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GAO

Testimony

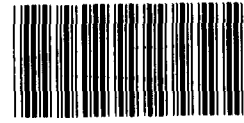
Before the Committee on Post Office and Civil Service  
U.S. House of Representatives

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POSTAL SERVICE

Restructuring, Automation,  
and Ratemaking

Statement of Michael E. Motley, Associate Director  
Government Business Operations Issues  
General Government Division



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POSTAL SERVICE  
RESTRUCTURING, AUTOMATION, AND RATEMAKING

SUMMARY OF THE STATEMENT OF  
MICHAEL E. MOTLEY, ASSOCIATE DIRECTOR, GOVERNMENT BUSINESS  
OPERATIONS ISSUES

GAO's testimony focuses on the Postal Service's (1) restructuring that largely took place from August to November of 1992, (2) efforts to automate mail processing, and (3) need to reform ratemaking policies and processes.

Postal Service data show that the restructuring eliminated about 27,000 overhead positions and resulted in thousands of retirements, many of which were in non-overhead positions, without adversely affecting customer service in the short term. For example, nationally, overnight First-Class mail delivery performance remained stable during the restructuring period through December 11, 1992, the latest period for which data are available. Customer satisfaction scores were slightly higher than in 1991.

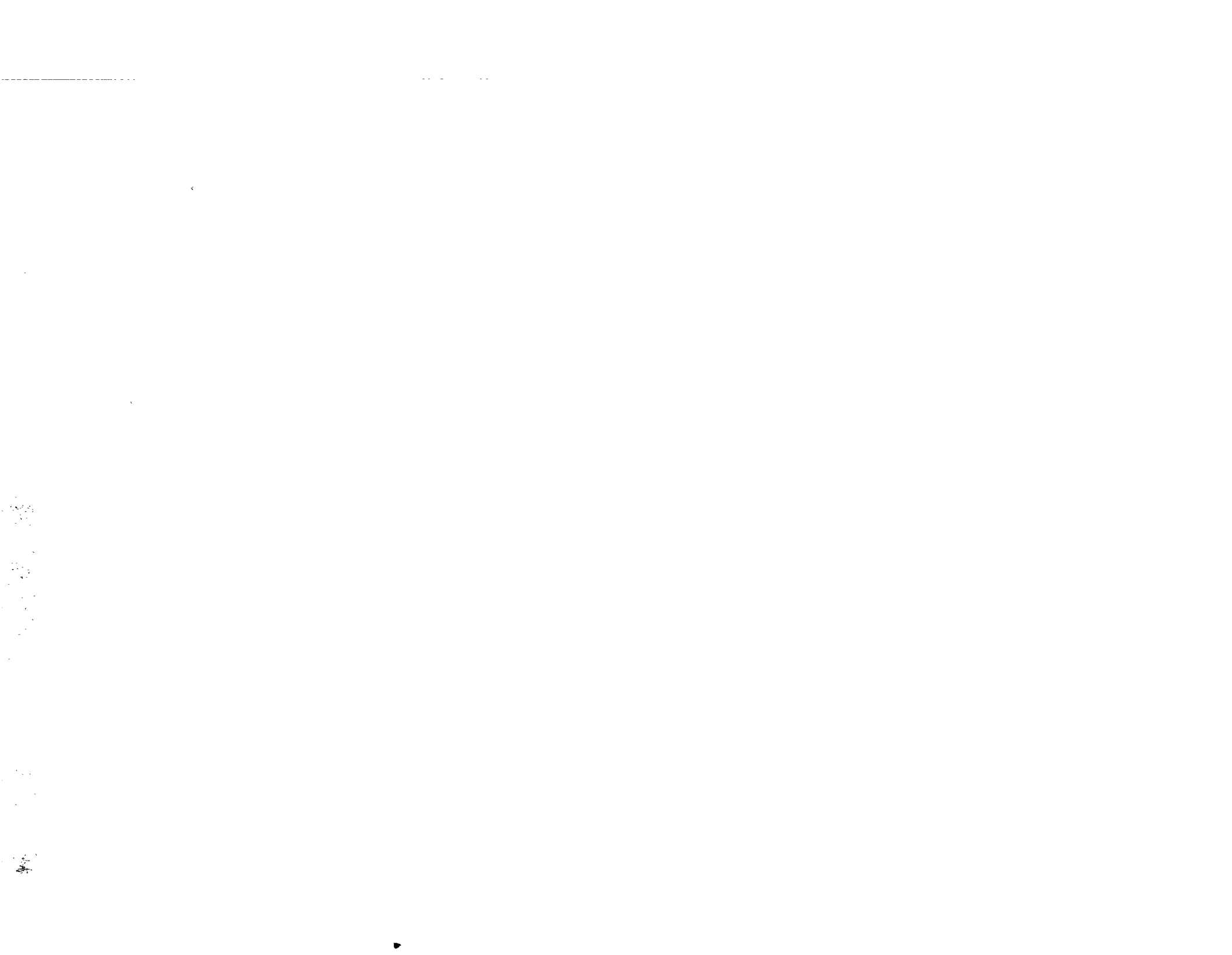
The Service took steps to minimize adverse effects on postal employees during the restructuring. It offered employees early-out opportunities and monetary retirement incentives. Assistance was also available for placing employees whose jobs were abolished. Even so, issues remain to be resolved; some employees have challenged Service personnel actions.

The Service placed a high priority on maintaining service during the restructuring period, using 26 percent more overtime and about 35,312 (40 percent) more non-career employees than a year earlier. In aggregate, work hours increased by an equivalent of 1,115 employees from September 1992 to February 1993, compared to a year earlier.

Although the restructuring cost the Service slightly over a billion dollars, which was written off in 1992, it expects to save about \$800 million in 1993 and \$1.4 billion annually beginning in 1994. Postmaster General Runyon expects current postal rates to remain in effect for at least 4 years through December 1994. Historically, rates have been adjusted upward about every 3 years.

GAO noted that savings from the restructuring could be reduced or offset by increased overtime and increased use of non-career employees. While automation can help the Service control labor cost, the ultimate impact is not yet clear. By February 1993, the total work force, including overtime hours, was only about 7,300 employees less than a year earlier in February 1992.

As GAO previously reported, reform of postal rate policies and processes is needed. Congress needs to reconsider the criteria used by the Postal Rate Commission in setting rates.



1992, was 87 percent. This was 2 percent higher than the same 2 quarters in 1991. (See Fig. 1.) The 87-percent overall satisfaction rating was also reported for the postal quarter that ended May 29, 1992. Thus, there was no drop in the overall level of satisfaction as the Service moved through the restructuring period. This overall rating is the percentage of residential customers surveyed who answered "Good," "Very Good," or "Excellent" to a question on the Service's overall performance during 3 preceding months. The remainder were customers who rated the service as "Poor" or "Fair."<sup>1</sup>

Similarly, overnight First-Class mail delivery performance data that were compiled by Price Waterhouse showed that service remained stable during the restructuring period through December 11, 1992. Nationwide, the percentage of overnight mail delivered on time was 82 percent for the postal quarter ending in September 1992. This was 1 percent lower than the same quarter that ended in September 1991. For the next quarter ending in December 1992, 84 percent of the mail was delivered on time. This was 1 percent higher than the same quarter ending in December 1991. (See Fig. 2.)

Further, data generated internally by the Service in its Origin-Destination Information System (ODIS) showed that overnight mail processing performance was generally about the same during the period from June 27, 1992, through February 5, 1993, as it was in the prior year's comparable period. (See Fig. 3.) Also, during both the 1991 and 1992 holiday seasons, overnight mail was processed within the Service's 1-day standard about 91 percent of the time. ODIS covers the time the Service took to process mail from the date of the postmark to the date it was available to mail carriers for delivery. Unlike the previously mentioned external delivery performance indicator, which covers total collection, processing, and delivery time, this indicator does not measure the time to collect mail from boxes and the time for carriers to sort and deliver the mail.

The Service placed a high priority on maintaining service during the restructuring period--particularly in light of employee retirements and the 1992 holiday mailing season. Factors that contributed to the Service's ability to maintain service during this period included the following:

- Increased monitoring of mail operations to optimize the use of available mail processing capacity. Service officials said this monitoring was aided by the new streamlined

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<sup>1</sup>We examined and validated the customer satisfaction data collection methodology in U.S. Postal Service: Tracking Customer Satisfaction in a Competitive Environment, (GGD-93-4, Nov. 12, 1992).

Mr. Chairman, Mr. Myers, and Members of the Committee:

We are pleased to be here today to participate in the Committee's oversight hearing on the U. S. Postal Service. Our testimony will focus on three areas: (1) the recent restructuring, (2) efforts to automate mail processing, and (3) the need to reform ratemaking policies and processes.

#### POSTAL SERVICE RESTRUCTURING AND ITS IMPACT

Soon after taking office in July 1992, Postmaster General Runyon announced plans for a top-down restructuring of the Postal Service. This was part of a broader strategy designed to make the Service more competitive, accountable, and credible. The restructuring was largely carried out over a 120-day period between August and November 1992. It was aimed at eliminating 30,000 overhead positions occupied by employees who were not directly involved in the processing and delivery of mail. As the restructuring began, Members of Congress, mailers, and employee groups expressed considerable concern about a possible adverse impact on mail service, particularly during the impending holiday season.

At the Committee's request, we reviewed the Service's data pertaining to the effects of the restructuring on (1) customer service, (2) employees, and (3) operating costs. It is important to recognize that a relatively short period of time has elapsed since the restructuring and, as a result, only limited data are available to demonstrate its effects to date.

#### Postal Data Show Customer Service Remained Stable

Data available show that the restructuring has not adversely affected service to customers. Two key customer service indicators, compiled and reported each quarter by organizations external to the Service, show that overall performance, as reported in December 1992, was about the same as it was during a comparable period of the preceding year. However, some cautions are in order regarding both indicators. The Service does not yet have externally-generated data on customer satisfaction and delivery performance for the period following December 11, 1992. In addition, the data reflect customer satisfaction and delivery performance on a national basis. Data for particular geographic areas differ from each other and from the national picture. Further, the Service took several steps to maintain service including using more overtime and hiring more non-career employees. In aggregate, the Service used the equivalent of 1,115 more employees during the period from September 11, 1992, to February 5, 1993, compared to a year earlier.

Customer satisfaction data compiled by Opinion Research Corporation showed that nationally the overall satisfaction rating for postal quarters ending September 18 and December 11,

1992 career work force. In mid-March 1993, the Service was still considering abolishing additional overhead positions. Many employees in non-overhead positions, such as clerks, city carriers, postmasters, and mailhandlers, retired from the Service during this period. The Service extended the retirement incentive to these employees as part of a plan to free up positions that could be filled by (1) employees who occupied positions that were abolished and either were not eligible or chose not to retire or (2) new non-career employees. In total, about 48,000 employees took advantage of the special option retirement.

#### Some Employee Issues Remain Unresolved

In early March 1993, the Service had about 4,000 employees who had left overhead positions and were yet to be placed. Many of these employees were located in the New York and Chicago areas where relatively few non-union job vacancies existed. Service officials said they would try to place the employees into jobs within their commuting areas before directing employees to relocate to other cities. In some areas, the Service is offering employees union jobs in accordance with applicable pay, seniority, and other provisions of labor contracts.

The Service is also faced with resolving certain employee appeals and litigation surrounding the restructuring. According to a Merit System Protection Board official, that agency had received 66 appeals of personnel decisions relating to the restructuring. As of March 23, 1993, 15 of the 66 appeals had either been withdrawn or dismissed and the remaining were still under consideration.

In January 1993, the National Association of Postmasters of the United States, which represents approximately 40,000 active and retired postmasters, requested a court injunction to prohibit the Service from filling postmaster positions unless established procedures for competitively filling the positions are followed. About 5,000 postmasters retired, and the Service filled some of these positions with employees who had occupied abolished overhead positions. As of March 15, 1993, a decision on the case was pending.

#### Cost Savings Anticipated

For fiscal year 1992 the Service's cost for the restructuring as reported in its audited financial statements totaled \$1.01 billion. This amount was written off in fiscal year 1992 as a one-time, extraordinary expense. About \$886 million of this represents retirement incentive payments to employees.

For fiscal year 1993 the Service estimated that the restructuring will save \$800 million in operating cost and \$1.4 billion

management structure and automated data systems.

- Strong employee response to processing and delivery demands of the holiday season. Service-wide, employees worked 26 percent more overtime between September 1992 and February 1993 than during the comparable prior year's period. In addition, about 3,000 employees, who were to retire by November 20, 1992, delayed their retirement by a month or longer.
- Use of non-career employees to replace career employees who retired during the restructuring. In February 1993, the Service had 35,312 (40 percent) more non-career employees than during February 1992.

In aggregate, work hours increased by an equivalent of 1,115 employees from September 19, 1992, through February 5, 1993, compared to a year earlier.

Steps Taken to  
Minimize Employee Impact

Our review of postal records as well as discussions with postal and union officials revealed that the Service took several steps designed to both ensure the timely reduction of the work force and minimize the adverse effects on postal employees.

- An early-out option was offered to permit most employees to retire at age 50 with at least 20 years of service or any age with at least 25 years of service.
- A monetary incentive was offered to encourage eligible employees to retire. This incentive was a lump-sum payment equal to 6 months of pay.
- The Postmaster General made a commitment that there would be no layoffs as a result of restructuring.
- A policy was established that provided that employees taking lower-paying, non-union jobs in the Service would retain their current grade and pay indefinitely.
- And, finally, the Service provided training, counseling, and job placement to assist employees in finding jobs within and outside the Service. This assistance is available through a national career management firm working with the Service under contract at 13 transition centers located at headquarters and field installations.

From August 1992 to mid-March 1993, 27,275 overhead positions were abolished. This represents about 3.7 percent of the August



labor hour costs. For example, we estimated that work hour savings in 1991 in the functions most directly affected by automation amounted to about \$138 million. But the work in those functions cost \$627 million more than the year before because of wage and benefit increases. Additionally, the total work hours in the Service increased in 1991 although the volume of mail declined.

In fiscal year 1992, the Service again missed its work hour reduction goals, but there was some improvement over the previous year. Costs have continued to increase in functions affected by automation beyond the savings being achieved through work hour reductions. For example, the work hour savings in 1992 for functions most directly affected by automation totaled approximately \$410 million. In fiscal year 1992, total work hours decreased even though mail volume increased slightly, a reversal of the situation we reported to you last year. Nevertheless, the work in those functions affected by automation cost \$583 million more than the previous year because of wage and benefit increases.

During the period September 19, 1992, through February 5, 1993, total work hours remained about the same as last year even though about 27,275 positions were abolished. By February 1993, the Service had in effect reduced the total work force, including career and non-career employees as well as overtime hours, by only about 7,300 employees, compared to a year earlier in February 1992. (See Fig. 4.) As part of the restructuring, the Service did replace some career employees retiring from non-overhead positions with non-career employees. This will provide greater flexibility in adjusting the work force as the Service further implements its automation program. It should be noted that during the period of September 19, 1992 through February 5, 1993, total mail volume did increase by about 2 percent over the previous year.

We continue to believe that automation can make the Postal Service more efficient in its operations. However, its ultimate impact on total operating cost is not clear at this time. Our work on the impact of the Service's automation efforts is continuing. Specifically, we are looking into the status and benefits of the Service's plans to expand the use of contracted bar coding services for mail that cannot be read with in-place automated equipment. We will report on that effort early next year.

#### POSTAL RATEMAKING

Postal ratemaking became an issue after the contentious rate case of 1990 which resulted in the decision to increase the cost of First-Class mail to 29 cents and not 30 cents, with a correspondingly heavier charge to bulk business mail. The

annually starting in fiscal year 1994. The Service's fiscal year 1992 annual report showed a projected \$2 billion operating deficit for fiscal year 1993. The Service now expects that revised upward projections of revenue due to increased mail volume, coupled with savings from the restructuring and other cost-saving measures, will more than offset that forecasted deficit.

Postmaster General Runyon has stated that because of the Service's improved financial picture, it will not request a general increase in postal rates earlier than December 1994. If that occurs, current rates, which became effective February 1991, will have been in effect almost 4 years. Over the past 20 years, rates have increased about every 3 years.

The Service's estimates of future savings from the restructuring are based on salary and fringe benefit costs to be avoided by eliminating approximately 27,000 career positions. As stated previously, subsequent to the downsizing, the Service used more overtime and more non-career employees than it did a year earlier. Total expenses have exceeded the Service's plan by about \$36 million from September 1992 through February 5, 1993. If the high use of overtime and non-career employees continues, coupled with normal labor cost increases for wages and benefits, the Service will continue to be challenged in forestalling future postal rate increases. One means of helping to control labor cost is the Service's automation program, which I will discuss next.

#### AUTOMATION PROGRAM

Automation received a renewed emphasis in 1988 as a result of (1) advances in technology that enabled optical character readers to apply bar codes to much more of the mail than before and (2) an announcement by the then Postmaster General of a goal to bar code nearly all letter mail by the end of 1995.

In our testimony last year,<sup>2</sup> we stated that for fiscal year 1991 work hours decreased in work functions most directly affected by automation. However, the reduction was only 1 percent from the previous year and little more than half of the planned amount. Because more than half of the work in the Service is not directly affected by automation, this reduction did not have a perceptible effect on overall postal costs.

We also stated that work hour savings that have been achieved by automation were also being overwhelmed by annual increases in

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<sup>2</sup>Postal Automation and Pricing in the 1990s (GAO/T-GGD-92-39, May 12, 1992) and Postal Service: Automation is Restraining But Not Reducing Costs (GAO/GGD-92-58, May 12, 1992).

ATTACHMENT

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GAO PRODUCTS ISSUED SINCE 1992  
COMMITTEE ON POST OFFICE AND  
CIVIL SERVICE OVERSIGHT HEARINGS

Postal Service: Service Impact of South Dakota Mail Facility Not Fully Recognized, GAO/GGD-93-62, Feb. 1993

Revised Delivery Standards: Postal Delivery Scores Improved but Service is Slower, GAO/GGD-93-12, Nov. 1992

Postal Service: Tracking Customer Satisfaction in a Competitive Environment, GAO/GGD-93-4, Nov. 1992

Postage Stamp Production: Private Sector Can Be a Lower Cost Optional Source, GAO/GGD-93-18, Oct. 1992

Postal Procurement: Ethics Violations Did Not Invalidate An Automation Contract, GAO/GGD-92-119, Aug. 1992

Postal Procurement: Eagle Air Hub Selection Not in Accordance With Solicitation, GAO/GGD-92-127, Aug. 1992

Postal Service: Decisions to Purchase Two Properties in Queens, New York, GAO/GGD-92-107BR, July 1992

Institute of Public Administration submitted a report on the ratemaking process to the Board of Governors in October 1991.<sup>3</sup> The Institute concluded that the ratemaking process had adversely affected the Service's ability to serve the public and compete in a changing competitive environment. The Institute focused on procedural elements of ratemaking and found that the process had become too cumbersome, rigid, and narrow to best serve the financial interests of the Service.

At last year's hearing, we discussed our March 1992 report on postal ratemaking issues in a competitive environment and the need for Congress to give the Service more flexibility to set prices competitively.<sup>4</sup> Our report recommended that Congress reexamine the nine criteria the Postal Rate Commission considers in the ratemaking process to determine if the criteria are still valid in light of changing marketplace realities. No action has been taken on our recommendation. However, we understand that the Service may propose legislation to change the ratemaking provisions of the Postal Reorganization Act of 1970.

As stated in our report, we believe that demand pricing, which considers the "value-of-service" to the sender, should be given greater weight in the criteria used as a guide for allocating overhead costs and setting postal rates. Further, we stated that Congress should reexamine the question of whether volume discounts to large business users is in fact undue discrimination, as held by the Postal Rate Commission, given that this practice is widely used by private carriers in competition with the Service.

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This concludes my prepared statement. I have attached a list of our Postal Service reports issued since the Committee's last oversight hearing in May 1992. My colleagues and I would be pleased to answer any questions.

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<sup>3</sup>The Ratemaking Process for the U.S. Postal Service, report of the Institute of Public Administration to the Board of Governors of the U.S. Postal Service (New York: Institute of Public Administration, October 8, 1991).

<sup>4</sup>U.S. Postal Service: Pricing Postal Services in a Competitive Environment (GAO/GGD-92-49, Mar. 25, 1992).

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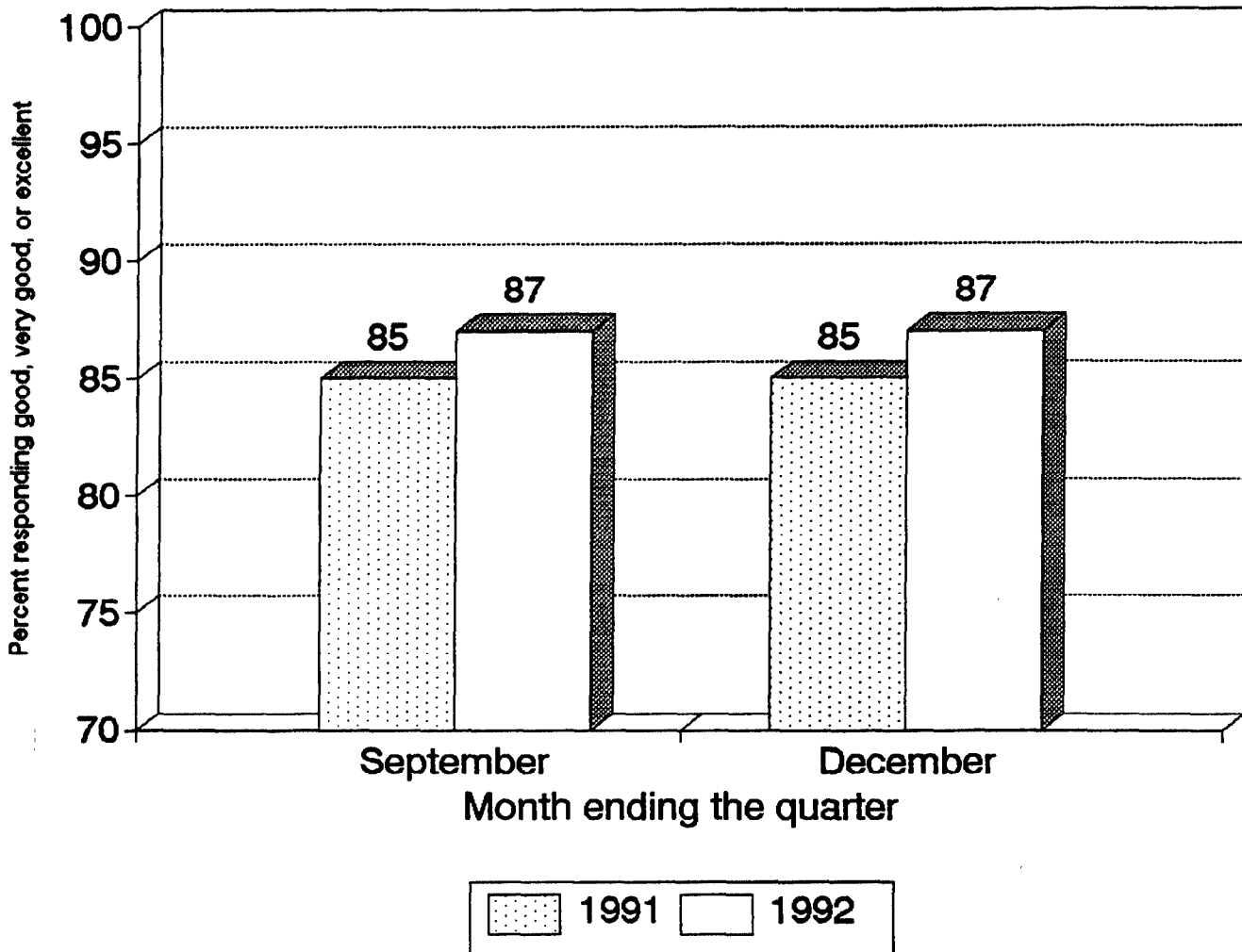
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Figures Accompanying  
Statement of Michael E. Motley, Associate Director  
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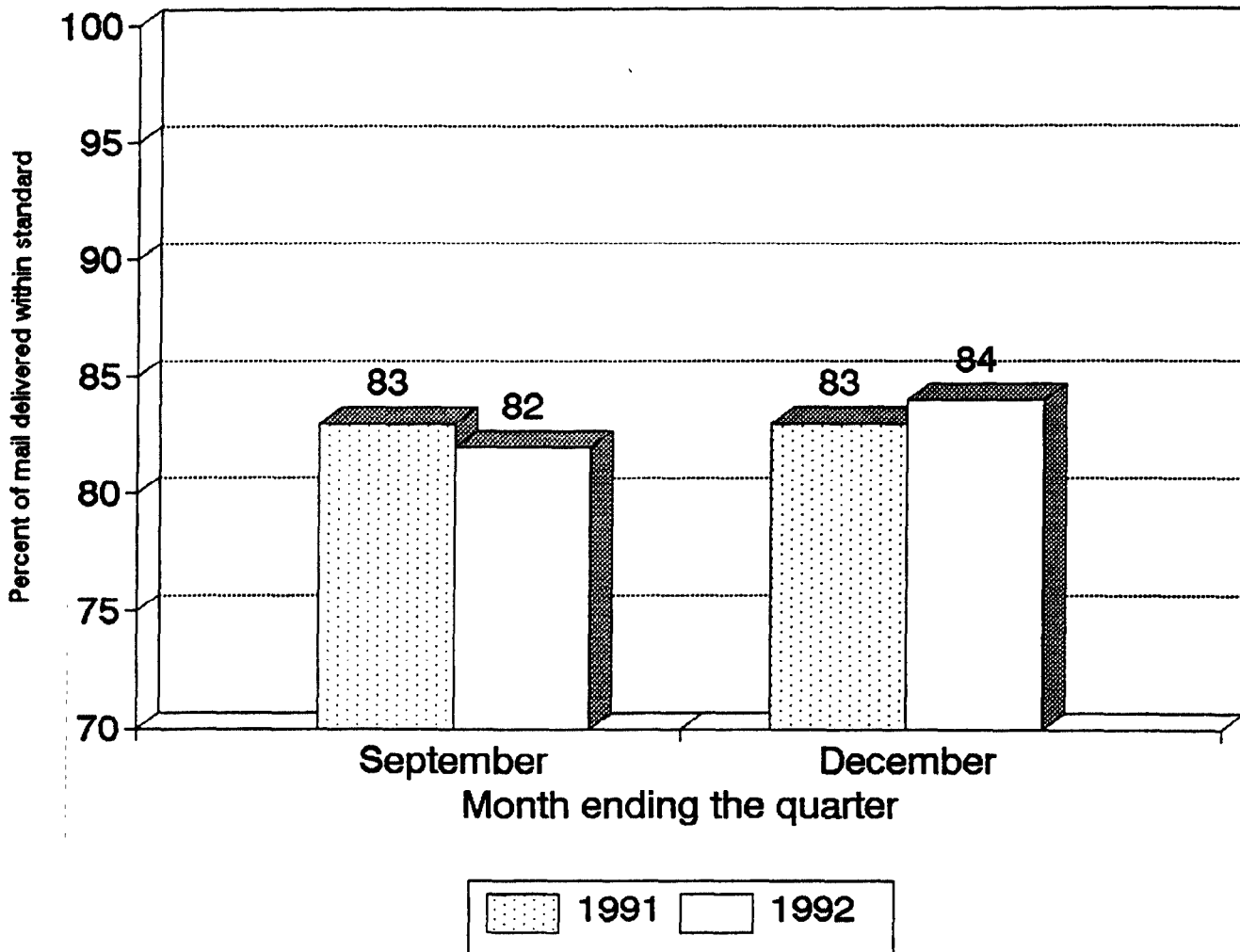


**FIGURE 1: Customer Satisfaction for Comparable  
6-Month Periods Ending December 1991 and December 1992**



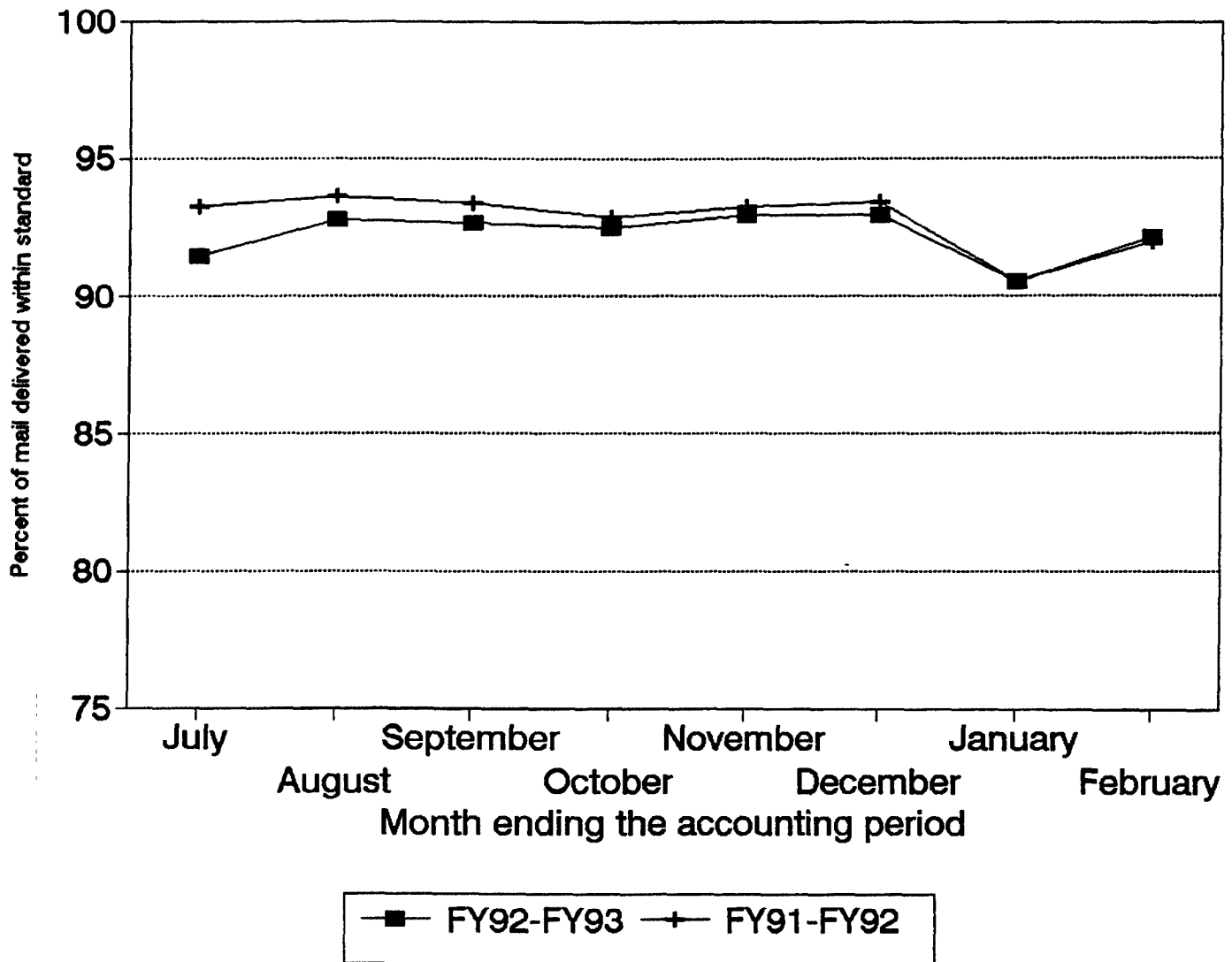
Source: Postal Service's Customer Satisfaction Index (CSI)  
(Opinion Research Corp.).

**FIGURE 2: Overnight Delivery Performance for Comparable 6-Month Periods Ending December 1991 and December 1992**



Source: Postal Service's External First-Class Measurement System (EXFC) (Price Waterhouse).

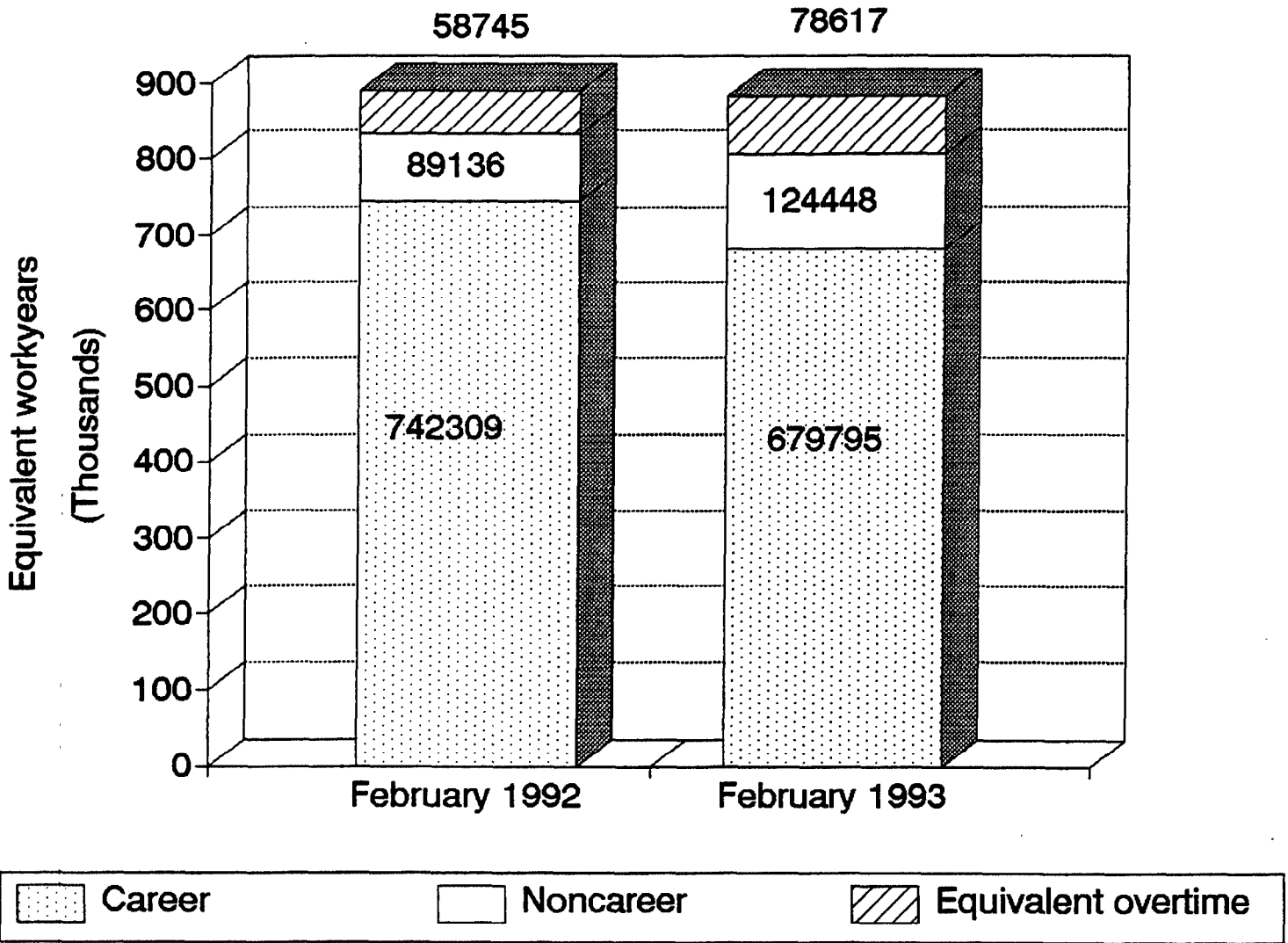
**FIGURE 3: Overnight Mail Processing Performance for Comparable 8-Month Periods Ending in February 1992 and February 1993**



Source: Postal Service's Origin-Destination Information System (ODIS).



**FIGURE 4: Comparison of Equivalent Workyears for Comparable 1-Month Periods Ending in February 1992 and February 1993**



Source: Calculated from Postal Service financial reports.



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