

*A Report by a Panel of the*

# **NATIONAL ACADEMY OF PUBLIC ADMINISTRATION**



## **REFORMING THE U.S. POSTAL SERVICE**

***AN INDEPENDENT REVIEW OF A THOUGHT-LEADER  
PROPOSAL TO REFORM THE U.S. POSTAL SERVICE***

March 2013

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PUBLIC ADMINISTRATION**

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**AN INDEPENDENT REVIEW OF  
A THOUGHT-LEADER CONCEPT  
TO REFORM THE U.S. POSTAL SERVICE**

**PANEL**

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The views expressed in this report are those of the Panel. They do not necessarily reflect the views of the Academy as an institution.

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## **FOREWORD**

Postal services have been a fundamental part of the American fabric since Colonial times, when a grant was provided by King William and Queen Mary in 1692 for the establishment of offices for distributing letters and packages. Benjamin Franklin served as the nation's first Postmaster General, and the Pony Express, carrying packets of mail, blazed a trail that opened the American West. Even as the U.S. Postal Service struggles with a dwindling stream of mail and shaky finances, it still towers over foreign postal services in terms of mail volumes and revenues, and mail remains an important source of communication and avenue of commerce for the nation.

Yet the last six years have seen the Postal Service struggle to maintain solvency and meet public needs with the rise of electronic communications. The use of email, social media, and Skype—coupled with a changing mail stream, high labor costs, and statutory requirements to prefund employee benefits—has contributed to the Postal Service's financial woes. In 2012, the Postal Service posted losses totaling almost \$16 billion. Given this challenging environment, Congress began considering a range of reforms, some modest in scope while others are more far-reaching, intended to address the current and long-range fiscal challenges.

To further inform policymakers in this debate, four nationally recognized and experienced mailing industry leaders authored a White Paper in 2012. This paper proposes that the Postal Service adopt a hybrid public-private partnership for postal operations. Under this model, the Postal Service would be responsible for the "last mile" of delivery and pickup, and the private sector would be responsible for handling all other aspects of the mail system. In order to subject this idea to rigorous evaluation, Pitney Bowes Inc. made a contribution to the Academy to support the conduct of an independent review of this White Paper.

As an independent, non-partisan, and nonprofit organization chartered by Congress with nearly 750 distinguished Fellows, the Academy brings seasoned experts together to help public organizations address their most critical challenges. The five-member Panel of Fellows that conducted the three-month independent study concluded that the hybrid public-private partnership is worth consideration as the nation debates the future of the Postal Service. The Panel believes that additional study would be required on a number of issues—including operational integration, organizational transition, technology, financial impacts, and oversight roles—in order to determine if the Concept is feasible to implement.

The Academy's Fellows make unique contributions to the field of public administration through their participation in studies of critical and timely topics. On behalf of the Academy, I express deep appreciation to the Panel, chaired by David Walker, for their time and efforts in reviewing this White Paper. I also

want to acknowledge the many postal stakeholders who provided important insights and context needed to inform the study, with special recognition to Postmaster General Pat Donahue whose participation was most appreciated. I want to express the Academy's gratitude for the efforts of the Academy's professional study team of Roger Kodat and Jonathan Wigginton for their critical support to the Panel.

I expect that the Panel's findings and recommendations will be useful to policymakers as they deliberate on how to ensure that the nation has a vibrant and vital postal system.

A handwritten signature in black ink that reads "Dan G. Blair". The signature is written in a cursive, slightly stylized font.

Dan G. Blair  
President and CEO  
National Academy of Public Administration

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## ACRONYMS

<b>CBA</b>	Collective Bargaining Agreement
<b>CBU</b>	Collective Bargaining Unit
<b>CPI</b>	Consumer Price Index
<b>CPU</b>	Contracted Postal Unit
<b>IS</b>	Inspection Service
<b>GAO</b>	Government Accountability Office
<b>FY</b>	Fiscal Year
<b>OIG</b>	Postal Service Office of Inspector General
<b>PAEA</b>	The Postal Accountability and Enhancement Act
<b>PRC</b>	Postal Regulatory Commission
<b>USO</b>	Universal Service Obligation
<b>VPO</b>	Village Post Office



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## **EXECUTIVE SUMMARY**

### **The Postal Service Condition**

The Postal Service is facing acute financial challenges. It incurred a \$15.9 billion operating loss in FY 2012 and is at its Congressionally-authorized borrowing limit of \$15 billion.<sup>1</sup> Since the Postal Reorganization Act of 1970, the Postal Service is obliged to cover its costs by operating revenues; it receives a negligible amount of Congressional appropriations.<sup>2</sup> In response, the Postal Service has undertaken a number of initiatives to right-size its infrastructure/workforce and address its labor costs. Even so, there is widespread agreement that a variety of other actions need to be taken, some requiring Congressional action, in order to provide the Postal Service with the tools to ensure its financial viability and adapt to a dynamic communications marketplace in which paper-based volumes are declining.

### **The Thought-Leader Concept**

The subject of this Academy Panel review is a White Paper that four distinguished professionals (the Thought-Leaders) with extensive experience in postal issues authored together, titled *“Restructuring the U.S. Postal Service: The Case for a Hybrid Public-Private Partnership.”* They propose a hybrid public-private partnership, which we hereafter call the Thought-Leader Concept (a copy of the Thought-Leader White Paper is in Appendix A).

The Thought-Leader Concept has two key parts: It advocates for virtually all upstream postal activities (i.e., mail collection, transportation, and processing) to be performed by private sector companies; and reserves the downstream activity (i.e., delivery function) for the Postal Service. Upstream mail services are already significantly provided by private sector companies which gives credence to the launch point of the Thought-Leader Concept (additional information on the Thought-Leader Concept can be found later in Section I).<sup>3</sup>

Importantly, however, the Thought-Leader Concept does not address a number of Postal Service reform measures or other important Postal Service initiatives that should also be considered to ensure its long-term financial viability.<sup>4</sup> Many of these are listed in Appendix B. In addition, the Thought-Leader Concept does not include analysis of how this Concept is

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<sup>1</sup> The loss in FY 2012 included a payment default on two scheduled retiree health benefit fund payments of \$5.5 billion due in FY 2011 and \$5.6 billion due in FY 2012.

<sup>2</sup> The Postal Service receives a small annual appropriation (about \$90 million) in compensation for revenue foregone in providing free mailing privileges for the blind and absentee-ballot mail for overseas military personnel.

<sup>3</sup> The total value of contracted postal-related services during the last few years is estimated to be about \$30 billion per year, about \$13 billion of which is contracted by the Postal Service directly to private companies. About \$17 billion is performed by private sector companies separate and apart from the Postal Service. In FY 2012, total Postal Service operating expenses were \$67.5 billion and operating revenues were \$65 billion.

<sup>4</sup> Such as broadening revenue-based initiatives (e.g., include digital solutions) or addressing cost-savings initiatives, such as addressing mandatory prefunding of retiree health obligations.

considered by foreign postal services; related information can be found in Appendix C.

### **Panel's Review Approach**

The Panel is comprised of five distinguished Academy Fellows and is staffed by capable professionals (see Appendix E for a listing of Panel members and study team). In performing this independent review of the Thought-Leader Concept, the Panel and/or study team interviewed or received written comments from over 90 postal stakeholders representing the Postal Service, Collective Bargaining Units (CBUs), the Postal Regulatory Commission (PRC), Congress, competitors, mailers, the Government Accountability Office (GAO), and others (see Appendix D for a full list). The Panel and/or study team also conducted a range of other research and analysis within the timeframe available for the review.

### **Panel Findings**

The Panel notes that many of the ideas outlined in the Thought-Leader Concept represent expansions of current public-private partnership initiatives already employed by the Postal Service and mailing community. In our analysis, we consider a range of key issues, including legal/regulatory, financial, labor, integration/management, and other issues (see Section II).

We suggest a number of areas that require further study in Section III: financial, labor-related, operational integration, technology, and regulatory/oversight. Further study will be essential before a realistic assertion of the Concept's relative benefits can be made to the Postal Service, its regulator, Congress, mailers, consumers, and the wider community of companies connected with mail operations and paper-based communication.

Furthermore, the Panel acknowledges that there are a number of important postal reform policy initiatives that are beyond the scope of the Thought-Leader Concept, but need to be considered as part of any comprehensive Postal Service reform and financial stabilization effort. These include a range of issues dealing with defining in law the Universal Service Obligation of the Postal Service, improving short-term liquidity, fortifying long-term revenues, and controlling long-term cost growth (see Section IV).

The Panel also recommends that additional work be undertaken to analyze key issues relevant to implementing this Concept (see Section V).

### **Panel Conclusion**

Based on the above, while the Panel cannot endorse implementation of the Thought-Leader Concept as presented, the Panel believes that it advocates for the Postal Service to utilize flexibilities that it already has. We conclude that this Concept merits serious consideration as part of a more comprehensive policy reform effort. A transition to upstream operations provided completely by private sector companies will generate new challenges since the Postal Service's direct involvement in upstream operations is still substantial.

**Closing**

Within the broader set of reform initiatives under consideration by the Postal Service and Congress, the Panel believes that a number of issues need to be further explored before any implementation of the Concept can, or should, be attempted. The Panel also believes that Postal Service management needs to be given the flexibility to make appropriate organizational and operational changes subject to being held accountable by its Board of Governors, while meeting an evolving and principal-based Universal Service Obligation. At a minimum, the Concept can serve as a catalyst for further productive dialog to better capture synergies between the Postal Service and private sector mailing services providers. But, in and of itself, the Thought-Leader Concept will not be sufficient to address the depth and breadth of the Postal Service's challenges.

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## **SECTION I: BACKGROUND**

### **United States Postal Service**

Throughout history, the Postal Service has performed a critical communications role for American citizens domestically and abroad, currently visiting close to 151 million delivery points and delivering over 160 billion pieces of mail during FY 2012, which is about 40 percent of the world's mail.

The Postal Service divides mail into five major categories (known as Classes), including First-Class, Standard, Shipping and Packages, Periodicals, and International Mail. By far, Standard and First-Class Mail comprise the largest volume of mail and generate the largest revenue stream, comprising 83 percent of total mail delivered and 67 percent of mail revenue during FY 2012.<sup>5</sup>

Mail can also be categorized as commercial (also referenced as business or wholesale mail) and personal mail. About 10 percent of all mail is considered personal mail, the largest portion of which is sent by individuals as Single Piece First-Class Mail (or stamped mail) and parcels. Commercial mail contributes the largest share of mail volume, which encompasses business-to-business, business-to-consumer, and consumer-to-business volumes.

An individual piece of mail travels through several processes as it moves from collection to delivery. The key steps are noted below:

Collection → Transport → Processing and Sorting → Transport → Final Sort → Delivery

Collection, transportation, and the processing and sorting are referred to as upstream activities. The delivery functions are referred to as a downstream activity, or “final mile.”

With respect to processing and sorting, there are various service providers. Some mail is initially sorted by the Postal Service. Other mail is pre-sorted by private sector companies, and enters the Postal Service processing stream later. Then the Postal Service performs final delivery sorting (the so-called “last 10 miles”), which prepares mail for delivery route walk-sequencing.

The concept of work-sharing between the Postal Service and mailers is also an important element in understanding the Thought-Leader Concept. Work-sharing includes mail-sorting, barcoding, and drop-shipping—such services are provided by private sector companies and/or performed by a mailer.

Drop-shipping is when a mailer hires, or handles itself, some part of the processing

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<sup>5</sup> From the Postal Service *10-K Annual Report* for FY 2012.

work, and accesses the Postal Service for final sort and delivery. For several decades, private companies have either provided work-sharing processing and transportation services under contracts with a mailer or done their own sorting and transportation rather than contracting directly with a third party. Mailers deem reliance on these service providers, often referred to as consolidators or sorting companies, as a lower cost alternative to relying solely on the Postal Service for all processing services.

Since the final delivery of mail is done by a Postal Service letter carrier (because the Postal Service has a legal monopoly to access individual post boxes), an access price to mailers/consolidators is determined in consultation with the PRC for mail that is drop-shipped. The access price is set to properly compensate the Postal Service for limited processing and the delivery it renders. The access price, which by definition, is lower than the fully-loaded Postal Service rate, is proposed by the Postal Service and set by the PRC at a level to ensure that cost discounts offered to mailers do not exceed the Postal Service's costs avoided.

The Postal Reorganization Act of 1970 requires the Postal Service to cover its operating costs through stamp rates (except for a small appropriation for a few special types of mail). Even so, the Postal Service has incurred operating losses every year starting in 2007, and defaulted on obligatory retiree health benefit fund payments totaling \$11.1 billion in FY 2012.

For the most part, Postal Service failure from 2007 to cover its expenses with postage revenues may be linked to two issues.

First, mail volumes have declined. Since 2008, both mail volume and related revenue have steadily declined, including a 20 percent decrease in revenue for First-Class Mail—the Postal Service's most profitable class of mail.<sup>6</sup> The table below shows the two classes of mail with highest volume, First-Class and Standard, and their downward trends, while providing information on net operating revenues:<sup>7</sup>

(in millions of units)	2008	2009	2010	2011	2012
<b><u>First-Class Mail</u></b>					
Revenue	\$36,156	\$33,848	\$32,111	\$30,030	\$28,867
Number of Pieces	90,671	82,727	77,592	72,522	68,696
<b><u>Standard Mail</u></b>					
Revenue	\$19,939	\$16,707	\$16,728	\$17,175	\$16,428
Number of Pieces	98,350	81,763	81,841	83,957	79,496
<b>Net Operating Loss</b>	\$2,806	\$3,794	\$8,505	\$5,067	\$15,906

<sup>6</sup> According to GAO-13-283, the Postal Service projects an additional 23 percent decline in First-Class mail by 2016.

<sup>7</sup> From the Postal Service *"Progress and Performance: 2012 Annual Report to Congress."*



Second, the Postal Service is obliged under the Postal Accountability and Enhancement Act (PAEA) of 2006 to prefund a retiree health benefit fund, an annual additional operating cost that averaged \$5.6 billion a year for the past three years. This additional expense, combined with declining revenues attributed to volume decreases, has placed enormous pressure on the Postal Service's finances. In addition, the Postal Service has tapped out its \$15 billion Congressionally-mandated credit limit, thus closing off an option to access additional capital in debt markets.

It is also important to note that the Congress has never formally defined the Universal Service Obligation (USO).<sup>8</sup> The USO specifies what services the Postal Service must provide (e.g., including range of products, uniform pricing, delivery frequency, quality of service, access to facilities). Instead, the USO is broadly outlined in multiple statutes. Many interviewed during the course of this project advocate for Congress to take a principled approach to specify in law what a Postal Service in the 21<sup>st</sup> Century should provide to the nation, and which takes into account the myriad dynamic changes faced in the marketplace.

In light of these significant challenges, the Postal Service has been implementing cost-savings measures that can be executed under its current legal authority. Notwithstanding legal authorities to take certain steps, some initiatives face Congressional opposition that adds to Postal Service challenges.

Even with those cost saving successes that the Postal Service has already realized, the Postal Service's fiscal problems remain acute.<sup>9</sup> As such, the Postal Service is actively working with Congress to identify other reform measures that can be taken to address its looming financial crisis. It is clear that actions are needed to address the on-going financial hemorrhaging in order to avoid a potential taxpayer bailout in the future.

### **Project Structure**

In December 2012, the Academy commenced an independent review this Thought-Leader Concept entitled *"Restructuring the U.S. Postal Service: The Case for a Hybrid Public-Private Partnership,"* found in Appendix A. This independent review was supported in part by a contribution from Pitney Bowes Inc.

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<sup>8</sup> Universal Service is an economic, legal and business term used mostly in regulated industries, referring to the practice of providing a baseline level of services to every resident of a country.

<sup>9</sup> The financial situation of the Postal Service is so dire that the Government Accountability Office (GAO) placed the Postal Service on their High Risk list in 2001-2007, and put it back on that list in 2009. The High Risk list is a list of agencies in government that have \$1 billion at risk in areas such as the value of major assets being impaired; revenue sources not being realized; major assets being lost, stolen, damaged, wasted, or underutilized; improper payments; and contingencies/potential liabilities.

The Academy was tasked to:

- **Plan a Roundtable Discussion** – evaluate the proposed approach for reform and develop a strategy for engaging stakeholders and experts to gain perspective on evaluating this opportunity for reform.
- **Organize and Host a Roundtable Discussion** – identify and invite major stakeholders to participate while providing the opportunity for written stakeholder responses.
- **Develop a White Paper** – conduct additional research to follow up on issues raised in the Roundtable, and to draft and finalize a white paper to include Panel observations and next steps.<sup>10</sup>
- **Organize a Launch Event** – hold a telephonic press conference, giving the media an opportunity to discuss the Thought-Leader Concept and the findings of the Academy’s Panel.

The Academy formed an expert Panel—drawn from the organization’s nearly 750 elected Fellows—to direct and oversee the independent review. The Panel met several times over the course of this three-month study to plan, research, draft formal findings, and write the final report. By bringing together experts with different backgrounds, Academy Panels have proven to be a trusted independent source of review. The Panel received research and analytical support from a highly-qualified study team.

As part of this review, the Panel assessed the feasibility of the Thought-Leader Concept and how it might apply in the current and future Postal Service operating environment. In doing so, the Academy Panel and study team conducted a wide range of primary and secondary research, including:

- Conducting background research, including a survey of relevant Postal Service documents and academic research; and analyzing financial and workforce data; and
- Conducting interviews with over 90 people including:<sup>11</sup>
  - The Postal Service, Postal Regulatory Commission, Collective Bargaining Units, and employees;
  - other external stakeholders, such as industry leaders, Congressional staff, agency customers, and the mailing community (see Appendix D); and

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<sup>10</sup> The study team wishes to express special appreciation to Michael Schuyler, Tax Foundation, and Michael D. Scott, Patton Boggs, for providing valuable feedback during the course of this study.

<sup>11</sup> Interviewees generally agreed that the Postal Service is facing severe financial challenges that require urgent attention through policy and managerial actions.

- seven written responses to an appeal for public comment.

### **Thought-Leader Concept Paper**

The Thought-Leader Concept advocates aligning the Postal Service and private sector strengths and incentives so that upstream activities are performed by private sector companies. The authors argue that this is more cost-effective, in part, due to private sector ability to more rapidly adjust to market dynamics and client needs than the Postal Service is able to do. The delivery and collection functions, known as the “last mile,” currently performed by letter carriers, would continue to be fulfilled by the Postal Service. The Thought-Leaders contend that this division of labor will gain from synergies in a public-private partnership, and thus represents an important step forward in a Postal Service transformation into a more flexible, efficient, and service-focused provider of delivery services to the nation.

The diagram below explains how the Thought-Leader Concept differs from current Postal Service operations:

	Collection	Long-Distance Transportation	Processing	Local Transportation	Delivery
Current Model	Postal Service	Private Sector	Postal Service/ Private Sector	Postal Service	Postal Service <sup>12</sup>
<i>Conceptual Model</i>	Postal Service/ <i>Private Sector</i> *	<i>Private Sector</i>	<i>Private Sector</i> *	<i>Private Sector</i> *	Postal Service

\*Denotes a shift from the current model

Summary background information on private sector mail operations is provided in this section, covering both Postal Service and non-Postal Service mail operations contracting, in order to add context to the proposed hybrid public-private partnership Concept.

**Postal Service Contracting:** In the past few years, the Postal Service remitted about \$13 billion per annum for contracting services to private sector companies (out of total operating costs in FY 2012 of \$67.5 billion), covering transportation, supplies and services, facilities, and mail equipment.<sup>13</sup>

- **Transportation** – Contracted companies transport mail between postal facilities by land, air, water, and rail. FY 2012 contracting data indicates that Postal Service contracted out about \$7 billion of transportation services; about

<sup>12</sup> Two percent of all Postal Service deliveries are done by contractors.

<sup>13</sup> Based on discussions with various interviewees, including the Postal Service and David Hendel, Partner, Husch Blackwell LLP.

95 percent of all long-haul transportation of mail is provided by private sector companies under direct contract with the Postal Service.

- **Retail Collection** – The Postal Service uses two contract vehicles with the private sector to offer retail services which supplement Postal Service-owned Post Offices and facilities. A Contract Postal Unit (CPU) is a retail postal facility located inside retail establishments, such as supermarkets, gift shops, pharmacies, and colleges. CPUs are operated by the retailer's employees and offer the same basic services available at a regular Post Office. The Village Post Office (VPO) concept was introduced in 2011 and is similar to the CPU in that it is a retail postal facility operated by a community business. However, both of these provide limited postal products and services. A GAO report on CPUs issued in November 2012 states there were 3,611 CPUs in FY 2011.<sup>14</sup> The Postal Service reported that the 100<sup>th</sup> VPO opened in December, 2012.<sup>15</sup> In contrast, there were 31,857 Postal Service-managed retail and delivery facilities as of the end FY2012.
- **Processing** – Private sector processing of mail under direct contract with the Postal Service is estimated to be negligible. All final sort mail processing for delivery route sequencing is done by the Postal Service.
- **Delivery** – Postal Service letter carriers deliver mail to 98 percent of all US homes and businesses; contracted delivery providers currently serve approximately two percent of all delivery points, most of which are located in rural or remote areas.<sup>16</sup>

### **Private Sector Upstream Mail Operations (Performed Outside of Postal Service)**

Annual value of mail processing and transportation completed outside of the Postal Service, either by mailers themselves, or through mailer contracts with consolidators, is estimated by a number of those interviewed to be about \$17 billion. This flow of work is commercial mail, rather than personal mail. One can think of this figure as operating costs avoided by the Postal Service.

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<sup>14</sup> GAO-13-41, *Contract Postal Units: Analysis of Location, Service, and Financial Characteristics*. Nov 2012.

<sup>15</sup> From the [USPS Village Post Office Fact Sheet](#). There is no current research data that allows one to definitively indicate consumer reaction to using CPUs and VPOs as opposed to Postal Service-operated retail collection units.

<sup>16</sup> Congressional Research Service, *The U.S. Postal Service's Use of Contractors to Deliver Mail: Background and Recent Developments*. May 2012.

## **SECTION II: KEY ISSUES FOR REVIEW**

The Panel questions the Thought-Leaders' broad contention that the hybrid public-private partnership "is tested, readily available, and politically feasible" (page 1 of White Paper). Many interviewed over the course of the review raised questions and concerns about this Thought-Leader summary remark.

10 distinct issues were raised during our interviews.

### **1. LEGAL, REGULATORY, POLITICAL AND INSTITUTIONAL**

The Panel expects that Postal Service implementation of the Thought-Leader Concept could prompt Congressional reaction.

**POSTAL SERVICE** – Based on interviews, the Postal Service has requisite legal authority to implement many aspects of the Thought-Leader Concept. That said there are important legal and regulatory points to bear in mind:

- Recent history has shown that the Congress has a great interest in the Postal Service and its operations. Should the Postal Service decide to implement the Concept, the Panel believes it reasonable to expect that some members of Congress may seek to retard Postal Service efforts to close facilities or stem Postal Service efforts to significantly decrease the number of career employees, both of which are advocated by the Thought-Leader Concept.
- Drop-shipment of all classes of mail is a recommendation that is implied in the Thought-Leader Concept.<sup>17</sup> This is not a matter of law but rather is addressed by rule with the PRC. Until now, the Postal Service has not sought PRC approval to allow drop-shipment of First-Class Mail. It is incumbent upon the Postal Service to determine whether a case can, or should, be made to the PRC to offer access pricing for First-Class Mail.
- The Postal Service has legal authority to close processing plants, postal stations, branches, and annexes under current law. However, as noted above, it is likely that Congress would consider steps to at least review such actions, based on previous indications of Congressional concern about previous Postal Service efforts to right-size its network.
- When closing a Post Office (as opposed to a postal station, branch, or annex), the Postal Service must adhere to legal requirements guiding these actions. It is important to note that the Postal Service may not

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<sup>17</sup> Refer to page 1 of the Thought-Leader paper for the Concept of emulating the current package delivery system, which is a reference functionally to drop-shipping. See page 24 of this report for further discussion.

close Post Offices solely for economic reasons. Thus, the Postal Service has a number of consumer and service issues to also consider when taking these actions.

**PRC** – The Thought-Leader Concept envisions three responsibilities not currently assigned to the PRC in law, and which will require legislative action:<sup>18</sup>

- Regulate equal and efficient access for private sector firms to the postal system.
- Supervise the integrity of the procurement processes.
- Define and monitor the jurisdictional boundaries of Postal Service activity.

**OIG** – The Postal Service OIG confirmed, under current law, that its office has responsibility to ensure the security of the mail (contrary to the statement attributing this responsibility to the Inspection Service on page 2 of the Thought-Leader White Paper).

## **2. FINANCIAL**

The Thought-Leader Concept emphasizes cost-savings as a principal reason to implement the hybrid public-private partnership. This, it is argued, can be achieved by decreasing the Postal Service workforce substantially from the current level of 495,000 career employees by means of retirement and separation incentives. It also serves as a further impetus to the Postal Service to rationalize its retail and processing network, which should contribute to significant cost-savings. The Thought-Leader Concept estimates that Postal Service's total operating costs would be roughly \$30 billion per year (in FY 2012, the Postal Service incurred total operating costs of \$67.5 billion). This figure represents the Postal Service's cost for "last mile" delivery, as provided in Postal Service financial reporting. The Panel notes that no detailed analyses are offered for the estimated expense and revenue changes in the Thought-Leader Concept.

**Operating Expenses** – The Panel is concerned that the \$30 billion figure proffered in the Thought-Leader Concept is not clearly documented. The paper's figure does not capture additional operating costs that could also be incurred during the transition period, including the following: delivery-related institutional overhead costs; final sort costs; employee-related retirement costs; and any latent costs related to upstream operations which the Postal Service may retain because private sector companies are not attracted to operate in all markets.

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<sup>18</sup> The roles of the PRC are highlighted in Chapter 5 of Title 39.

**Operating Revenues** – By not offering a mail volume forecast, nor addressing the potential impact on operating revenues, the Thought-Leaders neglect an important analytical element in considering the Concept. The Panel believes that executing the Concept could negatively impact revenues. The following cash inflows may be impacted by implementing the hybrid public-private partnership, and are worthy of further analysis:

- Revenues from wholesale mailers will be diverted to private sector consolidators if the Postal Service decides to offer drop-shipping for First-Class Mail.
- Mailers may successfully argue to the PRC that the rate of postage increase should drop due to decreased operating costs; such a result might prompt mail volume growth and might positively impact operating revenues.

### **3. LABOR**

Labor cost savings is an argument in support of the Thought-Leader Concept. From its discussion with the Thought-Leaders, the Panel learned that neither lay-offs nor mixing of private sector and Postal Service employees in the work environment is advocated. The authors contend that fully-loaded costs of private sector employees will be less expensive on a productive hourly wage rate basis than Postal Service employees. If the hybrid public-private partnership is fully implemented, several CBUs whose employees are engaged in upstream operations (e.g. processing plant mail handlers and machine operators, counter service employees, and others) would be negatively impacted. In short, some interviewees summarize the cost savings as being drawn mainly from replacing union labor with non-union labor.<sup>19</sup>

The Panel believes that labor issues must be carefully considered before any proposal like the Concept is implemented. The following issues are relevant:

- Based on Postal Service employee demographics, the timing to implement this Concept is fortuitous, as half of the current Postal Service career employees are retirement eligible, providing a “soft landing” for workforce reductions that are required.
- It is expected to take several years for all Postal Service employees currently engaged in upstream operations to retire. The Postal Service has limited rights to lay off career employees; these rights vary under each of its collective bargaining agreements or are pursuant to human

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<sup>19</sup> The Postal Service has successfully negotiated certain flexibilities into recent CBAs that have tempered the rate of labor cost growth.

resource policies for non-union employees. Until such time as eligible Postal Service employees are retired or accept severance compensation, the Postal Service would need to be paying these employees salary and benefits for performing little or no work, since their jobs would migrate progressively to private sector companies.

- The timeframe for transitioning the Postal Service workforce completely out of upstream activities may be shortened somewhat by separation incentives.
- Efforts should be made to provide greater flexibility in Collective Bargaining Agreements so that employees engaged in upstream operations have an opportunity to transition to another position, such as letter carrier.
- There may be declines in performance due to waning morale as postal workers and mail handlers, who have a long and proud tradition as Postal Service employees, know that their future role in upstream operations will be phased out.
- Private sector employees, either contracted directly with the Postal Service, or working directly for mailers, may have work rules, training, and experience not completely compatible with Postal Service operations, or they may represent financially troubled companies, the result of which may negatively impact service performance of the Postal Service.
- Postal Service employee costs include retiree health benefits, a necessary but expensive obligation that private employers do not offer to employees. The Postal Service is obliged in law to prefund unfunded liabilities connected with the Postal Service retiree health care plan.<sup>20</sup>

#### **4. INTEGRATION AND MANAGEMENT**

Few would question how profoundly complex the task of the Postal Service is. The Postal Service, combined with private sector companies, collects, transports, sorts, and delivers over 160 billion pieces of mail each year to an ever-increasing number of

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<sup>20</sup> Mandatory prefunding is a part of the 2006 PAEA. Citing financial constraints, the Postal Service defaulted on the 2011 and 2012 prefund obligations; the FY 2013 amount of \$5.6 billion is due on September 30, 2013. Contrary to the private sector, and also in contrast to other Federal agencies, the Postal Service is not only obliged by law to cover all of its costs by postage revenues, but also it cannot shed current Federal employee benefit programs without Congressional approval. The Federal government reports unfunded liabilities for its retired employees, but it is not obliged by law to prefund them. Private sector companies are not obliged to prefund unfunded liabilities, but they must recognize the cash and accrued expenses in their income statement, and recognize any unfunded liability on their balance sheet.



delivery addresses, under stringent service standards, and at rates capped by CPI.<sup>21</sup> Should private sector companies increasingly assume upstream activities under this Concept, integration and management will become substantially more complex. The hand off of mail and parcels to carriers must be done with extraordinary precision in order to ensure service quality (and thus preserve revenues/avoid migration away from mail) and hold costs down. The following issues are important to bear in mind:

- The final delivery sort completed at a destination processing center can only be done by one provider for each major Postal Service delivery concentration. This ensures final sort integration so that each letter carrier receives one bundle of route-ready mail. The Postal Service would need to identify how many final sort processing plants are required and ensure that contracts are concluded with one final sort processing company per delivery area.
- It is incumbent upon Postal Service management to ensure, through diligent oversight, that Postal Service-acceptable operational standards are appropriate across all vendors, and that service performance by private sector companies meets Postal Service standards.
- CPUs and VPOs will require a connection with private sector consolidators, and there will need to be a means by which postage revenues are divided among private sector companies offering collection, transportation, and processing services of personal mail.
- The challenge around integration is particularly relevant to Personal and Small Business Single Piece First-Class Mail, which is about 36 percent of all First-Class Mail (about 22.6 billion pieces in FY 2012). Such mail may not fit as easily as commercial mail does into the Thought-Leader Concept. Presently, individual mailers access the Postal Service process stream directly at a Post Office, rather than by means of a consolidator (although an individual may insert mail into the system through a CPU or VPO, run by a private contractor to the Postal Service). As such, there will be transition issues around retail mail collection, which the Thought-Leaders contend will flow increasingly through CPUs and VPOs rather than through Postal-operated facilities.

## **5. OVERSIGHT**

With the exception of the PRC (noted above under Legal), the Thought-Leaders do not propose changes in Postal Service OIG and Inspection Service (IS) roles. The Panel believes it likely that the roles of oversight bodies (PRC, Postal Service OIG, and IS) will grow in complexity due to the expanded use of private sector entities to collect,

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<sup>21</sup> CPI rate cap is in place for all monopoly products, but not in place for competitive products, like parcels.

process, and transport the mail. There may be increased contracting activities by the Postal Service that will require active oversight not only by the Postal Service Supply Management department, and the Competition Advocacy group in the Postal Service, but also by the Postal Service OIG. Furthermore, the PRC will likely have a greater volume of work to review access pricing and other work-sharing agreement that will be part of the implementation of the Thought-Leader Proposal. Finally, there may be new regulatory measures needed to optimize both efficiencies and equities of postal delivery; such measures may require Congressional action that typically authorizes regulatory activity.

## **6. PRIVATE SECTOR**

The Thought-Leaders conclude that the current level of private sector-run upstream activities should be expanded. The Panel outlines several observations connected with how private sector companies tend to operate that could impact Concept implementation:

- Laws of economics and rational corporate behavior dictate that private sector companies will choose profitable business segments, and will ignore those segments (e.g., specific low-density delivery areas) where there is little or no promise of a suitable financial return. We juxtapose the foregoing observation with the Postal Service imperative to provide universal service mail service—to deliver to every address in America. Should the Postal Service implement this Concept, it can have little tolerance for “cherry-picking” with respect to operational decision-making. There may be a limit as to how, where, and at what market-clearing price private sector companies will operate the required upstream functions. In order to implement this Concept, the Postal Service would be obliged to creatively address this conundrum by bundling geographic areas for bidding and/or offering private sector companies with contracts that provide compensation to incent serving of uneconomic markets.
- Substantial capital outlays would likely be required of private sector mail processors as upstream operations shift away from the Postal Service exclusively to them. Not only would these expenditures for plant and equipment likely be sizable as an investment proposition, but they also may not be deemed very attractive as a long-term value proposition as mail volumes continue to decline.
- Private sector companies can face financial constraints that impact resource allocation. In such cases, notwithstanding contracts stipulating comprehensive performance requirements, vendor performance quality and service could suffer.

- The Postal Service has substantial redundant emergency back-up plans to respond to natural and man-made disasters, and security-related malicious acts in order to continue service. It will be expensive for private sector companies to replicate these important mail system protections, for various reasons, and may lead to a more vulnerable postal operating upstream network.

Again, in other sectors where privatization has been part of a modernization strategy, regulation has been used as a tool to address some of these market issues, and the Panel believes that further review of regulatory options would be warranted as part of any privatization activity.

## **7. DROP-SHIPPING AND ACCESS PRICING**

The authors state in their paper that the Postal Service is “to emulate the existing and successful Postal Service ‘final mile’ package delivery strategy,” thus opening up competition for all upstream activities, such as transportation and processing, to third party companies. The referenced package delivery strategy employed is known as drop-shipping.

Based on observations from other classes of mail, drop-shipping has two key positive impacts to the mailing industry:

- **Cost-Savings** – From a mailer’s point of view, expanded competition between private sector companies to provide upstream services should drive costs down. From the Postal Service’s point of view, its costs of providing upstream operations would be eliminated over time as private sector companies increasingly perform this work directly under contract with mailers.
- **Speed** – Service providers are incented to complete work faster when contracts are performance-based. Evidence presented to the Panel indicates that private sector work rules are demonstrably more flexible than those currently in place for Postal Service career employees.

At present, First-Class Mail cannot be drop-shipped.<sup>22</sup> Should the Postal Service decide to add First-Class Mail to the other mail classes that may be drop-shipped, it may result in significant migration of this mail volume away from the Postal Service to private sector processing and transportation. On the other hand, First-Class mailers may decide to either increase volumes, or temper plans to decrease the size of mailings, when given an opportunity for drop shipping/access pricing. Thus, there

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<sup>22</sup> The Postal Service must apply to the PRC to agree an access price before it can offer drop-shipping for a particular class of mail. Until now, the Postal Service has not sought PRC approval for First-Class Mail.

are positives and negatives to balance when considering whether to proceed on this issue.

If, after deliberation, the Postal Service should decide not to seek approval from the PRC, market forces may serve to retard the hand-off from Postal Service to private sector consolidators to process this class of mail.

## **8. CUSTOMER IMPACT**

The Thought-Leaders speak to concerns over customer service impact, particularly in rural and remote areas. Members of Congress, particularly those who represent constituents in rural and remote areas, pay close attention to mail service impacts.<sup>23</sup> The Panel also recognizes Postal Service-driven interest to serve and retain its customer base. If transition to this Concept fails to be well-executed, the Postal Service would likely face the threat of losing important elements of its customer-base, especially given the many non-paper alternatives of communications that abound.

The Panel highlights four specific customer-related issues:

- **The Postal Service's Focus on Delivery** – The Concept allows the Postal Service to focus solely on mail delivery as its principal functional role. Many interviewed agree with the Thought-Leaders that the Postal Service has a comparative advantage in this operational segment.
- **Creating Incentives for the Private Sector** – As outlined previously, private sector companies are attracted to profitable operating areas; the Postal Service would need to creatively address this in its business planning, bidding, and execution.
- **Expanding Retail Mail Collection** – The authors argue that a positive change for the consumer under this Concept would create more opportunities to access the postal network through CPUs, as these can be available in retail establishments, some of which operate around-the-clock, in all sections of the country.
- **The Postal Service's Obligation to Fill in the Gaps** – The authors concede that the Postal Service must ensure a “safety net” to provide services in areas that are not served by the private sector. Services would include retail centers and continued home delivery and collection.

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<sup>23</sup> According to the International Telecommunications Union, the 2011 rate of Internet Penetration within the U.S. is 78 percent, which means that over 69 million people remain without access. Internet Penetration is defined as the number of Internet users divided by the population. An Internet user is defined as someone who has used the Internet in the last 12 months.

(<http://www.internetworldstats.com/top25.htm>)

## **9. SECURITY**

In light of identity theft and cyber security issues, the security and “sanctity” of the mail remains an important advantage of the Postal Service. The letter carrier who visits addresses each day represents, for many, the face of the U.S. Government. This serves as a reminder to mailers that they are entrusting their confidential correspondence to a Federal official. In a world where credit card numbers are saved online and given over the phone, many still prefer taking a few extra days to ensure that no third-party can view personal information. This mission is furthered and upheld by the Postal Service OIG, who employs over 1,100 employees to help prevent fraud, waste, and misconduct within the Postal Service.<sup>24</sup>

While concerns about the security of the mail are warranted, private sector handling of commercial, and some personal mail, has been common for several decades. Private sector companies providing services under these contracts operate under legal standards and oversight set by the Postal Service, and are subject to Postal Service OIG investigations.

## **10. TRANSITION ISSUES**

Should the Postal Service decide to adopt this Concept and move the current state of Postal Service operations to a hybrid public-private partnership, the Panel expects that it would take several years and require significant effort. The Panel offers a partial list of challenging and significant issues that the Postal Service and private sector companies would likely face during the time of transition:

- If mail processing were eventually completed by private sector companies, all or most of the present 400 processing plants would be eventually closed. With a no lay-off policy, there would inevitably be processing plants which could not be operated once a critical mass of employees needed to operate a specific plant either attrite or accept a separation incentive.
- The Postal Service may need to increase its staffing in Supply Management to let and oversee a larger volume of contracts.
- The Postal Service operations management would have less direct control over upstream operations, and thus may need to take greater steps to ensure integration of an increasingly externally-managed upstream flow with postal service-retained delivery functions; this would be particularly important for final-sort processing.
- The Postal Service would need to focus on the quality and timeliness of final sort delivery completed by one private sector contractor per

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<sup>24</sup> Tampering with U.S. Mail is a federal offense and can be subject to imprisonment.

delivery area in order to ensure seamless hand-off from final sorter to letter carriers.

- The Postal Service would need to accelerate and broaden efforts following prescribed legal actions to close a large number of Post Offices as dictated by current law; and be prepared to address potential complaints for taking these actions (which can be lodged with the PRC).
- The Postal Service might opt to apply to the PRC to offer drop-shipping discounts and access pricing to mailers for First-Class Mail, which would likely lead to an increase in private sector upstream processing of this class of mail, with a corresponding drop in Postal Service processing volume and corresponding revenues. That said, taking such a step may increase, or retard volume decrease rates of First-Class Mail.
- The Postal Service management could face morale and possible performance issues that may arise among those current Postal Service employees affected by the shift of upstream activities to private sector companies.
- Current Postal Service management could encounter new management challenges to make ancillary and tertiary organizational adjustments that the hybrid public-private partnership may require.

### **SECTION III: ISSUES FOR FURTHER STUDY**

#### **FINANCIAL**

1. Conduct more detailed work to comprehensively evaluate the yearly transition costs and revenue impacts associated with this Concept, and to evaluate what the net financial benefits may be.
2. Evaluate whether an economic case can be made to offer drop-shipping/access pricing discounts for First-Class Mail, particularly taking into account the impact offering the discount might have on retaining First-Class Mail volume for wholesale mailers.
3. Evaluate whether there is an efficient and equitable way to bundle geographic areas for bidding and/or provide economic benefits to private sector companies in order to incent them to operate in geographic areas that are not currently deemed profitable.
4. Conduct more detailed analysis of the operating impact on expenses and revenues of implementing the Concept, evaluating potential transition-related cash flow when fully implemented.
5. Evaluate how other reform measures might impact the overall financial health of the Postal Service, such as consideration to: restructure retiree health benefit fund prefunding amounts; dispose of excess Postal Service real estate assets; broadening the Postal Service product mix to include electronic and digital forms of communication; etc. (see Section IV for further discussion).

#### **LABOR**

1. Evaluate in more detail, looking at particular upstream operational crafts, how long it is likely to take before the Postal Service could fully implement the proposed Concept. If possible, establish when particular processing plants could be consolidated or closed.
2. Explore prospects to amend current labor contracts in order to provide current postal workers and mail handlers with opportunities to migrate to letter carrier positions.

#### **INTEGRATION**

1. Evaluate the optimal manner by which one final sort destination processing center can be established for each major delivery area.
2. Study how to best ensure that appropriate operating standards for private sector companies can be established for all upstream activities.

3. Devise a model of communication to ensure that Postal Service and private sector companies can maintain a robust dialog to ensure that planning and standards are consistent.
4. Determine how the Postal Service management structure and focus may need to change in order to ensure integration of the system.

#### **ROLES OF THE PRC, POSTAL SERVICE OIG, and CONGRESS**

1. Evaluate whether the proposed expanded role of the PRC is appropriate, and determine how it might be addressed with staffing and resources.
2. Evaluate whether the changes proposed in the hybrid public-private partnership will require changes in the Postal Service OIG and PRC organizational structures; and whether the Concept calls for changes in the manner by which they engage with the Postal Service and private sector companies involved in mail operations.
3. Evaluate whether new regulatory options would be appropriate and advisable in order to implement the Thought-Leader Concept effectively.
4. Evaluate the merits of the authors' contention that the delivery function should remain a role of the Postal Service. Assess whether the private sector might be able to provide delivery services as well.



#### **SECTION IV: HOW THE THOUGHT-LEADER CONCEPT FITS INTO WIDER INITIATIVES FOR REFORM**

The Concept proposed by the Thought-Leaders fits into a wider context of a broad array of postal reform policy recommendations. The Panel identifies many of the most important recommendations in this section of the paper in order to help the reader understand how this Concept fits into the greater postal reform debate.<sup>25</sup> The Panel recognizes that addressing elements of the following list is beyond the scope of this paper, but believes that mentioning other initiatives contributes to the Panel's analysis of the Thought-Leaders' White Paper.

Some of the major postal reform policy recommendations in current discussion are listed below for contextual purposes, and also can be found in Appendix B. In bold print we identify who would need to act. The list of reform initiatives in this section is not intended to be exhaustive, nor does the list imply Panel endorsement of the list's individual elements.

#### **DEFINE THE POSTAL SERVICE'S ROLES AND RESPONSIBILITIES**

- Embark on a principled approach to delineate a postal USO in law so that there is a clear set of operational imperatives that take into account 21<sup>st</sup> Century market conditions. This can guide Postal Service operational planning and engagement with its employees, Congress, regulator, customers, competitors, and partners. **Requires Congress to act.**

#### **IMPROVE LIQUIDITY IN THE SHORT-TERM**

- Revise (by a longer amortization schedule) or eliminate mandatory pre-funding of Retiree Health Benefit Fund; the pre-fund amounts are dictated in PAEA. **Requires Congress to act.**
- Increase Congressionally-mandated maximum borrowing authority for the Postal Service, currently at \$15 billion (the Postal Service has reached this ceiling, and cannot borrow any more without a change in law). **Requires Congress to act.**
- Recalculate the Postal Service's Federal Employees Retirement System (FERS) contributions and consider a way to issue a refund to the Postal Service if one is warranted. **Requires Congress to act.**
- Dispose of real estate assets as network optimization progresses. **Postal Service has Requisite Authority.**

## FORTIFY LONG-TERM REVENUES

- Increase Postal Service authority to raise prices on some mail classes that are currently carried at a loss.<sup>26</sup> **Requires agreement with the PRC.**
- Allow the Postal Service to offer a wider range of products and services in order to bolster revenues.<sup>27</sup> **Requires Congress to act and PRC interpretation.**
- Offer “premium” delivery service, (i.e. mail delivery on Saturday) at an additional cost to consumers who opt to pay for it. **Requires agreement with PRC and Congress.**

## CONTROL LONG-TERM COST GROWTH

- Authorize reduction of mail delivery frequency (addressed by the Postal Service in a February 5, 2013 announcement to move from six-day to five-day delivery for all mail but parcels beginning on August 5, 2013). **Requires Congress to concur.**
- Require arbitrators considering Collective Bargaining Agreements to consider the Postal Service current and projected financial condition. **Requires Congress to act.**
- Establish a BRAC (Base Closure and Realignment Commission) to reduce postal facility costs by right-sizing the retail and processing infrastructure. **Congressional action would help.**
- Permit the Postal Service to move its workforce off of the Federal Employee Health Benefit plan to a private plan contracted by the Postal Service. **Requires Congress to act.**

## ACCOUNT FOR CHANGES IN TECHNOLOGY AND CONSUMER DEMAND

- Expand Postal Service products and services across the digital spectrum; the Postal Service formed the Digital Solutions Group in May 2012. **Postal Service has Requisite Authority.**

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<sup>26</sup> Periodicals and Standard flat mail are carried at a loss, estimated to have cost the Postal Service \$1.2 billion in FY 2012.

<sup>27</sup> Includes offering PO Box customers a suite of service enhancements such as extended lobby hours; prepaid postage on the sale of greeting cards; and Passport Photo services. GAO-13-347T, *U.S. Postal Service: Urgent Action Needed to Achieve Financial Stability*. February 2013.

## **SECTION V: RECOMMENDATIONS FOR FUTURE ACTION**

1. The Postal Service should determine whether a case can be made to the PRC to allow drop-shipping and access pricing for First-Class Mail.
2. The Postal Service should analyze how optimally to incorporate personal First-Class Mail into a private sector-operated upstream collection, transportation, and processing system.
3. The Postal Service should engage with consolidators, other mailing industry companies, and stakeholders to understand whether integration of the mail system, with virtually all upstream activities performed by private sector companies, can be satisfactorily achieved.
4. Should the Postal Service determine that it will implement this Concept, it should decide how optimally it can transition out of those upstream activities that it currently retains, including an analysis of timing with respect to employees, plant and equipment, and managing corporate change.
5. The PRC should determine whether it might support a change in law to assume those new responsibilities that the Thought-Leader Concept advocates.
6. The Congress, in consultation with the Postal Service and PRC, should agree to a principal-based definition of the USO that it seeks from the Postal Service for the 21<sup>st</sup> Century.
7. The Congress, in consultation with both the Office of Management and Budget and the Postal Service, should determine whether if at all, and to what extent, to adjust the annual amortization schedule of mandatory prefunding of the Retiree Health Benefit Fund.<sup>28</sup>
8. An additional study may be warranted to compile a comprehensive, integrated set of postal reform recommendations for Congress to consider, including recommendations that may require statutory change.

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<sup>28</sup> The USPS defaulted on \$11.1 billion of past payments from FY 2011 and FY 2012. Another installment of \$5.6 billion is due at the end of FY 2013.

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# **Restructuring the U.S. Postal Service**

## ***The Case for a Hybrid Public-Private Partnership***

January 2013

Ed Gleiman  
George Gould  
Ed Hudgins  
John Nolan

*This paper—written by a group of Thought-Leaders outside of the Academy’s Fellowship—proposes the development and implementation of a new model: a hybrid Public-Private Partnership. Under this proposal, the U.S. Postal Service would be responsible for the “last mile” of delivery and pickup, and the private sector would be responsible for handling all other aspects of the mail system. A Panel of the National Academy of Public Administration is currently conducting an independent assessment of this proposal and will publish its evaluation in spring 2013.*

## **Foreword**

As long time participants in and observers of the American postal system and mailing industry, we are concerned about the ability of the U.S. Postal Service to survive in the face of rapidly changing market and technological developments. Although we have very different backgrounds, we all believe that the starting point for reform must be to look closely at what the Postal Service does well today, what it needs to do to serve our country and our economy in the future, and also what might be done better.

We believe there is significant opportunity to achieve real reform and a sustainable, affordable postal delivery system for the United States. But it will require a new postal delivery model designed in large part to use the best of both the private sector and the traditional government service.

The concept we have described in this paper would create a USPS that would focus on its unmatched ability to travel the “last mile” to deliver to every home and business across the country on every delivery day with every other aspect of the U.S. postal system transitioning to commercial providers under the supervision of the Postal Service and postal regulators.

This white paper is offered as starting point for the “last mile” reform discussion. We invite others to review the approach we have outlined here and help build the model for the future of the USPS.

Submitted by:

**The Honorable Ed Gleiman**  
Former Chair  
Postal Rate Commission

**George Gould**  
Former National Legislative and Political Director  
National Association of Letter Carriers

**Ed Hudgins**  
Director of Advocacy  
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**John Nolan**  
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USPS

## **Restructuring the U.S. Postal System**

### *The Case for a Hybrid Public-Private Postal System*

The “mail moment” experience is deeply etched into our national consciousness: the white truck, the blue uniform, the weather-beaten pouch, the friendly delivery and, finally, the casual flipping through of the day’s mail -- bills, magazines, catalogs, direct mail offers, and the occasional delight of a package, a personal card or an invitation. That the U.S. Postal Service delivers this experience to every address in America six days a week at rates among the lowest in the developed world is nothing short of miraculous.

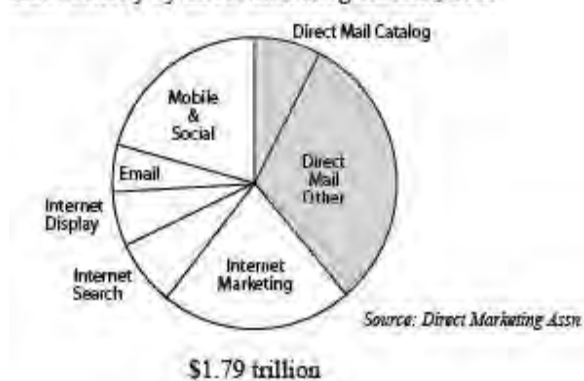
But this experience is threatened. With the rapid conversion to digital communications, competition from the private sector, a high cost infrastructure, and the weight of onerous Congressional mandates, the USPS is struggling. Burdened by unsustainable retiree benefit funding mandates, last year, the Postal Service lost \$15.9 billion. The 112<sup>th</sup> Congress considered postal legislation and tried to address the retiree benefit funding crisis (legacy cost), but without success. In any event, none of the proposals for “reform” that were debated approached the comprehensive systemic revitalization needed to ensure the long term future health of the U.S. postal system – a system that provides the infrastructure for 8 million jobs and more than 7% of the nation’s GDP.

Fortunately, there is a tested, readily available, and politically feasible solution that will:

- Lead to a healthy and relatively nimble universal postal system capable of scaling up or down to address future market trends;
- Address USPS financial needs for the future;
- Save postal jobs and preserve the letter carrier as the Government’s agent throughout the nation;
- Expand access to and enhance the quality of the U.S. postal experience; and
- Revitalize private industry and the larger economy for growth.

#### **Mail Supports the Economy and Jobs**

Sales activity by direct marketing channel, 2011



The solution is to emulate the existing and successful USPS “final mile” package delivery strategy and create a new model for all mail using a hybrid public-private partnership. In the “final mile” package strategy, private sector consolidators compete to pickup, process, and transport hundreds of millions of packages. Shippers pay the consolidators to prepare and transport the mail for “last mile” delivery by USPS letter carriers. The consolidators pay USPS a delivery charge. Upstream competition among private sector providers promotes efficiencies that lead to better service and lower overall prices.

Under the new hybrid public-private partnership model today's trusted USPS letter carriers will deliver mail, packages, and products the "final mile" to every address in the country while the private sector fulfills virtually all upstream mail processing, transportation and logistics functions under the quality and security oversight of the USPS. Commercial mailers will pay private sector logistics companies to collect, process and transport their letters, magazines, catalogues, packages, and other products. Those companies similarly would pay the USPS a delivery charge. This model would preserve and leverage what is currently the Postal Service's key strategic asset – its unparalleled last-mile delivery network that touches every home and business six days each week. It would also preserve its nationwide presence through a slimmed down network of Government post offices while expanding access to postal services through private sector partners. Melding these assets with private sector innovation can support a sustainable enterprise. Implementing this solution will ensure the confidence businesses and consumers need for the postal system to thrive.

It is tempting but wrong to blame either the recent economic downturn, USPS management, or its employees, for the present crisis. The root cause of the postal crisis is the historic change in how we communicate. That rapidly changing environment also brings on uncertainty and risk for the Postal Service, risk it is not equipped to bear.

**It's time for dramatic change.** Without significant change the Postal Service cannot continue to maintain its nationwide presence, provide affordable high quality delivery service to every address in America, fit into the digital world, and be financially sustainable for the long term.

### **The Key Is To Focus the USPS on Final Mile Delivery**

In light of the current budget crisis and our increasingly digitized communication platforms, the right questions to ask are "What do we need the government to do and what can the private sector do?" The answer to the first question is clear: we need the government to ensure frequent, universal delivery service – mail delivered to and picked up by government employees walking or driving their routes to every address in America five or six days a week. There is no current private sector entity that can replace or sustain this priceless and necessary service.

Private sector capabilities exist, however, that can fulfill others tasks in the postal network and do so at a lower cost and with greater efficiency and innovation and without political and regulatory interference. To meet the current and future needs of our country and to spur economic growth, the new postal model should integrate the private sector into postal operations as necessary.

***Thus, the new Postal Service would oversee a largely privately-operated postal network and would supply the final mile 'feet on the street' for daily mail delivery. The trusted letter carrier would remain the public face of the U.S. Postal Service.***



This integrated system will capture the best of what the Postal Service and the private sector each have to offer. The Postal Service will continue to provide its cherished army of letter carriers and set the standards for use of its invaluable trusted brand. USPS will prescribe standards to assure security, quality, and reliability. Its Inspection Service will continue to ensure the security of the mail. Behind the scenes, private sector partners will operate the sorting, transportation and logistics networks that move mail around the country at a lower cost and with the flexibility to innovate and adapt rapidly to new technologies. Since its inception, the Postal Service has directly performed the vast majority of the actual physical work required to move mail around the country. The new Postal Service will operate on a fundamentally different hybrid premise, one whose concept they actually pioneered in the 1970's with the introduction of worksharing.

Simply stated, despite being a world leader in “worksharing,” today the Postal Service still operates almost all of the basic functions of the system. In the future, the Postal Service could focus on the end delivery function. This new model incorporates the strengths of both the private sector and the Postal Service. Mail volumes and mail flows are constantly changing as communication habits and population patterns change. The public-private hybrid model can readily adapt to these changes. The one thing that remains constant is the need to touch every household, business, and institution every delivery day. The Postal Service itself is uniquely positioned to fulfill this role. The private sector is better positioned to innovate and adjust to “upstream” changes.

Activity	Collection	Long-Distance Transportation	Processing	Local Transportation	Delivery
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Current Model	USPS	Private Sector	USPS & Private Sector	USPS	USPS
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Future Model	USPS & Private Sector	Private Sector	Private Sector	Private Sector	USPS
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In this new construct, the **Postal Service will remain a substantial organization with more than 200,000 letter carriers, and will continue its nationwide presence and play its historical role of binding the nation together.** These trusted government letter carriers will continue to make their rounds as the public face of the postal network, and will continue

to collect mail from consumers and businesses along the way.

The new postal system will reinvent the concept of retail access for consumers. These services are now largely delivered over-the-counter through a national network of more than 30,000 post offices. In the new postal model, there will be an explosion of options for the public to conduct postal business. Again, the Postal Service has employed aspects of this strategy over the years. This simply takes it to the next level. The Postal Service will establish the standards, and any private company that agrees to meet these standards will be authorized to sell postal services. Retail stores, gas stations, schools, coffee shops, movie theaters, or any other location that is interested and meets USPS requirements will be allowed to set up shop to provide postal services. This, accompanied by kiosks and any other automated retail options, will insure greater retail access at more places and longer hours for the consumer.

For sparsely populated areas, the Postal Service will ensure there is a 'safety net' of access to the postal network, through continued home delivery and pickup. The Postal Service will also continue to operate a small number of retail centers, backfilling in those locations where no other postal options are available or where it is more beneficial to maintain the USPS offices. Through these centers, it will maintain its nationwide presence and commitment to universal service.

**The new system will promote and benefit from greater distribution efficiency and innovation.** Between the time a letter is prepared and the time it is delivered, it must be collected, sorted, and transported. Today, sorting work takes place in processing centers operated by the Postal Service around the country. While some mail bypasses these centers as a result of private sector work sharing companies, tens of billions of pieces of mail still must pass through one or more of these centers en route to final delivery.

Like today, but on a much larger scale in the new system, private companies on their own, or through partners, will sort and transport mail up to the point of handoff to the Postal Service for final delivery. Processing and transportation price incentives will be afforded for all types of mail in the form of a final mile delivery charge. **This hybrid partnership will foster greater private sector innovation and competition while driving down the cost of mail.** A network of privately-owned sites around the country, run by the private sector in accordance with standards prescribed by the Postal Service, will stage mail for 'last-mile' delivery and for dispatch to other parts of the nation. It is to these sites that private mail processors will transport their clients' mail and pay the delivery charges. In the end, a private sector network will be much more flexible and capable of accommodating seasonal spikes in volume and changes in population and mailing patterns.

The Postal Regulatory Commission (PRC) will be the final arbiter of postal pricing, ensuring that charges for last mile delivery are fair and sufficient to support the postal system. The

PRC will also regulate equal and efficient access for private sector firms to the postal delivery network. It will supervise the integrity of the procurement processes, hearing and ruling on protests from contractors and other stakeholders. In addition, the PRC will have to define and monitor the jurisdictional boundaries of Postal Service activity.

For individual consumers who mail at most a few letters a day, the biggest change in the new system will be more opportunities to access the postal network. In addition to the customary mailbox pickup at individual homes, Americans will enjoy far more ways to access postal services through self-service kiosks, postal centers located at malls or supermarkets, or by applications delivered to an individual's desktop, laptop, tablet computer, or smart phone. The price for consumer mail-- a greeting card, thank you note or bill payment -- will continue to be controlled by a price cap tied to inflation and administered by the Postal Regulatory Commission, thus ensuring affordable access to the nation's postal system for the citizen mailer at a uniform price.

### **The New Model Results In a Financially Sustainable Postal System**

The new postal model enables affordable universal service going forward. As a politically significant government entity, the Postal Service lacks adequate market-based incentives to offset the regulatory delays and political interference it encounters when it tries to reform. The result of this combination is predictable: huge postal deficits, a cash flow crisis, and politically hindered decision-making.

**The new postal model is financially sustainable going forward because (1) it has much lower federal operating costs, and (2) these costs can be amply covered by postal revenues generated by the growing and incentivized private mailing industry.**

The new system will reduce Postal Service costs substantially. **The new system accommodates the ongoing loss of tens of thousands of employees through retirement and separation incentives**, including nearly 50,000 mail handlers, more than 100,000 postal clerks, tens of thousands of managers and supervisors, and thousands of other support and overhead personnel. Approximately 15% of the current work force of about 530,000 career employees is expected to retire in the next three years. More than 25,000 postal clerks and 4000 postmasters opted for an early retirement program offered in 2012. The retirement eligibility of the current workforce, as well as the substantial transition from public to private sector employment, will enable the phase-in of this new model over time without adverse impacts on the postal workforce community or U.S. employment.

**After shedding unnecessary responsibilities, assets and expenses, the government operation of the new Postal Service can operate on roughly \$30 billion per year, less than half of its current revenue.** With a sharply-defined focus on oversight, enforcement and delivery, and with its costs covered by the established delivery charge, this new Postal Service will be on a path to long-term financial health.

The hybrid public-private model unleashes the power of market forces to create new ways to deliver value to businesses and consumers. Just as private companies innovate and share supply chains in high-tech, automobile, and other industries today, the market will drive efficiencies in the postal network, subject to quality and security oversight by the Postal Service. Postal Service partners will innovate to enhance the ways that mail can generate greater financial returns, thus enhancing the value of mail to business and consumer users.

It is important to point out that private sector innovation and competition has brought relevant efficiencies to public services outside of the United States. The evidence in these countries shows:

- Financial and operating performance improves when activities formerly undertaken by public entities are privatized;
- Private sector involvement in providing public services reduces public costs; and
- Private sector involvement reduces political interference in operational decisions.

Of course, a financially sustainable postal system is not possible unless the existing legacy cost issue is addressed. This includes accurate measurement of existing unfunded liabilities for retiree benefits and a manageable schedule to discharge. The inability of the most recent Congress to do so was disappointing.

## **Summary**

The hybrid model described above will take advantage of the strengths of both the private sector and the Postal Service.

- USPS provides the final mile “feet on the street” for daily delivery of mail, packages, and products.
- USPS creates framework for increased private sector participation. .
- USPS continues its program of closing unnecessary facilities, ensuring that access to necessary services is available through alternative channels.
- USPS creates framework and establishes the standards required to offer USPS authorized alternative postal retail services and innovative applications to encourage the use of mail.
- USPS fulfills universal services obligation by maintaining frequent universal mail delivery and by authorizing approved retailers, kiosk locations, etc to ensure that postal services are universally accessible.
- USPS retains the Postal Inspection Service in its present form.
- The Postal Regulatory Commission (PRC) would continue provide regulatory oversight of the Postal Service and ensure fair and sufficient USPS delivery charges.
- Private sector companies can fulfill virtually every other task in the postal network and do so at a lower cost and with greater efficiency and innovation.
- Private sector can assume responsibility for transportation and logistics.
- Private sector can assume responsibility for mail processing operation.

- Private sector will help create an explosion in the availability of postal retail services through partnerships with existing bricks and mortar locations like grocery stores, big-box locations, gas stations, coffee shops and other easily accessible sites. Kiosk-based services can be significantly expanded to ensure universal access.
- Private sector will increase sorting, transportation and logistics services leading up to the last mile.
- Private sector innovation may create new uses for the universal delivery system, increasing its value to customers and the nation.

### **Next Steps**

There are only two choices at this point: incremental change to the existing, outdated business model in the hopes that modest new efficiencies and a recovering economy will forestall the Postal Service's rapid demise -- or -- building a new public-private hybrid postal model that will combine the unique and valuable last-mile delivery network and oversight capabilities of the Postal Service and tap into the vibrant private mailing industry to fulfill other postal functions and create innovative uses that add value to the last-mile delivery system. By choosing the latter, America will be on the path to a financially sustainable Postal Service that maintains a universal delivery service, promotes private sector innovation, and ensures an affordable and sustainable mail system.

What is left now is for the Postal Service's key stakeholders to find the will; to understand that this moment in time is important; to recognize that action is preferable to inaction; and to begin the difficult but necessary work required to remake our postal system. While large-scale change is never easy, we have done this before during other times of economic change, and we can surely do so again. America needs and deserves the finest and most innovative postal system in the world. It is time to create that system, once again.

## APPENDIX B: OTHER POSTAL REFORM MEASURES

To offer some contextual understanding as to the other reform initiatives being considered and the potential involvement of Postal Service stakeholders, please consult the table below. The list of reform initiatives in this section is not intended to be exhaustive, nor does the list imply Panel endorsement of the list's individual elements.

	Requires Congressional Action	Requires PRC Action
<b>Define the Postal Service's Roles and Responsibilities</b>		
Delineate a USO in law so that there is a clear set of operational imperatives that take into account current market conditions, to guide Postal Service planning and engagement with its employees, Congress, regulator, customers, and competitors.	X	
<b>Improve Short Term Liquidity</b>		
Revise or eliminate mandatory pre-funding of Retiree Health Benefit Fund.	X	
Increase Congressionally-mandated maximum borrowing authority for the Postal Service.	X	
Recalculate and consider a way for the Postal Service's FERS contributions and issue a refund to the Postal Service if one is warranted.	X	
Dispose of real estate assets as network optimization progresses.	Postal Service has the requisite authority	
<b>Fortify Long-Term Revenues</b>		
Increase Postal Service authority to raise prices on mail classes that are currently carried at a loss.		X
Allow the Postal Service to offer a wider range of products and services in order to bolster revenues as paper-based communication volumes decline.	X	X
Offer premium service at an additional cost i.e. mail delivery on Saturday.		X
<b>Control Long-Term Revenues</b>		
Authorize reduction of mail delivery frequency (addressed by the Postal Service on February 5 <sup>th</sup> , 2013)	X	
Require arbitrators of collective bargaining agreements to consider the current/projected Postal Service financial state.	X	
Establish a BRAC to reduce postal facility costs by right-sizing the retail and processing infrastructure.	X	
Permit the Postal Service to move its workforce off of the Federal Employee Health Benefit plan to a private plan contracted by the Postal Service.	X	
<b>Account for Changes in Technology and Consumer Demand</b>		
Expand Postal Service products and services across the digital spectrum; Postal Service formed the Digital Solutions Group in May '12.	Postal Service has the requisite authority	

## APPENDIX C: WHAT CAN BE LEARNED FROM FOREIGN POSTAL SERVICES

The Thought-Leader Concept is unique. There has not been a reform example abroad that emulates the “final mile” delivery function outlined in this Concept: i.e. having a national post, like the U.S. Postal Service, focus solely on the delivery function while allowing the upstream functions, like collection, transportation, and processing, to be controlled by the private sector.

Instead, most foreign postal services in the industrialized world have chosen to de-monopolize their postal services and create the opportunity for competition within the mailing industry. The postal services of countries like Great Britain and Germany compete with the private sector at every level of the mailing industry.

The Thought-Leaders contend that examples of private sector innovation abroad bring efficiencies to public services (like national postal services) by improving financial and operating performance, reducing costs, and reducing political interference. These contentions about the private sector are highlighted below, supported by a 2011 GAO report examining strategies undertaken by foreign postal services.<sup>29</sup>

- **Improving Financial Performance and Reducing Costs** – In countries like Canada and Switzerland, large cluster boxes are used to eliminate door-to-door delivery and drive down operating costs. The postal service in Sweden estimated a 50 percent decrease in operating costs by using digital/hybrid mail.<sup>30</sup>
- **Reducing Political Interference** – National postal services in countries like Australia and Germany have reduced political intrusion through a combination of privatization, open competition, and de-monopolization of the mailing industry, experiencing positive financial trends.

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<sup>29</sup> GAO-11-282, *Foreign Posts' Strategies Could Inform U.S. Postal Service's Efforts to Modernize*. Feb 2011.

<sup>30</sup> Digital/hybrid mail is defined as the various different means of sending and receiving mail, including using a combination of electronic, digital, and physical methods.

## **APPENDIX D: INDIVIDUALS INTERVIEWED/CONTACTED**

### **UNITED STATES POSTAL SERVICE**

Brownell, Susan M.—Vice President of Supply Management

Callahan, Thomas J.—Postmaster, Charlotte NC

Corbett, Joseph—Chief Financial Officer and Executive Vice President

Donahue, Patrick R.—Postmaster General

Fields, David C.—Area Vice President, Capital Metro Area Operations

Gibbons, Mary Anne—General Counsel and Executive Vice President

Rogers, Sharon M.—Senior Plant Manager, Merrifield VA

Stroman, Ronald A.—Deputy Postmaster General

### **OFFICE OF INSPECTOR GENERAL, UNITED STATES POSTAL SERVICE**

Adra, Mohammad—Assistant Inspector General, Risk Analysis Research Center

Colter, Monique—Director of Facilities, Environment, and Sustainability

Duda, Mark W.—Assistant Inspector General for Audit

Leonhardt, Judy—Director of Audit Operations

Sheehy, Renee—Director Economist, Risk Analysis Research Center

Siemer, William—Director of Investigations

Williams, David C.—Inspector General

### **POSTAL REGULATORY COMMISSION**

Acton, Mark—Commissioner

Boston, April—Special Assistant

Callender, Jack—Inspector General

Cigno, Margaret M.—Director, Office of Accountability and Compliance



D'Souza, Cassie—Senior Cost & Financial Analyst

DeBry, Kristine—Senior Counsel to the Chairman

Fisher, Ann—Director, Public Affairs and Government Relations

Goldway, Ruth—Chairman

Hammond, Tony—Commissioner

Harle, R. Kevin—Manager Financial Reporting

Langley, Nanci E.—Commissioner

Ravnitzky, Michael J.—Chief Counsel to the Chairman

Sharfman, Steven L.—General Counsel

Taub, Robert G.—Commissioner

Tokioka, Darcie S.—Special Assistant

#### **CONGRESSIONAL STAKEHOLDERS**

Anderson, Teresa—Government Accountability Office

Bailey, Katie—Minority Director of Governmental Affairs Committee on Homeland Security,  
Senator Coburn

Cole, David W.—Legislative Assistant, Senator John McCain

Corbin, Kevin—Deputy Clerk, House Committee on Oversight and Government Reform

Grossman, Beth—Majority Chief Counsel, Senate Committee on Homeland Security and  
Government Affairs

John, Kenneth—Government Accountability Office

Kosar, Kevin R.—Acting Section Research Manager of Executive Branch Operations,  
Congressional Research Service

Kilvington, John—Deputy Staff Director, Senate Subcommittee on Homeland Security and  
Government Affairs

Lips, Dan—Staff, Senator Coburn

Novey, Larry—Associate Staff Director & Chief Counsel for Government Affairs, Senate Committee on Homeland Security and Government Affairs

Post, Jeffrey A.—Professional Staff Member, House Committee on Oversight and Government Reform

Warren, Peter—Policy Director, House Committee on Oversight and Government Reform

## **POSTAL SERVICE CUSTOMERS/ INDUSTRY STAKEHOLDERS**

Benjamin, Maynard—President/CEO, Envelope Manufacturers Association

Berenblatt, Jody—Senior Advisor, GrayHair Advisors

Bingham, Michael—Director, Toshiba International Corporation

Campo, John—Vice President of Government Relations, DymoEndicia

Charles, Alfie—Vice President of State and Local Government Affairs, Pitney Bowes

Chopra, Deepak—President and CEO, Canada Post

Cohen, Rita D.—Senior Vice President of Legislative & Regulatory Policy, The Association of Magazine Media

Cooper, Benjamin Y.—Principal, Coalition for a 21<sup>st</sup> Century Postal Service

Conway, Anthony W.—Executive Director, Alliance of Nonprofit Mailers

Côté, Jacques—Group President-Physical Delivery Network, Canada Post

Cregan, James—Executive Vice President of Government Affairs, The Association of Magazine Media

Croce, Robert—Vice President of Government Relations, Valassis Communications Inc.

Del Polito, Gene A.—President, Association for Postal Commerce

Domagala, Richard—Director of Postal Affairs, Mystic Logistics Inc.

Ferguson, Suzanne—Assistant to the President, Canada Post

Franckowiak, Joy—Director for Postal Affairs and Distribution, Valpak

Garner, Ken—President/CEO, Association of Marketing Service Providers

Hargrave, Nolan—CEO/Founder, PKG Consulting

Hegarty, John—President, National Postal Mail Handlers Union

Heiman, Bruce J.—Practice Area Leader for Policy/Regulatory, K&L Gates

Henderson, William J.—former Postmaster General

Killackey III, James F.—Executive Vice President, National Association of Postal Supervisors

LeMunyon, Glenn B.—President, The LeMunyon Group

Levi, Bob—Director of Government Relations, National Association of Postmasters of the United States

Lyons, Ashley—Consultant/Government Affairs, Pitney Bowes

Medley, Kelly—Government & Public Affairs, Air Transport Services Group Inc.

Moyer, Bruce—Principal, The Moyer Group

Myers, James Pierce—Executive Vice President, Parcel Shippers Association

Sackler, Arthur—Executive Director, National Postal Policy Council

Sauber, James—Chief of Staff, National Association of Letter Carriers

Stack, Teresa—President, The Nation L.P.

Wagner, Brian J.—Secretary/Treasurer, National Association of Postal Supervisors

#### **OTHER EXPERTS/STAKEHOLDERS**

Apgar, IV, Mahlon—Apgar Co.

Atkinson, Robert D.—President, The Information Technology & Innovation Foundation

Buc, Lawrence G.—President, SLS Consulting

Campbell Jr., James I.—Consultant on Postal Policy

Cerasale, Jerry—Senior Vice President for Government Affairs, Direct Marketing Association

Cohen, Robert—Fellow, Economic Strategic Institute

Davis, Thomas M.—Director of Federal Government Affairs, Deloitte & Touche LLP

Dreifus, Henry—Founder and CEO, Dreifus Associates Ltd., Inc.

Fritschler, Lee—Professor of Public Policy, George Mason University

Geddes, R. Richard—Associate Professor, Cornell University

Glick, Sander—Vice President, SLS Consulting

Hendel, David P.—Partner, Husch Blackwell

Keegan, Timothy—Partner, Burzio, McLaughlin & Keegan

Morrissey, Rafe—Senior Vice President for Government Relations, ENGAGE

Olson, William J.—Attorney, William J. Olson, P.C.

Robinson, Alan—President, Direct Communications Group

Schiller, Marc A.—Founder/Principal, Shorter Cycles

Schuyler, Michael—Fellow, Tax Foundation

Scott, Michael D.—Patton Boggs

Soifer, Don—Executive Vice President, Lexington Institute

Stover, David F.—Consultant on Postal and Public Utility (Greeting Card Association)

Wilson, Denise—Congress/Public Affairs, Strategic Government Services

#### **OTHER U.S. FEDERAL OFFICIALS**

LaPlaca, Daniel—Office of Management and Budget

Weatherly, Mark A.— Deputy Associate Director for Housing, Treasury, and Commerce,  
Office of Management and Budget

## APPENDIX E: PANEL AND STUDY TEAM

### PANEL

**David M. Walker, Chair\***—Founder and Chief Executive Officer, Comeback America Initiative. Former President and Chief Executive Officer, Peter G. Peterson Foundation; Comptroller General of the United States; Partner and Global Managing Director, Arthur Andersen, LLP; Public Trustee, U.S. Social Security and Medicare Trust Funds; Assistant Secretary of Labor for Pensions and Welfare Benefits Programs, U.S. Department of Labor; Acting Executive Director, Pension Benefit Guaranty Corporation.

**Walter D. Broadnax, Ph.D.\***—Distinguished Professor and Syracuse University Trustee Emeritus, Campbell Public Affairs Institute, Maxwell School of Citizenship & Public Affairs, Syracuse University. Former President, Clark Atlanta University; Dean, School of Public Affairs, American University; Professor, School of Public Affairs, University of Maryland; Deputy Secretary, U.S. Department of Health and Human Services; President, Center for Governmental Research; President and Commissioner, Civil Service Department, State of New York; Principal Deputy Assistant Secretary, U.S. Dept. of Health, Education and Welfare.

**Daniel J. Chenok\***—Executive Director, Center for The Business of Government at IBM; Former Vice President and Partner, Technology Strategy, Public Sector, IBM Global Business Services; Former Senior Fellow, IBM Center for the Business of Government; Former Government Team Lead, Technology, Innovation and Government Reform Policy Committee; E-Government/IT and OIRA Lead, Office of Management and Budget Agency Review Team; President-Elect Obama's Transition Team; Former positions with SRA International; Vice President and Director, Consulting Business Integration; Vice President and Director, Business and Technology Offerings. Former positions with Office of Management and Budget: Branch Chief, Information Policy and Technology; Assistant Branch Chief, Human Resources and Housing; Policy Analyst/Desk Officer.

**John A. Koskinen\***—Former Chairman of the Board and former Director, Freddie Mac; President, U.S. Soccer Foundation; City Administrator, Government of the District of Columbia; Assistant to the President of the United States and Chair, President's Council on Year 2000 Conversion; Deputy Director for Management, U.S. Office of Management and Budget; President and Chief Executive Officer, The Palmieri Company; Administrative Assistant to Senator Abraham Ribicoff; Assistant to Mayor John Lindsay and to New York City.

**Paul R. Lawrence, Ph.D.\***—Partner, Initiative on Leadership, Government & Public Sector, Ernst & Young. Former Vice President, Public Service, Accenture; Senior Director, Strategy and Innovation, MITRE; Vice President, IBM Public Sector; Founder & Managing Partner, IBM Center for Business of Government; Partner, Office of Government Services, PricewaterhouseCoopers; Senior Economist, Arthur D. Little; Captain, Finance Corp, U.S. Army.

*\* Academy Fellow*

## STUDY TEAM

**Joseph P. Mitchell, Ph.D.,** *Director of Project Development and Project Director* —Manages the Academy's studies program and previously served as Project Director for past Academy studies for USAID/Management Systems International, the National Park Service's Natural Resource Stewardship and Science Directorate, and the USDA Natural Resources Conservation Service. Served on the study team for past Academy studies for the Federal Emergency Management Agency, Office of National Drug Control Policy, Centers for Disease Control, National Aeronautics and Space Administration, and the Federal Bureau of Investigation, National Marine Fisheries Service, Patent and Trademark Office, National Institutes of Health, Department of the Interior, and Forest Service. Former Adjunct Professor at the Center for Public Administration and Public Policy, Virginia Polytechnic Institute and State University. Holds a Ph.D. from the Virginia Polytechnic Institute and State University, a Master of Public Administration from the University of North Carolina at Charlotte, and a BA in History from the University of North Carolina at Wilmington. Pursuing a Master of International Public Policy with a concentration in American Foreign Policy at the Johns Hopkins University School of Advanced International Studies.

**Roger E. Kodat,** *Senior Project Coordinator*—Financial professional and Principal of The Kodat Group LLC, with offices in Herndon, VA; brings 20 years of commercial and investment banking experience with JPMorganChase, both in the US and Europe; appointed by President George W. Bush in 2001 to serve as Deputy Assistant Secretary of Treasury, responsible for Federal Financial Policy; tasks at Treasury during six years in office included: rule-making and oversight of Federal loan and loan guarantee programs; managing the Federal Financing Bank (a \$32bn bank at that time); and preparing legislation to reform the US Postal Service. Holds both an MBA in Finance and MA in Political Science from Indiana University, and a BS in Education from Northwestern University.

**Jonathan W. Wigginton,** *Research Associate*—Currently serving on a number of projects for the Academy, including the *Political Appointee Project* and *Memos to National Leaders* studies. Former research volunteer, Smithsonian Institution's National Museum of American History. Holds a BA in History from the University of Mary Washington

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