



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: Understanding
Proposed Service Changes”**

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Attachment 1 - U.S. Postal Service Transparency, Accountability, and Reporting Requirements

Attachment 2 – U.S. Postal Service Unfunded Mandates

Introduction and Preface

Good morning, Chairman Peters, Ranking Member Paul, and Members of the Committee. I appreciate the opportunity to once again discuss the significant progress that the U.S. Postal Service has made in the six months since my last appearance before this Committee. For this hearing, your specific request was to better understand our recent request for an advisory opinion from the Postal Regulatory Commission that was pending when I last appeared before the Committee.

Before diving into that explanation, permit me to briefly describe the circumstances that have led us to submitting that request.

When I agreed to take on the role as Postmaster General, the Nation was in the beginning of a pandemic and the Postal Service was an organization in crisis, facing a diverse array of challenges that put the organization on a near term trajectory to financial and service collapse. I saw it as a tremendous opportunity to engage in public service in an area where I had a significant amount of professional commercial expertise, to more directly engage my long-term interest in effective and efficient government, and to support my country in a time of national crisis, as we were in the beginning of the Pandemic. I understood the mission of the organization, and the fundamental statutory obligations to provide high quality postal services in a financially self-sufficient manner.

I also knew when I joined the Postal Service that the organization was not fulfilling its mission nor its fundamental legal obligations. The Postal Service had lost almost \$90 billion, was projected to lose another \$200 billion dollars over the next 10 years and was about to run out of cash before the year end. We were significantly understaffed because of employee turnover, our over 31,000 facilities were in a dilapidated condition and ill equipped for modern-day tasks and we had \$20 billion in deferred maintenance. We had a fleet of over 200,000 vehicles that were 10 years past their useful life and lacked modern day safety and operating features. The trajectory of our service performance was obvious and dire, eventually resulting in the disastrous performance we experienced in the CY 2020 peak season. More explicitly, over 57 percent of our 31,000 Post Offices did not cover the costs of the people that worked at them and neither did over 76 percent of our 235,817 delivery routes.

This condition had been manifesting over the last 15 years and had been presented to the Congress, the Postal Regulatory Commission and other stakeholders through a variety of financial reports submitted to the Congress multiple times a year. The Government Accountability Office sounded the alarms numerous times identifying the Postal Service's high risk of failure. Finally, while the Postal Regulatory Commission was well aware of the changing economic environment regarding the substantial decline of mail volume, the growing number of delivery points, the financial burden placed on the Postal Service with the enactment of the 2006 Postal Accountability and Enhancement Act (PAEA) , it took over four years to address our defective pricing model and when it finally did so acknowledged that the changes it approved

would not be sufficient to restore the Postal Service to financial health . In fact, the only way we were surviving was by failing to fully fund our employee retirement plans and by deferring almost all facility maintenance that was not directly related to health and safety, subjecting our employees to sometimes horrendous operating conditions that also made the Postal Service ill equipped to serve the nation.

What was remarkable to me was that there was not a plan in sight from anyone to right the ship. In fact, prior to my arrival, the only option offered by the Board of Governors was to request a \$70 billion cash infusion to rescue the United States Postal Service after having reported to Congress that we might run out of cash within 60 days.

I agreed to take on the challenge of transforming the organization from the untenable condition described above into an organization that could achieve service excellence and financial sustainability — all while it continued its day-to-day operations within a long ago broken business model that was conceived in an illogical manner, with unachievable expectations from stakeholders, by chasing unattainable service standards and deploying ineffective and inefficient operating and management practices across over 31,000 ill equipped and unsuitable facilities

My approach was a methodical one, which is detailed later in the testimony, but can be summarized as follows in relation to surfacing the need for the pending request for an Advisory Opinion with the PRC:

- We evaluated our organizational structure to determine if it was set up for success or even recovery. I concluded it was not; and set about correcting it.
- We methodically assessed each part of the organization, most importantly the operational elements — Retail and Delivery, Processing and Distribution, Transportation Logistics, Technology and Finance and Strategy, Marketing, and our commercial competitiveness.
- We stabilized our workforce.
- We developed a strategy to address the operational and financial challenges, which developed into the Delivering for America (DFA) 10-year plan setting forth a target to achieve break-even financial status and service excellence.
- We prioritized our work and painstakingly went about implementing the strategic and operational changes detailed in DFA, both operational, financial, and workforce related.
- Before implementing any meaningful operational changes to the network, I elected to do two things to stabilize service so we could understand any impact that implemented changes would have on service:
 - I modestly adjusted the service standards to move mail and package volumes from air transportation to ground. This was the first step to enable us to create an integrated mail and package network for all categories of mail, which is at the center of our transformation goals.

- Recognizing our unpreparedness to accommodate the growth in package volume, I added desperately needed distribution space and package handling equipment to avoid any reoccurrence of the disastrous events that took place during the 2020 peak season to better prepare us to handle package volume in a network that had been primarily set up for mail.

We set about with an ambitious network modernization strategy to implement best-in-class processing, transportation, technology and delivery operations to address the volume of mail and packages we have now, and the ambition we have for growth. Which brings us to where we are today.

As we undertook the transformation of the Postal Service and made many changes, and piloted many initiatives, we recognized that it is critically important to our long-term success that we transform our processing and transportation networks. One significant factor is the need to adjust the network to account for the fact that the volume of Single Piece First Class Mail, once the financial bedrock of the Postal Service, has dropped precipitously from 57 billion pieces in FY 1997, to just 12 billion pieces in FY 2023 — an approximate 80 percent decline. For that reason and others that we explain below, the Postal Service is proposing to implement operational initiatives and corresponding changes to our service standards that are the subject of our request for an advisory opinion from our regulator, and that will improve efficiency while providing more precise, reliable, and understandable service to customers. The operational initiatives lay the groundwork for sustained, high-quality service to the nation's more than 169 million delivery points, six days a week. These changes address clear deficiencies in our current processing and transportation operations and will lead to dramatically improved operating precision and significant cost savings, which are both essential to the Postal Service's efforts to achieve fiscal sustainability and high-quality service.

The plain truth is that the adjustments we have already made, and those we enable by proposing the service standard changes that are the subject of our Advisory Opinion request described below, will improve the operational and financial viability of the Postal Service, and enable us to more cost effectively perform our services in a reliable manner.

The Advisory Opinion Request; Understanding Its Role and Importance

Successful Implementation of Refined Service Standards and Modernized Network is Key to Our Dual Mandates

Section 3661 of Title 39 requires that when the Postal Service determines that there should be a nationwide or substantially nationwide change in the nature of postal services, we must submit a proposal to the PRC requesting an advisory opinion on the change. In October 2024, we submitted such a request for an advisory opinion from the PRC.

The changes proposed in this request provide well thought out solutions to correct for operating, service, and performance measurement deficiencies in our current operational environment that should have been corrected over a decade ago. These changes will yield substantial savings, will minimally impact service standards for most volume, and will accelerate a portion of our volumes — enabling us to preserve and strengthen our commercial mail volumes, which benefit our long-term financial health by substantially improving the value proposition we provide. Overall, service will be more reliable, service standards and expectations will be easier to understand, and our operations will be more efficient.

A Modernized Processing Network

As mentioned above, we intend to systematically redesign and invest in our outmoded processing facilities to create a network of Regional Processing and Distribution Centers (RPDCs) and Local Processing Centers (LPCs), which deploy standardized and logically sequenced operating plans and schedules for the movement of mail and packages, more sortation equipment, optimized transportation routes, and improved operating tactics to increase throughput, gain productivity, and increase asset utilization across the country. Through this process, we will also eliminate unnecessary annexes and contracted facilities that have been deployed throughout the country in an ad hoc fashion.

The Postal Service's legacy network, which consists of a variety of existing facilities like Processing and Distribution Centers (P&DCs) and Network Distribution Centers (NDCs), along with numerous ancillary facilities, such as annexes that support these core facilities, is outdated, costly, underperforming, and comprised of redundant transportation flows.

This network developed over multiple decades and has not been aligned to an effective strategy or appropriately adapted to shifting demands as the Postal Service's package volume increased and mail volumes declined. These facilities are generally in poor condition due to years of underinvestment and deferred maintenance, and they do not reflect the operational standardization that is necessary to enable the precise and efficient processing of mail and packages. Poor alignment and failed process achievement also frustrate dependent originating and downstream processes. Facilities often lack

adequate space and equipment to handle the changing volume and product mix, are poorly conceived, and have layouts that fail to support the logical sequencing of modern mail and package flows. The current assignment of processing operations and equipment sets to facilities is inconsistent across the network, resulting in a significant amount of operating variability.

There are also too many facilities, as ancillary facilities have been added to the network in a piecemeal, ad hoc fashion over the course of years to address the immediate needs and shortcomings of a local area. This has resulted in clusters of facilities near one another performing different and inconsistent tasks.

All these issues result in a network characterized by high operating variability, reduced capacity utilization, unnecessary handling and transportation, excess facilities, and numerous opportunities for error and delay. This results in random operating practices, adverse working conditions that negatively impact employment aspirations, higher costs, lower service performance, and excess carbon emissions.

The solution for fixing these issues is a network that enables the Postal Service to handle mail and packages in a precise, efficient, and integrated manner, and therefore the Postal Service is pursuing a systematic redesign of our processing and transportation infrastructure. The future processing network (which we will create from our existing network) consists of a group of standardized facilities, which fall within two categories: RPDCs and LPCs. These facilities will be designed, staffed, and operated using a common set of standardized design principles, physical layouts, and operational processes that support the logical sequence of processing, transportation, and cross-docking functions for mail and packages. In doing so, the Postal Service will generally leverage our existing core facilities: investments will be made to these existing facilities both to correct for years of neglect due to underinvestment and deferred maintenance, and to redesign and modernize the facilities to enable them to perform their designated operations. In some instances, the Postal Service will make investments in new facilities when necessary and appropriate.

The redesigned network is predicated on a regional concept, with each RPDC campus (which may be one or more facilities) serving a distinct region (which is in turn defined by reference to a set of 3-Digit ZIP Codes). Within each RPDC region, there will also be several LPCs (precisely how many will vary across the regions), which may be separate facilities or may be co-located with an RPDC.

The Postal Service intends to transform the network through a multi-year, highly structured process, which will occur on a region-by-region basis. As the Postal Service activates each new region, it determined facility layouts (including equipment sets) and operational plans through systematic and deliberative processes that assess all relevant factors. The Postal Service has been piloting this initiative in a limited number of regions beginning in July 2023. Certain regions have been substantially activated (Richmond, Atlanta, Portland, and Boise), while certain others are in various stages of activation; the

Postal Service intends to finalize the design, and thereafter activate, the remaining regions in the coming years.

During this period, the Postal Service has modified its strategies not just in consideration of our operational efficiencies, but also:

- with the gathering of details on the limitations in the size and condition of our existing facilities,
- with experiencing the difficulties encountered in endeavoring changes to the embedded structure,
- with the improvements identified in local mail processing,
- with the improvements identified in package processing,
- with the success experienced by the introduction of new products,
- with the effectiveness of exploratory initiatives such as Local Transportation Optimization (LTO),
- with ongoing discussions with our unions and other stakeholders,
- with ongoing evaluation of our service performance and business rules,
- with further understanding of the substantial capital requirements to rehabilitate our aged and poorly maintained infrastructure,
- in conjunction with developments in our approach to the package shipping industry,
- with changes in the marketplace for express products,
- with changes in the marketplace experienced coming out of the pandemic,
- with the further alignment of our organization and developing competency of our people, and
- with the increased velocity of change required because of the historical inflation and time requirements to make the required changes in this difficult environment.

This new network will enable significant cost reductions in both processing operations and in our transportation network, while improving the work environment for our employees. By deploying standardized and logically sequenced designs, layouts, and operating plans, more sortation equipment, and improved operating tactics, the Postal Service will be able to improve our operational precision and achieve greater productivity in processing operations. Regarding transportation, these changes allow the Postal Service to efficiently balance our use of air and ground transportation and further create a more optimized surface transportation network. In particular, the creation of RPDCs consolidates operations and predicates network transportation on a reduced number of surface and air nodes.

By simplifying the network in this manner, we will be able to further refine our surface transportation trips by eliminating unnecessary trips and increasing utilization of the trips we do run. This will also allow us to insource processes currently conducted at some of our many contracted facilities (Surface Transfer Centers (STCs) and Terminal Handling Service (THS)) for further efficiency gains and more stable operations. These changes will also enable cost reductions by eliminating excess facilities.

As noted above, the Postal Service intends to redesign the network in a manner that leverages and modernizes our existing core processing facilities (P&DCs and NDCs), which will be re-purposed to perform the intended functions of RPDCs and/or LPCs. At the same time, this initiative will also enable us to vacate unnecessary leased buildings, including annexes. Annexes have been haphazardly established over time in an effort to support our core processing facilities, given the current deficiencies of those facilities in terms of space, equipment, and layout. These ancillary facilities in many instances will no longer be necessary for processing purposes once our core facilities are redesigned and modernized into RPDCs and LPCs, and the current deficiencies are corrected.

Regional Transportation Optimization (RTO)

RTO will rationalize the Postal Service's legacy regional and local transportation network: that is, the transportation of mail and packages between collection/delivery facilities (e.g., Post Offices) and the processing network.

The volume of mail collected through our retail facilities (including mail collected on carrier routes and entered at Post Offices) has declined substantially in recent decades: for instance, in FY 1997 there were 57 billion pieces of Single-Piece First-Class Mail, which by FY 2023 had declined by approximately 80 percent to 12 billion pieces. Nevertheless, the Postal Service has not fundamentally adjusted our collection processes or our transportation network to account for that decline. Our business rules, service standards and operating practices shockingly remain largely intact from the days we were flush with this long-ago lost mail volume.

Rather, the Postal Service has long transported destinating mail and packages from the processing network to collection/delivery facilities in the morning (AM drop-off), while transporting originating mail from the collection/delivery facilities to the processing network in the afternoon (PM collections). This practice of separating the drop-off and pick-up of mail and packages leads to significant inefficiencies in both transportation and processing operations.

The Postal Service has many transportation lanes which transport low amounts of volume to and from collection/delivery facilities that are far from our processing facilities. In such circumstances, the Postal Service must either operate multiple trips to drop-off and pick-up mail and packages from these locations, or alternatively pay a Highway Contract Route (HCR) contractor to layover for multiple hours between the AM and PM legs of their route. This results in significant underutilization of our truck capacity, high costs, and associated excess carbon emissions. By contrast, trucks delivering mail to high volume collection/delivery facilities near their servicing plant typically have a higher fill rate, resulting in fewer inefficiencies, and can be typically carried out by Postal employee drivers (Postal Vehicle Service (PVS) drivers and Postal Vehicle Operator (PVO) drivers).

Our current local transportation network is dictated by our current service standards and business rules, and by legacy thinking based upon a bygone era of significant single-piece letter mail volumes. Overall, this network constrains the transportation for a regional geography and results in inefficient transportation with limited ability to reduce the number of truck trips or optimize truck capacity. This is because transportation is predicated on the principle that originating mail must get to the processing network on the day it is collected from customers, no matter how little the mail volume or how far away from the processing network the volume is entered, and therefore, no matter how much it costs to meet our service standards. The scope of this condition has grown significantly over the last 20 years with the substantial decline in mail volume and growth in the country's delivery points.

In addition to these transportation inefficiencies, our current local transportation practices reduce the efficiency and reliability of our processing and network transportation operations. Today, originating processing operations have a limited window in which to process and dispatch to the network the mail and packages that are arriving on PM transportation from facilities near the plant (most of the volume), as well as the mail and packages on PM transportation from outlying collection/delivery facilities. The need to wait for the latter volume to arrive at the processing plants creates a volume arrival profile which reduces efficiencies, requires the scheduled dispatch to the network to be later, and increases the likelihood either for the scheduled dispatch to leave late in order to wait for all of the mail and packages to arrive at the plant and be processed, or for mail and packages to not make the scheduled dispatch at all because it does not make it to the plant on time to be processed on that day given the compressed window. This impacts not only the efficiency and velocity of originating operations but can also have substantial negative downstream effects that reduce our service performance for all volume.

To address these issues, the Postal Service intends to implement the RTO initiative on a nationwide basis. Pursuant to RTO, certain collection/delivery facilities will have their destinating mail dropped off, and their originating mail picked up, on the same transportation route. 5-Digit ZIP Codes will generally be designated for RTO when the facility from which the collection mail and packages are dispatched is more than 50 miles from the RPDC campus. Overall, this change gives the Postal Service critically needed flexibility to create optimal transportation scheduling on a regional basis.

Estimated Cost Savings

These proposed operational changes will enable the Postal Service to save between \$3.6 and \$3.7 billion annually in Leg 1 (collection) and Leg 2 (internal network) transportation costs, mail and package processing costs, and facility costs. The savings estimates breakdown as follows:

- Approximately \$651 million in savings annually through the application of RTO, which will enable us to run fewer trips and negotiate more cost-effective transportation contracts as we will no longer need to operate multiple trips to drop-off and pick-up mail and packages from

collection/delivery locations or pay contract drivers to layover for multiple hours between the AM and PM legs of their routes.

- Approximately \$1.8 billion in savings annually through air and surface transportation costs due to the improvement of transportation efficiency as part of the new RPDC network that will standardize operating procedures, enable a reduced number of nodes, increase capacity utilization, and limit unnecessary handling and transportation. Of this total estimate, we estimate savings of approximately \$1.1 billion from surface transportation, and \$701 million from air transportation.
- Approximately \$1.1 to \$1.2 billion in savings annually through improved productivity in the plants by increasing throughput, reducing workhours, and improving discipline in operational and management practices, as well as through operational savings related to the insourcing of STC operations.
- Approximately \$81 million in annual savings in facility costs through the elimination of facilities that are unnecessary in the redesigned RPDC/LPC network. By rationalizing our network flow through standardized and logical principles and operating plans, and improving the condition and layout of our network buildings as part of the RPDC/LPC network, we will be able to terminate leases for annexes that have been haphazardly added to the network on an ad hoc basis to serve as overflow operations due to inefficient use of other plant space in the legacy network, and to eliminate facility costs associated with THS/STC facilities whose operations will be insourced into the RPDCs.

These estimated savings are substantial and demonstrate the criticality of pursuing these operational initiatives as part of the Postal Service's efforts to achieve financial sustainability. At the same time, the estimated savings do not reflect the full amount of potential savings that we may be able to achieve through the initiatives that we are pursuing. The reasonableness of these estimated savings is further demonstrated by the Postal Service's successes so far in reducing costs in these categories as we have begun preliminarily implementing the DFA Plan. The Postal Service has through the ongoing implementation of the Plan been able to achieve significant savings to date, including \$1.5 billion in savings in FY 2024 as compared to FY 2023 in network transportation, processing, and facilities. The Postal Service has therefore demonstrated the ability to achieve savings through the strategies of the Plan.

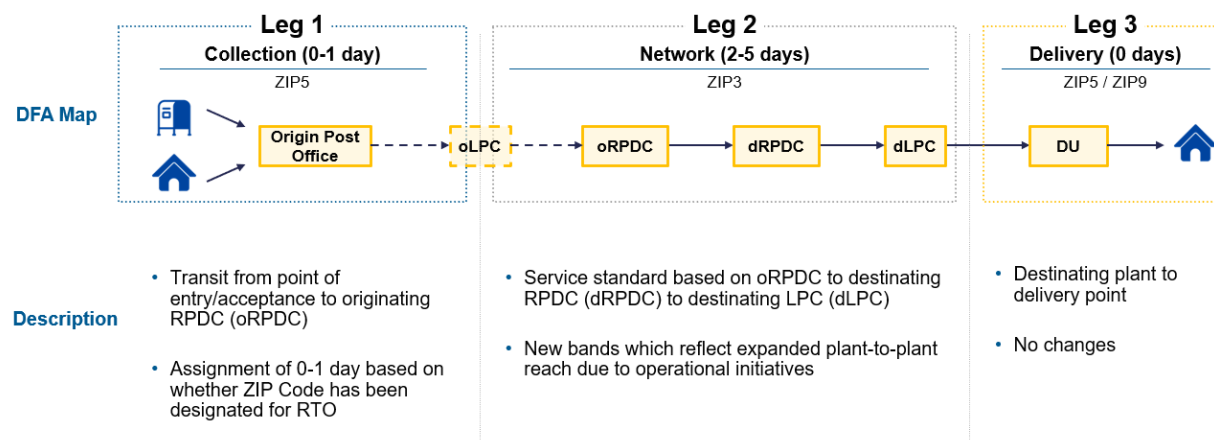
In addition, these changes are essential to improve our service to the package industry and achieve our growth objectives which are already beginning to prove successful with our introduction of USPS Connect Regional and Ground Advantage.

Service Standard Changes

To align with the above operational changes and improve operational precision and service reliability, we propose to transition to 5-Digit to 5-Digit ZIP Code (i.e. Post Office to Post Office) service standards that maintain the existing delivery day ranges for both First-Class Mail and USPS Ground Advantage, while more accurately and logically reflecting the three operational legs applicable to the movement of mail and packages, including collection to origin processing. We will also transition the service standards for end-to-end USPS Marketing Mail and Package Services so that they are based on the standards for First-Class Mail and USPS Ground Advantage, respectively, which will result in a shorter day range for these products when compared to the current service standards. Specifically, for volume traveling through our network (inter-RPDC), the Postal Service is proposing a new approach based on the three operational segments applicable to the movement of end-to-end mail and packages. We will also adjust the service standards for volume staying within a region (intra-RPDC), though because that volume follows a different operational path than inter-RPDC volume, it will not follow this specific segment-by-segment framework. In addition, this new framework does not apply to destination entry categories within these products, whose standards are not changing, except that we are updating those standards to reflect the new network.

By refining the service standards in this manner, they will more logically and accurately reflect our operations within the first operational leg (Figure 1) and enable us to implement the RTO initiative, thereby enabling us to address the significant deficiencies that currently exist in our regional and local transportation. The standards will also reflect the increased efficiency and reliability of our processing network due to RTO and the RPDC/LPC design, enabling us to accelerate our service standards within the second operational leg, making us more competitive in the marketplace with respect to commercial mail and packages. In addition, by allowing us to create service standards on a 5-Digit ZIP to 5-Digit ZIP Code basis, this approach is also more logical and understandable for our customers, as compared to the current service standards which are based on 3-Digit ZIP Code pairs.

(Figure 1 – Operational Leg Overview)



Leg 1: Under the proposed rules, our processes for collecting mail and packages from customers will not change, nor will access to Postal Service retail services. Instead, RTO eliminates the interdependency between the time mail is collected and our regional transportation schedules and plant processing schedules. As noted above, 5-Digit ZIP Codes generally will be designated for RTO when the collection/delivery facility servicing the ZIP Code is more than 50 miles from the RPDC campus (though exceptions may apply). The rules will add no day for Leg 1 for a ZIP Code within 50 miles of its servicing RPDC and will add one day to the service standard for a ZIP Code more than 50 miles from its servicing RPDC.

Leg 2: Under the proposed rules, for First-Class Mail and USPS Ground Advantage, there are two fundamental changes to our calculation of service standards in Leg 2 to align with our end-state RPDC network. First, the measured transit path will be updated. The current network path used for determining the service standard is Origin Processing Facility (OPF) to Area Distribution Center (ADC) to Sectional Center Facility (SCF). The proposed rules would instead measure the distance between the Origin RPDC and the Destination RPDC and then the distance between the Destination RPDC and the Destination LPC. Second, because of the improved arrival profiles facilitated by RTO and the improved efficiencies in the RPDC network, under the proposed rules, each of the existing service standard bands will expand by four hours.

Turnaround: The proposed service standards would also expand the geographic scope of turnaround volume (i.e., volume originating and destinating within a facility's service area). Currently, certain Intra-SCF volume receives a two-day standard. Under the proposed rules, certain Intra-LPC and all Intra-RPDC volume will be subject to the new turnaround rule which provides for a 2 or 3-day standard depending on the location of the originating mail volume. Specifically, processing facilities that cancel Single-Piece First-Class Mail on automated

equipment will have a 2-day standard for turnaround Single-Piece First- Class Mail originating from 5-digit ZIP Codes 50 miles or less from the cancellation location. If the originating volume is from a 5-digit ZIP Code beyond 50 miles of the cancellation location, the turnaround standard for Single-Piece First-Class mail will be 3 days. USPS Ground Advantage would also have 2–3-day intra-RPDC service. The standards for end-to-end Marketing Mail, Periodicals, and Package Services within a region will also be based on these standards.

As discussed above, the financial and efficiency gains from the changes proposed in this case allow for certain LPCs to maintain cancellation operations. This means that more turnaround mail will be processed locally in certain locations, and that the Postal Service will not fully implement some of the MPFRs that have been studied in the past year. In situations in which the LPC retains cancellation operations, the 50-mile rule noted above will be based on the distance from the LPC. In other situations, the RPDC will have cancellation operations, meaning the 50-mile rule will be based on the distance from the RPDC.

Impact on Service Expectations

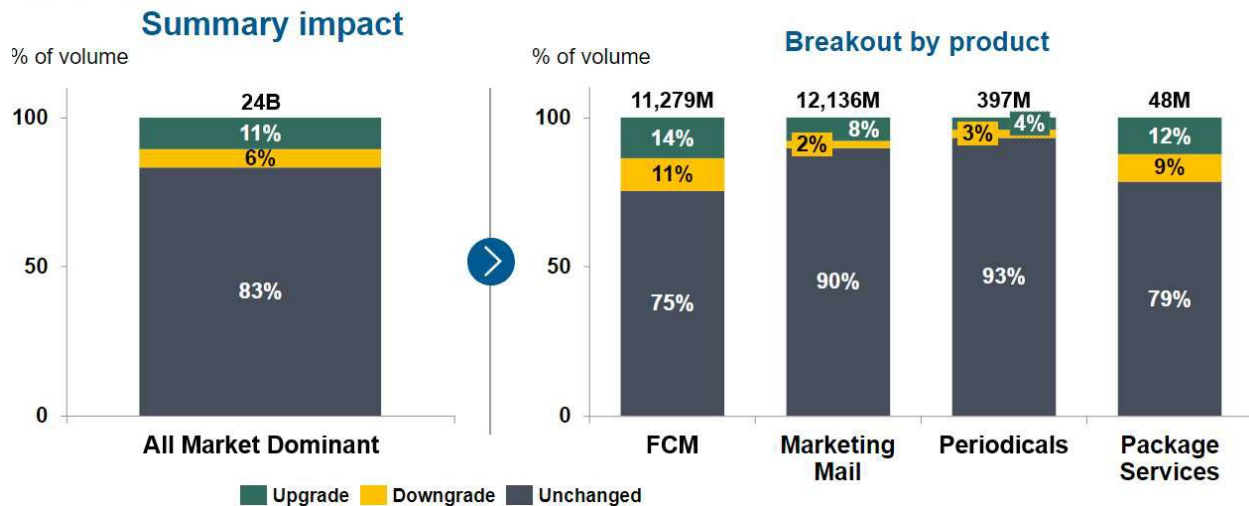
The proposed changes will lead to a net positive impact for First-Class Mail, as well as for end-to-end USPS Marketing Mail, Periodicals, and Package Services, from a service standard perspective. Most volume will retain the same service standard or see service standard improvements because of the Leg 2 improvements. Some mail and packages will experience a longer service standard, though still within the current day ranges, as the standards will incorporate 1 day within Leg 1 for all volume originating in a 5-Digit ZIP Code that is designated for RTO given its distance from the processing network. All volume will benefit from greater service reliability.

As demonstrated by the below chart (Figure 2), these refined standards result in the majority of overall market dominant volume having either the same service standard as it currently does, or an accelerated standard.

(Figure 2 – Impact of Standard Changes on Market Dominant Products)

Volume Upgrades and Downgrades Across Market Dominant Products

FY24Q3 Volume

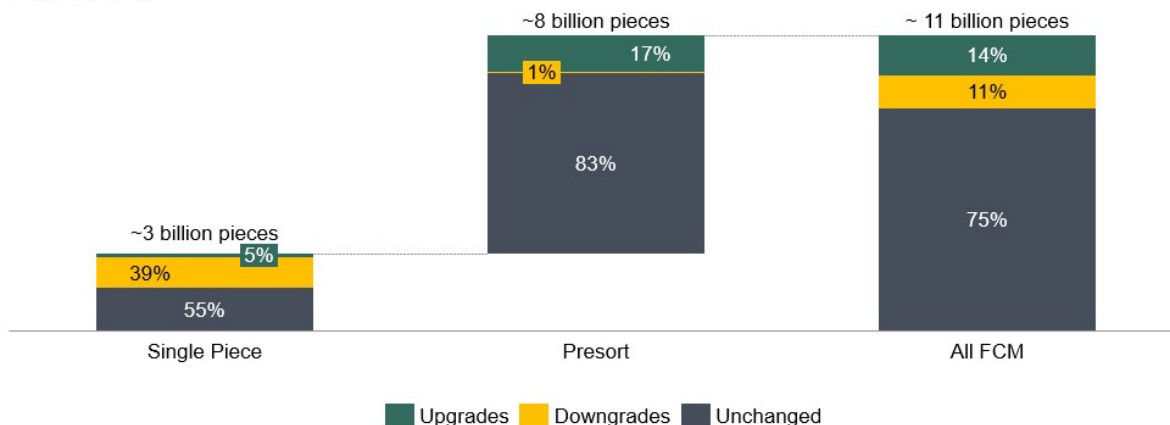


For First-Class Mail, the proposed changes will have a net positive impact. As shown in the chart below (Figure 3), service standards for 55 percent of Single-Piece First-Class Mail, 83 percent of Presort First-Class Mail, and 75 percent of all First-Class Mail will remain the same. Service standards for 39 percent of Single-Piece First-Class Mail will be longer, and 5 percent will be shorter — with all still within the 2–5-day range. Given the relatively lower volume of Single-Piece First-Class Mail volume compared to Presort volume, the percentage of overall First-Class Mail volume that will receive a slower standard is 11 percent, while 14 percent of First-Class Mail volume will receive a faster standard.

(Figure 3 – Impact of Standard Changes on First-Class Mail)

First-Class Mail Upgrades and Downgrades

FY24Q3 Volume



Based on FY24Q3

Other market-dominant products will also receive net faster service than the current standards. For USPS Marketing Mail, 8 percent of volume will receive a faster service standard, 2 percent will receive a slower standard, and 90 percent will remain unchanged. For Periodicals, 4 percent of volume will receive a faster service standard, 3 percent will receive a slower standard, and 93 percent will remain unchanged. For Package Services, 12 percent of volume will receive a faster service standard, 9 percent will receive a slower standard, and 79 percent will remain unchanged.

For competitive products, the overall impact of these proposed changes is that the majority of packages will either have the same service standard or a better standard, consistent with the fact that a majority of package volume is entered in ZIP Codes that are within 50 miles of our processing network. As with market dominant products, all package volume will benefit from more reliable and precise service.

The relative upgrades and downgrades demonstrate the Postal Service's efforts to maintain high quality service and mitigate any customer impacts to the extent possible while also implementing operational changes necessary to achieve the critical — and significant — cost savings that are necessary for financial sustainability.

These proposals should not be controversial. As demonstrated above, this is not simply a plan to add a day to our service standards or to “slow down mail for rural Americans.” RTO does not differentiate based on whether an area is urban and rural, but on the distance from the RPDC, and both urban and rural communities are therefore covered by RTO. Most of the volume that is downgraded (which constitutes only a small portion of mail volume overall) originates in urban areas.

Much has been made about the impact on Single-Piece First Class Mail entered at RTO-covered Post Offices. It is important to keep this statistic in perspective. Single-Piece First Class Mail makes up 24 percent of all First-Class Mail, and 10 percent of overall Market-Dominant volume. Single-Piece First Class Mail entered at offices covered by RTO represents 52 percent of all Single-Piece First Class Mail. It should also be pointed out that no changes are being made to our retail or delivery services, as the proposed additional day would only affect Single-Piece First-Class Mail collected through an RTO office, not Single-Piece First-Class Mail delivered through an RTO office (unless it also originated at an RTO office).

In addition to the relatively small percentage of volume that would be subject to a service standard downgrade by the changes, even those impacts are mitigated by several factors. The service standard day ranges are staying the same for First-Class Mail (meaning that any downgrades are minimal), turnaround service will be available in RPDC regions and from certain LPCs (expanding 2-3 day reach), individuals living in rural areas will benefit from the acceleration of the Leg 2 bands in terms of their *receipt* of important mail (including checks and medicines) that originate in a ZIP Code not subject to RTO, and no changes are being made to Leg 3 (meaning that delivery is still happening on the same

schedule 6 days a week). All customers will also benefit from the fact that volume, including volume originating in a ZIP Code subject to RTO, will be delivered in a more predictable and reliable manner. Additionally, access to retail services remains the same.

While the Postal Service recognizes the overall impacts on mail originating in rural areas because of RTO, the impact of this change is clearly outweighed by the benefits of these changes overall, with the benefits — in terms of a more sustainable and reliable Postal Service capable of achieving our universal service mission for all customers for the years to come — clearly being more consequential than these impacts. In this regard, if we did not make these changes, the Postal Service's financial and operational condition — and hence our ability to achieve universal service — would continue to deteriorate, which would be much more impactful on rural communities.

Stakeholder Input on Operational Changes

As part of the advisory opinion process, any interested party may file a notice of intervention and participate in a docket. In this case, 11 parties intervened, including seven industry groups, two groups representing postal employees, and two individuals. All intervenors are permitted to — and did — issue discovery requests. Consistent with Commission procedure, the Commission also appointed a Public Representative to represent the interests of the public in the proceeding. The Commission also appointed a Presiding Officer.

On September 5, 2024, the Postal Service conducted a pre-filing conference that was open to the public with an active question and answer session. On October 4, 2024, we filed our request for an advisory opinion, along with the Postal Service's record evidence, consisting of the testimonies of five witnesses, with supporting materials in the form of library references. On October 16, 2024, the Commission held a mandatory technical conference where Commission staff and interested parties asked questions of the Postal Service.

During the formal discovery period in the case, the Commission, the Public Representative, and the intervenors issued well over 300 information requests and interrogatories (many with multiple subparts). The Postal Service responded to them all on a timely basis pursuant to the PRC's rules, providing supplemental data and evidence where necessary. The proceeding will also involve an on-the-record hearing before the Commission and the participants may all file briefs.

We have also initiated the rulemaking process to change our market-dominant service standard regulations (39 C.F.R. Part 121) consistent with what is presented in the Section 3661 proceeding. On November 15, 2024, the Federal Register published the Postal Service's notice of proposed rulemaking regarding the service standard changes. Interested parties can file comments with the Postal Service in response to the Notice through December 31, 2024.

The Request for an Advisory Opinion Must Be Considered with Broader Factors in Mind

I understand that many Committee Members will raise matters of primarily local concern or from the perspective of a particular stakeholder or segment of our customer base. You represent your constituents and raising local concerns is understandable. The challenge and responsibility I face is different; I am working to preserve the Postal Service for the entire country, and to do so for the long term. Under the current law, the responsibility for balancing quality service with financial sustainability is assigned to the Postal Service, and therefore to our Board of Governors, and to me as the Postmaster General. The DFA is the only comprehensive plan that attempts to rescue the Postal Service that has been offered in the last 25 years. The DFA plan is the only plan that focuses on growth and viability. The DFA plan is the only plan that fights the resistance to change and addresses the obvious conditions present, and the possibilities that are within reach for our future. It is the only plan that makes the tradeoffs required to balance products, service, cost, infrastructure, employment, price and legislative action to achieve long-term viability under the laws that established the Postal Service, and the subsequent laws and regulations that either through error or neglect have served to threaten our future. As important, it is the only plan in execution, performing on-going due diligence, responding to the current challenges and making progress as we take on the enormous and complicated task of making the changes urgently needed to improve our plagued legacy operating system. All of this while delivering approximately 400 million pieces of mail to 169 million addresses daily, while measured against long ago irrelevant, unnecessary and cost prohibitive service standards and business rules.

I would be interested, and frankly surprised, to learn of an alternative plan that the Committee might offer that balances cost and service. I assure you that halting our initiatives will lead to the inevitable failure of the United States Postal Service. At this point, while our operating strategy is sound and will lead to a growth in revenue and reduction in cost, total financial sustainability is not assured even with this plan, given the many economic, legislative, regulatory, competitive and political obstacles and entanglements we must work through.

I want to continue my testimony by detailing in dedicated sections how the Postal Service found itself in such a precarious operational and financial position. I will then discuss our DFA Plan, what it has accomplished thus far, and how it has positioned us to address years of financial stress and the resulting underinvestment. From there, I will provide an overview of our network modernization initiatives and how we have carefully planned, refined, and improved them based on our experience. As suggested at the outset of this testimony, these initiatives demonstrated to us that to successfully realize the full benefits of our DFA Plan, and in the interest of our stakeholders, we should seek an advisory opinion from the PRC. I have detailed above the components of our request and the corresponding proposed adjustments to our service standards. I will continue my testimony by describing the challenges that continue to pose a risk to the organization, including regulator overreach, congressional interference, and service disruptions.

Finally, as requested by your letter of invitation, I will discuss just how transparent and accountable this organization has been with our regulators, Congress, stakeholders, and the general public. I would argue excessively so.

I would ask that you consider the request for an Advisory Opinion described above, and the factors detailed in the remainder of my testimony, while keeping in mind the dual mandates of universal service AND financial sustainability that Congress itself placed upon the Postal Service. It should go without saying that we are not simply focused on cutting costs; rather, we are committed to growth and the long-term achievement of our public service mission. We will not be able to fulfill that mission without being financially sustainable — as Congress intended.

[Testimony Continues in Sections]

Supplemental Sections

The Road to Crisis

As I stated earlier, in 2020 the United States Postal Service was an organization in crisis, facing a diverse array of challenges:

Mail Volume and Revenue Declines

Dramatic changes in customer demand put downward pressure on the traditional letter and flat product volumes, especially First-Class Mail volume. These sharp declines since Fiscal Year (FY) 2007 severely impacted our finances as well as the sufficiency of our processing, logistics, and delivery networks.

For example, domestic mail revenue declined from \$59.1 billion in FY 2007 to \$38.7 in FY 2020—a decline of over \$20.4 billion (34 percent) or an average annual decline of 2.7 percent. This is a trend that continues. Total mail volume declined by 42 percent since FY 2007, a decline of about 3 percent per year. This is a trend that also continues. First-Class Mail volume — which provides the greatest contribution towards covering the costs of maintaining our universal service network — declined by 45 percent between FY 2007 – FY 2020.

At the same time, the cost to deliver mail increased as our mail volume and revenue declined. This was driven by increased demand on our network, including the number of delivery points we serve, which grew on average by more than one million each year. The result was 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 were delivering less mail to more delivery points each year and transporting that mail in trucks that were often less than half full.

Package Trajectory and Misaligned Competitive Posture

Although package volume grew since FY 2007, this growth was not sufficient to offset the revenue loss from declines in mail volume. In addition, packages were costly and required more time to process and deliver. This was especially the case because the organization's de facto processing strategy was to handle millions of packages by hand, despite technological innovations.

We also inflicted self-harm by creating a package business that focused on accumulating volume with no effective strategy on pricing or cost. As an example, we incentivized the run-around and hollowing of our network through discounted pricing and created an environment for consolidator shippers to thrive while we struggled to survive. This self-destructive strategy led only to increased costs and

inefficiencies, at the expense of our mandate from Congress to be self-sustaining. We also created an array of confusing and self-competing product offerings that complicated our mission and compromised service.

Misaligned Processing, Logistics, Delivery, and Retail Network

Furthermore, our network was not adequately adapted or redesigned to process and deliver the current and projected volume of mail and packages efficiently and effectively. Our processing network was originally designed to meet the demands of a robust, and ever-growing mail market. Similarly, our facilities were located geographically and set up operationally to facilitate the timely and efficient processing of mail. As mail volume decreased, our machines and facilities were left under-utilized, leaving us with a physical network infrastructure that did not correspond to the current and projected needs of our customers.

Problems:

- Missed operating plans at our processing facilities reflected a failure to adapt to current mail and package volume realities. More than half of our facilities did not meet key operating plan indicators, which meant that the mail and packages they handled were not processed on schedule.
- The footprint of our network of facilities was inefficiently dispersed and accommodated too many disparate flows across products and classes, which drained resources, capacity, and degraded performance.
- Air and surface networks were underperforming and unreliable. Air transportation came with a high price and significant risk since we were reliant on external carriers. Additionally, our surface transportation was riddled with inefficiencies and burdensome manual processes.
- Chronic underinvestment led to dilapidated facilities and the average vehicle in our fleet was more than 28 years old, unreliable, and unsuitable for the current mail and package volume mix.
- Declining mail volume and an increase in e-commerce led to a reduction in retail traffic and revenue in our Post Offices.

Unreliable and Unachievable Service

Despite being one of the most trusted government organizations, the American public could not count on us to deliver reliable and predictable service. Most importantly, our service standards, the stated

goal for service achievement for each mail class, were unachievable. In fact, we had not met First-Class Mail service targets since FY 2012, and service performance was on a downward trend since FY 2017. As mail volumes declined further, service performance targets become increasingly difficult and more costly to meet. Mail products traversed differing processing and transportation streams, creating redundancies, multiple handlings, and underutilization of surface transportation networks. With every additional handling, we degraded our ability to achieve ideal on-time delivery.

Outdated and Destructive Pricing Limitations

Another hurdle to our success was an unworkable pricing structure. Since 2006, there has been a crippling and unnecessary price cap on most of our product and service offerings due to the purported postal “monopoly.” However, at best the so-called monopoly is in name only. Since many electronic substitutes for our mail offerings exist, we simply don’t have unfettered pricing authority, and the current pricing regime leaves the Postal Service in the position where we can’t pay our bills,

This misguided statutory regime was overseen by the Postal Regulatory Commission (PRC) who failed to remove this overly burdensome price cap in its 10-Year Review of the System for Regulating Rates and Classes for Market Dominant Products. After taking four years to discover what the world already knew — that our pricing regime was obsolete — the PRC announced changes to the price cap system that allows the Postal Service more flexibility, but that the PRC conceded was insufficient to make us financially sustainable. In that regard, in granting some limited additional pricing authority, the PRC refused to correct for the 10 years that we had operated under the deficient and crippling pricing model. Had the Postal Service been able to raise prices above the Consumer Price Index (CPI) earlier, we would not be in our current financial state. Since 2006, based on the density rate authority granted by the PRC, we would have generated \$55 billion dollars in cumulative gross revenue. Furthermore, despite the additional rate authority, a number of products are still essentially subsidized and do not cover their costs. In FY 2023, the Postal Service lost \$1.35 billion from non-compensatory classes and products.

Organization Misalignment and Employee Turnover

For years, the Postal Service had an organizational structure that hindered our ability to adapt and evolve to changing circumstances. The Postal Service operated under a structure in which core and supporting functions were managed in a decentralized fashion within each of the seven Areas and 67 Districts. This structure created leadership roles where the range of responsibilities was simply too broad, making it difficult for one leader to execute strategies across all mission critical functions. This structure resulted in the Postal Service having an extremely high attrition rate among non-career (now pre-career) employees. This created chronic vacancies and a significant toll on frontline supervisors, career employees, and the remaining non-career employees. High turnover obviously also had a

negative impact on service. This structure also inhibited the Postal Service's ability to effectively pursue integrated, nationwide operating initiatives at a necessary level of consistency and precision.

Unfunded Liabilities Mandated by Congress and Lurking Financial Calamity

Many of our financial hardships were a direct result of Congress. With the passage of the Postal Accountability and Enhancement Act (PAEA) in 2006, Congress burdened the Postal Service with billions in prefunding retirement health benefit (RHB) payments. This unique burden resulted in \$50 billion of defaulted payments to the RHB Fund.

In addition to prefunding requirements, normal cost and amortization payments to our retirement benefit programs crippled the organization. From FY 2007-FY 2020, retirement related expenses totaled \$153 billion. In FY 2020 alone, they were \$11.6 billion, or 14 percent of our total expenses.

Additionally, unlike virtually all public and private sector retirees that still offer health benefits to their retirees, postal retirees were not required to enroll in Medicare. In fact, despite the Postal Service and our employees paying over \$37 billion in Medicare taxes since 1983, only 74 percent of postal retirees chose to enroll. This resulted in an overpayment to the Medicare Trust Fund, to which the Postal Service was the second largest contributor. It also resulted in retirement health benefits being significantly more costly for the Postal Service, postal employees, and postal retirees than for their non-federal counterparts.

In FY 2020, the Postal Service recorded a net loss of \$9.2 billion, adding to 14 years of losses totaling \$87 billion. The Postal Service projected a net loss of approximately \$160 billion, a number that was likely understated as it assumed the reduction of approximately \$40 billion in wages and benefits based on volume declines (something that had not occurred in the past eight years) over the next ten years, and a negative cash balance of the same size if we paid our projected retirement-related obligations.

Misguided Attempts to Reform

Attempts at operational reform were made by Postal Service leadership. However, each of these initiatives drew widespread criticisms from Congress, the public, employees, and mailers. The preoccupation with each of these initiatives was to cut cost. However, in the long run, these initiatives failed to result in projected cost savings, handicapped the Postal Service's competitive posture, and created a culture of mistrust with stakeholders who now perceive any modernization efforts initiated by the Postal Service as harmful to the institution and the public.

Previous Management Initiatives:

- In 2011, the Postal Service announced the Network Rationalization Initiative (NRI), which involved consolidating or closing hundreds of processing facilities with an estimated annual cost savings of \$865 million.
- In 2012, the Postal Service announced the Post Office Structure Plan (POSTPlan), a plan to save \$500 million annually by reducing hours at thousands of Post Offices.
- The Postal Service even explored reducing mail delivery from six days to five days.

As each of these initiatives stalled or were abandoned, our various stakeholders and management deferred to Congress to solve our issues with ever elusive postal reform legislation. Postal reform, and even the PRC's rate review proceeding, became obstacles to progress as everyone waited for years for someone else to act first.

It is into this environment, devoid of operational and strategic vision, that we introduced the DFA Plan in 2021.

The Delivering for America Plan Is Working

Since the launch of the DFA Plan, we have made significant progress to save, reinvigorate, and embolden the Postal Service. The strategies and initiatives of the plan put the Postal Service on a positive trajectory, with a firm strategic direction and a more competitive posture. It is a transformational roadmap to building operational excellence, financial stability, and a sustainable future for this essential national institution that is a part of the country's critical infrastructure. 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.

Below are some of the key accomplishments achieved since the launch of the DFA Plan, along with an overview of the steps that we will take moving forward:

A Strengthened Public Service Mission

- **Key Accomplishments:** We hold a vital position in every American community, with access to both businesses and consumers. Consequently, we are woven into the fabric of daily life. Since the introduction of Delivering for America, we reaffirmed our commitment to public service by fully embracing the permanent recognition of our obligation to ensure six-day universal mail and package delivery. We strengthened the organization and more than halved our projected net loss over 10 years. We started the modernization of our retail centers, maintained service levels despite challenges, and excelled in handling election mail with exceptional performance during the 2020 general, 2022 midterm, and 2024 general elections. We expanded partnerships with government agencies to provide essential services like designing and enabling the distribution of 900 million COVID19 test kits to the nation. Additionally, we implemented a publicly facing Service Performance Dashboard, increasing understandability for our customers.
- **Path Forward:** Our mission is one of enduring relevance and importance. To fulfill this mission, we will address organizational inefficiencies, advance cost-reduction and revenue-growth initiatives, and continue to innovate in our retail centers and service offerings. We will build on the momentum made and pursue new partnerships with government agencies to expand public trust services. We will become the local storefront for government and community services — a central hub for serving essential public needs.

An Organization Structured for Success

- **Key Accomplishments:** The organization underwent a comprehensive restructuring to enhance operational efficiency, role clarity, and overall performance. This involved flattening the

organizational structure to improve line-of-sight. Key changes included the creation of three core operating units — Logistics and Infrastructure, Processing and Distribution, and Retail and Delivery — and realigning administrative functions to headquarters while removing duplicative roles. Regular meetings were held to monitor progress and ensure alignment with Delivering for America strategies. Additionally, new cross-functional groups were formed to liberate the organization from the bureaucracy of the past, engage in process evaluation, deploy new strategies, foster collaboration, and align capital and expense planning with organizational strategy. Various nationwide functions were realigned. This included separating our Processing and Distribution, Logistics, and Retail and Delivery functions into three business units directly reporting to the Postmaster General, establishing a Chief Data Analytics Officer under the Chief Information Officer, and creating teams focused on facilities modernization, national account sales, and operational performance excellence. These efforts aimed to streamline operations, foster accountability, and drive mission-critical strategies effectively. Furthermore, we are revising the more than 900 policy and procedure manuals throughout our organization to align to our vision for the future.

- **Path Forward:** The organization is committed to advancing our objectives by refining our structure to better align with strategy, focusing on individual business units such as processing, delivery, retail, logistics, sales, marketing, and environmental sustainability. The organization will adapt to changes in the network and marketplace by incorporating commercial best practices to better serve customers and local communities. This includes ensuring clarity in hierarchical layers, appropriate managerial spans of control, ensuring skill adequacy, elimination of bottlenecks, even workload distribution, and fostering collaboration and coordination. A culture of engaged and collaborative leaders will drive performance, accountability, and cultural and digital transformation. The workforce will be repositioned and developed to align with strategic goals, and the Sales and Marketing organizations will be transformed to drive growth. All business functions will modernize their operations. Additionally, modernizing and securing technology will create a competitive advantage, enabling operational efficiencies, revenue generation, and overall improved organizational performance. These strategies aim to create a more agile, resilient, and forward-looking organization prepared for future challenges and opportunities.

Best-In-Class Processing and Delivery Operations

- **Key Accomplishments:** We made great strides, committing \$17.3 billion to date, in the redesign of our processing network and improvements in the condition and suitability of our facilities. We started the launch of our new processing network, which will consist of 60 Regional Processing and Distribution Centers (RPDCs) and 190 Local Processing Centers (LPCs) featuring clean, spacious, and well-lit employee working environments fully equipped for modern day postal

operations. We engineered standardized layouts with adequate space to support more consistent and efficient operations. To accommodate the surge in package volumes during the COVID-19 pandemic, as well as our initiatives to reduce manual package sortation and grow our share of the package delivery market, we deployed over 450 package conveyor systems. This dramatically boosted package processing capabilities from 47 million to 77 million packages per day. Additionally, we made significant investments to refurbish and renovate facilities that suffered from years of deferred maintenance. Repair and alteration work is underway in more than 30 processing facilities.

We also continue to be the delivery service provider of choice for the nation. Our 83 Sorting and Delivery Centers (S&DCs) serve as centralized hubs to expand carrier and route originations. They also improve the geographic reach and speed of mail and package deliveries as well as enhance our ability to create an integrated network. The deployment of Small Delivery Unit Sorters makes package distribution more efficient and speeds our processes for delivery. The new S&DCs and their extensive network of 7,600 aggregated carrier routes, successfully extended next day delivery services to over 11 million people. A modernized fleet, including 24,700 new delivery vehicles represents the largest vehicle acquisition in 30 years. Advanced fleet management systems with telematics enhanced reporting enable comprehensive asset management strategies while also optimizing delivery routes. We achieved improved precision in deliveries as well as reduced repair and maintenance costs by integrating real-time data from various sources. Front-line supervisors and carriers are empowered with new mobile devices for better communication, including safety alerts. We bolstered security through Project Safe Delivery as we installed 30,000 electronic locks with multi-factor authentication, deployed more than 22,000 High Security Collection Boxes, and implemented identity proofing for changes of address, reducing fraudulent submissions by 99.98 percent.

- **Path Forward:** Going forward, we will continue to improve our mail and package processing operations and capabilities. We will standardize operations across the processing and delivery network, with RPDCs serving as aggregation points for logically defined regions and LPCs handling destinating sortation operations. To leverage economies of scale and reduce transportation costs, we will concentrate and consolidate facilities, eliminating approximately 200 haphazardly deployed annexes and contracted sites. I will further explain our network modernization initiatives later in my testimony.

A Fully Optimized Surface and Air Transportation Network

- **Key Accomplishments:** Crucial adjustments to our air and surface transportation are essential for maintaining high service standards and reducing operational costs. Since announcing Delivering for America, we realigned our transportation network, shifting volumes from costly air

networks to more efficient surface routes, resulting in fewer empty trucks, reduced costs, and faster delivery times. We transformed our contracted air network with new air terminals and carriers. We deployed a new and advanced logistics platform — with enhanced contract management, transportation oversight, real-time visibility, and fuel management. This enabled us to expedite negotiations, improve supplier performance, engage in nationwide freight auctions, and avail ourselves of market-based fuel pricing. Network optimization efforts, including the reduction of facilities and the logical alignment of operating functions, resulted in the elimination of 1.1 million underutilized transportation trips, significantly increased truck fill rates and reduced costs. These changes collectively yielded annual savings of over \$1 billion. Employee empowerment initiatives, such as collaboration with the American Postal Workers Union to add more employee driver positions and more suitable vehicles, prepare us for driver shortages and ensure steady service capacity. Lastly, we worked to improve the capabilities of our contract carrier base of suppliers leading to greater reliability and safety. We also piloted the Local Transportation Optimization (LTO) program across 15 locations and 2,400 Post Offices to consolidate pick-up and drop-off activities at locations more than 50 miles from the servicing LPC.

- **Path Forward:** We are committed to completing our transition to new channels for air transportation and realigning our ground transportation network. This involves shifting volumes from expensive air networks to more economical surface networks, thereby reducing the number of empty trucks on the road, cutting costs, and improving delivery times. We will continue to use our state-of-the-art logistics software and technology to optimize routes, enhance real-time visibility, competitively solicit logistics carriers, and promote a robust transportation management ecosystem. Our plan includes consolidating Surface Transfer Center and Terminal Handling Service operations into our RPDCs, thereby gaining efficiency by insourcing these operations when economically advantageous. Our improved transportation processes will help us take full advantage of our new RPDC, LPC, and S&DC facilities to create an efficient and reliable integrated mail and package network. We will implement nationwide the RTO initiative, which evolved from the LTO pilot. It will reduce the number of truck trips and mail collections at most USPS facilities farther than 50 miles from a processing plant, to eliminate inefficient transportation runs and facilitate mail processing improvements. We will scale the Postal Vehicle Service program to insource transportation activities, ensuring labor stability in local transportation and improve our ability to manage emergent service requirements. Finally, we will finish the transition of our air network to a more logical and cost-efficient approach for the volume that we will continue to move through the air.

A Modern, Transformed Network of Post Offices

- **Key Accomplishments:** Our 32,000 Post Offices are a visible symbol of our ability to serve every community in the nation. We equipped over 50 S&DCs with a full suite of modern technologies to optimize the customer experience and expedite transactions, equipping them with rapid parcel drop-off stations, smart parcel lockers, and multi-functional self-serve kiosks to meet customer mailing and package needs. The technologies, offered in extended hours Post Offices, allow customers flexibility in when they conduct business. Biometric capture further expands our capability to provide government services. Additionally, we prototyped a modern retail lobby in Athens, GA, to create larger, brighter, and more inviting environments. We revitalized multiple retail locations with strategically placed monitors and new signage to provide informative details on available services and promote new products like USPS Ground Advantage. We expanded public trust services at our retail offices by forging partnerships with various agencies, thereby transforming Post Offices into community hubs that provide essential services. These include in-person identification proofing for the Department of Labor and the General Services Administration, fingerprint capture services for the FBI, and passport application and renewal processing for the Department of State.
- **Path Forward:** We are committed to a comprehensive approach to modernize and invest in our retail footprint to enhance the customer experience and strengthen our brand. This includes redesigning lobbies, integrating interactive self-service technologies, and introducing digital options. We will continue to strengthen our role as an enabler of commerce and public service to all communities by developing new products and services and by partnering with local businesses and various levels of government and community organizations. We will also empower local businesses by providing comprehensive shipping and mailing solutions for brand elevation. Additionally, there will be an expansion of self-service retail technology to offer expedited access to key services during extended hours, including innovative features like package-less returns and enhanced parcel locker services. In implementing Delivering for America, we decided not to close any retail locations or reduce hours for our vast network of Post Offices although we did contemplate such actions as a part of our original plan. We will maintain this decision to preserve our retail locations as we continue execution of Delivering for America.

A Reliable and Integrated Network for Mail and Packages

- **Key Accomplishments:** Over the past three years, we aligned our First-Class Mail and competitive domestic parcel offerings to move mail and packages together as required by law over an improved ground transportation network. Since implementing new products and standards, we began building an integrated and optimized coast-to-coast surface transportation

network. This transforming network led to significant cost savings. It also led to increased service reliability and enhanced service performance across all product categories, achieving an impressive average delivery time of 2.6 days. These efforts laid the groundwork for further operational, transportation, and productivity improvements.

- **Path Forward:** Federal law requires when the Postal Service determines that there should be a nationwide or substantially nationwide change in the nature of postal services, we must submit a proposal to the PRC requesting an advisory opinion on the change. As noted above, we recently submitted a request for an advisory opinion from the PRC regarding two operational initiatives that are part of the Delivering for America Plan: the RPDC/LPC network and the RTO initiative. The request also includes corresponding changes to our service standards that I explained earlier in my testimony. These proposed changes make operational sense, are necessary to correct deficiencies in our current operational environment, will yield substantial savings, will minimally impact — or improve — most service standards, and will accelerate a portion of our volumes — enabling us to preserve and strengthen our commercial mail volumes, benefitting our long-term financial health by substantially improving the value proposition we provide. Overall, service will be more reliable, service standards and expectations will be easier to understand, and our operations will be more efficient.

Bold Approach to Growth, Innovation, and Continued Relevance

- **Key Accomplishments:** To facilitate our continued growth, we updated our product and pricing strategies with innovative sales and marketing initiatives, including the successful launch of a suite of package products. We saw volume quadruple for our new flagship USPS Ground Advantage product. We strengthened partnerships through technology platforms and on-line marketplaces to proliferate our products and services across channels. We deployed advanced customer integration platforms to promote seamless engagement with customers and partners of all sizes. We also refined our sales and marketing organizations by integrating leading industry practices and robust metrics into their operating procedures. We launched First-Class Mail and Marketing Mail incentives to encourage mail owners to increase volume. The incentive is forecasted to generate more than 3 billion additional pieces of mail by December 2024. We also expanded Informed Delivery to 66 million subscribers, including business users, and introduced new features to provide updates and options for mail and package deliveries.
- **Path Forward:** To remain competitive and to survive as a universal service provider delivering mail and packages, we must grow our package delivery business. This will require us to evolve and expand our same-day, next-day, two-day, and nationwide delivery business by leveraging our modernized first, middle, and last-mile networks. We must continue to advance our solutions

and our relationships with shipping customers both large and small, both local and national, to compete and grow in the marketplace. This will require modern technology and equipment, operating discipline, and a customer first attitude from all our employees so we can win business in a market with formidable competitors. Concurrently, we must continue to develop methods to increase the value and affordability of market dominant mail products. Finally, as we demonstrated during the COVID-19 pandemic, we are a key component of the nation's critical infrastructure as the delivery provider offering unrivalled access and reach. We plan to continue to capitalize on this by increasing our service relationships to government agencies and communities throughout the nation.

Environmental Stewardship

- **Key Accomplishments:** As the largest mailing operation in the world, we are committed to environmental sustainability. To fulfill our objectives, we established an Environmental Council, chaired by the Postmaster General, to align our sustainability initiatives to the aspirations of the Administration and Congress without compromising our mission and cost reduction initiatives. We set firm emission reduction targets, defined robust sustainability measures and started deployment of electric vehicles into our fleet. We continually optimize our logistics and processing operations to reduce wasteful trips and inefficient practices. The Biden Administration recognized these efforts when we received the Presidential Federal Sustainability Award in 2024.
- **Path Forward:** We remain steadfast in our commitment to champion sustainable practices and achieve our ambitious sustainability targets in a manner that makes both business and environmental sense. We will continue to reduce emissions throughout our operations, electrify our fleet, and deploy technology to optimize delivery routes and improve asset utilization. By FY 2030, we are aiming to achieve the following:
 - Reduce Greenhouse gas emissions from fuel and electricity by 40 percent.
 - Divert 75 percent of waste from landfills.
 - Increase renewable energy by 10 percent.
 - Increase packaging recyclability to 88 percent.

A Stable and Empowered Workforce

- **Key Accomplishments:** The dedicated men and women of the Postal Service are our greatest asset and the primary source of strength for our organization. We invested in employee recruitment, retention and skill development, while also defining clear career paths and promoting

diversity. We invested in facilities to make our workplaces safer, more engaging spaces to work, and deployed new training for field supervisors and managers to create an engaging environment for employees. Our workforce stabilization initiatives have resulted in producing a more stabilized, trained and better supervised workforce.

- **Path Forward:** The organization aims to create a stable and empowered workforce through retention, improved employee experience, workforce development, and succession planning. We continue to fill supervisory vacancies and modernize the hiring process. Enhancements to the employee experience involve improving orientation, and better engaging employees during their first 90 days on the job. Long-term career paths and development opportunities will be enhanced to prepare for our rising expectations, while a robust succession planning program will prepare aspiring candidates for critical roles. Front-line supervisors will receive better training, tools, and support, with an expanded apprenticeship program to build a strong supervisory bench. The organization will promote diversity through the Executive Diversity Council and integrate diversity practices into employee programs. We will prioritize employee safety and wellbeing through effective safety programs, risk management, and improved support systems, ensuring a safer and healthier work environment.

Sensible and Prudent Legislative and Administrative Support

- **Key Accomplishments:** The enactment of the Postal Service Reform Act of 2022 (PSRA) alleviates the financial strain caused by Retiree Health Benefit (RHB) unreasonable and punitive prefunding payments established in 2006 with the enactment of the Postal Accountability and Enhancement Act. The PSRA eliminated the prefunding obligation, all past due amounts, and better integrated our RHB plans with Medicare. We expect these changes to save \$40 to \$50 billion over a decade. Additionally, the PSRA established the Postal Service Health Benefits Program, operating within the Federal Employees Health Benefits Program but with Medicare integration and separate risk pools, thus reducing healthcare costs for us, our employees, our retirees, and their families. The PSRA also allows us to form agreements with state, local, and tribal governments to offer non-postal services, with a potential to generate new revenue streams.
- **Path Forward:** We will work with the appropriate government agencies to implement the PSRA, ensuring a smooth transition to new postal health plans by 2025. We will seek to alleviate a substantial misallocation of retirement-related expenses stemming from our participation in the CSRS and other federal benefit programs. The lack of CSRS reform by the Executive and Legislative Branches negatively impacted our financial sustainability and Delivering for America efforts to eliminate our annual net losses.

By advocating for reforms that more fairly allocate responsibility for CSRS obligations and for reforms that allow market-based investments of retiree funds, we aim to reduce retirement-related expenses. Additionally, we seek to adopt private sector best practices for workers' compensation administration.

In addition, to enhance our financial flexibility we will seek to increase our debt limit of \$15 billion. This was a restriction set by Congress over 30 years ago and sets us apart from private sector companies that have access to credit and capital markets.

More broadly, oversight reform of the Postal Service is critical, as the current regulatory framework involves multiple stakeholders, including the Postal Regulatory Commission, the Postal Service Office of the Inspector General (OIG), the Government Accountability Office (GAO), Congress, and various components of the Executive Branch. (Please see section on transparency and accountability below.) This complicates our ability to function as a financially solvent and nimble business enterprise to address the challenges we face. Moving forward, we will aggressively focus on cost control, revenue growth, and innovative service offerings that meet the needs of our customers at reasonable prices.

However, we must continue to advocate for congressional action to assist us in lowering our retiree benefits costs, streamlining oversight, revising our pricing models, and securing statutorily mandated appropriations — the provisions and collection of which is long overdue.

A More Rational Approach to Pricing

- **Key Accomplishments:** In addition to placing burdensome employee pre-funding requirements, the Postal Enhancement and Accountability Act (PAEA) of 2006 set in place the regulatory adherence to a pricing model for our market-dominant products that proved to be defective for the next 14 years, and which cost the organization over \$57 billion in lost revenue. In January of 2021, the PRC finally provided some pricing relief which enabled us to more appropriately price our market-dominant products. However, the PRC failed to account for devastating impact the lack of this authority caused in previous years. When providing this additional pricing authority, the PRC recognized that it would not be adequate for us to become self-sustaining, and that in addition to the pricing relief, we must take additional actions to cut costs to become self-sustaining.

The DFA Plan wisely stated that we would make judicious use of our pricing authority for market dominant products to compensate for diminishing mail volumes, grow revenue, and contribute to the initiatives to cover the costs of our service. We implemented semiannual price increases for

market dominant products to better leverage our rate authority for revenue generation in a historically high inflationary environment and to diminish (but not eliminate) the lag time between the impact of inflation and our ability to raise prices to partially deal with it. While this relief was somewhat helpful, it did not fully account for the historically high inflation we experienced during the first three years of the DFA Plan.

In addition, recognizing that growth in our package delivery business was an obvious opportunity to generate revenue to fund our infrastructure and operations, the DFA Plan set out strategies to improve our operations, adjust our sales and marketing practices, re-evaluate our product offerings, and reconsider our partnership relationships. Since then, we successfully eliminated reseller and consolidator contracts ensuring better utilization of our middle-mile infrastructure and enabling us to better connect with our customers and generate revenue with improved technology and individual contracts. We re-structured and energized our sales force and provided our shipping customers with competitive and responsive solutions to enable us to better meet the needs of our customers in the marketplace while also assuring our growth and stability. We offered new products such as USPS Ground Advantage, USPS Connect Regional, and USPS Connect Local. We also strategically implemented price increases for our competitive products, including modest price increases during peak season, in line with industry standards. Finally, we identified our weaknesses in serving mid-market customers and developed new products at attractive prices to grow our business, revenue, and market reach.

- **Path Forward:** We will continue to price market dominant products judiciously to grow our revenues to cover ever increasing costs. Despite our price increases for market-dominant products, and as noted by the OIG, we still have one of the lowest postage rates in the world, especially considering the scope of our universal service mission. Most importantly, we will continue to find innovative ways to capitalize on our improved operating and delivery network to create new competitive postal products that meet the evolving needs of our customers, and we will price them to gain additional revenue consistent with the market realities.

These accomplishments represent the hard work and dedication of our employees and management team, who have gone to extraordinary lengths to make the Postal Service a leader in commerce and public service. While these achievements are extraordinary in and of themselves, our financial challenges remain considerable.

In Pursuit of Financial Stability

When Delivering for America was first published, we projected a total net loss of more than \$200 billion over 10 years if we were unable to achieve the required savings of nearly \$50 billion through reduced work hours in line with our declining volume. Frankly, before implementation of the DFA, we had not been able to reduce work hours since 2014.

We originally planned to have breakeven net income by FY 2023 and, if not for the impacts of high inflation and our inability to achieve CSRS reform, we would have come close to this goal. We finished FY 2023 with a \$6.5 billion net loss. Historically high inflation (which was significantly above our projections) contributed \$2.6 billion to that figure, as inflation impacts our costs much more quickly than it impacts our ability to raise prices. In addition, our plan included an administrative action (the proper allocation of our CSRS obligations) which was not implemented. This expense of \$3.1 billion combined with the inflation impact made up \$5.7 billion of our \$6.5 billion loss. The remaining impact was due to ongoing effects of the pandemic, significant increases in packages while mail volumes declined at a pace not seen since the Great Recession, and an organization in a far more eroded position than realized, ill-equipped to adapt to these changes.

Despite these challenges, in FY 2022, FY 2023, and FY 2024, we were able for the first time to make partial payments to the amortization of the unfunded liability in our pension accounts. We entirely defaulted on these payments from FY 2014 to FY 2021. We halved our projected loss and now project a loss of approximately \$80 billion over the same period, and plan to close the remainder of the gap through additional cost-saving and revenue growth initiatives.

We aggressively sought opportunities to increase market share and revenue, resulting in revenue exceeding plan by \$9.8 billion through FY 2024 compared to DFA 1.0 Base Plan. For the first time since 2014, we reduced annual work hours, eliminating 45 million in three years, resulting in annual savings of \$2.3 billion. Some of these savings are because of the shift to more efficient, more automated facilities, even though this transformation is still in the early stages. We reduced annual transportation costs by \$1.2 billion by shifting volume to our more efficient ground service network, insourcing some local transportation and transportation network functions, and making alignment adjustments throughout our operations to move mail more reliably and affordably. During this transformation, we invested heavily in our infrastructure and our employees. We converted 190,000 employees to full career status over the past 4 years, increasing our total career employees by approximately 28,000 employees (accounting for general attrition) to staff our operations appropriately, recover operational control, begin our transformation, significantly reducing overtime and minimizing the need for temporary employees — and thereby move to a well-trained and engaged workforce. We committed approximately \$17.2 billion in capital and expense investment through FY 2024, including \$6.2 billion to improve our existing facilities, which were dilapidated after years of neglect and lack of investment.

While the reduction in future losses already achieved is remarkable, the Postal Service did finish FY 2024 with a \$9.5 billion net loss, compared to a net loss of \$6.5 billion for the prior year, an increase of \$3 billion primarily attributed to the year-over-year increase in non-cash workers' compensation expense. Over 80 percent of our current year net loss is attributed to factors that are outside of management's control, specifically, the amortization of unfunded retiree pension liabilities and non-cash workers' compensation adjustments. The historic inflationary environment we encountered (which was significantly above our plan) contributed 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. It should be noted that if we had not accomplished the cost reduction and revenue growth initiatives we achieved over the last 4 years, we would have lost in excess of \$55.3 billion, compared to our actual losses of approximately \$21.9 billion as a result of the historical high inflation we experienced during my tenure as Postmaster General. In addition, we have not yet properly allocated our CSRS amortization obligations, representing \$10.4 billion (FY2021-FY2024) of the costs outside of our control. Those costs would not exist if a more appropriate allocation method had been utilized.

This all underscores the need to move forward steadily 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, and enable investments in our people, infrastructure, and technology, while simultaneously providing our commercial customers and the American people with the excellent service they deserve. I would also encourage you to read our recently released DFA 2.0 for a blueprint for our path forward. It is our financial condition and the shared expectation that we must fund our own operations that necessitates the establishment of ambitious targets contained in that plan.

The fact remains that we continue to have losses, and it is evident that to break even and avoid running out of cash in the next several years, we must press ahead on our revenue-generating and cost-cutting initiatives.

It is also important that assessments of our financial situation be clear-eyed and well understood — especially in the absence of legislative reforms and given that we have little or no control over some key expenses (e.g., pensions and workers' compensation claims, etc.). Therefore, it is important to focus on controllable income or loss rather than uncontrollable factors that are required when using Generally Accepted Accounting Principles (GAAP). Judging the financial results of the Delivering for America plan by simply focusing on bottom-line GAAP loss undermines and ignores the very real achievements made by the organization.

While we have already made historic progress, it is not enough to make us financially sustainable. Given our still-precarious financial condition, we need to continue to move forward with the strategies in

Delivering for America that are already in motion. The alternative is that we will run out of cash and either fail to fulfill our basic obligations to the American people, drastically cut our services, or require a taxpayer-funded bailout. Our goal is to utilize all the tools available to us to stop any of those things from happening. The following are our near-term financial goals and objectives which were laid out in my letter of January 10, 2024, to the President and your Committee. Their achievement is dependent on the changes we seek to make to our processing and transportation networks, and correspondingly to our service standards as outlined in our recent Advisory Opinion request.

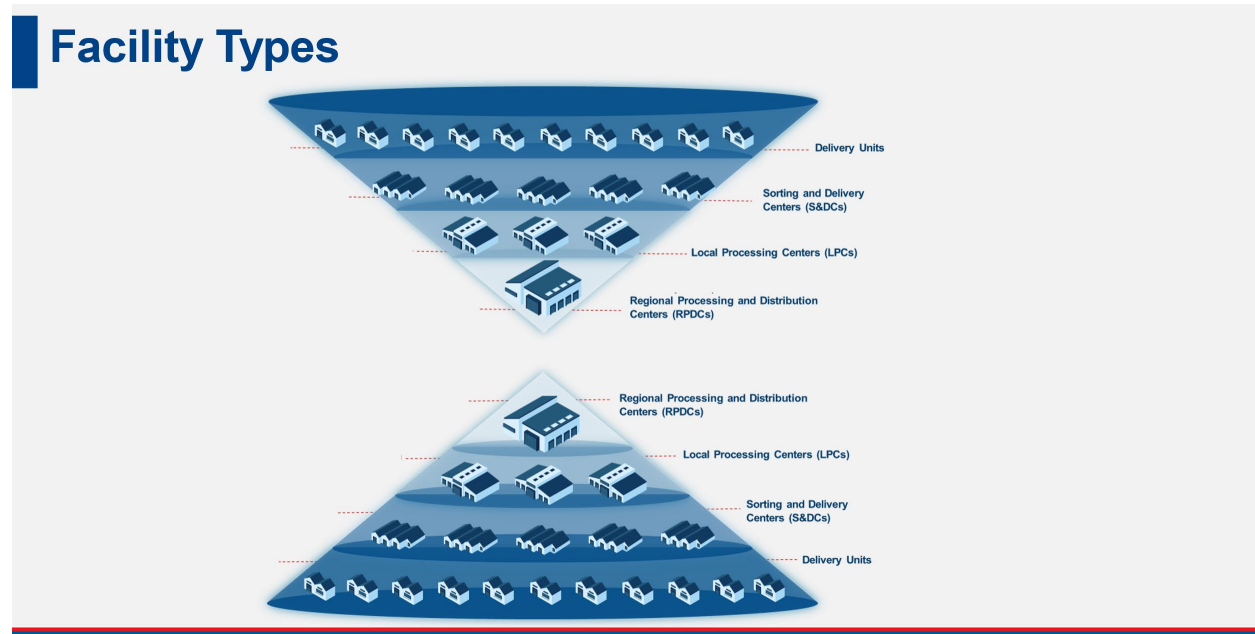
- Reducing our regional network transportation and its cost by at least \$1.5 billion, by aggregating volume in fewer facilities, moving mail and packages regionally in an integrated manner using fewer trips, ensuring that the trips we run are fully utilized, and shifting more costly and less reliable 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.

Network Modernization

As mentioned above, a key pillar of DFA is the fundamental transformation of our network. We are finally building a processing network designed for precision — one built for 21st century realities, not one that maintains the vestiges and nostalgia of bygone business models and antiquated ways of working. We are modernizing 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 Sorting and Delivery Centers (S&DCs) (Figure 4). 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. I explained our RPDC/LPC network when I discussed our Advisory Opinion request, but I would emphasize that the new structure establishes a much more logical, reliable, precise, and efficient network to improve service and competitive posture while reducing unnecessary or underutilized transportation.

Figure 4 – Facility Types



Mail Processing Facility Reviews – Modernizing Investments, Not Closures

As part of our network modernization efforts, we are also moving forward with 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 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 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 investing in these facilities to better position them in our transformed network, not closing them or allowing them to continue to atrophy.

It should be noted that a majority 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 often 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 percentage 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—indeed, as noted above we are

expanding the Leg 2 bands. 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.

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 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 localized service impacts that we've seen in places like Atlanta, Houston, and Richmond in the past year have resulted from execution failures by operations management, 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.

As I detailed in my last testimony, we are working through these issues and will 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 the Infrastructure and Operations Support organization. It includes a 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 112.5 billion mail pieces and 7.3 billion packages per year to the American people at 169 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 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.

Election Mail Performance and Observations

One example of our commitment to service excellence, as demonstrated by our recently released Post-Election Analysis report, the Postal Service once again fulfilled its role in delivering the mail when election officials and voters chose to use our services as part of their election process. Our good faith efforts to prioritize the monitoring and timely delivery of Election Mail paid dividends. We delivered 98.56 percent of ballots from voters to Boards of Election within our service standards, with an average delivery time of less than a day. Over 99 percent of these ballots reached the Boards of Election within seven days, the time we recommend voters use should they choose to vote by mail. I remain in awe of the talent and capability of this organization when it is strategically mobilized to accomplish a task.

As we move forward, I would just remind this Committee, and the public, of the very specific role we play, starting with what we do not do. We do not conduct elections or determine their timing or deadlines. We do not determine federal, state, or local election laws or practices, or the extent to which they incorporate the mail. We do not determine when election officials mail ballots out to voters or when voters return ballots back to Boards of Elections via the mail, nor do we determine the laws regarding that timing. We do not determine how and whether election laws rely on our postmark, nor whether the state legislatures consider how the mail system works when they design their election laws. We do not design ballots or ballot envelopes.

Instead, the Postal Service collects, processes, transports, and delivers the nation's mail. This includes Election Mail when public policy makers or election officials choose to use the mail as a part of their election system or when voters choose to use our services to participate in an election. We employ robust and proven processes to ensure proper handling and delivery of Election Mail, including ballots. We are a national service and as such need to have consistent policies nationwide to ensure that our operations run smoothly, and that our 650,000 employees understand what is expected of them.

We accomplished this year's election mail performance in the midst of two major and back-to-back hurricanes in the Southeastern part of our nation. During these events, we engaged in controlled shutdown of our operations across a census of over 10 million delivery points, only to immediately engage the day after to attempt to reach every single one of our impacted facilities as conditions enabled us to reach them. As always, we are the first sign of a return to normalcy in these stricken areas. We go to shelters, set up mobile units, relocate postal operations, manage mail flow, communicate internally and externally to millions of people and reassign thousands of carrier routes where our facilities are no longer operable. And our employees come to work to serve their communities, often at a time where they themselves are undergoing their own personal difficulties, as they live in these stricken neighborhoods.

As I reflect on the successful but unduly strenuous effort of the Postal Service in the 2024 General Election, and the steadily increasing use of vote-by-mail across the country, it is clear to me that we must take action to address a stark mismatch. The mismatch is one that has grown between the sea of variation that exists among the 8,000 election jurisdictions, and the uniform and unnecessarily heroic actions required by the Postal Service mail system during elections. The mismatch is burdensome, introduces undue risk and is unsustainable. We look forward to working with Congress and election officials to agree on solutions. I personally spoke to a number of Secretaries of State to reassure them around our efforts this election, and in every case, we agreed that we welcome the opportunity to work together to improve the system.

Transparency and Accountability

The Postal Service is engaging in a historic level of transformational change and must do so while subject to an historic level of transparency, accountability, and communication. The Postal Service has dual mandates to provide universal service and be financially self-sustaining. These mandates give the Postal Service a set of unique requirements and responsibilities unlike any other federal agency or private enterprise. While we recognize the importance of transparency given the public service nature of our work as an independent establishment of the Executive Branch of the government of the United States, a staggering quantity of statutory and regulatory reporting requirements have built up over decades of policy-making that in many instances have ceased to serve a useful purpose, but instead now place an unreasonable demand on the Postal Service that unnecessarily burdens the organization and diverts our resources and attention away from substantive action. In a case of the proverbial “tail wagging the dog,” the mandated reports and required communications about Postal Service actions have become more important in some circles than the actions themselves, and thereby stand in the way of progress.

We face voluminous and duplicative reporting and accountability mandates which impose significant costs on the Postal Service in terms of work hours and lost opportunity costs. Moreover, while other federal agencies can respond to added administrative demands by adding to their workforce at taxpayer expense, the Postal Service has to earn the revenue that makes it possible to meet its reporting and oversight obligations.

For instance, as a federal entity, the Postal Service is subject to the oversight of its Office of Inspector General (OIG), though unlike other federal agencies, the expense of our OIG is ultimately drawn from the Postal Service’s general fund — money produced by sales to our customers and that is diverted from covering our expenses or our ability to make investments for the future. Over the last four years, the USPS OIG has announced 645 audits and 45 white papers, amounting to roughly one announced audit every other day. The Postal Service spends countless workhours providing information to the OIG for its audits and responding to the OIG audit reports. These reports are submitted to the Congress and published on the OIG’s website, and contain a perspective on events, issues and other developments that are publicly available. I have expressed concerns about whether the OIG’s evaluations and conclusions are too myopic and fail to adequately consider the broader context of what the Postal Service is trying to accomplish. I also may not agree that the current audit framework best serves the American people or the Postal Service, and to the contrary believe that greater impact can be had if the OIG’s audit function was organized differently. That said, it is beyond dispute that the OIG’s audit reports provide a plethora of information about the inner workings of the Postal Service that further demonstrates our transparency.

In a similar vein, the PRC, which has limited oversight responsibilities over a defined portion of Postal Service operations, has a limitless thirst for information from the Postal Service, and a large portion of the information that the Postal Service provides to the PRC is posted on its website and is publicly available. To illustrate the demands of the regulatory reporting and transparency that is expected of the Postal Service, we estimate that we filed with the PRC this calendar year over 1,435 negotiated service agreements, over 225 documents related to periodic reporting, at least 65 documents related to other rate and classification matters, at least 80 documents related to complaint cases, public inquiry dockets, rulemakings and other miscellaneous items, and approximately 200 documents in the advisory opinion case. Like the USPS OIG, the PRC's annual budget is appropriated by Congress but paid for by the Postal Service and our customers.

Congress created the PRC, but it nonetheless also retained its oversight authority, with no appreciable diminution in reporting expectations. The transparency the Postal Service provides to Congress is exceptional. This includes everything from hearings like the one I am appearing at today, to briefings for leadership and individual members, to briefings of your staff, to announcements tailored for specific congressional districts. All told, the Postal Service had more than 19,000 contacts with congressional offices between the April 2022 passage of PSRA and the present. This does not include even more voluminous contacts between our local and regional customer service agents and local Congressional staff on everything from lost packages to questions about local Post Offices. Each year we answer more than 1,200 letters from Congress, spiking to 2,000 annually during COVID. Overall, the transparency we provide to Congress runs the gamut from confidential weekly reporting for the committees of jurisdiction of competitive and market dominant service performance, to simple assistance to individual congressional offices on the lease status of Post Offices they are considering naming. You will note in the attached list of statutorily mandated reports, the staggering amount of weekly, quarterly, and annual operational and financial reporting to which we are subject. And I should add that we frequently get requests from members of Congress for information that is already contained in reports that are statutorily mandated. We also developed a Government Relations Website at <https://about.usps.com/who/government-relations/> that provides a constantly updated information resource for Members of Congress and their staff, state and district specific economic impact information, as well as contact information for further assistance. To communicate with the public, local communities, and policymakers about proposed changes to mail moves between processing plants, consistent with the Mail Processing Facility Review process, a website was created to detail all official actions. The content of these updates were also shared proactively with congressional oversight committees and corresponding Senators and House members. This communication amounted to hundreds of congressional notifications. At the highest level, I have made myself available to Congress — like I am doing today — and have participated in almost 100 meetings, hearings or calls with individual members of Congress since April 2022.

Even among federal agencies, the Postal Service's scope and the volume of congressional oversight requests is unique. Because we deliver to everyone, everywhere, and do so on an equal basis and as a universal service six and sometimes seven days per week, no other federal agency has the same footprint or intensity of interaction with every American. For every member of Congress, we provide a federal touchpoint at nearly every household in their state or district, which inevitably drives the exceptional level of oversight requests we receive. In that regard, and pursuant to a Congressional requirement, we have established a service performance dashboard through which we report on the quality of our service with regard to all of our Market-Dominant products by postal districts on a weekly basis.

These extensive direct reports to Congress is not the end of our accountability and oversight reporting to the legislative branch. As a federal entity, we are subject to reports and studies by the General Accountability Office (GAO), generally at the behest of congressional requests. This work generally duplicates the work of our OIG, but like our OIG, little of the resulting information can be applied to the actual business problems we face. Since 2020, we have completed 52 interactions with GAO regarding various aspects of our operations. And, of course, at the behest of Congress, we are also required to file quarterly, current, and annual financial reports, as though we were a publicly traded company. I have included as an attachment to this testimony an overview of just how excessive our transparency and accountability requirements have become. There needs to be some recognition that at a certain point, the totality of reporting requirements stops being a useful tool to inform and becomes an unnecessarily time-consuming burden for the organization that stands in the way of necessary action.

Finally, it also bears mentioning from an accountability perspective that the Postal Service has an atypical relationship with our regulator, the Postal Regulatory Commission (PRC). As noted above, the PRC's mission is to review certain defined aspects of our business, including rate and product changes, and to provide advice regarding defined changes to our service. However, unlike regulators such as the Federal Communications Commission (FCC) or the Securities and Exchange Commission (SEC), the PRC is not a regulator of an industry or an economic segment, but instead only regulates one entity—the Postal Service—and that entity is part of the federal government.

The Postal Service Board of Governors, which is comprised of nine Governors who are also Presidentially-appointed and Senate-confirmed (plus the Postmaster General and Deputy Postmaster General), is vested with the broader responsibility to balance the provision of quality service with financial self-sufficiency, set overall policy and strategy at the Postal Service, approve proposals to change postal rates, and oversee operations at the Postal Service representing the public interest generally. In practice, we have one Presidentially-appointed, Senate-confirmed body in the PRC providing oversight over a limited subset of policies established or proposed by another Presidentially-appointed, Senate-confirmed body, all to regulate a federal independent establishment. And while the Board of Governors has the

responsibility to carry out the mission of the Postal Service, the Board's authority is circumscribed by the PRC, which has no such responsibility.

Unfunded Mandates

As a self-financed, independent establishment of the Executive Branch, the Postal Service must balance the demands of operating like a business in funding its operations from the sale of postal products and services, while also offering high quality service in the form of the universal service mission. Congress and other parts of the government are understandably most focused on our public service mission, and often lose sight of our non-appropriated status, and that we must find a way to generate sufficient revenues to pay our bills. When new public policy expectations or projects are asked of us, the funding must come from postal ratepayers, not taxpayers as would be the case at most other agencies. There are currently just three exceptions to this construct in which we are reimbursed after-the-fact for "revenue foregone" for providing certain services; free mail to the blind, overseas voting, and the provision of mail service between the United States and the Freely Associated States (Micronesia, Palau, and Marshall Islands), which is part of an international treaty obligation to which Congress commits us.

Most of the unfunded mandates from a financial perspective that are not covered by the three exceptions flow from the Postal Service's universal service mission. In that regard, even the Postal Regulatory Commission, which narrowly defines the costs associated with the universal service mission, concedes that such costs total at least \$6 billion in 2022, as reflected in the chart below. Further, under a more comprehensive evaluation of the costs of universal service, the Postal Service has estimated that the total costs of the universal service mission and other unfunded mandates total over \$11 billion per year. A complete list of unfunded mandates is attached to my testimony.

PRC's Estimated Universal Service Mission Costs (in millions) – 2022

Postal Services to Areas of the Nation the Postal Service would not otherwise serve	\$853
<i>Maintaining small Post Offices</i>	<i>\$700</i>
<i>Alaska Air Subsidy</i>	<i>\$133</i>
<i>Group E PO Boxes</i>	<i>\$20</i>
Estimated Revenue not received due to free or reduced rates	\$1,797
<i>Preferred Rate of Discounts Net of Costs</i>	<i>\$1,185</i>
<i>Periodical Losses</i>	<i>\$612</i>
Other public services or activities	\$3,353
<i>Six-Day Delivery</i>	<i>\$2,677</i>
<i>Uniform First Class Mail Rates</i>	<i>\$74</i>
<i>Uniform Media Mail / Library Rates</i>	<i>\$50</i>
<i>Postal Inspection Service (Net Cost)</i>	<i>\$551</i>

Total:

\$6,003

Remaining Obstacles and Future Risks

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.

In the long run, there are no viable alternatives available to the updated DFA Plan that would comply with the laws Congress has set forth. As with the original DFA plan, our goals are to continue down the path of five basic aspirations as we engage each day with our long-term objectives:

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 requires that we 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.

Regulatory and Stakeholder Opposition

Change is not without its opponents. And defenders of the status quo have mobilized to pause or even stop our modernization efforts. Congress should serve an inquisitive but not obstructionist role regarding implementation of the DFA Plan. Since the 1970s Congress has entrusted the Board of Governors, the Postmaster General, and postal management with the independence to make operational decisions.

However, there is significant risk of institutional obstruction by our stakeholders and oversight bodies to bog down the DFA Plan in burdensome delay. As detailed above, legislative and regulatory devices can become tools for obstruction, absent alternate solutions.

A key principle of the Postal Reorganization Act of 1970 (PRA) — that remains today — is that the Postal Service should be free to make decisions in a businesslike manner, buffered from direct political control. To effectuate this purpose, the PRA, among other things, designed the Postal Service in a manner similar to a corporation. Nine Governors, appointed by the President and confirmed by the Senate, serve essentially as independent directors. The Governors, in turn, select the Postmaster General and the Governors and the Postmaster General select the Deputy Postmaster General. This structure is designed to ensure that the Postal Service is not beholden to short-term political considerations. It would be a dereliction of my duty to allow Congress to make operational decisions like which machines go in which processing facility.

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.

Conclusion

I would like to conclude my testimony by emphasizing that I have complete confidence that in 2025 we will accomplish more meaningful progress as we accelerate our execution and refinement of Delivering for America strategies. We must continue to challenge old status quo thinking and firmly reject calls to return to the outdated and disastrous practices of the past. 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 169 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. In terms of our legislative road ahead, there are some meaningful reforms that we look forward to working with Congress to address. We will continue to encourage Congressional action to improve the financial, business, and oversight model that currently constrains the Postal Service. We seek a fair allocation of our pension costs; greater flexibility in the investment of pension assets; an increase in the borrowing limit set in the 1970s (which has not been adjusted for inflation in more than fifty years) to access the capital necessary to continue to evolve in the years ahead; reform of our workers compensation system, and reform of the burdensome and duplicative oversight functions that limit our ability to operate as a competitive enterprise. I look forward to partnering with you on these urgently needed reforms and others that increase our financial flexibility in the upcoming Congress.

I continue to take seriously our obligations to serve the American public, the need to inspire our employees to exceptional performance, our efforts to shape our operating strategies to accomplish our mission, and the need to 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 I inherited.

The updated 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 comprehensive, 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.

Growth and cost reduction are at the heart of the DFA plan. Simply put, the DFA plan is not about contraction or only cost reduction. That approach would not support our goal of long-term viability. It has been tried and has proven a failed strategy.

Our strategy has its difficulties. Growth and cost reduction through the engagement of modern efficiencies, new products and organization wide competencies is difficult. This is made more difficult in an operation that has experienced long and significant market and operational deterioration which requires a period of repair and stabilization, while investing in new processes strategies and ambitions. Our strategy is about concurrently making the change desired while serving the nation and building on a sequence of accomplishments, on recovering from setbacks, and on navigating obstacles. This is what we will continue to do.

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.

I would invite all of you as Members of the Committee to 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.