

**TESTIMONY OF
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NATIONAL ASSOCIATION OF POSTAL SUPERVISORS**

**SPECIAL PANEL ON POSTAL REFORM AND OVERSIGHT
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES**

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Thank you, Chairman McHugh, for the opportunity to appear before the Special Panel on Postal Reform and Oversight on behalf of the 36,000 postal supervisors, managers and postmasters who belong to the National Association of Postal Supervisors.

I am pleased to be here today to participate in this hearing to add our voice in support of Congressional passage of comprehensive postal reform. This hearing is an important step toward the achievable goal of passing a postal reform bill this year.

It is increasingly clear that we need to modernize the business model and the laws governing our nation's postal system. Electronic diversion and the steady decline in First-Class mail volume threaten the capacity of the Postal Service to support itself through postal revenues. The sooner postal reform comes about, the greater will be the Postal Service's ability to focus on its core business of delivering the mail with more flexibility and higher profits.

The President's Commission on the United States Postal Service rendered a valuable service in submitting a report that affirmed the need to transform the Postal Service to a more high-performing, results-oriented, transparent and accountable organization.

Some of the Commission's recommendations can only be implemented by Congress through statutory action. Others can be implemented by the Postal Service itself, without the enactment of new legislation.

The Postal Service, within its own current authority, can move ahead in implementing the Commission's recommendations that address: the improvement of its financial transparency; the downsizing of its workforce, post offices and plants; the elimination of redundant management structures; the improvement of labor-management relations; the broader development of private-sector partnerships; the expansion of retail services; and the procurement of new technologies that improve the processing, transportation and security of the mail. Many of the Commission's recommendations in these areas represent constructive contributions, and we encourage Congress to assure that the Postal Service follows-through on these recommendations.

The Postal Service cannot get the job done alone, however. Bold action by Congress is required to modernize the nation's postal laws, which have remained unchanged for more than 30 years.

My testimony today is devoted to four areas that should be embraced by postal reform: rationalizing the postal network; achieving effective labor-management relations; improving pay and performance incentives; and postal pension funding reform.

Rationalizing the Postal Network

We agree with the Postal Commission that the current network of post offices and plants requires streamlining – leading to the closure of unneeded facilities -- to assure that

universal service is delivered in the most effective and cost-efficient manner possible. Indeed, many of the nation's post offices are probably no longer necessary to fulfill the universal service obligation.

Streamlining or rationalization of the postal network should be carried out on a comprehensive basis under the authority and control of the Postal Service, in consultation with Congress and its stakeholders. The ultimate aim should be to arrive at cost savings, while preserving affordable universal service.

We see no need for the establishment of a Postal Network Optimization Commission (P-NOC), as recommended by the President's Commission, applying a base-closing approach toward unneeded postal facilities. A base-closing approach, with P-NOC preparation of recommendations to Congress to consolidate and rationalize the Service's processing and distribution infrastructure, will only delay and diffuse the decision-making that should remain in the hands of the Postal Service. The Postal Service is the best-equipped entity to arrive at the optimal number, locations and functions for mail processing and distribution functions, just as the Postal Service is similarly equipped to arrive at the optimal number, locations and functions for post offices.

Under current law, the Postal Service is not allowed to close post offices for economic reasons alone. The Commission recommended that such statutory restrictions be repealed and that the Service be allowed to close post offices that are no longer necessary for the fulfillment of universal service. We agree and urge the Congress to grant to the Postal Service the flexibility – and necessary accountability in fair and rational ways – to fulfill its universal service obligation in a cost-efficient and effective manner.

Achieving Effective Labor-Management Relations

Adversarial labor-management relations have been a persistent cause of problems in the operational efficiency, as well as the culture and work life, of the Postal Service. The General Accounting Office and others have repeatedly documented the degree to which poor communication, persistent confrontation and conflict, excessive numbers of grievances, and difficult labor contract negotiations have persisted within the Postal Service.

From my perspective, as president of one of the foremost management associations within the postal service, progress is being achieved in fostering better communication at the national level between the Postal Service and leadership of the craft unions and the management associations. However, progress in lower levels and in other areas continues to remain uneven, especially in the resolution of grievances.

The Postal Commission noted that “encouraging progress” is being made by the Postal Service and one of its unions in resolving grievances through use of a streamlined grievance process involving a “dispute resolution team” (DRT), comprised of representatives of management and the craft. We believe the DRT approach is best directed to the resolution of contract-related disputes in the field where they began, while workplace environment disputes are best resolved by mediation. We also are concerned by the growing reliance by DRT upon non-binding arbitration decisions as precedent by dispute resolution teams. We encourage the Panel to continue its oversight to these endeavors.

Improving Pay and Performance Incentives

Over the past decade, the Postal Service has led the federal government in efforts to build incentive-based, performance-driven compensation systems. It has followed the lead of cutting-edge organizations in the private sector in using performance management systems to accelerate change and improve individual and organizational performance.

Incentive-based pay systems within the Postal Service currently apply only to the performance of executives, managers, postmasters, supervisors and other nonbargaining employees, i.e., management employees covered under the Executive-Administrative Schedule (EAS). More recently, the National Association of Postal Supervisors and the postmaster organizations have collaborated with the Postal Service in establishing a new pay-for-performance system, reshaping the EVA system first established in 1995, that better rewards teamwork, efficiency and service quality in a fair manner. Measurable and realistic goals are now being established at the unit, district and area levels as part of the new system. Progress is being made.

We agree with the Commission that it is time to expand merit-based pay to the entirety of the postal workforce, including bargaining-unit employees. The establishment of an incentive-based culture of excellence in any organization relies upon performance management systems that reach across the entire organization and cover all employees, not only those in the management ranks.

The Commission urged the Postal Service to undertake a study of performance-based compensation programs for both management and union employees and work with the unions and management associations to design and implement a performance-based

compensation program. We are counting on the Postmaster General and the craft unions to negotiate some form of pay-for-performance at the bargaining table.

We also urge Congress to repeal the current statutory salary cap as it applies to the Postal Service (currently \$171,900) and that the Postal Service should be authorized to establish rates of pay for top Postal Service officers and employees that are competitive with the private sector. Pay compression of salaries at the top, leaving little financial incentive for top and mid-level employees to take on new levels of responsibility, are hindering the Postal Service from recruiting the “best and the brightest” to top leadership positions. The cap should be lifted and the Postal Service should have the discretion to set compensation to attract and retain qualified individuals in the upper management ranks. Many Federal entities that require a capable, experienced CEO and other top officers already have pay-setting authority. These include the Tennessee Valley Authority, the Federal Reserve Board, the Public Company Accounting Board and the Federal Home Loan Bank Board.

Additionally, we encourage the Special Panel to take a critical view toward the necessity of establishing a new regulatory body, such as a Postal Regulatory Board, to assume authority over total compensation, scope of the monopoly, and definition of universal service, as well as other important policy and regulatory powers exercised by Congress, the Postal Rate Commission, and the Postal Service itself. Similarly, we question the wisdom of subjecting Postal Service pension and post-retirement health benefits to collective bargaining. This could significantly impact the vitality of the entire federal pension and retiree health benefit programs, and we caution the Congress to move very carefully, in full consultation with the postal stakeholder community, before proceeding in these areas.

Reforming Postal Pension Funding

We support the Postal Service's proposal to eliminate the escrow requirement so that the Service would not have to include \$3 billion as a mandated incremental operating expense in FY 2006. The Service cannot use the escrow funds unless Congress eliminates the escrow requirement or specifies by law how these funds may be used. If no action is taken, the unavoidable necessity to raise rates higher than necessary will come about. This can and should be avoided. We believe that improved and continued communication by the Postal Service with Congress over how it will address its long-term challenges and fund its retiree obligations should provide Congress the information it needs and the assurance to eliminate the escrow requirement.

We also support relieving the Postal Service of the burden of funding retirement benefits attributable to military Service, and returning that responsibility to the Department of the Treasury. We support the use of those savings to pre-fund retiree health benefits obligations for current and former employees, estimated at approximately \$50 billion. Under this proposal, the funds would stay in the Civil Service Retirement System (CSRS) and therefore would not impact the federal deficit.

Finally, we have recently been apprised of the difference in methodology used by the Office of Personnel Management (OPM) and the Postal Service in determining the Postal Service's CSRS obligation. We were very surprised to learn that according to the Postal Service's calculation, its obligation is 86 billion dollars less.

Thank you for the opportunity to present these views. We look forward to continuing to work with you, Mr. Chairman, to secure sensible postal reform. I am available to answer any questions you may have.