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My name is Phil Tabbita, and I am the Manager, Negotiations Support and Special Projects for the American Postal Workers Union, AFL-CIO. On behalf of the 260,000 members of APWU, I thank you for the opportunity to participate in the forum today and allowing me to present this statement. In the letter of invitation, the Committee specifically asked APWU to address five questions. My statement today will address each of those questions. I will also be happy to respond to any questions you might have following my statement.

- Dealing With the Revenue Shortfall

The Postal Service's revenue shortfall should first be put into perspective. This shortfall directly results from the PAEA required pre-funding of a Postal Service Retiree Health Benefits Fund and that specified stream of pre-funding payments was determined by political rather than economic realities. Postal Service finances without the PAEA required funding would require monitoring but would not rise to the point of insolvency.

Postal Service Revenues and Net Income
(in billions)

	2007	**2008**	**2009**	**Cumulative**
Revenue	74.973	74.968	68.116	218.057
Net Income	(5.142)	(2.806)	(3.794)	(11.742)
Payments to Retiree Health Fund	8.358	5.600	1.400	15.358
Percent of Revenue	11.15%	7.47%	2.06%	7.04%
Net Income excluding Retiree Health Fund Payments	3.216	2.794	(2.394)	3.616

In FY2007, the Postal Service experienced a $5.1 billion loss; however, that was much smaller than the $8.358 billion of Postal Service expenses that were paid into the retiree health benefit fund ($2.958 billion in the escrow fund that was shown as an expense when it was paid to the Treasury in 2007 and the

$5.4 billion due under the PAEA schedule). Without those payments, the Postal Service would have experienced a positive net income in 2007.

In FY2008, the Postal Service reported a deficit of $2.8 billion after paying a $5.6 billion scheduled payment to the retiree health benefit fund. Again, without the required PAEA payment the Postal Service would have shown a positive net income of over $2 billion.

In FY2009, after suffering a 12.6 percent decline in mail volume, the Postal Service reported a loss of $3.8 billion after paying $1.4 billion into the retiree health benefits fund. Without that payment the Postal Service's loss would have been $2.4 billion.

Without the prefunding the Postal Service would show over $3 billion in net income for fiscal years 2007 through 2009. In a world without the current prefunding regime would Congress ask opponents of 5-day delivery how to cover the shortfall?

I should also note that the Postal Service has paid approximately $2 billion each year to cover the current year cost of health benefits for retirees. Despite the fact that the PSRHBF has $35.861 billion in assets, it is sitting dormant and has not been used to satisfy any financial obligations. To put this in perspective, the Fund now equals 53% of annual Postal Service revenues. The combination of annual pre-payments to the Fund and payment of the current retiree health benefits means that more than ten cents of every dollar in USPS revenue is committed to retiree health benefits.

The Postal Service was not alone in suffering significant losses in 2009, GM lost $31 billion, Ford lost $15 billion and Citigroup lost $28 billion, albeit on revenues larger than the Postal Service. But, even companies with much smaller revenues than the Postal Service lost billions: Motorola and Macy's each lost $4 billion; Rite Aid and Northrop Grumman lost over $1 billion. It was a bad year for the U.S. economy and it is premature to make pronouncements about the demise of hard copy communications and the United States Postal Service.

With relief from prefunding of retiree health benefits and with only a modest increase from this unprecedented free fall in mail volume, the Postal Service will return to profitability. The signs are positive and it is expected that the economy will show full recovery in 2011. ***Hard copy communications will follow and I predict that in FY 2012 mail volume will experience growth***.

The Postal Service has not set idly by while volume declined and has initiated many changes generating savings. Many of these changes will not show a full year of savings until 2012 including the Early out Incentive program that shed more 22,000 career employees. Other network changes will not be felt until later years including more than sixty consolidations of mail processing facilities that are in various stages of development and implementation. Major technology initiatives and automation programs such as the flat sequencing sorter are only beginning deployment.

The Postal Service has revenue opportunities it is not currently pursuing in part because of uncertainties about what would be an acceptable "postal service," and because of limited capital and an institutional aversion to taking risk. Some thoughts on that subject are shared below.

It is not enough to simply cut cost and it is not wise to create a business model that relies upon savings from service reductions. Ultimately, the Postal Service will have to raise the top line – volume and revenue. The best opportunity at doing so is to be a generator of mail as compared to a conveyer. Congress can help by removing restrictions on "non postal products." Under the current definition:

"'postal service' refers to the delivery of letters, printed matter, or mailable packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto;" 39 § 102. (5)

Services outside of this definition, while still very much related to mail and to maintaining and effectively using the network infrastructure required for universal service – will bring needed revenue and improve service. 39 § 404.(e)(1) through (5) defines anything not within 102.(5) as nonpostal and seems to suggest that new nonpostal services are not possible or likely and existing nonpostal services are subject to termination by the PRC.

- Subsidy of Universal Service Obligations

Any discussion of an explicit subsidy of the postal universal service obligation is premature. Mail volume will recover after the worst global recession in more than 60 years. An explicit subsidy will not be needed, and before any serious consideration of this matter is undertaken Congress should eliminate the burden of pre-funding of retiree health benefits; allow the Postal Service to venture into products, services, and businesses that are related to mail, use the infrastructure needed to provide universal service to generate revenue; wait out the recovery from the current recession; and encourage the Postal Service to grow volume while providing new products and services.

- Proper Role of the Postal Service and Other Product Offerings

The Postal Service's purpose and function is ". . . to bind the Nation together through the personal, educational, literary, and business correspondence of the people. . ."

This has been achieved through the collection, processing and delivering of mail. Technology has changed the way we communicate, correspond, and receive information but hard copy communications will continue far into the future as a means of driving capital. Efforts must be initiated to merge technological driven communications with the USPS network. For example, a hybrid mail product might send messages electronically over distance and print hard copy close to the delivery point; or allow access to information or images of hard copy mail in an electronic mail box and then the recipient could designate what to do with the mail; or near real-time redirection of mail to a parcel locker near work rather than home, or to a vacation location. Such value added products and services could generate additional revenues that would help support a modest first class letter price for those unable or unwilling to use new technologies, but the focus must remain on growing mail volume. But the single focus of the USPS must be to drive mail volume and provide first class service. Any efforts that detract from these priorities are self inflicted wounds.

Among the areas for consideration should be the use of postal facilities for a broader range of activities. Virtually every postal retail outlet already has high-speed communications link to the Internet and the postal IT network. This wired infrastructure is necessary to provide postal services, used to transmit orders from USPS.com and Call Centers for stamp fulfillment in the delivery area, redelivery of mail, holds on mail, change of addresses, and report sales, update rates and services on local computers and upload scans on delivery confirmation, etc. However, given the infrastructure, it would not be difficult to provide a kiosk for customers to use to check e-mail or other informational sites and to access online government services, and to copy, scan or print documents. In some retail spots it could also offer expanded hours of service through USPS.com. Perhaps the Service could install solar cells to provide energy for its facility and in some instances sell excess energy to the electric grid.

The Postal Service also has a fleet of vehicles that are on the street daily to deliver mail. That fleet could carry advertising, collect radioed meter readings or generate and store electricity to later be sent to the grid. This carrier resource could report road repair and conditions, trash pileup, abandoned cars, etc. to local authorities.

To take full advantage of the opportunities, the Postal Service should not be forced to use a tool box with only one set of tools: cost cutting. Without such tools, any bumps in the roads will cause crises and serious service reductions.

- Preparing the Postal Workforce to Succeed in a New Environment

For openers, postal management must abandon the business model of consolidating the USPS network while expanding the private network. This model reduces the volume of mail processed and transported by the Postal Service increasing the per piece cost of postal productivity. There is no successful business model in existence that includes increasing USPS per piece cost while subsidizing private processing through discounts. The requirement to adhere to service standards necessitates the continuation of a national USPS network which requires maximum volume for efficiency. This obligation to satisfy the profit motives of large mailers at the expense of an efficient national mail service must be terminated.

- Dealing With Retiree Health Costs

The Postal Service has prefunded its retirement obligations over and above what was required[1]. This over funding has provided stability to the retirement system for the remainder of the Federal Government that is only 43% funded in total. The Postal Service has funded a large part of its retiree health benefits obligations, something that is not required of the rest of the Federal government or of private business. To the extent the Postal Service has overfunded its retirement obligations, those funds should be used to offset any additional liabilities attached to the prefunding of its retiree health benefits. The Postal Service, like any other Federal government agency, has faith and trust in the health benefits system that funds retiree health benefits for the entire Federal government and should not be required to prefund obligations at a rate that threatens its financial stability.

The Postal Service would be healthier if it could use the monies it would otherwise pay into the PSRHBF for capital investment, automation, technology, and product development. If prefunding continuously threatens the financial stability of the Service the result is the exact opposite of the intent of prefunding, the future and benefits of current and future employees will be threatened with insolvency.

Without any further transfers from retirement fund overpayments or from the Postal Service, the Fund contains almost $36 billion and with continued growth through interest, it should be sufficient for the Postal Service to pay the current bill for retiree health benefits each year far into the future.

[1] See *The Postal Service's Share of CSRS Pension Responsibility,* U.S. Postal Service Office of Inspector General, Risk Analysis Research Center, Report Number: RARC-WP-10-001, January 20, 2010