UNITED STATES POSTAL SERVICE®

STATEMENT OF

POSTMASTER GENERAL AND CHIEF EXECUTIVE OFFICER

Louis DeJoy

before the

Senate Committee on Homeland Security and Governmental Affairs

“Oversight of the United States Postal Service”

United States Senate

April 16, 2024

Good morning Chairman Peters, Ranking Member Paul, and Members of the Committee. I welcome the opportunity to testify today and describe and discuss the challenges that face the U.S. Postal Service and the opportunities for our future. The Committee should be fully aware of the significant progress we have made on our 10-Year Strategic Plan, Delivering for America (DFA), as well as the significant obstacles that lay ahead. This is an important chance to clear up the misconceptions about the DFA Plan and to underscore the sense of urgency it requires. We remain firm in our position that the status quo is not an option if we want a financially self-sufficient Postal Service that provides the high-quality service expected of us.

I remind this Committee that the DFA plan played an important role in gaining support for the passage of the *Postal Service Reform Act* (PSRA) in 2022. Certain foundational underpinnings of the DFA were in fact incorporated in the legislation, such as six day a week delivery and operating an integrated mail and package network. I also offer to the Committee that what PSRA did not change, and therefore perpetuated, is our legislated requirement to be financially self-sustaining, a fundamental business model concept to which I am fully and firmly committed, and which is at the core of almost every initiative of the DFA plan.

As Senators on this committee, you surely understand the Postal Service had been in a financial death spiral for the 14 years prior to my arrival in June of 2020 and had no plan to curtail these losses, and therefore no plan to become fiscally self-sufficient. As a former logistics industry executive, I can assure you that the Postal Service does not have an integrated mail and package network that can deliver to 167 million addresses, six days a week and produce a financially viable result in modern times under current operating and regulatory status and given the ongoing mail and package volume trends. But for the initiatives identified in the DFA plan, and the actions we are now taking to remedy the untenable and unsustainable financial, organizational, and operational condition I found the Postal Service in when I assumed this position, there are simply no alternative strategies I have seen that holistically address the legacy ailments within the constraints that exist, to put us on the path to long term viability.

For years, the organization was merely managing its own decline with the active participation of our many stakeholders. Today, we are focused on addressing the root causes of our financial and operational problems. For that reason, this is an exciting time for the Postal Service. We are making the changes necessary to ensure that we are around to serve the country well into the future. I hope that this is the message you take away from this hearing, and that I can effectively describe our plan to provide all Americans with access to prompt, reliable, and efficient service in a fashion that enables us to pay all our bills. I welcome the chance to testify today to deliver that message.

When I last appeared before this committee, I was a few months into my tenure at the Postal Service and the nation and the Postal Service were amid a global pandemic. The pandemic demonstrated the Postal Service’s essential and fundamental value to the nation’s critical infrastructure, and our unique ability to connect the nation one business and home address at a time. I now appear before you with three and a half years of heightened understanding under my belt, and with a sense of urgency regarding the need to ensure the Postal Service's financial and operational staying power.

I commend the Committee and Chairman Peters for passage of the PSRA. Thankfully, PSRA clarified long-standing questions and solved several legacy retirement issues, which are immensely helpful to our long-term prognosis, but importantly for our current discussion, it did not legislate solutions to our operational problems or ensure our financial survival. Instead, more work needs to be done, and the PSRA confirmed, through reporting requirements and other transparency measures, that it was up to the Postal Service itself to take the appropriate and necessary actions to save the organization truly and fully.

With the PSRA now the law, I am not here with specific legislative requests of this Committee. Instead, what we need now is for our stakeholders – especially the Congress -- to support us in the implementation of key self-help initiatives outlined in the DFA Plan that are critically necessary and that will ultimately enable our operational and financial success. I also ask that you recognize that our pursuit of long-term viability should have begun at least a decade earlier, and that the damage inflicted on the organization by failing to react, evolve, or engage has produced an organization that was defeated and locked into strategies of the past that proved self-destructive in a modern American economy. As a result, the road to success will not be a straight or easy path. Rather it will be a series of accomplishments, struggles, and recoveries that will in the end not only produce the operating and financial successes to which we aspire, but also advance the institutional culture of the organization, enabling us to engage in our future in a much more logical, organized, confident and successful manner rather than through the half-baked, timid and halting approaches of the past.

I also hope that this journey of transformation educates all our stakeholders beyond Congress, so they become enlightened to the consequence of their contributions to the failed past. Only then can each constructively participate in the accomplishment of the successful future we all desire.

The proportions of the task are staggering. The Postal Service is a massive, 250-year-old entity, with 640,000 employees located in over 30,000 facilities across America. Prior to the DFA Plan, it had essentially been left adrift through a combination of obstruction from entrenched interests, oversight and regulatory delay, and managerial inaction. The collective resistance to change was enormous, and there was no plan or vision to deal with the challenges facing the Postal Service. The financial urgency of our situation cannot be overstated. If we do not accomplish the Plan's cost reductions and revenue improvements, the Postal Service will run out of cash, therefore making our financial condition, again, a problem for Congress to address.

My intent today is to demonstrate that the DFA Plan is the most rational path forward for the Postal Service given these conditions I describe. Only timely and deliberate execution of our strategies will enable the eventual world-class mail and package delivery system we envision. In fact, it is the only plan that that exists to address all our problems in a comprehensive manner.

Legacy Challenges

Before I arrived, the United States Postal Service was an organization in crisis, facing a diverse array of challenges:

1. The 2006 *Postal Accountability and Enhancement Act* (PAEA) legislation was passed after a period of ever-increasing mail volumes, but the Great Recession occurred immediately after its passage and mail volume plummeted. As a result, the PAEA's flawed premise—that the Postal Service could prefund massive retiree benefits costs and be financially sustainable through ever-increasing revenues associated with mail, supplemented by an enhanced ability to compete for additional revenues in the package business—proved illusory as a result of significant financial, operating and regulatory limitations. And of course, the PAEA also massively increased our retiree health benefits costs, a failure of public policy that was only recently reversed through the passage of the PSRA.

2. The Postal Service lost money every year from fiscal year 2007 (when the PAEA was enacted) through fiscal year 2021, amassing $92 billion in losses. The fact of the matter is that the Postal Service was only able to maintain positive liquidity because we had not paid our retiree health benefits prefunding obligations, as well as our pension amortization obligations, in over a decade. By the end of 2021, our liabilities exceeded our assets by nearly $150 billion (including our underfunded pension and retiree health benefits.

3. The PSRA, while certainly helpful in providing us with a runway for self-help, essentially enabled an accounting journal entry that reversed the current liability concerning our retiree health benefit costs mandated by the 2006 PAEA legislation. Rather than prefunding those costs, the PSRA allowed us to pay the costs as incurred, as private companies are allowed. We will be subject to top-up payments beginning in 2026 but, based on the current level of funding in the Postal Service Retiree Health Benefits Fund, we will also have to cover all retiree health benefit premium costs as incurred approximately seven years from the bill's enactment. While the Medicare integration provisions of the PSRA will reduce these costs somewhat as compared to the current state, covering these costs in the future will still be a very daunting liability.

4. What the PSRA did not address were the other impacts that the 2006 PAEA legislation

had on the Postal Service, combined with the social and economic changes the Postal Service encountered from 2006 through 2021, when the Delivering for America Plan was released. These devastating impacts and years of ineffective actions and inactions from Postal Service management and stakeholders resulted in a Postal Service that had experienced 15 years of neglect and willful indifference to the conditions present and to the failed strategy of a long- term business and operating model that everyone recognized was not working, but that no one was either able or willing to do anything about. The challenges these past years produced and the problems they created, which I identify below, are left to the current leadership team of the Postal Service to solve. They are as follows:

a. Substantial year over year declines in mail volume resulting from the digital revolution. Total mail volume declined 42 percent between 2007 and 2020. Domestic mail revenue has also declined from $60.6 billion in FY 2007 to $38.7 billion in FY 2020—a decline of over $21.9 billion (36 percent). This trend will continue.

b. Significant year over year increases in the number of delivery points. This has resulted in a drop in pieces per delivery point per day from 5.6 pieces of mail and packages in FY 2006 to 3.0 pieces in FY 2020. Simply put, we are delivering less mail to more delivery points, and this trend will continue.

c. Under any costing methodology, almost 60 percent of our Post Offices and ZIP codes lose money. This trend will continue.

d. A defective pricing model on our mail products that was not timely corrected by our regulator, resulting in close to $50 billion of lost revenue from the time of the law's passage in 2006 to the time of my arrival in June of 2020. While we have received some relief prospectively because of the "10-year review" that came after 14 years, the lost revenue of the past years remains lost and the impact on our operating condition has been devastating.

e. Deferred maintenance on our facilities that exceeds $20 billion.

f. A 30-year-old fleet of delivery vehicles that lack modern safety features and are costly to maintain and repair.

g. A workforce in need of stabilization and motivation.

h. The absence of basic operating equipment and technology currently deployed even by small businesses today.

i. A Postal Service organizational, operational and product strategy that was void of any effective initiatives to improve operations or compete –enabling a total catastrophic condition to develop where we were projected to run out of cash within 60 days of my arrival if we paid our bills.

j. A limited ability for the Postal Service to respond effectively to the expanding package delivery market due to restrictive pricing oversight and regulatory delay and interference.

When I arrived in June of 2020, the Postal Service was on a path to incur well over $160 billion in losses over the next 10 years. The 2022 PSRA legislation provided welcome financial balance sheet relief but, to be clear, it did not result in any infusion of cash or fully solve our financial trajectory problems.

The Delivering for America Plan

Doing Nothing is Not an Option, and Ours is the Only Viable Plan that Has Been Proposed.

Ambitious in its scope yet realistic in its promise, the Delivering for America (DFA) Plan is a transformational roadmap to building operational excellence, financial stability, and a sustainable future for this essential national institution. Executing on the plan is in stark contrast to doing nothing (as we have experienced in the past). Today, the DFA strategies remain the only solution to our longstanding problems and the only path forward to creating a Postal Service with long-term viability and strong service, products, and culture. Allow me to provide several highlights:

- The DFA plan deploys ongoing efforts to **redesign our network** from 430 randomly deployed, inadequately equipped, and poorly maintained mail handling facilities to a logical and efficient network of 220 facilities suited for their intended purposes that are safe and habitable for postal employees. Do not be confused by the drop in facility numbers; the eliminated facilities are ill-placed and ill-equipped "middle-mile" facilities. We will not close public-facing retail facilities in this effort. Furthermore, many of the facilities we will eliminate are contractor facilities and annexes and other facilities that were haphazardly added to (ineffectively) deal with the problems of the past.

- The DFA plan continues our initiatives to **stabilize our workforce** by converting over 150,000 people to full-time career positions. This creates a committed and more knowledgeable workforce, in more appealing work surroundings, creating a more stable workforce that inevitably improves service performance.

- The DFA plan includes significant efforts to **improve our transportation and delivery methodologies** so that our network runs efficiently to meet our service requirements and drive cost out of our operations.

- The DFA plan has enabled our ability to **buy more than 100,000 delivery vehicles, most of them electric**, within the next 4 years to begin the replacement of our 30-year-old fleet, which lacks many of the basic safety features and is extremely expensive to repair and maintain.

- The DFA plan includes our initiatives to invest **in technology and automation** to provide postal employees and our customers with modern day tools that facilitate the availability of actionable information at times and in places where precise and consistent decisions can be made.

- The DFA plan includes initiatives to **improve our products**, such as USPS Ground Advantage and USPS Connect, and changes in our customer relationship management and contract methodologies, which are all efforts to grow our package business in a reliable and profitable manner to fund the costs of our market dominant service obligations to deliver to 167 million addresses six days a week.

- The DFA plan includes our efforts to be **innovative in pricing** of our market-dominant products through incentives and negotiated service agreements.

- The DFA plan includes our **efforts in sustainability**, making significant commitments to carbon reduction with major initiatives in reducing emissions from our transportation operations and the substantial electrification of our carrier vehicle fleet.

- The DFA plan includes all our efforts to improve our **organization and operating strategies** and practices to rival those formidable competitors in the commercial marketplace. It is only then we will be able to achieve long term viability.

- And finally, the DFA plan delivered an overall improvement of our delivery of mail and packages to more than 167 million delivery points across the nation six days a week so that in calendar year 2023, **98 percent of the American public received their deliveries within three days**.

All these activities emanate from the strategies identified in the DFA Plan–because we knew at the time we issued it, that cost cuts and austerity without a corresponding strategic plan to grow revenue, and the willingness to act on it, were not the solution for the long-term viability of the Postal Service.

The historical approach that relied solely on cost cutting and managing decline proved penny-wise and pound-foolish. It poisoned the Postal Service’s pride in operations and created an operational strategy and culture that had diminished ability to perform and compete. We are no longer managing the decline of the Postal Service. Our current strategy is to serve, survive and thrive.

The first three years of our DFA Plan have enabled us to organize and implement high level initiatives that have put us on the road to becoming a financially self-sustaining and high-performing organization that will continue to provide the American people with the quality service they deserve. On time service was largely stabilized, and while inflation and certain employee benefit funding challenges have delayed our goal to break even financially, we have cut our expected losses over the next 10 years by more than half.

The accomplishments achieved through the DFA Plan thus far are considerable:

- Projected ten-year losses cut by nearly $100 billion – from $160 billion to $65 billion.
- Implemented new organizational design aligned around achievable goals with a level of accountability consistent with top-performing organizations in private industry.
- Made necessary changes to outdated service standards.
- Utilized new Market Dominant pricing strategy to mitigate years of pricing imbalances and offset our exposure to inflation and other costs outside of our control.
- Launched new products, such as USPS Ground Advantage and USPS Connect Local, resulting in significant increases in volume in a difficult market.
- Committed nearly $15.3 billion of the Plan's $40 billion in self-funded investments.
- Successfully launched 54 S&DCs – with over a hundred more to come by end of 2024.
- Initiated transformation activities in Regional Processing and Distribution Centers in nine regions: Richmond, Atlanta, Portland, Boise, Charlotte, Chicago, Houston, Jacksonville, and Indianapolis.
- Converted 150,000 pre-career employees to career, thus stabilizing our workforce.
- Cut the supervisor vacancy rate from 15 percent to 6.9 percent.
- Reduced total workhours by 40 million compared to FY 2021.
- Eliminated more than 1.1 million underutilized transportation trips, resulting in $382 million annual savings and 205,300 metric tons of CO_2 emissions eliminated.
- Shifted air volume to surface transportation, saving more than $985 million and over 273,000 metric tons of CO_2 emissions since beginning of DFA Plan.
- Launched initiatives to reduce wasteful and unnecessary local transportation.
- Acquiring 106,480 new vehicles for deployment through 2028, 66,230 of which will be electric vehicles.
- Improved package processing procedures in processing facilities and added more than 400 new package sorting machines.
- Improved our transportation contractor networks, both on the ground and in the air.
- Had three strong consecutive peak seasons 2021, 2022, 2023.

    - 2023 peak season saw an average of 2.7 days to deliver mail and packages, with 98 percent of the population receiving mail and packages within 3 days.
    - We were able to hire fewer than 10,000 seasonal staff for this past 2023 peak season because of the stabilization of our workforce achieved by pre-career conversions to career mentioned above.
- Organized for and successfully implemented a COVID-19 test kit delivery program – over 875 million kits distributed in an average of 1.2 days (with 96.6% on-time delivery).

Current Performance

Service Performance Connected to Network Transformation

Service performance is crucial, which is why we spent the past several years stabilizing service to make sure we had an improved base from which to launch the operational components of our DFA Plan. Service performance does not exist in in a vacuum, however, and it cannot be divorced from the financial realities of our current situation.

I recognize that there have been unintended service impacts surrounding the roll-out of some of our initiatives and that there is room for improvement. I fully commit to you that we will improve. The recent localized service impacts that we've seen in places like Atlanta, Houston, and Richmond have resulted from operations management execution failures, severe employee attendance issues, gaps in transportation scheduling, and our overall inability to rapidly progress from the costly and deteriorated operating practices embedded in our legacy working environment to the high level of precision now required in our performance.

We will work through these issues and emerge with a more efficient, effective network and a workforce better able to achieve precision and positive results. To that end, we continue to pursue many initiatives, including organizational and operating strategies to engage in this massive undertaking. Some of these initiatives include:

1. Ongoing reorganization to eliminate bureaucratic and ineffective behaviors, aligning leaders and disciplines to affect a more engaging and collaborative functional organization necessary for success in today's environment. Specifically, to enhance our ongoing deployments and further mitigate risks of failure, we have recently formalized and expanded new executive-led teams under each operational group that are dedicated to supporting the transition and execution of major network transformation initiatives, with assigned executive leaders for S&DCs, RPDCs, LPCs, and major logistic change efforts.

2. Consistent with the above, we have formed a new organization, Infrastructure and Operations Support. It includes a new Service Quality Assurance team, focused on assessing the health of operations against quality and performance standards as we strive for organizational excellence. This group is comprised of members with both industry and Postal experience who will troubleshoot and address systemic issues in our network and across the Postal footprint.

3. Continuing to expand our freight management capabilities, which were significantly flawed in years past. New technologies, new suppliers, and new processes and procedures are enabling us to more responsive to the daily short fall events in an operation of this magnitude.

4. Enhancing our recruiting, training, staffing, and operating instruction we will provide our supervisors with the skills required to influence our operational success by creating a culture of performance, accountability, and engagement. In addition, supervisor recruitment efforts have been expanded to ensure a robust pipeline of candidates for these critical leadership positions.

5. Expanding and intensifying management engagement to all aspects of our transformation initiatives including personnel, tools and tactics for improved planning, early detection, rapid response, conflict resolution and execution stability.

While recognizing the challenges in implementation, it is also important to note that our plans are designed—when properly executed—so that our customers, the American public, will receive more reliable service performance. However, the road to improvement must be accomplished while still delivering 127.3 billion mail pieces and 7.2 billion packages per year to the American people at 167 million delivery points across the nation, six, and sometimes seven days a week, within an organization that is ambitiously trying to learn how to operate and compete in the modern day. We must transform while being fully operational. We must teach our improved operational processes while executing them.

In addition, our transition activities do not happen in a vacuum. Our operations always experience events and circumstances that can wreak havoc on our delivery performance. These events do not subside as we go forth with our changes, further aggravating the consequences of our shortfalls. For example, we experienced significant challenges while insourcing operations at our Surface Transfer Centers (STCs), which was urgently necessitated by the sudden bankruptcy of one of our major transportation contractors. This forced an acceleration of a previously planned transition to insource transportation operations – a process which normally takes four to five months – and resulted in the shutdown of eight major transfer facilities within eight weeks. This led to voids in staffing, equipment, facility readiness, and transportation scheduling, causing complicated workarounds. The transportation changes were immense, forcing us to transfer operations for thousands of truckloads of mail and packages a day, impacting operations across the network.

While we never lose sight of our service failings and the customers we disappoint, our service failures are not representative of the Postal Service as a whole. We have continued to deliver timely service to the majority of our customers, with 98 percent of Americans receiving their mail and packages within three days. In the first quarter of FY 2024, which includes increased volumes related to the peak holidays, over 55 percent of all market dominant and competitive products were delivered a day in advance of their service standard, and 96 percent of our products were delivered within 24 hours of their service standard (Figure 01).

Figure 01 – Market Dominant Products (Preliminary data for FY 2024 Q1)

Mail Class	FY24 YTD Volume	FY24 YTD % Advanced	FY24 YTD % On-Time	FY24 YTD % On-Time Day+1
Presort First-Class	5,581,403,774	47.24%	87.70%	95.20%
Single Piece First-Class	3,352,158,219	21.52%	80.03%	91.80%
USPS Marketing Mail	11,306,058,063	73.67%	93.77%	97.17%
Periodicals	365,013,803	39.45%	80.96%	90.08%
Market Dominant Composite	**20,604,633,859**	**58.38%**	**89.95%**	**95.77%**

Financial Accomplishments and Developments

To reconcile this year's financial results to our plan, the financial forecasts of the Postal Service at the time we developed the plan projected that we would lose approximately $15 billion in FY 2023 if we did not accomplish the cost reduction and revenue producing actions identified in our DFA initiatives.

While the reduction in future losses already achieved is remarkable, the Postal Service finished FY 2023 with a $6.5 billion net loss, despite projections originally published in the DFA Plan that we would break even this year. The historic inflationary environment we encountered (which was significantly above our plan) contributed $2.6 billion to that figure, as our pricing adjustments are not proportional to our costs and are garnered after we have already been impacted by the inflation. In addition, we had included in our plan the accomplishment of an administrative action (proper allocation of our CSRS obligations) which did not occur. This expense of $3.1 billion dollars combined with the inflation impact made up $5.7 billion of our $6.5 billion loss—an explanation, but still representing significant progress compared to prior year losses.

In fact, for the three years since the release of the DFA Plan, we have taken what was projected to be between $34 and $39 billion in losses and reduced them by half, to $18.8 billion, despite incurring $7.2 billion in CSRS costs, which we expected to have been eliminated by now, and nearly $8 billion in inflation above our planned inflation and corresponding revenue authority.

Unfortunately, the impacts of the issues identified above remain a factor in next year's budget. Despite substantial planned reductions in our cost of operations, and growth in our package revenues, we will not reach breakeven results in 2024. This underscores the need to move forward with the DFA Plan's clear strategies to quickly achieve financial stability and service excellence. These strategies remain the only comprehensive solution to our longstanding problems and the only path forward to creating a Postal Service with long-term viability and strong service, products, and culture. Our plan will generate enough revenue to cover our operating costs, enable investments in our people, infrastructure, and technology, while simultaneously providing our customers and the American people with the excellent service they deserve. I would also encourage you to read our DFA FY 2023 Q3 and Q4 Progress Report submitted on December 4, 2023, which discussed the financial position of the Postal Service in greater detail, as well as our solutions to fix our financial predicament. It is our financial condition and the shared expectation that we must fund our own operations that necessitates the establishment of ambitious targets in the DFA Plan.

Near Term Financial Goals and Objectives

The initial steps we have taken to implement DFA have put us on the right path to meeting our nation's evolving mailing and shipping needs in a financially self-sufficient manner. As part of the DFA, we have a very ambitious—but attainable—set of near-term goals and objectives, including:

- Reducing our regional network transportation and its cost by at least $1.5 billion, by aggregating volume in fewer facilities, moving mail and packages regionally in an integrated manner using fewer trips, ensuring that the trips we run are fully utilized, and shifting more costly and less reliable air volume to ground transportation.
    - Insourcing of Terminal Handling Services and Surface Transfer Centers.
    - Reorganizing air-to-surface transportation to reduce costs and improve performance.
    - Reducing surface transportation from network realignment.

- Reducing our local transportation by $1 billion by optimizing routes and decreasing thousands of underutilized local trips a day.
- Reducing our Processing & Distribution costs by at least $1.5 billion by insourcing previously outsourced operations, reorganizing operating plans and schedules, adding more sortation equipment, and improving operating tactics to increase throughput, gain productivity and increase asset utilization.
  - Continue stabilizing operations by updating policies and procedures.
  - Continue implementing our new network of Regional Processing and Distribution Centers (RPDCs) and Local Processing Centers (LPCs).
- Reducing our Delivery cost of performance by $1 billion by right-sizing workhours, equipping our delivery units, accelerating S&DC implementation, optimizing our carrier route structures based on changing market conditions and improving operating tactics.
  - Continue opening new Sorting and Delivery Centers S&DCs in local markets.
  - Rationalize delivery route structure.
  - Increase product density of existing routes.
- Growing our package revenue by at least $3 billion through the introduction of new, reliable, and affordable products to the American people and American businesses that are aligned with our operating model and by modernizing our approach to sales and marketing.
  - Continue streamlining and improving our products and services.
  - Improve our sales and contracting methodologies.
  - Compete for our share of the marketplace.
- Continuing to recover market dominant revenue of $2 billion by leveraging our pricing authorities in a judicious manner to offset past inflation and correct for 15 years of a defective pricing model.
- Improving our service so that every American across the nation, in both rural and urban areas, can have an expectation of a Postal Service they can rely upon.

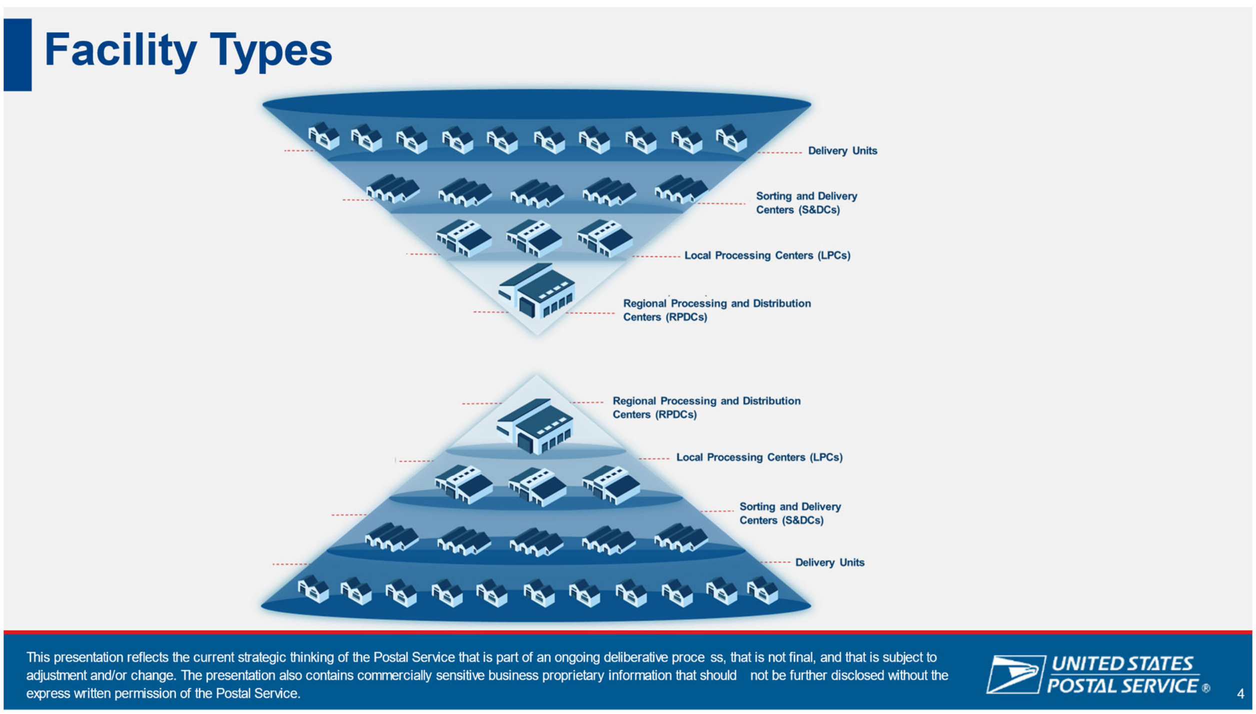
These initiatives will continue to be implemented with transparency, in consultation with our internal stakeholders, and consistent with our contractual and regulatory requirements. In that regard, as we move forward with implementing initiatives under the DFA Plan, and as a matter of course, we will continue to assess whether any initiative being pursued requires the Postal Service to seek an advisory opinion from the Postal Regulatory Commission.

Further to this point, the Postal Service is engaging in a historic level of transformational change and has proceeded using an historic level of transparency and communication.

Network Modernization

A key pillar of DFA is the fundamental transformation of our network. We will modernize all aspects of our operations — including mail and package processing, delivery, and transportation — leading to cost savings, reliable service, renewed relevance, and longevity for this great institution. The Postal Service is investing $40 billion in modernization initiatives, including a network formed around RPDCs, LPCs, and S&DCs (Figure 02). At the same time as we are opening new and modernized facilities, we have worked to upgrade outdated processing and transportation infrastructure while disposing of outdated and costly annexes. This new model establishes a much more logical, reliable, precise, and efficient network to improve service and competitive posture while reducing unnecessary or underutilized transportation.

Figure 2 – Facility Types



Mail Processing Facility Reviews – Modernizing Investments, Not Closures

As part of our network modernization efforts, we are also moving forward with Mail Processing Facility Reviews (MPFRs) where appropriate, which are reviews of certain local processing facilities to determine whether efficiency could be increased by transferring some mail processing operations to another site in the nearby region. This review includes determining whether other functionalities should be added to the local processing facility, such as new package processing equipment. The assessment and movement of certain processing operations is crucial to our financial success in the short-term and operational alignment in the future.

Let me be clear – these are modernizing changes, investments, and efforts to position facilities for the logical and efficient flow of mail and packages – and therefore for success and relevance in the current and future marketplace. These reviews are not precursors to facility closings, such as those done in 2012, well before my time. The MPFRs are also not laying off career employees, and any impact on our flexible pre-career workforce will likely be mitigated by changes at these facilities or those nearby. We are improving our finances, the movement of mail, and the environment, by eliminating unnecessary transportation. At these local facilities, we are removing old equipment and eliminating unnecessary processes to make way for new equipment and processes to support our growth plans for the future in the package delivery marketplace.

If as part of this facility review process it is determined that it is beneficial to the Postal Service to relocate certain processing operations in a specific location, it is highly likely that the local facility will be modernized and repurposed as an LPC, S&DC, or both, consistent with the broader network redesign outlined in the DFA Plan. Any such repurposing will result in a revitalized, modernized, and upgraded facility with improved employee amenities and a better working environment. To reiterate, we are <u>investing</u> in these facilities to better position them in our transformed network, not <u>closing</u> them or allowing them to continue to atrophy.

It should be noted that a significant majority percentage of the mail collected locally does and will travel across our wider transportation and processing network over significant distances to reach their final destinations. Mail and packages destined for outside the local area may receive better service and be more cost effectively distributed, by aggregating them with mail and packages from other areas going to the same places that will likewise utilize the wider postal network and be transported significant distances from where the mail originated.

Because members of Congress understandably have a more local than network-wide perspective, it is a common misunderstanding and expressed concern that local originating mail will be poorly served by being processed at a more sophisticated facility a few hours away. Quite the opposite, as suggested above it is the case that a very high majority of mail (often 80 to 90 percent) that originates in a specific city or county is destined for other parts of the state, country, or world. So, making its first processing stop further away serves to hasten its travel, not slow it. For the small percentage of mail that is local-to-local, it will continue to meet the 2-day service standard. While this might seem counterintuitive, it is very consistent with logistics and mail processing reality and practice. One must only look at analogous express package carriers who operate out of a single or a handful of U.S. hubs to find evidence of this common practice for speed and efficiency.

REMAINING OBSTACLES AND FUTURE RISKS

As previously mentioned, the long-overdue reforms in PSRA were an important step forward. What we need now is perseverance while we implement the self-help elements of the DFA Plan, such as the network modernization efforts currently underway. We are strongly committed to doing so.

In the long run, there are no viable alternatives available to the DFA Plan that would comply with the laws Congress has set forth. The DFA, while comprehensive in its scale of activities, is simple in its concepts:

1. Improve our operational precision.
2. Reduce our cost of performance.
3. Improve our service reliability.
4. Grow our revenue.
5. Create long term enjoyable career paths for our employees.

All our initiatives are aligned with these goals and propel us forward towards fulfilling our mission and covering our costs—the law states we need to do both!

Without the accomplishment of the basic strategies and initiatives of the DFA Plan, the Postal Service would gradually slide towards irrelevancy and insolvency with deteriorating infrastructure and service performance until a crisis point is reached. At that point, either we would have to implement drastic cuts to make the Postal Service financially viable, or Congress would have to make the decision to either bail out the Postal Service at great cost to the taxpayer, or even to scrap the current structure and make the organization dependent on the appropriations process. These are precisely the outcomes that we hope to avoid by making the measured, common-sense changes outlined in the DFA Plan that enable us to fulfill our obligations under our current business model that is established in the law.

However, there are several factors that may pose a risk to the progress of our DFA Plan, including entrenched interests that are resistant to change and that defend the status quo, ongoing operational and managerial challenges, legislative interference, and outdated thinking from our regulators.

SERVICE DISRUPTIONS

While we are moving forward with the network modernization initiatives laid out in the DFA Plan, we continue to contend with our outdated legacy network. We have admittedly experienced difficulties in adjusting operations while opening new facilities and remodeling and repositioning existing ones. I understand that we are taking certain risks in these efforts. In our situation, however, these are necessary risks, and there is simply no other option. The Postal Service does not have the luxury (nor the desire, given our universal service mission) to shut down operations for an extended period, region by region, as we pursue these improvements.

Because of the immense size of our organization and scope of our activities, it is impossible to plan for every eventuality that might arise during a period of transition. Making what looks to be a minor change on paper may lead to unintended impacts in a different area of operation, due in part to the many unofficial practices and ad hoc makeshift procedures have been haphazardly put in place across the network over the decades. Nevertheless, we are constantly improving our network modernization process, using what we have learned from earlier efforts.

At the same time, even while we pursue these long-term reforms, I am committed to also fulfilling our role with respect to Election Mail. We will continue to deliver the nation's Election Mail for the upcoming 2024 elections in the same successful manner we have accomplished in the past. Consistent with our longstanding policies and procedures, the Postal Service will undertake significant efforts to prioritize the monitoring and timely delivery of all Election Mail. Given our experiences with the most recent RPDC rollouts, we will be cautious in our implementation of initiatives to avoid any unintended service impacts around the general election and peak season.

Conclusion

I would like to conclude my testimony by emphasizing once again that the status quo is simply not an option and has already proven that it leads to disaster. The status quo does not serve postal customers, the mailing industry, our workforce, our facilities, or our financial or operational future – it consigns all of those to failure.

I take very seriously the Postal Service's legally required mission to deliver mail and packages to 167 million addresses six days a week and cover our costs -- neither the Postal Service of the past nor Congress nor any of our stakeholders have endeavored to accomplish this mission in a comprehensive manner and at the pace required. Yet Congress again validated this intent in the passing of the Postal Reform Act of 2022.

I likewise take seriously our obligations to serve the American public, inspire our employees to exceptional performance, shape our operating strategies to accomplish our mission, and grow our business in a financially self-sufficient manner and will continue to do so. The approaches of the past, as overseen or executed by all stakeholders, including Congress, the Postal Regulatory Commission, the Office of the Inspector General, Boards of Governors and Postal Management, have delivered devastating consequences and ineffective solutions, which are reflected in the condition of the organization when I arrived here.

The DFA Plan is a vision for the Postal Service to achieve service excellence and financial sustainability. I repeat that it is not only the best way forward, but also the only comprehensible, viable plan that has been presented and acted upon in nearly two decades. The financial improvements that we have realized thus far are a promising start, but the hard work is just beginning, and we must recognize that we need to stay resolute in our approach to cutting costs and generating revenue. Postal leadership, Congress, regulators, and stakeholders must each play their part in building a worldclass, financially self-sustaining organization, and we remain confident that the DFA Plan is a rational roadmap for doing so.

While much of my time is used on our immediate operations and how we deliver the mail that we have today, I am also charged with taking a longer view of the situation to solve our long-standing problems and ensure a relevant and vibrant Postal Service that is financially secure and operationally efficient.

Through the efforts of the DFA plan, I see a Postal Service in our future that:

- Reliably connects individuals and families across our nation on a daily basis.
- Enables commerce to those that choose to endeavor, both large and small
- Performs a strategic role in times of need as our nation's largest "active" public infrastructure.
- Offers our nation's communities products, services, and communication through its vast network of Retail facilities.
- Is a preferred employer to our nation's workers.
- Is organizationally and operationally proficient and technologically advanced.
- Is reliable and affordable and covers its cost of operations.
- Is a significant contributor to the future success of our nation.

Members of the Committee please join me in this vision.

Thank you, Chairman Peters, Ranking Member Paul, and Members of the Committee, for the opportunity to submit this testimony.