



Testimony of
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States

Before
The President's Commission on the United States Postal
Service

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I am Wally Olihovik, President of the 42,000 member National Association of Postmasters of the United States (NAPUS). It is an honor to share with you my thoughts about the Postal Service and its workforce. With your permission, my complete statement will follow my brief remarks.

In a recent message to the 1,200 postmasters who attended our 2003 Leadership Conference, President George W. Bush applauded NAPUS for "recognizing the importance of quality mail service to local communities and our Nation." Moreover, the President wrote that this Commission "is committed to strengthening the postal service and ensuring its long-term viability." It is my hope that my comments will assist you in this task.

The nation's 27,000 postmasters are the "managers-in-charge" of post offices. A postmaster may manage a small rural retail facility, or administer a cluster of stations, mail-processing units, and the main post office. The size and location depends on the demographics and mailing needs of the community. Whether or not a specific post office earns a profit does not, and should not determine its existence. For many Americans, a post office is the sole nexus between a community and the federal government. Community identity and postal accountability are contingent on the presence of post offices. Interaction with frontline postal managers assures postal customers, large and small, that their mailing needs will be addressed promptly. Cost-savings attributable to closing the 10,000 smallest post offices are minimal \$ 567 million compared to substantial savings that could be realized from mail-processing plant consolidations.

As a postal employee who began his career in a mail processing plant, I can attest to achievable savings and efficiencies through plant realignment. Moreover, these goals can be attained without jeopardizing service to our customers. I respectfully remind you of comments made earlier this year by R.R. Donnelley regarding the magnitude of the savings: "The upstream processing network is a major contributing factor to many other problems that plague the U.S. Postal system. ... there are savings to be realized in the range of \$6-8 billion if upstream processes were realigned."

Therefore, post office closings and consolidations should not be pursued solely as a cost-cutting strategy. Indeed, the current post office closing and consolidation procedures work and should not be modified. The Postal Service closed approximately 14,000 post offices over the past 30 years. Indeed, the current law balances the need of the Postal Service to adjust its infrastructure, while also taking into account the due process needs of impacted communities. The direct customer contact with the postmaster, the letter carrier, and window-clerk is what resonates loudest, enhances the value of postal products, and reaps the Postal Service's high marks in public confidence.

The underlying question of this hearing is how can we optimize the use of postal labor, using 21st century management techniques, while also protecting the important public service the Postal Service provides? Accountability, authority, and flexibility are the answers. The Postal Service must create an environment where everyone is accountable for their work; the Postal Service must provide its employees, especially managers with the authority to make decisions in the field; and the Postal Service must work with the unions to revise outdated work rules to promote greater flexibility in personnel deployment. Successful performance-based organizations have adopted these strategies.

The Postal Service has experimented with a handful of different pay systems to provide incentives for exemplary performance. The most recent attempt was the much-criticized EVA economic value added compensation system for managers and supervisors. EVA failed for a variety of reasons. The Postal Service must clear these hurdles to employ an effective compensation system that promotes efficiency and quality. Primarily, objective performance standards would provide an unprecedented level of accountability up and down the postal workforce ladder. Postmasters need to take a more active role in helping to design these principles and a new managerial pay system, thus creating proper incentives. The pending Postmasters Equity Act, S. 678, provides a new tool by which postmasters and Headquarters can develop pay schedules and programs to meet their mutual needs.

Modern managers recognize the fact that employees perform differently. Employees, management level or rank-and-file, have different skills, aptitudes, and performance levels. "One size fits all" pay raises are not effective in promoting accountability or rewarding exemplary performance. Moreover, it is damaging to the entire organization to hold one segment of its workforce accountable for performance, yet insulate the other from the same yardstick. It is crucial that the Postal Service and all employee groups work together to develop a credible and consistent pay system. It must include sensible and clear criteria, so performance can be rewarded fairly. Experimental compensation programs should be tested with the constructive input of employee associations.

Over the past three decades, the Postal Service has mutated into a costly multi-layered bureaucracy that has distanced postmasters from Postal Headquarters. Consequently, mid-level postal managers positioned in area and district positions often interfere with successful post office management and can undermine a postmaster's authority. It can be as petty as requiring a local postmaster to file triplicate requisition forms to purchase a roll of toilet paper. Rather than transit the postal maze, postmasters will take money out of their own pockets to make necessary purchases. Postal Headquarters must issue firm and clear instructions that the responsibility of the Area and District is to enhance the Postal Service and not to create work to justify their own existence and undercut postmaster authority.

Mid-level management must be attentive to the fact that front-line managers must make operational decisions. Numerous levels of postal management exist for the sole purpose of directing postmasters whose authority to manage their own post offices is sorely tested time after time. In many instances, mid-level postal managers who may not have "touched" mail in years are directing postmasters and their subordinates to make decisions that are detrimental to individual post offices and communities they serve. The Postal Service should reduce its bureaucracy and support an infrastructure with a limited chain of command from Headquarters to the post office.

Over the past few months, this Commission has heard testimony about the need for price flexibility in order to adapt to the changing market. NAPUS believes that the Postal Service and its employees need to do a better job to embrace "workplace flexibility" to adjust to changing workload conditions. Traffic fluctuation in the postal lobby combined with the seasonal ebb and flow of mail volume requires more flexibility. Postmasters need the ability to fine-tune their workforce to respond to mailing needs. We need to work with our unions to train employees to perform different tasks in order to calibrate to varying customer demands. We should work with our unions to lower the barriers against deploying personnel to different positions in a postal facility.

There are models of this type of labor elasticity even within union shops. For example, in 1998, Saturn negotiated a contract with the United Automobile Workers employed at the Spring Hill, Tennessee facility. Under the agreement, Saturn workers have the flexibility to crossover and perform a variety of tasks. I should add that the contract included a "production-based" incentive. This flexibility should be applied to postal operations.

Mr. Chairman, NAPUS recognizes that many issues will continue to challenge us. There will be resistance. Nonetheless, for the survival and vitality of a universal Postal Service, all postal stakeholders must work together.



Walter M. Olihovik

**National Association of Postmasters of the United
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**Comments Presented to the President's Commission on
the U.S. POSTAL Service**

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Introduction

The National Association of Postmaster of the United States (NAPUS) is a duly recognized professional association that represents our nation's approximately 27,000 postmasters. Moreover, almost 21,000 postmaster retirees have joined the association. NAPUS' mission extends beyond mere Postmaster representation. The association promotes and protects Postmasters; helps to assure users of the Postal Service the best possible mail services; advocates Postmaster views on Capitol Hill, at the White House, before regulatory bodies, and within the Postal Service; and works closely with the Postal Service in the development of strategies for the enhancement of Postmasters and the Postal Service. In addition, the 42,000-member association speaks on behalf of retired postmasters and their families regarding retirement and benefit issues that may affect the quality of their life after postal employment.

Postmasters are cognizant of the tremendous financial and operational challenges the Postal Service presently confronts and will continue to face in the future as the agency attempts to remain relevant and viable in the postal marketplace. Indeed, the responsibilities of the postmaster, the manager-in-charge of the post office, have changed over the past five millennia. Ancient Mesopotamian city-states, where cuneiform was the primary means of commercial contact, established "posts" as the means to encourage communications. More recently, on our shores, colonial post offices developed as the colonies expanded and continued to mature as the country stretched across the continent to bind our nation together. Post offices and the Postal Service itself have endowed this country with an extraordinary heritage. Indeed, the post office has supported civilization, and facilitated the growth of commerce and communications. Nonetheless, the U.S. Postal Service, its facilities, and its personnel operate within a new reality where the past can only provide a guidepost for the future not all the answers. An outmoded business model, mail diversion, labor and infrastructure costs, and new technologies may have been anticipated. However, these factors were not confronted adequately and honestly.

The Commission was not created to "sugar coat" the issues or to offer simple, though unreliable solutions. Rather, Postmasters understand it was created to frame the long-term issues, educate the American people, the White House, and the Congress and to make specific recommendations on how to ensure the viability of postal services. We hope that our input will assist the Commission in its deliberations.

The Market

The current Postal Service market is diverse and is characterized by a multitude of competing burdens, which at times may compete against one another.

The Postal Service benefits from an almost iconic status. It has incredible brand identity and Americans are extremely protective of the institution. The Postmaster, the letter carrier and the window clerk are recognizable in every community. They market, sell, and produce the goods and services, which generate the revenue that underwrite postal operations.

The Postal Service provides products and services to a number of divergent though interdependent constituencies the two most prominent being residential consumers and business mailers. The expectations that each group has of the Postal Service have evolved over decades and are based upon their unique needs and experiences.

Residential consumers expect mail to be delivered to their home six days a week at a routine time; and it is anticipated that mail will be delivered to its destination within a finite and determinable amount of time. This is a monumental task, since the Postal Service delivers mail to approximately 140 million delivery points; and last year added 1.8 million new delivery points.

Visits to their post office to transact postal business should be quick, friendly, and efficient. Mid- to large postal facilities should benefit from frequent collection of mail that is to be transported to other postal zones. Finally, residential customers expect mail entrusted to the Postal Service to be handled by Postal personnel. At the very least, residential customers expect that postal personnel staff the mail acceptance unit and perform the delivery function.

The Postal Service also is in the unique position of responding to the demands of identifiable communities, particularly rural ones. It is important for many communities to have an institution that provides postal boxes, a venue for financial transactions, and a place to retrieve mail for which a government official must authenticate identification.

Business mailers may have overlapping expectations with residential customers, but have different priorities. Commercial mailers, when they visit the post office, value speed and accuracy of transactions. Reliability and cost are also major concerns. Most large mailing houses "drop" their mail at a postal distribution facility. Therefore, the relationship with a retail unit may be limited or nonexistent. The speed of mail acceptance at the distribution point is crucial, as well as the efficiency of mail processing. Mailers desire postal penetration into specific locations at designated times or frequencies. Consequently, the speed from mail production to delivery point, at a reasonable and predictable price and time, is vital. Not too long ago, business mailers relied on the Postal Service to process and sort mail. Today, however, more and more business mail is being pre-sorted or automated, reducing the necessity for postal labor to be used to perform such functions. This phenomenon has led to mailer demands that discounts be applied to mail that has been processed or prepared for automation prior to entering the mail stream.

The demands made on the Postal Service from these two defined constituencies yield an interesting dichotomy. Postmasters, letter carriers, and window clerks (collectively, the Postal Service's frontline) interact primarily with residential customers or small businesses. The overwhelming number of delivery points is residential. The perception on the part of the Postal vanguard is that the postal customer is the entity with whom they interact on a day-to-day basis. In contrast, Postal Headquarters interacts primarily with large business mailers, who generate the majority of postal revenue. Therefore, the view on the part of Headquarters is that the postal customer is the large revenue producer. The result of this dual tract perception is that postal officials employ different strategies to respond to dissimilar and sometimes conflicting consumer demands.

The fact of the matter is that both the Postal Service's frontline personnel and Postal Headquarters are correct. Consequently, it is imperative one not be played against the other. To do so would irreparably damage the institution and the market that the Postal Service serves. The work-sharing arrangements that have advanced over the past twenty years have benefited the mailing community, residential customers and the Postal Service itself. However, now it would appear prudent that the Postal Service decide which path to follow in its quest to work with the mailing community to shave costs. The Postal Service has expended millions and millions of dollars to build an extensive infrastructure in its quest to automate. NAPUS firmly believes that the Postal Service should create adequate incentives to encourage mailers to use this technology to its fullest capacity. Additionally, consideration should be given to private sector mail processing units with the goal of enhancing cost-efficiencies.

Regulatory Reform

The current regulatory model cannot sustain a viable U.S. Postal Service.

The pricing system under which the Postal Service operates is fatally flawed. Moreover, the postal regulatory framework is obsolete and ill serves the market it was created to promote. This indictment of the regulatory system is a dynamic one; it grows with every year that the system is not changed.

The exorbitant amount of time spent in adjusting postal rates places the Postal Service at an insurmountable disadvantage when establishing prices or in product development. Other entrants in the Postal market may adjust their prices to reflect economic changes or competitive pressures. The regulatory framework created thirty years ago, reflects a bygone area of regulatory theory that no longer applies. Thirty years ago, the Postal Service was the unchallenged leader in the hard copy and package transport arena. As such, the Postal Service was a true government monopoly that cried out for a regulatory authority to ensure that it did not abuse its position to the detriment of its own customers. The Postal Rate Commission was not established to hinder the Postal Service from

responding to its own customers or preempting it from fully participating in the postal market. Nor, does NAPUS believe that the authors of the Postal Reorganization Act envisioned a market where its regulatory creation would conspire to cripple the Postal Service's ability to compete against mailing enterprises and transportation logistic entities, both foreign and domestic. Indeed, the Postal Rate Commission mutated over the past thirty years to redefine itself as the guardian of a market with sole responsibility of limiting Postal participation in it. In sum, the rate Commission has not enhanced the market for the benefit of the Postal customers for whom it was created to protect.

NAPUS would respectfully suggest that the President's Commission explore opportunities for postal customers to benefit from the competitive environment in which the Postal Service operates, not suffer from it. The Postal Service should be able to adjust its rates periodically to react expeditiously. Legislation has been proposed in previous Congresses that would enable the Postal Service to adjust rates within a finite window (e.g., the increase in the consumer price index), without having to first seek the Postal Rate Commission's approval. In addition, the Postal Service should be able to negotiate postal rates directly with its customers so long as other customers are not disadvantaged.

Postal Service should not continue to be regulated in a manner that hinders its ability to expeditiously establish rates and bring new products to market, nor should it be unfairly subjected to unfettered subpoena power by a regulatory authority. However, if this were the case, we believe that the same rules need apply to all postal competitors. That is, any postal customer may seek relief within the postal regulatory authority for "unfair competition" or "monopoly practices" against any postal player, governmental or private.

Within this context, the regulatory model under which the Postal Service operates unfairly constrains it. NAPUS strongly believe that Postal operations, particularly the institution's primary retail and delivery network are inherently governmental functions. Foreign countries with different socio-economic foundations can experiment with private ownership of postal operations, but the breadth and history of the Postal Service should lead even a casual observer to the opposite conclusion. The doctrine of U.S. postal networks being intrinsically governmental is underscored by the strong American expectation of privacy of the mail and in the unwavering belief in its sanctity.

The Postal Service's Transformation proposal to re-establish the Postal Service, as a so-called Government Service Enterprise, balances the need to provide the agency a freer hand in operating in the market, while at the same time emphasizing its status with the federal government.

Universal Service

While the concept of universal service is evolutionary, it should still be one of the primary goals of the Postal Service.

The Postal Service's historic and present core mission is to provide the American public, including the mailing community, with universal mail services at an affordable price. Two existing misnomers are that the current definitions of universal and affordable are the same today as they were decades ago.

The universal service mandate is rooted in Title 39 of the United States Code, sections 101 and 403, and postal regulations that have been adopted over the years. Moreover, residential postal customers and many mailers expect our nationwide postal network to deliver letters, periodicals, advertisements, and parcels six days a week to their doors, residential mailboxes and post office boxes. In addition, the Postal Service is expected to support approximately 27,000 post offices, and more than 11,000 subsidiary postal facilities. This universal service concept was never intended to be static. It evolved over the more than 200-year history of the postal agency. For example, free city delivery did not begin until 1863, and rural free delivery was established in 1896. Additionally, many urban businesses received multiple daily deliveries for many years. The Postal Service is also moving away from launching delivery points at the physical residence or business location. Within urban and suburban locations, greater reliance is being placed upon "curb-side" deliveries and "cluster boxes" The Postal Service is relying more and more on mailrooms in large commercial properties to accept mail for all offices in these locations. Consequently, universal delivery standards are already being modified by the Postal Service to respond to the operational and fiscal challenges.

Postmasters are the managers-in-charge of post offices. As such, NAPUS members are accountable for postal operations and services in countless cities, towns, and communities in the country. Post offices are not solely the "bricks and mortar" building, which provides retail postal operations to their customers. In many rural areas, the Postmaster may manage the operation of a postal retail facility with or without rural routes, and is the chief marketer for postal products. At the same time, an individual post office may encompass multiple "postal stations" and outlets that provide retail service. Moreover, the Postmaster may manage mail-processing facilities and letter carrier annexes within a particular post office's jurisdiction. The Postmaster is responsible for the management and supervision of all personnel and postal operations under the authority of that post office.

The number of Post offices grew exponentially during the formative years of our republic, up until the early 1900's. However, during the past almost 100 years, a large number of post offices have been closed and suspended. In fact, over the past 40 years more than 14,000 post offices have been either closed or suspended. Concurrently and more recently, the Postal Service has encouraged

postal customers particularly residential customers to seek alternative venues in which to access postal services.

It is eminently clear that, under current law and established postal regulations the Postal Service may, and in fact does, close post offices. As previously stated, more than 14,000 have been terminated over the past half-century. This power to close a post office is not to be taken lightly, since many communities rely on the facility for basic mail operations, and in many instances, a community's very identity is predicated upon the existence of the post office. For this reason, specific due process procedures were enacted to ensure the community impact was evaluated as the result of a post office closure. True, the Postal Service may provide alternatives to post offices in certain areas, but these facilities may be closed without any type of accountability.

America's understanding of universal service also embraces the security of the letter or package entrusted to the Postal Service. The restriction placed upon access to the U.S. mailbox cannot be overemphasized. Security and privacy are essential elements of the American concept of universal mail service. This expectation is particularly noteworthy during these uncertain times when the mail stream is vulnerable to bio-terrorism and identify theft is a mounting concern. These factors highlight the tremendous responsibility that the agency and its employees have within the communications and the package transport arena.

The still-maturing internet, the growing comfort Americans have with electronic fund transfers, and evolving modes of communications have strained the ability of the Postal Service to sustain a universal service model. This tension has led a number of policy makers to conclude incorrectly that a "universal postal service" is obsolete. The core mission of the Postal Service is based upon mail delivery to every household and business in the country, and to postal access in every community. While the concept of "universality" and "affordability" may have changed, the underlying principle is the foundation upon which the Postal Service should remain.

Despite greater reliance on "virtual communication" via the Internet, substantial commerce and communications will continue to be on paper. Letter, parcels and packages need to transport in a non-discriminatory manner from vendor to delivery point. Furthermore, a postal presence in urban, suburban, and rural areas is essential to the economic and cultural well being of the specific communities served by the post office. Indeed, in these locales especially rural ones the postmaster is usually the most identifiable and responsive representative of the federal government.

Postmasters acknowledge that just because a post office has existed in a particular location, by itself, is not reason enough to keep it going into perpetuity. However, as a government service, the Postal Service and individual post offices should not be evaluated based on revenue alone. Indeed, fair and clear criteria

need to be developed to assess the necessity of a postal outlet within a particular area. Decisions over the closure of an existing postal facility or the creation of a new one cannot be arbitrary. Clear procedures must be established. Within the decision-making process, the affect upon the community must be assessed. The key question that should be asked and answered is whether the retail outlet is "demographically" justifiable. This is a different question than: Is the facility self-supporting? The justification in an urban, suburban, or rural locale may very well be different. Population dispersion and access to financial institutions and technology are factors to be considered in evaluating the demographic rationale for a postal outlet in a particular community. Under a "demographic necessity" criterion, multiple postal stations within a defined urban or suburban setting may be evaluated more stringently than a solitary post office for which a rural community depends. Consistent with "universal service," the litmus test needs to be accessibility to the services needed within the particular community and accountability for the provision of those services.

Management Flexibility

Frontline managers need the authority and autonomy to direct effective operations of postal facilities.

For the last quarter century, the Postal Service has resembled an unwieldy military enterprise. Indeed, a clumsy patchwork of outdated rules and regulations, combined with dubious workplace precedents have conspired to undermine management flexibility. In addition, a swollen Postal bureaucracy creates unnecessary and counterproductive interference in communications between Postal Headquarters and its Postmasters. This phenomenon has festered over the past thirty years and is particularly acute at the facility level.

Postmasters are being suffocated between two competing challenges the inability to deploy resources where needed and upper level management reserving for itself local decision-making. In a country where innovation and adaptation is heralded, the Postal Service is averse to having its frontline managers actually manage operations in local post offices. Decisions are being rendered "up the food chain." In many instances, individuals who have not "touched the mail", or worked in a postal retail, or processing facility for an extended period are making these decisions. Many upper level postal managers are ill-equipped to make determinations about resource deployment, post office hours, and inventory. Unfortunately, such judgments are portrayed as directives. This type of management style does not foster favorable relations between a Postmaster and their boss.

Existing labor provisions, in many circumstances, can interfere with a Postmaster's ability to manage effectively his or her facility. Under current labor contracts, employees may be restricted from performing tasks that are not within the scope of responsibilities defined under their National Agreement. A Postmaster may be precluded from training a postal employee to perform certain tasks that may even fall within the responsibilities of that craft. Under broad circumstances, a Postmaster may not reassign a sorting clerk to

perform window service. A letter carrier is prohibited from working a postal window. Moreover, in many facilities, even when there are long lines, a postmaster may not fill in at a window. While we appreciate the nature of collective-bargaining agreements, it still needs to be pointed out that some provisions can be a hindrance to effective management.

It is difficult to manage a postal facility when performance incentives are inconsistent. Managerial personnel participate in a compensation system where a portion of their wage package is based upon performance formerly referred to as Economic Value Added (EVA). Craft employees, upon whom much of the success or failure of a performance cluster is reliant, are insulated from performance-based compensation. Most students of modern management acknowledge the concept of deviation in workplace performance. Different employees, as the result of different skills and aptitudes perform differently. However, collective bargaining has yielded a compensation package where craft employees earn periodic across-the-board wage increases and cost-of-living-adjustments. There are virtually no incentives built into the system to encourage enhanced efficiencies. It is unclear whether the Postal Service will be able to win a new compensation system at the bargaining table with its unions, but it is important to recognize the effect that divergent compensation systems could have on postal efficiency and managerial capability.

Conclusion

The Postal Service and its Postmasters do not function in an operational or political vacuum. Members of Congress have repeatedly articulated their strong interest in the agency's capacity to provide core postal services to their constituents. Unfortunately, only a limited number of elected officials comprehend the complexity of our Postal system and the intrinsic cost in providing the services that their constituents expect and deserve. Indeed, it is the unenviable task of this Commission to provide the outline and suggestions to the Congress, so they may construct legislation to reform and modernize the Postal Service. Ultimately, our elected leaders will define the future of the institution. Members of Congress have certain expectations and parameters that must be appreciated for us to be successful in accomplishing our objectives.

It is abundantly clear that the Postal Service needs to change in order to survive. On behalf of our nation's postmasters, NAPUS respectfully requests that the Commission make recommendations to the President and the Congress to:

- Ensure that the expectations of residential and business postal customers, and communities are respected,
- Enable the Postal Service to compete in the postal market, without overly burdensome regulatory restrictions,
- Sustain the Postal Service's core mission of providing universal services to both residential and business customers,
- Empower frontline managers to manage effectively their post offices and to provide appropriate incentives to its workforce.

Postmasters are ready to assist the Commission in its challenge to finalize its report later this year. Furthermore, Postmasters are prepared to fight on Capitol Hill on behalf of the future of the Postal Service and the critical work that it performs for the American public and mailing community.