will deploy 51 bulk small parcel sorters to speed handling and get the mail processed earlier each evening, so we have more commercial airline flights to choose from to get it to its destination. We are also working with these airlines to improve our transportation service.

d. I have a constituent in Fordyce, a bakery, who does a mail order business during the holidays. They used Priority Mail in 1991 and were quite happy with the service. However, this year was a disaster—late deliveries, spoiled products, the works. For Express Mail, the Service guarantees delivery or a refund. What recourse does a customer have when Priority Mail is not delivered on time? Please provide complaint statistics you have relative to Priority Mail.

Answer. Priority Mail is an extension of our First-Class Mail system. It was originally designed for the expedited handling of larger sized First-Class Mail. There are significant differences between Express and Priority Mail. Among those differences are the options available when an item is not delivered on time. Express Mail offers

a postage guarantee and an ability to track and trace its movement through the postal system. Express Mail provides for the refund of postage if delivery is not made by a predetermined specific time. Priority Mail receives expedited handling at postal facilities, but does not offer the postage guarantee. Express Mail provides automatic insurance against damage or loss of up to \$500. Priority Mail is not automatically insured, but insurance may be available as an option depending upon what is being mailed. The significantly higher price of Express Mail service results from these many additional features.

While Express Mail has a guaranteed delivery time feature, Priority Mail does not. Customers having delivery problems with Priority Mail should contact the Customer Services District Consumer Affairs Manager, who will help resolve any service problems.

The Postal Service recorded 6,568 complaints involving delayed delivery of Priority Mail in Fiscal Year 1992. In the first half of Fiscal Year 1993, we have recorded 4,938 complaints on the same subject. These figures represent approximately one and one-half percent (1.5%) of complaints recorded by the Postal Service for all causes. The Postal Service delivers more than 400 million pieces of Priority Mail each year.

e. I notice that while Priority Mail volume has gone up, Express Mail volume has been dropping. Is the Priority Mail media blitz causing customers to abandon your so-called flagship service, Express Mail, in favor of the cheaper Priority Mail service?

Answer. We believe that there has been some movement among our customers from Express Mail to Priority Mail. As we upgraded the service and advertised Priority Mail, we expected some of the customers that use Express Mail to make the choice to use the lower priced service. This is similar to what happened to Federal Express when they introduced their lower cost overnight afternoon service. Their flagship overnight a.m. service experienced volume decreases as businesses and households made the choice to convert to the lower cost service.

There were other reasons for the decline in Express Mail volume. The recession had an effect on our and our competitors' overnight volume as consumers made the choice to convert to less costly alternatives, mainly second-day services. Also Express Mail's rates increased, in part as a result of the Postal Rate Commission attributing and marking up fixed costs to Express Mail. In addition, the Postal Rate Commission has not allowed us to offer volume discounts for larger customers, practices needed to compete in a free market.

f. Please provide details on the current advertising budget and copies (text) of all current Priority Mail ads.

Answer. Advertising and Promotion and Young & Rubican will provide all of the advertisement materials and budgets for Priority Mail for FY 1993.

Due to the highly competitive nature of the business, current advertising budgets are proprietary. However, we would be pleased to provide this information to your staff.

2. *Question.* Several years ago, the Postal Service changed its service standards. The geographic area in which a person could expect 1 day delivery was made smaller, and the 2 and 3 day delivery zones were made larger. At the time, I characterized this action as akin to cutting the top off of the flagpole to make it like the flag was flying higher than it actually was. In any event, since then the Postal Service has reported moderate increases in on-time delivery rates.

Has the Service ever done a comparison of on time delivery—now and then—for the old service standard areas? What I am interested in is an assessment of just how much of the improvement reported over the past few years is due to cutting the top off that flagpole versus real improvement!

Answer. Beginning FY 91 PQ I, the External First-Class (EXFC) measurement system administered independently by Price Waterhouse was established as the official measure of service performance. The First-Class service commitment change was implemented during FY 90 PQ IV and FY 91 PQ I. Therefore, there is no EXFC data to cover the period prior to the service standard change. The improvements reported by the Postal Service since the implementation of this measurement system have not been influenced by commitment area changes which were accomplished at the time of its inception. These improvements are real, based on comparisons with commitments that remained virtually unchanged between 1991 and 1992, and 1992 with 1993.

3. *Question.* Several years ago, in an attempt to cut delivery costs, the Postal Service tried to push people to give up door and curb delivery for "clusterboxes" installed at street corners. The claim at the time was that this was totally voluntary and that there was no nation-wide plan to change things. Recently, we have begun

to get complaints from around the country about an effort aimed at getting individual home owners to give up door delivery. The notice that goes out implies that individuals do not have a choice—that to help the Postal Service save money, they should erect curbside boxes. It's only when someone asks question that they are told the change is not mandatory.

a. Would you take a look at this form letter sent out less than 2 months ago and tell me whether you think it is clear that the postal customer has a choice?

b. Are you aware of this effort to downgrade delivery service and is this something that ought to be referred to the Postal Rate Commission for an advisory opinion because it involves a nation-wide change in the nature of service?

Answer. We are not aware of any effort to "downgrade" delivery service. There may be some efforts to reduce costs through conversions; however, all conversions must be agreed upon by the individual customer or the owner/manager of the delivery area. We will work with our Area managers to be certain they are aware that conversions are voluntary.

4. *Question.* The Postal Service clips of March 12th included a letter to the editor of the Connellsville, Pennsylvania Daily Courier from a group of postal employees. The letter apologizes to the community for "this holiday season's poor window service . . ." Their letter went on to explain that, despite TV ads boasting of fast reliable service, "service to customers is far less important than reducing the existing budget."

Are you familiar with this situation? Is this an isolated incident? Are you aware of other problems with window service during the holiday season?

Answer. I was not familiar with this situation. Local managers were not aware of a significant increase in customer complaints. Nevertheless, they have taken action to ensure that our customers receive excellent window service. I am not aware of any other problems with window service during the holiday season. In fact, this was our most successful holiday seasons in terms of service and customer satisfaction.

5. *Question.* The Postal Service claims that, despite the downsizing, service standards for this past Christmas were season maintained at previous levels. Since the external 1st class and customer satisfaction results are available through only December 11th, on what is your claim based?

Answer. The second postal quarter (PQ) for fiscal 1993 ended March 5, 1993. Both External First-Class (EXFC) and Customer Satisfaction Index (CSI) results for FY 1993 PQ I and PQ II demonstrate that performance has actually improved slightly despite the downsizing.

EXFC performance is subject to seasonal variation. Therefore, the most valid comparison is to the same period last year (SPLY).

Percentage of On-time Delivery—First Class Mail *

Period	Service Commitment			
	Overnight	Two-Day	Three-Day	National
Postal Quarter II				
FY 93 PQ II	83.01	74.73	77.16	79.36
FY 92 PQ II	82.68	74.36	76.25	78.91
Difference:				
FY 93 vs. FY 92	+0.33	+0.37	+0.91	+0.45
Postal Quarter I				
FY 93 PQ I	83.59	77.76	81.82	81.62
FY 92 PQ I	83.25	77.11	80.54	80.98
Difference:				
FY 93 vs. FY 92	+0.34	+0.65	+1.28	+0.64

* Source: External First-Class Measurement System (EXFC)

The Customer Satisfaction Index (CSI) Results shows an improvement in both overall customer approval (ratings of good, very good, or excellent), and the percentage of customers rating Postal Service overall performance as very good or excellent.

Customer Satisfaction Index Ratings Overall Performance

Period	Very Good or Excellent	Approval Rating
Postal Quarter II		
FY 93 PQ II	58%	89%
FY 92 PQ II	54%	87%
Difference:		
FY 93 vs. FY 92	+4%	+2%
Postal Quarter I		
FY 93 PQ I	54%	87%
FY 92 PQ I	51%	85%
Difference:		
FY 93 vs. FY 92	+3%	+2%

REORGANIZATION AND DOWNSIZING

1. *Question.* Under your stewardship, the Postal Service has undergone—and I suspect is still undergoing—the most sweeping reorganization and downsizing that any of us can remember.

a. How would you assess this effort to date? Did you get the retirements where you needed them, in terms of both the types and location of employees; how does the balance sheet look on the effort—costs for buy outs, bonuses, relocations, saved salaries, etc. versus savings on salaries no longer being paid?

Answer. On balance I think that the restructuring has been successful. We got somewhat more bargaining unit retirements than we needed and somewhat fewer non-bargaining unit retirements than we needed. We have been successful in matching nearly 90 percent of our affected employees with positions in the new organization. We are making every effort to make voluntary placements, including national advertising remaining vacancies to unplaced employees.

b. Some 47,000 thousand positions were eliminated in the downsizing. However, during the first five accounting periods of FY 93, work hours used exceeded the same for the same period in the prior year. If this continues, how will you realize any savings?

Answer. We eliminated 30,000 overhead positions in the restructuring. While some 47,000 employees left in response to the special retirement option, not all were off the rolls immediately at the beginning of FY 1993. In addition, the placement process did not really begin until December, since we were consulting with our management organizations over what the process should be prior to that date. Also, the work hour increases were largely in craft positions, which are very sensitive to volume increases, which we have experienced during this period. We expect that the savings from the restructuring will be \$880 million for Fiscal Year 1993 and \$1.4 billion per year every year thereafter in salaries and benefits.

c. How many displaced managers have been reassigned and how many remain to be assigned?

Answer. As of the date of this response, we have placed nearly 44,000 affected employees in positions in the new organization. Just over 5,000 remain to be placed.

d. Do you have additional plans to further downsize or reorganize?

Answer. No.

e. Among the complaints I've heard about changes in the field are that the "buddy system" seems to be alive and well when it comes to filling vacancies and, as a consequence, a great deal more than is necessary is being spent to relocate employees. Is this true or is there some type of merit selection process being used?

Answer. Placement officials are accountable for documenting that the placements they have made are based on matching the qualifications of employees with the requirements of positions. Some of our employees have expressed concerns about selections, citing cronyism and bias. I've heard this at several conferences and employee meetings, and I am concerned about these reports. Where we find problems of bias and cronyism, I am committed to fixing them.

f. Another problem appears to be that individuals who may have been removed from line supervisory positions in the past are reappearing and, in some cases, being used as hatchet men. A survey was done last year of rank-and-file employees to obtain their views on the quality of postal managers. According to William Henderson, Vice President for Employee Relations, where the surveys disclose "problem

managers," you are going to intervene. Are the surveys from last year being utilized as a screening tool as you staff the new field organization? (Why not?)

Answer. From the beginning, we characterized the initial Employee Opinion Survey as a "baseline" for tracking employee commitment. It would not have been appropriate to use this baseline as a criteria for management selections. However, next year's plan is for subordinate review. Every manager, including me, will get feedback from their employees. We will make treatment of people a very high priority in the selection and promotion of managers, and we will base compensation on teamwork and how well we do as an organization.

g. Last year when you were before the House Post Office Committee you were asked about forcing employees to waive their appeal rights in exchange for a job in the reorganized Postal Services. As I recall, you said that you knew the waivers were not valid. Are you still seeking these waivers?

Answer. Once we reached agreement with the NAPS organization last November, we were committed not to take any action for which voluntary acceptance needed to be documented. We immediately announced that no employees would need to sign acceptance letters for placement.

h. Postmasters are, I understand, concerned about the lack of promotional opportunities. When do you envision restoration of normal posting and bidding procedures?

Answer. During the restructuring thus far, nearly one-third of postmaster vacancies have been filled by current postmasters. We envision being able to bring the restructuring placement policies to a close on a phased basis beginning at the end of May.

i. We have received complaints that the Postal Service is not complying with veterans preference requirements, both in terms of filling temporary or transitional positions and when the saved pay terms of employees downgraded because of automation expires. If this is in fact the case, would you please explain why the Service is ignoring veterans rights?

Answer. We are not ignoring veteran preference rights in casual and transitional appointments or in any other appointments. We recognize veteran preference in our two major sources for casual appointments and are re-evaluating our approach to student and state employment service sources. We select transitional employees either from registers which recognize veteran preference or by reinstating successful casuals.

j. As part of the reorganization and downsizing, eligible rank-and-file employees were offered a retirement bonus equal to 6-months salary. Retirement-eligible top executives, it is reported, received substantially more—on the order of 12 to 18 months as a termination bonus. Why the difference—and, why did some former assistant PMGs get the equivalent of 18 months salary and others get only the standard 6 month?

Answer. We reached individual agreements with officers each of whom by statute serves at the pleasure of the PMG.

OLYMPICS

1. *Question.* Senator Stevens and I asked the General Accounting Office to audit the Postal Service's books on sponsorship of the 1992 Olympics. While the numbers changed from time-to-time, the final claim was for a profit of \$55 million on an investment of \$177 million. In an interim report last April, GAO disputed both the costs and the profits on the grounds that much of what was being claimed as Olympic profits would have been realized in any event—such as the sale of commemorative stamps—and because the books on this project were in such poor shape.

a. Have you been able to provide GAO with a good set of numbers on the Olympic sponsor project? What do you now see as the bottom line?

Answer. We are currently working with GAO to develop that information. We anticipate having the final figures by June 15 and will report back to you at that time.

b. The Governors indicated last year that the Postal Service would not again sponsor the Olympics. Nevertheless, I have heard that the Service is negotiating some type of sponsorship or business arrangement for the 1996 games. Could you please tell us what you have in mind in this regard?

Answer. We are not negotiating any type of sponsorship or business arrangement for the 1996 games. However, as a result of our sponsorship of the 1992 games we have an established relationship with the Olympic Committee. We are utilizing that relationship to promote the Postal Service as the world's largest communications business. We have assigned a National Account Representative to work with the Committee to enable them to better utilize our products and services.

COMPETITIVENESS AND THE FUTURE

1. *Question.* There is a great deal of discussion about competitiveness and the Postal Service's need for flexibility in the rate making process. I find this all interesting and confusing.

a. Just who and what do you see the Postal Service competing with—other carriers, other means of communications?

Answer. The USPS competes in an overall market for the distribution of messages and transactions, advertising, publications, and parcels (not including freight) valued at \$235 billion in potential postal revenues in 1991. Present postal revenues represents approximately \$45 billion of the overall potential market (a 19 percent market share). The \$45 billion postal market (USPS share of the potential \$235 billion) is growing moderately but is also the most vulnerable medium for the transfer of messages and transactions, advertising, merchandise, and publications. Although the market continues to grow slowly, more erosion to traditional competitors and electronic alternatives is occurring every year. This fact is supported by the total USPS revenue growth in 1992 of 6.7 percent with only a 0.4 percent increase to volume. This trend has already been experienced for years in the expedited and parcel segments, but now is threatening the transaction segment which the USPS has traditionally dominated. In fact, the vast majority (more than 90 percent) of USPS product revenues are susceptible to continued erosion and possible extinction because of electronic substitution. (See graphs below)

	Mail	Traditional Competitors	Electronic Alternatives	Total
Messages and Transactions.....	\$29.5	\$3.4	\$10.1	\$43.0
Advertising.....	\$11.2	\$120.9	\$24.7	\$156.8
Publications.....	\$2.1	\$8.2	\$12.5	\$22.8
Parcels.....	\$2.0	\$10.0	—	\$12.0
Total.....	\$44.8	\$142.5	\$47.3	\$234.6

Sources: A.D. Little and USPS

	Total 1991 Potential Postage Market (\$ in billions)	Total Market Revenue Growth Rate (percent)	USPS 1992 Revenue Growth Rate (percent)	USPS 1992 Volume Growth Rate (percent)	USPS 1991 Market Share (percent)
Transactions.....	43	Unknown	6.2	0.5	69
Advertising Mail.....	157	7	6	0.2	7
Priority.....	4.7 (1992)	15-20	17.4	10.2	73 (1992)
Value Added.....	Unknown	Unknown	Mixed	Mixed	Unknown
International.....	3	10	5.8	(0.4)	32
Express.....	8.4	10	(4.3)	(8.5)	9
Publications.....	23	Flat	5	(0.8)	Unknown
Retail.....	Unknown	Unknown	Positive	Unknown	Unknown
Philatelic.....	Unknown	Unknown	Unknown	Unknown	Unknown
Parcels.....	12	10-15	18.5	9.9	17

Sources: A.D. Little, Colgraphy, National Analysts, RPW, CRA

b. Should the Postal Service be required to give up or trade in exchange for greater flexibility in rate making—what about the so-called “double the postage rule” that enables the Service to dictate minimum rates to be charged by private carriers of urgent letter mail?

Answer. Greater flexibility in postal ratemaking will benefit not only the Postal Service and its customers, but all customers in the markets in which the Postal Service competes. Because the lack of flexibility in postal ratemaking currently impedes the Postal Service's ability to make price adjustments, either in response to actions by its competitors or on its own initiative, competitors face less vigorous competition from the Postal Service than would otherwise be the case. As a result, those markets do not function as efficiently as possible. By granting the Postal Service greater flexibility, competitors will be forced to pay more attention to the market. Their customers, as well as those of the Postal Service, will benefit. There-

fore, greater flexibility can be justified on its own merits, and to gain it the Postal Service should not have to "trade" or sacrifice something else that is also beneficial.

Specifically, the Postal Service sees little advantage in changing the status of the "double postage" rule as a condition for obtaining more flexibility. The Postal Service is required to provide universal service, and is required to charge a uniform price for letter deliveries. Without some form of legal protection, individuals or firms would try to offer letter delivery service in low-cost areas, and leave the high-cost areas to the Postal Service. Congress long ago determined that an effective way to combat this danger was imposition of restrictions on the private delivery of letter mail, and enacted the Private Express Statutes.

When a determination was made, however, to suspend the application of the Private Express Statutes to "extremely urgent" letters, some objective guidelines had to be developed to allow simple but reliable identification of letters that would properly qualify for the suspension. The "double postage" rule was adopted as a reasonable alternative method of resolving that problem. The Postal Service continues to believe that if the urgent letter exception is to be preserved, the "double postage" rule provides an effective and realistic means for preserving legitimate enforcement capability.

c. If the Postal Service has more flexibility in setting rates and the right to compete in both traditional and non-traditional areas, how can we make sure that the little guy—both the individual and small business mailer—doesn't wind up holding the bag or subsidizing large mailers and new postal ventures?

Answer. The probability that "the little guy" will be left holding the bag is much greater in the long run if the Postal Service is denied additional flexibility in setting rates than if such flexibility is granted. This conclusion follows directly from a few simple facts. First, there are network economies to be realized from the existence of a universal delivery network such as that currently maintained by the Postal Service. The more units put through the network, the lower the unit cost. Second, if network volumes are allowed to gradually diminish through diversion to competitors, the volumes that are left are most likely to be those of "the little guy." Without needed flexibility, therefore, individuals and small business face the bleak prospect of being stuck in a system which spirals downward as lower volumes cause higher unit costs, which, in turn, cause higher rates and even lower volumes.

As suggested by last year's GAO report, additional flexibility is necessary to keep within the system those units that are most susceptible to diversion. Even if the result of this is lower rates for such units, as long as those rates exceed attributable costs, all mailers (i.e., both the big guys and the little guys) are better off than if those units disappear altogether. The Postal Service seeks greater flexibility in rate-making not to favor any type or size of mail users, but to allow it to maintain the most efficient postal system possible, for the mutual benefit of all of its customers.

2. *Question.* For several years now, there has been a great deal of talk at postal headquarters about the "corporation" and "the corporate culture." I notice that one of your first actions—changing the titles of postal officers from assistant PMG to vice president—was in this vein. The Postal Service is, of course, a U.S. government entity; officially it is an "independent establishment in the executive branch"—not even a government corporation.

a. As a government entity, the Postal Service can exercise the right of eminent domain, does not have to pay taxes and so on. If these rights and privileges were not available, what might the financial impact be?

Answer. The Postal Service is well aware of its status as part of the Federal government and takes pride in fulfilling its mission of providing mail service to the American public. It is in this context that we are trying change the culture within the institution. A customer focus is necessary for all governmental entities and "business as usual" is no longer acceptable.

Being part of the government may not have significant financial benefits. With regard to eminent domain, the Postal Service always tries to work with communities in selecting sites for postal facilities. In every instance, we attempt to avoid imposing a selection on the community. Moreover, in the event eminent domain is exercised, no financial benefit results as the Postal Service compensates the property holder for the full market value of the holding.

Although the Postal Service, as a part of the federal government, does not directly pay taxes, we provide full postal services and maintain facilities in thousands of communities where the revenues do not cover the costs. This can include mule train service to the base of the Grand Canyon and flying supplies to remote areas of Alaska where the postage is only a small fraction of the cost. Profit-making, tax-paying firms would not provide the same level of service in these instances.

We take great pride in serving all the areas of our country. However, the cost of this universal service can be said to be our tax. In recognition of this public service, the Postal Reorganization Act authorizes the Postal Service to receive \$460 million annually. While we have not received this appropriation since 1982 and do not intend to ask for it, forgoing the public service funding for the past 11 years has arguably amounted to a \$5 billion tax assessment.

If the Postal Service were not a government entity, its tax burden would not increase as substantially as believed. The Postal Service already pays federal employment taxes, such as social security, and federal excise taxes, such as gasoline and air transportation taxes (the Postal Service will pay the proposed energy tax, should it be enacted). Moreover, the Postal Service indirectly pays a significant amount of sales and property taxes included in procurement and leasing charges of private sector suppliers. Finally, as a nonprofit organization the Postal Service would be exempt from or pay an insubstantial amount of income taxes, even if it were not a government entity.

b. Most private corporations are involved in charitable activities—the cost of which is borne by their customers. Some might say that the Postal Service is already making charitable contributions by virtue of our failure to fully fund the revenue forgone appropriation. What do you think of this analogy?

Answer. Businesses that contribute to charities do so voluntarily and contribute only to those organizations they choose and in the amounts they choose. Moreover, business donations often are part of a public relations program whereby the business receives some public mention for its charitable acts.

Neither the Postal Service nor its predecessor, the Post Office Department, “volunteered” to charge reduced postage rates to certain customers. Indeed, given the controversial nature of some of the organizations which are benefited by preferred rates, we see limited public relations benefits to be gained. In fact, we receive letters asking why certain organizations pay five cents in postage when the public is charged 29 cents.

In view of the mandatory nature of preferred rates, it might be more appropriate to compare them to taxes, albeit taxes are ultimately paid by the disadvantaged mailers, rather than the Postal Service itself. Finally, it is worth noting that businesses normally receive at least a partially offsetting financial benefit for their contributions in the form of tax deductions.

3. *Question.* I understand the Postal Service is planning to create new mail classes, including one geared to a very few large volume first-class mailers, direct mail business and mass-circulation periodicals. Is this so and would such a change in classification result in a rate increase for individual mailers and small publishers and businesses?

Answer. The Postal Service is currently reviewing the existing rate and classification structure. Most of the basic structure, including the four traditional classes of mail, was established in 1879. While the structure has served the country well, it certainly merits a thorough examination in view of the changes that have occurred in our society over the last century.

Our review suggests that many customers, particularly those that might give business to our competitors, are willing to perform a variety of additional tasks in order to receive lower rates. With that in mind, we are examining the possibility of offering classifications to these customers. On the surface, these rates may appear to be available for only the larger mailers. However, we have discovered that smaller mailers, either on their own, or jointly through specialized mailing services, can use new rate structures to their advantage.

Our intention is not to increase the rates of other mailers. Hopefully, any new classification structures which arise out of this exercise would encourage new business and thereby reduce the pressure to increase rates.

The question implies, however, that low-cost mail is currently subsidizing high-cost mail and as a policy matter, this arrangement should continue.

We are not so certain that low-cost mail should always subsidize high-cost mail, particularly in those areas where alternatives exist. Competitors will provide low rates for low-cost material, causing low-cost mail to leave the Postal Service and saddling it with only the remaining high-cost items. The end result is that with little or no low-cost mail, the overhead of the Postal Service must be borne entirely by the high-cost users.

4. *Question.* Last July, the Postal Service published interim rules stating that you would offer customized or contract rates to international mail customers.

a. Did you receive any comments on this notice? Did you reply to those who submitted comments?

Answer. The Postal Service received six comments on the Federal Register notice adopting interim rules for International Customized Mail Service. The Postal Service will address those comments when it publishes a Federal Register Notice adopting final rules.

b. Is the Service currently seeking new clients for its customized international service?

Answer. Yes.

c. Is the Postal Service currently involved in or does it contemplate negotiations with any foreign postal administrations concerning the distribution of catalogues and/or merchandise order from catalogues? What about discussions with the Japanese about UPU article 25.4?

Answer. The Postal Service is not currently involved in, nor does it contemplate, negotiations with any foreign postal administrations on catalogue or catalogue merchandise distribution except as such communications represent the Postal Service's attempts to ensure that U.S. origin mail receives prompt delivery in foreign countries. Enforcement of article 25.4 as it applies to mail destined for Japan is the prerogative of the Japanese postal administration.

d. Is the Service having/will it have discussions with any other postal administrations involving the enforcement of UPU article 25.4 against U.S. firms presently using remail from the United States? Would such discussions be in the best interest of the United States (as opposed to the Postal Service) in terms of competitiveness and free trade?

Answer. No. The Postal Service is working toward developing a cost-based terminal dues system as an economic rather than a regulatory solution for the problem of below cost compensation. To the extent that the current terminal dues system does not properly compensate the Postal Service for its inbound costs such discussions would be in the best interest of the United States and the Postal Service. The Postal Service recognizes the need for a level playing field among public and private operators to foster competitiveness and free trade worldwide.

BUDGET AND APPROPRIATIONS

1. *Question.* Can you tell us what the projected impact of limiting the revenue forgone appropriation to \$92 million and seeking additional payments of \$1 billion related to health insurance and COLAS is likely to be?

Answer. If the program is not funded again this year, the cumulative losses for revenue forgone will be \$1 billion. The \$1 billion revenue forgone debt coupled with OMB's proposed \$1 billion assessment for the supposedly settled OBRA interest charges will place a \$2 billion burden on postal rate payers.

A burden of this magnitude means that the Postal Service will be extremely hard pressed to meet its commitment to go to at least 1995 without a rate increase and eliminates any chances of going beyond 1995. In other words, these proposals will mean that we cannot hope to meet our ultimate rate goal which is to stop the need for large periodic rate increases. Instead, the best we can hope to do is forestall the next rate increase for a year.

2. *Question.* What proposals does the Service have for modifying current law in light of the continuing shortfall in the revenue forgone appropriation?

Answer. In March of this year we presented a proposal which would phase out the revenue forgone appropriation over a 3-year period and provide for the retirement of the revenue forgone deficit over a period of 30 years.

MISCELLANEOUS

1. *Question.* For years, the Postmasters around the country have spent countless after-hours working to complete all the required duties. Certainly, during your reorganization, the postmasters have felt even more pressure. Do you see a time when the appropriate staff levels will be allowed to the corresponding work load?

Answer. We will be reviewing appropriate staffing levels throughout the organization as we evaluate the effectiveness of the restructuring later this year.

2. *Question.* The Postal Service, you may know, is one of the largest purchasers of rubber bands. However, it continues to buy these products from foreign sources, when we have American manufactures who can adequately supply the Service's needs. Since these same companies are forced to use the Postal Service monopoly, doesn't it seem fair to return the favor and "Buy American"?

Answer. The Postal Service's Buy American policy continues to be one of our most important Socioeconomic-policy commitments. However, there are instances when the prices offered by American manufacturers are so high in relation to those offered by foreign manufacturers or by domestic companies offering a foreign prod-

uct that the purchase of the foreign product is justified (provided, of course, that it meets all of our quality requirements). For some time, this has been the case with the award of our rubber bands contracts.

As an independent establishment required to operate within its own revenues—and to serve all the American people equally—the Postal Service must continually strive to get the best value for all of its procurement dollars. Establishing policies that ensure we buy only from domestic suppliers, regardless of cost to the Postal Service, would be financially irresponsible to our ratepayers.

3. *Question.* In light of the slow progress in resolving the controversies surrounding the Air Hub in Indianapolis, I am curious as to what the Postal Service plans to do next. Are you considering rebidding the contract? Being as budget minded as you are, have you revisited the question of whether it makes sense to have a hub at all (considering it will cost over one dollar a pound vs. 30 something cents you now pay)?

Answer. The Postal Service has resolved all questions and litigations regarding the Express and Priority Mail Hub located in Indianapolis, Indiana and the Air transportation network that operates out of the Hub. As a result of the decision to establish a permanent hub, it is anticipated that we will provide a high quality service for many years to come. Although the cost of the Hub and the Air Network are somewhat higher than other transportation options, they are necessary investments to meet the service expectations of our customers.

QUESTIONS SUBMITTED BY SENATOR STEVENS

1. *Question.* One of the concerns expressed by postmasters during a recent meeting with me was the Postal Service decision to fill vacant postmaster positions with displaced supervisory personnel. While I understand your desire to help employees affected by reorganization, concern was expressed that postmasters did not have an opportunity to compete for appointment to a vacancy at a higher level post office.

The postmasters suggested that displaced personnel be given the opportunity to take positions vacated by postmasters who move up to other postmaster positions. Have you considered that alternative?

Answer. Our primary reason for extending the special retirement option to postmasters was to create opportunities to place other affected overhead employees. Recognizing, however, that some postmaster vacancies could not be filled with qualified affected employees, we gave our Customer Service Districts the option of advertising postmaster vacancies to both affected and nonaffected employees (including postmasters). Thus far during the restructuring, of the 2,700 postmaster positions filled, 860 have gone to current postmasters.

2. *Question.* Directed reassignments becomes an interesting issue in a State like Alaska. The first level for directed reassignments is usually the "local commute area". However, for many communities in Alaska, such as our State capitol, Juneau, there are no facilities to commute to; access to Juneau is either by air or by sea. For many Alaskans, directed reassignments will mean leaving Alaska.

(1). Has any consideration been given to alternatives within the Postal Service in the local area for impacted employees in these situations?

(2). Could employees be "grandfathered-in" until attrition takes care of the extra positions?

Answer. We are doing everything we can to minimize involuntary directed reassignments outside commuting area, including entertaining requests to return to available craft positions in order to stay within the local area. We recognize that the situation in Alaska presents special issues because of the circumstances you outline and we will carefully evaluate all available alternatives.

3. *Question.* An employee who declines an offer of employment which is two grades lower than the current grade and outside the commuting area may be eligible for involuntary retirement if they meet the age and service requirements—age 50 with 20 years of service or any age with 25 years of service. Who makes the eligibility decision—the Office of Personnel Management or the Postal Service?

Answer. The discontinued service eligibility decision is made by OPM.

4. *Question.* We have been receiving disturbing complaints from postal employees throughout the country about the manner in which people were selected for promotion during the reorganization. In many instances, employees allege that selections were made primarily because of minority representation quotas or nepotism rather than merit. Not having the most qualified people in management positions could have long-term adverse effects on the Postal Service. How do you answer these charges?

Answer. Placement officials are accountable for documenting that the placements they have made are based on matching the qualifications of employees with the requirements of the position. Our nepotism regulations have been in full force during the restructuring and no "quotas" for minority representation have been set.

5. *Question.* I understand that the Postal Service has proposed establishment of a bulk mail parcel subclass which requires deposit at one of only 21 bulk mail centers. As a result, shippers in Alaska, Hawaii, and many locations around the country will not be able to use the subclass. (1) Do you think this aspect of your bulk proposal is consistent with the universal service obligation of the Postal Service? (2) Exactly where are the proposed 21 bulk mail centers to be located?

Answer. The establishment of Bulk Small Parcel Service (BSPS) would not be inconsistent with our universal service obligation. The basic parcel post services will still be available to all patrons. If implemented as proposed, BSPS will provide lower rates to bulk parcel shippers who presort and barcode their shipments and then deposit them either at the appropriate destination facility or directly into our bulk mail processing system. This mail will bypass interim postal transportation and sorting operations.

The proposed BSPS entry requirements are similar to those for several existing services which have been recommended by the Postal Rate Commission and implemented by the Postal Service. In 1991, we established lower parcel post rates for Destination BMC Parcel Post Mail, which requires entry at appropriate destination postal facilities. Also as a result of the PRC Docket No. R90-1 1991 rate increases, we implemented another new service, Destination Entry Mail. This consists of bulk third-class mail which is destined for delivery within the service area of the postal facility at which it is entered.

The existence of Express Mail Same Day Airport Service is yet another example of a service which meets the requirements of the Postal Reorganization Act, despite the fact that it is available only to mailers with proximity or access to one of 64 authorized postal Airport Mail Facilities nationwide. Like the proposed BSPS "BMC or designating SCF" entry requirement, or the entry requirements associated with the other mail types described above, the current Express Mail Same Day Airport Service "AMF entry only" requirement is inextricably linked to the postal operations which support the service offering.

The practical availability of all postal rates depends—to varying degrees—upon a mailer's proximity or access to some aspect of the Postal Service's physical plant. An unavoidable consequence of the vastness of the 48 contiguous states and the remoteness of Alaska and Hawaii is that some bulk parcel shippers find themselves situated considerably farther away from the nearest BMC than others.

We do not believe that the current distribution of BMCs in the contiguous states renders our BSPS proposal any less consistent with the requirements of the Postal Reorganization Act than any of our current service offerings. Notwithstanding the great lengths to which the Postal Service goes to serve patrons in all 50 states, there will always be some unavoidable disparities—not of the Postal Service's making—which accrue to those postal patrons who, by choice or by chance, reside in relatively remote, sparsely populated areas which have relatively less economic activity and justify a lower concentration of postal facilities. As proposed, BSPS is "universally" available to all postal patrons who arrange for the entry of qualifying mail at any BMC or destination SCF.

The Postal Service's 21 Bulk Mail Centers are located at the following sites:

Northern New Jersey	Cincinnati, OH
Springfield, MA	Des Moines, IA
Philadelphia, PA	Detroit, MI
Pittsburgh, PA,	Kansas City, KA
Washington, DC	Minneapolis/St. Paul, MN
Atlanta, GA	St. Louis, MO
Dallas, TX	Denver, CO
Greensboro, NC	Los Angeles, CA
Jacksonville, FL	San Francisco, CA
Memphis, TN	Seattle, WA
Chicago, IL	

6. *Question.* Your new subclass proposal for bulk small parcels will pull low cost parcels out of the parcel post mix which will in turn raise the average cost for the remaining parcel post volume. (1) Will this in turn cause an increase, now or in the future, in parcel post rates? (2) If the Postal Rate Commission approves your proposal, won't it be increasing rates for ordinary users of parcel post?

Answer. We are not proposing an increase in parcel post rates. We note, however, that the leading service provider in the parcel post market—with 80 percent of market share—has been increasing its rate differences between lower-cost and higher-cost parcels. Another provider is specializing in handling only lower-cost parcels at relatively low rates. While we hope not to propose any increases in parcel post rates in the near future, the increasing availability of lower-rates for low-cost parcels by other service providers provides excellent incentive for mailers of lower-cost parcel post to switch their volumes to those providers. This would leave the Postal Service with higher-cost parcel post for which rates would have to be increased, unless the Postal Service can generate more lower-cost parcel volume.

The new subclass proposal will encourage current parcel post mailers to generate lower-cost parcels by presorting, barcoding and depositing their parcels at bulk mail centers. Few, if any, parcel post items currently are presorted and barcoded and relatively few are deposited at bulk mail centers. In order to use the new service, current mailers will need to reconfigure their mailings to reduce the cost of handling the parcels. The proposed low rates are based upon these reduced costs. They are premised on not pulling low-cost parcel from current parcel volumes with the result that the average cost of the remaining parcel post volume increases. Lower-cost parcels will not receive low rates merely by being mailed in the new service instead of parcel post.

7. *Question.* There have been suggestions and proposals in congress that postage rates should reflect environmental concerns—lower rates for the use of recycled paper or recyclable paper. How feasible, administratively, are such proposals?

Answer. Rates for mail printed on recycled paper would be very difficult to administer. There is no way to visually verify that paper has recycled content, whether the recycled content meets the minimum requirements, whether that recycled content is pre- or post-consumer, or whether the mail can be recycled. The Postal Service could either have to accept the mailer's statement that the mail is printed on the appropriate recycled/recyclable paper or conduct expensive, time consuming paper analysis as part of a verification process. Adding a rate for mail with recycled paper content would complicate and possibly delay acceptance of mail. The issue of verification is further complicated by the fact that First-Class Mail is sealed against inspection. Finally, if mail acceptance personnel are unable to detect matter improperly entered at recycled rates, the Postal Service will be required to use port-acceptance procedures, such as revenue deficiency assessments, to collect the proper amount. Past experience has shown that these procedures are cumbersome for the Postal Service and annoying for the customer.

8. *Question.* You keep talking about the Postal Service's need to compete with private industry. While I applaud your desire to be competitive, I hope you will not abandon or neglect service to rural areas. What plans do you have to protect service for rural areas like Alaska?

Answer. The Postal Service will not abandon service to rural communities. We plan to continue to provide service to the areas we now serve in a manner that meets the needs of our customers and is beneficial to the Postal Service.

9. *Question.* The Governmental Affairs Committee held a hearing last week on legislation to measure government performance. This is sometimes known as "reinventing government." You have been doing some "reinventing" of your own, first at the Tennessee Valley Authority and now at the Postal Service. From your experience, what is the necessary ingredient for successfully turning an out-of-control government bureaucracy into a business-like operation?

Answer. The Postal Service is on the leading edge of reinventing government. We are already doing many of the things that the administration, the Congress, and this Committee want to do for the Federal government as a whole. We are streamlining bureaucracy, focusing on customer satisfaction, building teamwork with employees and partnerships with private industry, taking the lead on environmental issues like recycling and vehicles powered by alternative fuels, and emphasizing quality service and responsible finances.

It is natural for the Postal Service to help lead the way for government in becoming more businesslike and responsive to its consumers. The first step in reinventing this organization was taken 25 years ago.

In 1968, the Kappel Commission reported to the President that the post office simply couldn't be operated as if it were an ordinary government agency. To avert catastrophe, the Commission said, the post office had to be run as a business, not a cabinet agency. What was required, the Commission said, was a "fundamental change in the anachronistic relationship between the post office and the rest of government."

Together, Congress and the President heeded this advice. You took the Postmaster General out of the President's cabinet, transformed the old Post Office Department into an independent establishment. You freed the Postal Service from partisan politics and gave it the tools and authority to operate independently in a business-like manner. We are working to deliver on that vision today.

QUESTIONS SUBMITTED BY SENATOR LEVIN

1. *Question.* It is my understanding that for the first few months following your appointment as Postmaster General, you conducted meetings with management and union officials. It is also my understanding that one of the issues discussed at those meetings was labor relations problems and the "paramilitary" culture within the Postal Service.

I ask that you provide for the record actions being taken by the Service with regard to labor relations as a result of those meetings. As part of your response, please include:

a. A detailed description of the specific initiatives being undertaken by the Postal Service to address the "paramilitary" culture within the Service and to fair and effective labor management system.

b. Specific information on the selection process for those individuals chosen for labor management positions and on required training for such persons in the area of labor relations.

c. Any short-term efforts being currently undertaken to ease the effect of the tremendous changes occurring within the Postal Service as a result of the reorganization.

Answer. The postal work environment has been historically autocratic and budget driven, and not particularly conducive to change to a customer focused organization. One of my first efforts as Postmaster General was to ensure that each layer of management, including myself, meet on a routine basis with the leadership of all the labor and management organizations and include them in our efforts to empower both our employees and managers to do the job that they know best. We have recently extended invitations to the union and management associations presidents to attend and participate in our weekly officers' meetings. These are the highest level meetings in the decision-making process within the Postal Service. Without exception each of the presidents has agreed to attend and were "full players" at each session. I have committed to continue this arrangement for as long as these individuals view the process as a worthwhile effort. I fully expect that our Area, District, and Plant Managers will also conduct meetings at their respective levels, accordingly.

With regard to the selection process for labor relations positions, ordinarily such individuals have extensive labor management skills from combined exposure within the Postal Service and very often the private sector. We also provide regular comprehensive training in labor relations, conflict resolution, communications, and advocacy to all of our labor relations professionals. There have been some worthwhile joint training programs developed with our labor unions.

In addition to all this, we are working closely with representatives of our labor and management organizations to revise our performance appraisal and merit evaluation systems. Using the data from the Employee Opinion Survey, which will be released annually, and through the use of subordinate feedback on a routine basis, we anticipate that we will be in a far better position to gauge and respond to employee attitudes, commitment, and morale during these times of change within the Postal Service.

QUESTIONS SUBMITTED BY SENATOR ROTH

1. *Question.* During the past year, many experienced and knowledgeable postal employees have retired from the Postal Service. I have been contacted recently by several postal employees who are concerned about the lack of training available to employees who have assumed new, increased responsibility under the restructuring plan. It is critical that such employees be given the necessary training to perform their jobs successfully. What specific efforts have been made to provide training for new supervisors and other employees who have received new responsibilities?

Answer. We have been re-evaluating our training strategies during the restructuring. We have reviewed all of our course offerings and are actively updating the offerings which our internal customers have told us they need. We are currently offer-

ing postmaster training throughout the field and will shortly be offering a new course for our newly appointed post office operations managers. We are committed to meeting all of the training needs of our new organization structure by working closely with the line managers to determine those needs and deliver them on site in the field to the maximum extent possible.

2. *Question.* The Postal Service form "EEO Request for Counseling" states that: "If not completed and returned to the EEO Office within 5 calendar days from the date of receipt of this form, your request for counseling may be canceled based on a failure to cooperate." In December, I contacted both the Postal Service and the Equal Employment Opportunity Commission to inquire whether this form violated Federal EEO regulations. In response, the EEOC stated that "It is our view that failure to complete a specified form requesting pre-complaint counseling regardless of any pre-established time frame, would not, in and of itself, constitute a failure to cooperate. The critical issue is that counseling is requested, not the format by which it is requested."

Does the Postal Service agree with this opinion? Has this issue been raised by the EEOC's Office of Federal Operations? What efforts are being made to clarify the form used by the Postal Service?

Answer. The title of PS Form 2564-A, EEO Request for Counseling, will be changed to more accurately reflect the forms intended usage, which is to facilitate the process of securing information necessary to enable EEO professionals to follow up on requests for counseling. Our procedure is to log the date that the individual initially contacts an EEO office to request counseling as the date that counseling was requested and then send out the form. It is the date of initial contact that we use to discern whether the individual made a timely request for counseling within the 45 calendar days of the date of the incident or personnel action which gave rise to the counseling request, not the date that the form is returned.

We use PS Form 2564-A to rapidly obtain information necessary to informally research the matter and attempt early resolution. It is for this reason that counselees are asked to fully complete PS Form 2564-A and return it to the EEO office within 5 calendar days. The 5-day time limit is not arbitrary. Rather, rapid return of the form makes it possible for us to commence and complete the counseling process within the regulatory timeframe—30 calendar days. Oftentimes, a thoroughly completed form timely returned, will provide EEO professionals sufficient information to expeditiously begin the counseling process without the necessity of an initial interview with the counselee. Furthermore, past experience has shown that individuals who neglect to complete the form and return it within the time allotted very rarely demonstrate any further interest in pursuing counseling.

We plan to meet with EEOC officials in the very near future to resolve any misunderstanding concerning our future use of Form 2564-A, albeit minor modifications. It has proven to be an invaluable management tool.

U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION,
WASHINGTON, D.C.

HON. WILLIAM V. ROTH, JR.,
U.S. Senate,
Washington, D.C.

DEAR SENATOR ROTH: This is in response to your inquiry dated December 3, 1992, requesting our findings and views on the content of a counseling form used by the U.S. Postal Service (USPS) in pre-complaint processing under Federal EEO Regulation 29 C.F.R. 1614.

The form, Request for Counseling, contains a statement that if the form is not completed and returned to the EEO Office within 5 calendar days from the date of receipt of the form, the request for counseling may be canceled based upon a failure to cooperate. You indicated that it is your understanding that the notice conflicts with the EEOC's regulations at 29 C.F.R. 1614.107(g) in that it does not provide 15 days to respond under these circumstances.

Section 1614.107(g) applies to complaint processing. EEO counseling is considered "pre-complaint processing" and falls under Section 1614.105. The time frame to request pre-complaint counseling provided under Section 1614.105 is generally within 45 days of the occurrence giving rise to the concern. It is our view that failure to complete a specified form requesting pre-complaint counseling regardless of any pre-established time frame, would not, in and of itself, constitute a failure to cooperate. The critical issue is that counseling is requested, not the format by which it is requested. EEOC's Office of Federal Operations will raise this matter with USPS.

We hope this information is helpful to you.

Sincerely,

ANN COLGROVE,
Director of Communications and Legislative Affairs

UNITED STATES POSTAL SERVICE, GOVERNMENT RELATIONS DEPARTMENT
475 L'ENFANT PLAZA, S.W., WASHINGTON, D.C.,

December 11, 1992

HON. WILLIAM V. ROTH, JR.,
*U.S. Senate,
Washington, D.C.*

DEAR SENATOR ROTH: This responds to your December 3 letter on behalf of one of your constituents who expressed concern about Postal Service equal employment opportunity (EEO) complaint procedures.

Individuals who believe that they have been discriminated against on the basis of race, color, sex, religion, national origin, age, or physical or mental handicap may seek a resolution through the EEO complaint process. The complainant must first contact an EEO counselor/investigator within 45 calendar days of the date of the incident that gave rise to the complaint or, if it is a personnel action, within 45 calendar days of its effective date.

The counselor/investigator will make every effort to reach a satisfactory solution within 30 calendar days. In addition, the employee may agree to extend this period an additional 60 days. If a resolution is unsuccessful, the counselor/ investigator will advise the complainant of the right to file a formal complaint, which must be filed within 15 calendar days from the receipt of the Notice of Final Interview with the counselor/investigator.

The employee may also agree to participate in any alternative dispute resolution procedures available at the worksite. In such cases, the counseling period is extended to 90 days.

The EEO Request for Counseling notice that your constituent enclosed is not part of the formal procedures explained above. It is a management tool used to expedite requests for counseling. The 15 days you mentioned are applicable to filing a formal complaint.

Sincerely,

LAUREN S. WEINER,
Representative, Office of Government Liaison

SELLING IT

When it absolutely, positively has to get there eventually

“**W**hen you don't have to send your package overnight, you can save yourself a bundle,” begins a TV commercial from the U.S. Postal Service. Its Priority Mail Service lets you “send up to two pounds in just two days for just \$2.90.” Don't be too sure.

Christina Kelly, an employee of Washington State's Department of Corrections, tells us she sent an important legal document to eastern Oregon by “two-day” Priority Mail. It arrived eight days later. When Kelly called the post office to complain, an official explained that the Postal Service does not actually guarantee two-day delivery, despite those catchy “two pounds, two days, \$2.90” jingles on the airwaves.

A postal representative we checked with confirmed that two-day delivery is not guaranteed, “but most times it takes two days.” He said that Priority Mail is comparable to first-class mail. An official we double-checked with said Priority Mail is sorted differently from first-class mail and that it bears some similarity to Express Mail. Nevertheless, he noted, it's delivered by regular-mail carriers.

Would a letter sent by \$2.90 Priority Mail outpace a letter sent with a 29-cent stamp? (And would either letter arrive in two days?) To find out, we did some Priority Mailing of our own.

Over the course of two weeks, a CU staffer visited three post offices in the New York City area to send three letters by Priority Mail—one to San Francisco, two to a small town in Florida. Clerks at all three post offices assured our undercover staffer that the letters would take two days to reach their destination, though one clerk, when pressed, conceded, “It's not guaranteed, but we have a good track record.” On her way out of each post office, our staffer dropped a copy of the letter (in a plain envelope with 29 cents' postage) into a post-office mailbox.

In each instance, the Priority Mail beat the stamped letter to its destination by one or two days. Good, but good enough? Both Priority Mailings to Florida took three days, not two. And after our own mailings, we received a letter from a reader whose Priority document had taken four days to reach its destination.

Two pounds for \$2.90 is a decent deal in modern mail delivery, and our modest experiment doesn't mean every Priority letter is late. But if your mail absolutely, positively has to get there within two days, think twice. The Post Office may be promising more than it can deliver.



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ANNUAL REPORT
OF THE
POSTMASTER GENERAL

FISCAL YEAR 1992

*“ Our customers depend on us as
much as we depend on them.
Every employee has to treat every
piece of mail as if the fate of the
Postal Service hinged on its timely
and correct delivery ...”*

Marvin Runyon



MARVIN RUNYON
CHIEF EXECUTIVE OFFICER, PMG

UNITED STATES POSTAL SERVICE
475 L ENFAINT PLAZA SW
WASHINGTON DC 20260-0010

TO THE GOVERNORS AND CONGRESS:

If I had to pick one word to describe the Postal Service in 1992, that word would be "change."

That process began in July, after I traveled nationwide and had the opportunity to talk with postal customers, employees, unions, and management associations about how the Postal Service could improve its performance.

From that dialogue, one message became clear. The Postal Service needed to refocus its energies to satisfy and respond to the needs of customers. If the Postal Service were going to succeed in revolutionizing the way it did business, then the change would have to be customer-based and customer-driven.

To meet this challenge, we developed a 120-day plan to make the Postal Service more businesslike, setting three specific goals to:

- reduce layers of bureaucracy and postal overhead, starting at the top,
- improve service quality and customer satisfaction; and,
- hold postal rates steady by eliminating the projected \$2 billion deficit for 1993.

With help from customers, employees, unions, and management associations, we have taken some important steps to make the Postal Service more businesslike and competitive, efforts that industry observers have described as the most sweeping changes in federal government since the Eisenhower days.

We have built a new management structure — one that is leaner, flatter, and better focused on meeting customer needs.

We have improved our financial standing substantially — turning a break-even situation in 1992 into a \$474 million surplus, before making a one-time \$1 billion adjustment for early retirement expenses arising from our restructuring effort. At year's end, we are in good position to wipe out the expected 1993 deficit of \$2 billion and keep current postage rates stable for a historic fourth year — through 1994.

And, most importantly, we have succeeded in improving service quality. We have reached out to customers with expanded retail hours, more convenient acceptance procedures, and plans for new products they have requested.

I want to recognize the efforts of all postal employees in 1992 to improve our performance and build our hopes for the future. I look forward to continued improvement in 1993 and future years as we work together to make the Postal Service more accountable, credible, and competitive.

Marvin Runyon



ACCOUNTABILITY

Although postage remains a bargain for the American people, its impact on the costs of large business mailers is significant. Holding rates stable, therefore, is key to building the mail business.

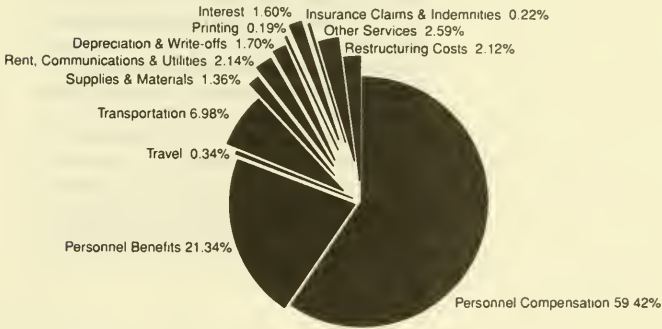
In the last 17 years, however, the basic First-Class postage rate has increased an average of 6.8 percent per year. Increases of this magnitude have severely tested the Postal Service's accountability as a supplier of quality service, reliability, and value for the dollar.

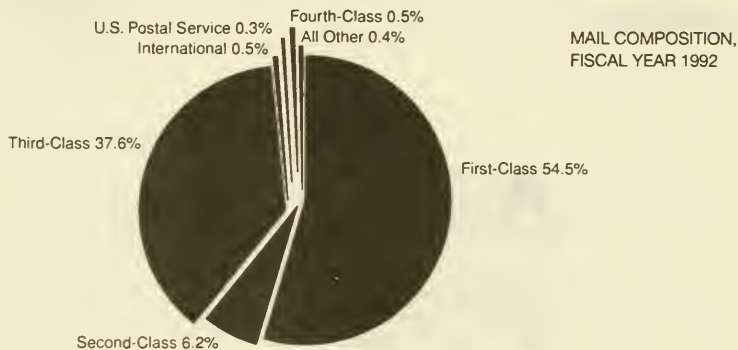
In July, it appeared that the "traditional" three-year rate cycle would repeat itself. The Postal Service was concerned about breaking even in 1992. It faced a potential deficit of \$2 billion in 1993 and, given that, the prospect of a significant rate increase in 1994, including a possible 35-cent stamp.

That is no longer the case.

Thanks to the efforts of postal employees to control costs, the Postal Service has made great progress in reducing expenses and eliminating spending on

ANALYSIS OF EXPENSES, FISCAL YEAR 1992





programs and plans not crucial to delivering the mail or serving customers.

As a result, Fiscal Year 1992 financial reports show an income of \$474 million, before factoring in restructuring costs. A \$1.01 billion accounting adjustment to reflect restructuring costs turns the income into a net loss of \$536 million. However, overhead reductions this year will save the Postal Service more than \$800 million in 1993, and about \$1.4 billion annually beginning in 1994.

But the renewed focus on cost control will go well beyond work force reductions and postal restructuring. It includes reduced spending for many headquarters programs, exploring ways to generate more revenue, and paying particular attention to automation and other operating efficiencies that will help stabilize rates and restrain the size and frequency of rate increases. At headquarters, initial cost controls led to program budget reductions of approximately \$264 million.

The Postal Service also extended its financial initiatives to explore the conversion of its 20 million check payments per year from Treasury checks to commercial bank checks to better control its cash, process disbursements more efficiently, and realize the full return on funds until they clear the banking system.



This overall effort to contain costs and benefit customers continued in November with the refinancing of some \$4.5 billion of debt at an average interest rate of 6.6 percent — down from 8.8 percent — which will reduce interest expense by \$56 million next year and \$2.2 billion over 20 years.

Innovative approaches are being taken to address the issues of automation and technology as well.

The Postal Service recognizes that the automation plan is a good, solid program and remains committed to its vision of working with business customers to barcode virtually all letter mail. However, the approach to automation and technology will change.

Based on its current financial position, the availability of emerging technologies, and the forecast of modest volume growth, the Postal Service will rely more on partnerships with private industry and less on developing prototype equipment independently.

This means the Postal Service will focus more on updating existing technology and less on exploratory projects and new equipment. This will allow the Postal Service to keep pace with rapid changes in technology but avoid buying equipment that becomes obsolete before it is deployed.

Combined, these continued efforts have placed the Postal Service in a good position to break even in 1993 and to extend current rates through at least 1994.

But there is still one hurdle to clear.

Despite the strong concern expressed by the Postal Service, Congress passed the Fiscal Year 1993 Treasury-Postal Service appropriations bill, signed into law by the President, reimbursing the Postal Service only \$122 million of the \$482 million necessary to deliver mail at free or reduced rates for various nonprofit organizations and other special-category mailers. In addition, Congress directed the Postal Service not to adjust rates, as provided by law, to recover the shortfall.



The Postal Service recognizes that the automation plan is a good, solid program and remains committed to its vision of working with business customers to barcode virtually all letter mail.

In 1993, this action will cost postal ratepayers \$360 million and follows 1991 and 1992 Congressional appropriations which postponed a total of \$156 million in revenue forgone. The cumulative total now amounts to more than a half-billion dollars and, coupled with next year's requirements, becomes a \$1 billion obligation.

Nevertheless, the Postal Service is poised to hold postage rates steady through 1994 and to make history—extending the rate cycle four years in a row for the first time since becoming a self-sufficient organization two decades ago.

With that accomplishment, and the continuing commitment of employees to provide quality service, the Postal Service will be well on its way toward establishing its greater accountability to the American public and generating the customer satisfaction needed to build its business and ensure a healthy future.



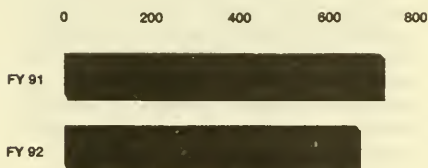
CREDIBILITY

After more than 200 years of enjoying what appeared to be a comfortable monopoly, the Postal Service recognizes that its credibility with customers will suffer if it is not responsive to their needs.

Developed in what has been the Postal Service's most challenging period since postal reorganization in 1971, the new postal structure reduces duplication of effort and layers of decision-making bureaucracy and realigns resources to focus better on customer needs.

Specifically, the new structure reduced senior management at headquarters by 43 percent, from 42 officers to 24. Administrative support at postal headquarters was trimmed 33 percent to 1,683 employees, while Postal Career Executive Service positions were pared by 55 percent, or some 631 positions. In addition, approximately 30,000 overhead positions are being eliminated nationwide, after more than 47,000 postal employees took advantage of special retirement incentives offered through November 20.

TOTAL CAREER COMPLEMENT, FISCAL YEAR 1992 (In thousands)



During Fiscal Year 1992, the number of career employees dropped 3.2 percent to 725,290. Overhead reductions this year will save the Postal Service more than \$800 million in 1993 and about \$1.4 billion annually beginning in 1994.



The new structure places an important new focus on the customer, pinpoints management accountability, and better balances resources between the distribution, transportation, and delivery of the mail.

The field management structure also was simplified and streamlined

At postal headquarters, the 12 vice presidents of corporate staff offices report directly to the Postmaster General and set policies in all areas to maintain consistency throughout the Postal Service. One new function, that of Diversity Development, will educate all employees about the importance of respecting the many cultural perspectives shared by employees and customers. This will allow the Postal Service to better tap the talents of all employees to improve its service and responsiveness to unique customer needs.

Support for field operations is provided by the corporate staff and nine other vice presidents who report directly to the Chief Operating Officer/Executive Vice President (See organizational chart on pages 16 - 17.)



Customer focus will be enhanced through three functions reporting to the Chief Operating Officer and supported by the remainder of the organization.

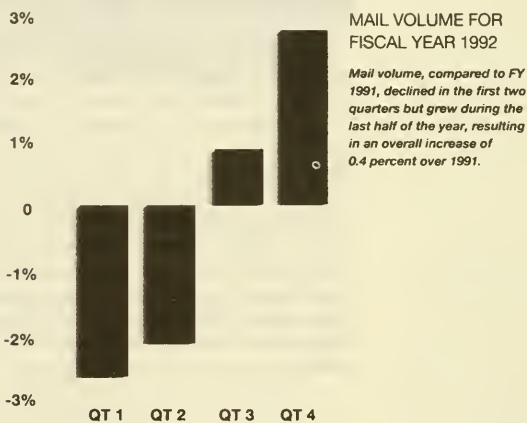


Customer focus will be enhanced through three functions reporting to the Chief Operating Officer and supported by the remainder of the organization. They are:

- Customer Services, which oversees 10 area offices and 85 customer services districts focused on delivering the mail and providing top quality business mail acceptance and retail services. Nearly 40,000 post offices, stations, and branches also will report to these units
- Marketing and Sales, which is responsible for keeping postal products and services focused on meeting customer needs. It will oversee product and service design, pricing, market research, mailing standards, advertising and promotion, and relationships with major customers

• Processing and Distribution, which manages 10 area offices and 349 mail processing plants focused on mail processing, distribution, and transportation. These include Processing and Distribution Centers, Bulk Mail Centers, and Airport Mail Facilities.

The new structure places an important new focus on the customer, pinpoints management accountability, and better balances resources among the distribution, transportation, and delivery of the mail.





COMPETITIVENESS

With its new corporate structure and resources focused to respond to customer needs, the Postal Service is revitalizing its competitiveness to grow profitably in the communications business.

Fully 50 percent of the Postal Service's mail volume and revenue sources are subject to some degree of direct competitive threat.

To improve its competitiveness, the Postal Service this year assembled a Competitive Services Task Force, made up of mailing industry leaders and postal officials, to identify ways in which the Postal Service could become more competitive. More than half of the 160 recommendations included in the task force's report already have been implemented, and many more are being pursued.

The Postal Service also took major steps toward improving customer satisfaction with the expansion of Postal Business Centers. Designed to reach small- and medium-sized businesses, the centers offer customized service regarding automated mailing systems and postal products and services.

A Bulk Small Parcel Service, submitted to the Postal Rate Commission for approval, will increase Postal Service competitiveness in the parcel shipping market and improve its lineup of parcel services.

Under an agreement reached with the Postal Buddy Corporation this year, more than 10,000 "Postal Buddy" kiosks will be deployed nationwide over the next four years. Terminals will allow customers to electronically file address changes, significantly reducing Postal Service costs associated with handling some 40 million change-of-address notices each year.



In August, areas of South Florida and Louisiana were devastated by Hurricane Andrew — the worst natural disaster ever to hit the United States. Three weeks later, Hurricane Iniki blasted the Hawaiian island of Kauai.

In the face of adversity, employee spirit, pride, and dedication triumphed to maintain essential postal services under the most extraordinary circumstances.

In May, three days of rioting in Los Angeles following the Rodney King court decision closed 11 postal or contract stations serving 17 ZIP Code areas. In August, areas of South Florida and Louisiana were devastated by Hurricane Andrew — the worst natural disaster ever to hit the United States. Three weeks later, Hurricane Iniki blasted the Hawaiian island of Kauai.

To reduce hardship on customers in communities where street delivery was impossible, postal employees — many of whom also had their homes damaged or destroyed — handed out hundreds of thousands of pieces of mail to area residents who showed up at temporary post offices.

Even during more normal times, postal employees nationwide seemed to work minor miracles to process and deliver more than 550 million pieces of mail each day.



During the holiday mailing season... lobby directors in 7,200 post offices assisted customers during busy periods, while 5,200 offices nationwide extended their retail hours — some opening their doors for the first time on Saturdays and Sundays.



But the Postal Service cannot rely only on its own perceptions of service levels and customer satisfaction.

The Postal Service independently measures First-Class Mail delivery and — through its Customer Satisfaction Index (CSI) — assesses overall customer satisfaction with a wide range of services. The CSI allows managers to assess customer satisfaction and identify problem areas at an operational level each quarter.

During the holiday mailing season, an aggressive “We Deliver For Yule” campaign conveyed the Postal Service’s renewed commitment to customer service and satisfaction. Lobby directors in 7,200 post offices assisted customers during busy periods, while 5,200 offices nationwide extended their retail hours — some opening their doors for the first time on Saturdays and Sundays.

Extending customer service outside postal lobbies, the Postal Service completed tests of stamp sales at more than 400 automated teller machine (ATM) locations. That program is available to banks nationwide and provides customers with a convenient way to get stamps 24 hours a day, 365 days a year.

As the Postal Service strives to improve existing products, services, and customer satisfaction, it does so knowing that it also must build stronger partnerships among its work force — changing the corporate culture.

The Postal Service is accomplishing this, first, by opening lines of communications with its employees — seeking their ideas and suggestions — and then listening.

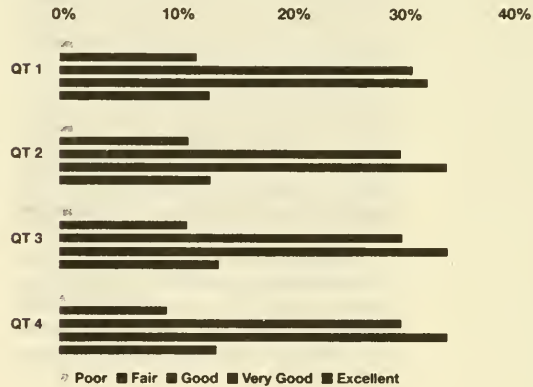
Second, by involving all workers in the decision-making process, and recognizing each employee's values and skills, the new structure empowers employees to correct errors and improve performance.

And, third, the Postal Service is examining its goal-setting and performance-evaluation processes. New standards of excellence, and the criteria for rewarding them, will be tied to a participative process — with input and buy-in from all employees — that promotes customer service as the most important goal.

The Postal Service will know it has succeeded when customers ask for its services — not the competition's — and when quality, competitiveness, and value come to mind each time they think of the Postal Service.

CUSTOMER SATISFACTION INDEX, FISCAL YEAR 1992

In Postal Quarter 4, 87 percent of the households nationwide rated their overall experiences with the Postal Service as "excellent," "very good," or "good." That was an improvement of two percentage points over the same period last year.





GOVERNORS OF THE UNITED STATES POSTAL SERVICE



Above seated left to right: Susan E. Alvarado, LeGree S. Daniels, John N. Griesemer, Norma Pace. Standing: Robert Setrakian, Bert H. Mackie, J. Sam Winters, Crocker Nevin, Tirso del Junco, M.D.

Norma Pace, *Chairman of the Board of Governors*, is an economist and consultant to several major corporations. She is President of Economic Consulting and Planning, Inc., an economic counseling and strategic planning firm. She is the author of numerous articles for business publications on forecasting and the use of forecasting in business planning. She was appointed to the Board in May 1987 for a term expiring in December 1994.

John N. Griesemer, *Vice Chairman of the Board of Governors*, is President of the Griesemer Stone Company and General Warehouse Corporation, Springfield, MO. He became a Governor in December 1984 for a term that expired December 8, 1986. He was reappointed, without a break in service, to a full term, expiring in December 1995. He was selected Chairman of the Board in January 1987 and served two years.

Susan E. Alvarado, Vice President of Operations, Akmer International, Inc., an Alexandria, VA based exporter/importer and fabricator of marble and granite, was appointed in July 1988 to serve on the Board for a term expiring in December 1996. Prior to joining Akmer, she was President of the Alvarado Group, a Washington, D.C., government relations firm. Formerly Assistant for Legislative Affairs to Assistant Minority Leader Senator Ted Stevens of Alaska — and subsequently to Vice President George Bush — she later served as Vice President for Congressional Liaison for the National Association of Broadcasters.

LeGree S. Daniels, a noted civil rights activist, was appointed to the Board in August 1990 for a term expiring in December 1998. She served as the U.S. Department of Education's Assistant Secretary for Civil Rights from 1987 to 1989. Previously, she served as Deputy Secretary of the Commonwealth of Pennsylvania.

Tirso del Junco, M.D., a Los Angeles surgeon and entrepreneur, was appointed to the Board in July 1988 for a term that expired in December 1991. He was reappointed, without a break in service, to a full term, expiring in December 2000. He founded and served as Chairman of the Board of the Los Angeles National Bank and now serves as a member of the Board of Regents of the University of California.

Bert H. Mackie, President of the Security National Bank of Enid, OK, was appointed to serve on the Board on December 9, 1988. His term will expire in December 1997. He is an ardent supporter of quality education and is a trustee of the Oklahoma Foundation for Excellence.

Crocker Nevin became a Governor in August 1986 and served the remainder of a term expiring in December 1992. He previously served on the Board of Governors from 1971 to 1977. He has an extensive background in banking, finance, and community service. As provided by law, he will continue to serve on the Board for up to one year or until a successor is appointed by the president and confirmed by the Senate.

Robert Setrakian, a San Francisco businessman, was appointed to the Board in December 1985 for a term expiring in December 1993. He previously served as Chairman of the Board of Governors from January 1989 to January 1991. He was a Commissioner of the Federal Maritime Commission from 1983 to 1985.

J. Sam Winters, a partner in the law firm of Clark, Thomas, Winters, and Newton in Austin, TX, was appointed to serve on the Board November 26, 1991, for a term expiring in December 1999. He was Chairman of the Texas Research League in 1990 and 1991, is a member of the Board of Directors of the First Interstate Bank of Texas, and is a member of the Development Board of the University of Texas in Austin.

Also members of the Board of Governors:

Marvin Runyon was named 70th Postmaster General of the United States on May 5, 1992, by the nine presidentially appointed members of the Board of Governors. He assumed his new responsibilities on July 6, after serving since 1988 as Chairman of the Board of the Tennessee Valley Authority (TVA). Before going to TVA, he had served since 1980 as President and Chief Executive Officer of Nissan Motor Manufacturing Corporation U.S.A.

Michael S. Coughlin, a career postal employee, was appointed Deputy Postmaster General in January 1987, after holding a series of top-level postal management positions. He served this year as acting Postmaster General prior to Mr. Runyon's arrival. Because of a vacancy in the position of Vice President of Finance and Planning, Mr. Coughlin also has served as Chief Financial Officer.

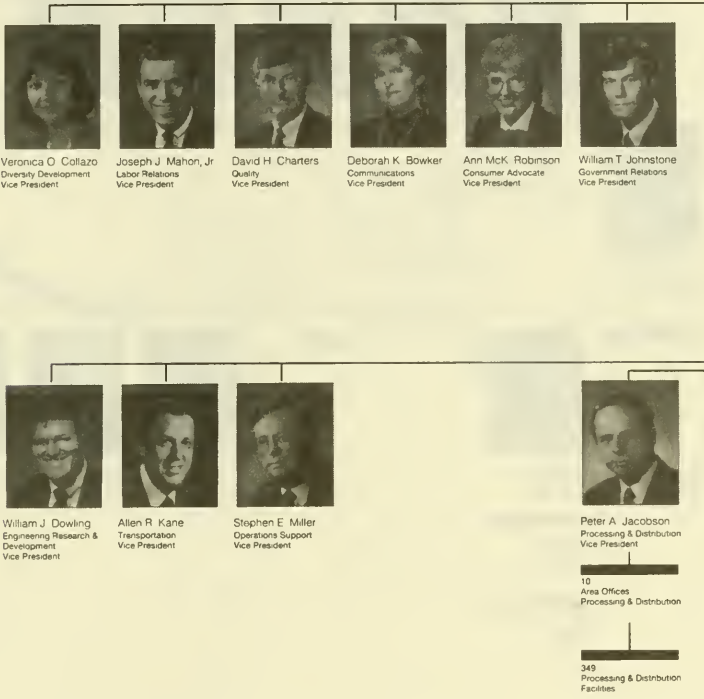
Changes during the year:

Anthony M. Frank served as the nation's 69th Postmaster General until March 25, 1992, when he resigned to return to the private sector.

Ira D. Hall, whose term expired in December 1990, continued serving on the Board until November 25, 1991, as provided by law.



ORGANIZATIONAL CHART





Marvin Runyon
Postmaster General
Chief Executive Officer



Michael S. Coughlin
Deputy Postmaster General



Kenneth J. Hunter
Chief Inspector



Mary S. Elcano
General Counsel
Vice President



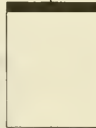
James A. Cohen
Judicial Officer



William J. Henderson
Employee Relations
Vice President



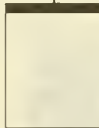
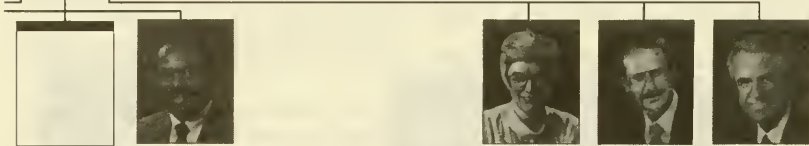
Richard D. Weirich
Information Systems
Vice President



(Vacant)
Finance & Planning
Vice President



Joseph R. Caraveo
Chief Operating Officer
Executive Vice President



(Vacant)
Marketing & Sales
Vice President



Samuel Green, Jr.
Customer Services
Vice President



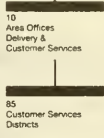
Patricia M. Gibert
Customer Service
Support
Vice President



Mitchell H. Gordon
Facilities
Vice President



Darragh C. Porter
Purchasing
Vice President



10
Area Offices
Delivery &
Customer Services

85
Customer Services
Districts



NATIONAL AREA MAP



**PROCESSING AND DISTRIBUTION
AREA MANAGERS**
ALLEGHENY AREA

Robert J. Sheehan
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PACIFIC AREA

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Western Area Manager
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Denver CO 80299-5000
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FAX: (303) 391-5102

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NEW YORK METRO AREA

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New York Metro Area Manager
Customer Services
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New York NY 10095
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FAX: (212) 613-5478

NORTHEAST AREA
PACIFIC AREA
SOUTHEAST AREA
SOUTHWEST AREA
WESTERN AREA



FINANCIAL STATEMENTS

Summary Balance Sheets

United States Postal Service

	September 30, 1992	September 30, 1991
	(dollars in thousands)	
Assets		
Current assets		
Cash and cash equivalents	\$ 335,105	\$ 711,035
U.S. Government securities, at cost	4,514,054	3,196,694
Receivables, net	784,923	656,573
Supplies, advances and prepayments	<u>393,297</u>	<u>298,966</u>
Total current assets	6,027,379	4,863,268
Other assets, principally supplemental appropriations receivable		
	160,791	96,583
Property and equipment, at cost		
Buildings	9,481,162	8,401,231
Equipment	6,450,687	5,632,196
Land	<u>1,649,050</u>	<u>1,491,820</u>
	17,580,899	15,525,247
Less allowances for depreciation	<u>5,393,301</u>	<u>4,844,600</u>
	12,187,598	10,680,647
Construction in progress	2,265,387	2,206,249
Leasehold improvements, net of amortization	<u>243,470</u>	<u>221,761</u>
	14,696,455	13,108,657
Deferred retirement costs	<u>26,780,085</u>	<u>25,196,942</u>
	<u>\$47,664,710</u>	<u>\$43,265,450</u>



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	September 30, 1992 (dollar)
Liabilities and Net Capital Deficiency	
Current liabilities	
Compensation and benefits	\$ 3,280,632
Accrued restructuring costs	1,010,000
Estimated prepaid postage	1,501,000
Payables and accrued expenses	1,226,563
Prepaid permit mail and box rentals	1,045,400
Outstanding postal money orders	632,703
Current portion of long-term debt	<u>750,785</u>
Total current liabilities	9,447,083
Long-term debt, less current portion	9,173,294
Other liabilities	
Amounts payable for retirement benefits	25,717,078
Workers' compensation costs	4,080,000
Retroactive assessment payable to the U.S. Government	1,088,936
Employees' accumulated leave	1,310,692
Other	<u>130,743</u>
	32,327,449
Net capital deficiency	
Capital contributions of the U.S. Government	3,033,753
Deficit since reorganization	(6,316,869)
Total net capital deficiency	<u>(3,283,116)</u>
	<u>\$47,664,710</u>



Statements of Operations and Changes in Net Capital Deficiency

United States Postal Service

	Years Ended September 30,	
	1992	1991
	(dollars in thousands)	
Operating revenue	\$46,695,800	\$43,884,472
Operating expenses		
Compensation and benefits	38,391,021	36,076,230
Other	<u>7,520,848</u>	<u>7,214,553</u>
	<u>45,911,869</u>	<u>43,290,783</u>
Income before interest, restructuring costs, and extraordinary retroactive assessment	783,931	593,689
Interest income	409,196	317,763
Interest expense on borrowings	(638,157)	(479,417)
Imputed interest on retroactive assessment for employee benefits	(81,432)	(90,507)
Income before restructuring costs and extraordinary retroactive assessment	473,538	341,528
Restructuring costs	(1,010,000)	-
Extraordinary retroactive assessment for employee benefits	<u>-</u>	(1,810,142)
Net loss	(536,462)	(1,468,614)
Net capital deficiency — beginning of year	(2,746,936)	(1,277,666)
Capital equipment transfers from (to) the U.S. Government	<u>282</u>	(656)
Net capital deficiency — end of year	<u>(\$ 3,283,116)</u>	<u>(\$ 2,746,936)</u>

Financial and Operating Highlights

	Year Ended Sept. 30, 1992	Year Ended Sept. 30, 1991	Year Ended Sept. 30, 1990	Year Ended Sept. 30, 1989	Year Ended Sept. 30, 1988
Pieces of mail (millions)	166,443	165,851	166,301	161,603	160,954
Percent change	0.4	-0.3	2.9	0.4	4.6
<i>(dollars in millions)</i>					
Revenue from operations	\$46,151	\$43,323	\$39,201	\$37,979	\$35,036
Percent change	6.5	10.5	3.2	8.4	11.1
Public service appropriation	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Revenue forgone appropriation*	\$ 545	\$ 562	\$ 453	\$ 436	\$ 517
Percent change	-3.1	24.1	3.9	-15.6	-20.5
Total operating expenses	\$45,912	\$43,291	\$40,490	\$38,371	\$36,119
Percent change	6.1	6.9	5.5	6.2	11.1
Net interest (expense) income	(\$ 310)	(\$ 253)	(\$ 38)	\$ 17	(\$ 31)
Operating income (loss), net of interest	\$ 474	\$ 341	(\$ 874)	\$ 61	(\$ 597)
Extraordinary retroactive assessment - OBRA 1990	-	(\$ 1,810)	-	-	-
Restructuring costs	(\$ 1,010)	-	-	-	-
Net (loss) income	(\$ 536)	(\$ 1,469)	(\$ 874)	\$ 61	(\$ 597)
Fixed assets (net of depreciation)**	\$14,696	\$13,109	\$11,523	\$10,336	\$ 9,537
Percent change	12.1	13.8	11.5	8.4	14.3
Net capital deficiency	(\$ 3,283)	(\$ 1,747)	(\$ 1,278)	(\$ 402)	(\$ 460)
<i>(in units indicated)</i>					
U.S. resident population January 1 estimate (in millions)***	253.6	250.9	248.2	245.7	243.5
Percent change	1.1	1.1	1.0	1.0	0.9
Pieces of mail per capita	656	661	670	658	661
Percent change	-0.8	-1.3	1.8	-0.5	3.6
Operating revenue per capita	\$ 181.98	\$ 172.68	\$ 157.96	\$ 154.55	\$ 143.89
Percent change	5.4	9.3	2.2	7.4	10.1
Operating expense per piece of mail	27.58¢	26.10¢	24.35¢	23.74¢	22.44¢
Percent change	5.7	7.2	2.6	5.8	6.2
Operating revenue per piece of mail	27.73¢	26.12¢	23.57¢	23.50¢	21.77¢
Percent change	6.2	10.8	0.3	7.9	6.3
Net (loss) income per piece of mail	(0.32¢)	(0.89¢)	(0.53¢)	0.04¢	(0.37¢)
Career employees	725,290	748,961	760,668	777,715	779,083
Percent change	-3.2	-1.5	-2.2	-0.2	1.8

* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate in accordance with Congressional statute. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

** Fiscal Year 1988-1991 data recast to include construction in progress.

*** 1988-1990 data recast to reflect 1990 census information.

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