

TESTIMONY

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**Statement of
Robert F. Rider
Chairman
Board Of Governors
United States Postal Service
before the
Committee on Governmental Affairs, U.S. Senate
May 15, 2001**

Good morning, Mr. Chairman and members of the Committee. I am Bob Rider, Chairman of the Postal Service Board of Governors. I appreciate this opportunity to discuss the challenge facing universal mail service and the necessity for legislative reform.

The mission entrusted to the Postal Service by Congress is to provide universal mail service to every address in all communities and neighborhoods throughout the United States, at affordable rates. This mission of inclusion and facilitation for the nation's business and personal life is as fresh and relevant today as in the country's beginnings. The American people have always enjoyed among the lowest rates and best service in the world.

Throughout its history, the Postal Service has grown with the nation. We still add over 30,000 new addresses each week to the distribution and delivery network, while keeping average price increases below the rate of inflation. This is the equivalent of a brand

new city of Chicago every year. We have had only two rate filings since 1995, both times just a penny on the First-Class rate. We have done this by restraining costs and improving productivity as service networks expand to handle the nation's growth.

In recent months, several forces have combined to upset the balance between revenue and cost for this year:

- Postal revenue growth has slowed with the weak economy (accounting for a expected shortfall between \$500 million - \$1.5 billion);
- The Postal Rate Commission recommended rates lower than those the Postal Service had proposed and our financial plan assumed (increasing the net loss by \$800 million); and
- Other costs, such as fuel, have grown due to rising prices (adding about \$150 million this fiscal year).

Taking these factors in combination, we currently believe the Fiscal Year 2001 net loss could exceed \$2 billion.

The law provides us a limited opportunity to deal with the shortfall. As finances have suffered, the Board has attacked the problem with the tools now available to us. Earlier this month, the Governors reluctantly decided that we must exercise our authority on the record of the most recent rate case to modify postage rates to address a shortfall of about \$1 billion, through a rate adjustment averaging 1.6 percent. We took this action to protect the financial integrity of the universal mail system. Because

the adjustment comes so late in the fiscal year, this move yields only about \$200 million of the shortfall in the remainder of this fiscal year.

In recent years the Postal Service has had good success with programs for managing workhours and other controllable cost elements. Last year's productivity improvement of 2.5 percent was the best since 1993. In current circumstances, however, extraordinary, and unfortunately painful, additional measures are essential:

- We have eliminated \$1 billion from the capital commitment budget for this fiscal year, in order to conserve the cash to pay our bills, and to reduce future commitments to match cash flow.
- We have directed management to prepare another rate filing, to get the Postal Service back on a pay-as-you-go footing, maintain financial viability, and achieve break-even as the law mandates.
- We directed management to take a fresh look at all operating expenses to realize additional savings. A number of actions are now in place. Among these are:

- ü a hiring freeze at headquarters.

Management has eliminated over 1,100 headquarters and headquarters-related positions since the beginning of the fiscal year, along with 20 percent or 232 of the positions in the area offices. These reductions are continuing at headquarters, area, and district offices.

- ü a nationwide freeze in hiring of processing and distribution clerks. So far we have over 7,000 fewer career clerks on the rolls than at the end of the last fiscal year.

- ü a series of comprehensive Area Mail Processing studies, which will identify opportunities to consolidate operations and reduce expense.

Many of the delayed capital projects are badly needed. Their postponement will make it difficult to meet the

needs of our customers and our employees. The Board's responsibilities, nevertheless, require us to make sure

that financial resources are on hand to pay bills when they come due. Every two weeks these bills include one

of the nation's largest payrolls, providing the livelihood of more than 800,000 postal families.

In the years ahead, cost cutting and rate increases within our current statutory framework are not sufficient

for the Postal Service to keep pace with today's market dynamics. More businesslike management is required to maintain the financial integrity of the Postal Service and the foundation for universal mail service.

The outdated statutory framework both contributes to current financial problems and severely limits what can be done about them. The Postal Service has limited authority over its prices, services, wages, and the other management levers in the postal system. The cumbersome history of the recent rate case – which took almost two years to complete from preparation to finish, spanning periods of both economic boom and slowdown – illustrates part of the problem.

None of the private firms whose services compete with, or substitute for, the mail go to every household every day. The Postal Service delivers to 113 million addresses six days a week. To break even, we need an average of about \$2.00 in postage for each delivery point every day. But except in the more affluent neighborhoods, many households do not receive that much mail. If universal service does not remain economically viable, many Americans will not get the level of service or the affordable prices they are accustomed to receive.

The most advanced nations around the world are

rapidly modernizing and reorienting their postal systems. The Postal Service delivers 40 percent of the world's mail, but America lags far behind in postal reform. The overseas posts are reorganizing to protect their universal service and keep their rates affordable. Many now come over here to compete for some of our mail. Without vigorous postal reform in the United States, this country faces increasing pressure on the economic foundation for universal service at affordable prices.

The American people should not have to face this result. The United States should continue to have the best, most modern postal structures and services in the world. We pledge that the Postal Service will do all that we can, both to manage the current challenge, and to contribute to the success of a comprehensive postal reform measure.

Thank you. We will be pleased to respond to questions.

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