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Testimony

by

Lester C. Hess, Jr.

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Chairman of the Grand Lodge Advisory Committee,

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of the United States of America

Before the

Special Panel on Postal Reform and Oversight

Committee on Government Reform

U.S. House of Representatives

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21

22 I am Lester C. Hess, Jr., Chairman of the Elks Grand Lodge  
23 Advisory Committee and Past National President of the Elks,  
24 known in total as the Benevolent and Protective Order of Elks  
25 of the United States of America. I am also a Trustee of the  
26 Elks National Foundation and serve as the State Sponsor of  
27 Kentucky, Virginia, and West Virginia Elks.

28

29 The Elks are a nonprofit fraternal organization of 1.1  
30 million women and men who serve more than 2,200 communities  
31 across the nation. Its headquarters are located in Chicago.  
32 For 136 years, the Elks have pursued this mission: to in-  
33 culcate the principles of charity, justice, brotherly love, and  
34 fidelity; to promote the welfare and enhance the happiness of  
35 mankind; to quicken the spirit of American patriotism. In  
36 2003, a survey of Elks activities identified more than \$200  
37 million annually that had been allocated for charitable,  
38 educational, welfare, and patriotic programs in terms of both  
39 cash and value of service contributions. Cumulatively this  
40 amounts to over \$3.5 billion since tracking began in 1878.

41

42 In addition to my commitment to the Elks, I am active in  
43 the work of other nonprofit organizations. I have served as  
44 President of the Board of Governors of the Alumni Association

45 of the West Virginia College of Law. For 32 years, I have been  
46 a member of the Board of Trustees of the Ohio County, West  
47 Virginia, Public Library, and for the last ten years, I have  
48 chaired that board.

49

50 I was a founder and chaired the Board of Directors of Big  
51 Brothers-Big Sisters of Wheeling, Inc., in Wheeling, West  
52 Virginia. I am a member of the Vance Memorial Presbyterian  
53 Church also in Wheeling.

54

55 Our organization is a member of the Direct Marketing  
56 Association Nonprofit Federation ("DMANF"), which represents a  
57 broad cross-section of the nonprofit community eligible to mail  
58 at the nonprofit mail rate.

59

60 I wish to thank the Committee for giving me the  
61 opportunity to provide our perspective on the future course of  
62 the Postal Service in light of the President's Commission on  
63 the Postal Service's recommendations and the President's  
64 recently stated objectives for postal reform.

65

66 Over the past thirty-four years nonprofit mailers have  
67 experienced a sporadic escalation in rates which forces the  
68 choice of cutting-back charitable programs and services. We

69 encourage reform that will allow rate increases, but not an  
70 unlimited pass-through of cost to rate payers; instead, reform  
71 focusing on a balanced, managed approach to provide service and  
72 value. It is important to note that nonprofit mailers have  
73 paid their own way and have contributed to the Postal Service's  
74 overhead without receiving any Congressional subsidy since  
75 1998.

76

77 We agree with the United States Postmaster General's  
78 assessment in his earlier testimony that productivity  
79 improvements of the last few years, coupled with reduced  
80 pension payments resulting from recent legislation, have masked  
81 the need for legislation. The general public is largely unaware  
82 of the potential death spiral of the Postal Service due to its  
83 declining volume and its increasing costs. But we know through  
84 our own experience that the time for change is today, before a  
85 crisis forces our hand.

86

87

88 **Overview of the DMA Nonprofit Federation**

89

90 The Nonprofit Federation's more than 350 members consist  
91 of nonprofit religious, educational, and charitable

92 organizations and professional fund raising consultants with  
93 particular expertise in direct response fund raising.

94

95           The nonprofit mailers that make up the DMANF  
96 membership are a broad cross section of the more than 200,000  
97 nonprofits that are authorized to mail at the nonprofit rates  
98 of postage.

99

100           Altogether, Nonprofit Standard-class mailers account for  
101 about 14.5 billion or 7.2% percent of total mail volume, often  
102 in the form of fundraising mail, educational material,  
103 newsletters and event promotions. Nonprofit Periodicals like  
104 The Elks Magazine amount to about 2 billion pieces or 1.0% of  
105 total annual mail volume.

106

107           The Federation membership consists of very large national  
108 organizations whose names are household words; smaller but  
109 still good-sized nonprofits with a high level of name rec-  
110 ognition nationwide; and medium-sized, small, and local  
111 nonprofit organizations, even individual churches and  
112 synagogues.

113

114           The nonprofit community that the DMANF represents is vital  
115 to the well being of this nation both at this very moment and

116 in the future. These organizations are committed to provide  
117 safety net of social and spiritual services, to support  
118 education, and foster the arts and science without any  
119 government funding or in the face of government cutbacks.

120

121 The United States Mail, particularly Nonprofit Standard  
122 and Periodicals Mail, is the lifeblood of these organizations.  
123 Nonprofits use the mail to solicit contributions from members,  
124 the public, disseminate news and information, and communicate  
125 with donors, members, and the public at large.

126

127 Nonprofit mail rates also assisted charities, churches,  
128 colleges and universities to fill the gap left by shortfalls in  
129 federal and state funding for social programs and education.  
130 The federal government is now counting on this Nation's  
131 nonprofit community to step-up again as national priorities  
132 focus on security at home and abroad. Americans will be left  
133 without vital services unless the longstanding federal policy  
134 of affordable mail rates is preserved for nonprofits with  
135 missions that benefit the public good. It is for this primary  
136 reason that we respectfully submit the following comments.

137

**Postal Reform: Key Elements**

138

139

140       The problems posed by the Postal Service for this  
141 Nation's nonprofit service-oriented community requires both  
142 long-term reform and immediate action.

143

144       I commend this Special Panel and the leadership of the  
145 full Committee on Government Reform in the House of  
146 Representatives for its decision to hold hearings on the  
147 recommendations of the President's Commission on the U.S.  
148 Postal Service and the President's principles of reform.

149

150       In addition to the President's guiding principles for  
151 reform, we would add the following:

152

153       Rate increases alone will not be sufficient to preserve  
154 universal service and prevent deterioration of service--let  
155 alone improve the reliability of service.

156

157       Since 1970, postal rates have been set to cover the direct  
158 cost to process each class of mail and the Postal Service's  
159 overhead costs. Postal management is constantly trying to  
160 improve its methods to make sure that it collects good cost  
161 data and allocates its costs correctly by class of mail.

162

163           Since 1970, postage increases have been enormous for  
164 the nonprofit community (**See Attachments A & B**). The Elks use  
165 the nonprofit mail rate to communicate with members through The  
166 Elks Magazine, the central vehicle to connect the membership on  
167 a national basis; to make local Elks Lodges aware of charitable  
168 and patriotic activities at Lodges just like theirs around the  
169 nation; and to join us together in love for this country  
170 regardless of our regional differences.

171

172           For the past 34 years, the Elks Magazine has had to cope  
173 with cumulative postage increases in excess of 1,600 percent.  
174 In contrast, single piece First Class postage increased about  
175 516 percent during that same period, and commercial  
176 publications only 558 percent in postage increases. Thus, the  
177 Elks magazine postage has increased more than three times  
178 higher than First Class Mail and more than twice as high as  
179 commercial publishers. Much of the reason for the increase was  
180 a shift from federal appropriations for revenue foregone to  
181 mailers, mostly nonprofits, with some impact on commercial  
182 mailers as well. This increase has been dramatic and stark  
183 compared to normal increases in costs for other essential needs  
184 of our organization over this same time period.

185

186           As we view this past history, we remain cautious in our  
187 approach to reforming the United States Postal Service. We urge  
188 that as Congress moves forward in reform and considers capping  
189 rates for our type of mail, a serious examination of the price  
190 cap proposal occur.

191

192           Congress needs to ensure that if rates are capped for  
193 nonprofit mail that they remain capped. Rates should not  
194 continue to increase because of new conditions without a  
195 significant process of review or challenge by impacted mailers  
196 as with current rate proceedings.

197

198           We expect the Postal Service will aggressively seek rates  
199 beyond a cap limit for those rate categories they have proposed  
200 accelerated rates in the past, namely Nonprofit Periodicals, as  
201 their priorities shift and economic realities tempt the Service  
202 to raise rates rather than take other steps.

203

204           We seek certainty and stability for our rates with the  
205 same expectation as other types of mailers who champion reform.  
206 We urge Congress to ensure there is no hidden escape hatch for  
207 the Postal Service after rates are capped that would lead to  
208 rate shock for nonprofit mailers and would weaken the price cap  
209 scheme.

210

211           No one would disagree that affordable postal rates for  
212 charities is a core reason for today's mission of the Postal  
213 Service as captured in its universal service mandate.

214

215           As Congress moves forward with important reforms that  
216 impact universal service, we need to be wary of potential  
217 consequences for our organizations.

218

219           No doubt, rate increases produce deleterious consequences.  
220 Suffice it point out that at any given rate of increase, some  
221 mail will be priced out of the system. Volume declines beget  
222 new postage rate increases which perpetuate the so-called  
223 "death spiral." We urge the Committee to act now so that the  
224 Elks mail and other nonprofit mailers are not swept into the  
225 death spiral.

226

227           In fact, the General Accounting Office has reported that  
228 it will take much more than raising postal rates even higher in  
229 order to set the Postal Service on a sound economic foundation  
230 for the long run:

231

232           In order to achieve net cost savings, the Service's  
233 cost-cutting efforts must currently offset billions

234 of dollars in annual cost increases for general wage  
235 increases, cost-of-living adjustments, and rising  
236 benefits costs, particularly in health insurance pre-  
237 miums, as well as infrastructure and workforce  
238 costs associated with having to deliver mail to  
239 over 1.5 million new addresses every year.

240 Thus, maintaining the quality and affordability  
241 of postal services would likely require dramatic  
242 improvement in the Service's efficiency. In order  
243 to do so, the Service will need to become a much  
244 leaner and more flexible organization and right size  
245 its processing and retail networks and its workforce.

246

247 Statement of David M. Walker, Comptroller General of the United  
248 States, United States General Accounting Office, January 28,  
249 2004, at page 8.

250

251 If higher rates are the predominant means to address the  
252 economic and financial problems that plague the Postal Service,  
253 then the rate of those increases will have to be very steep.  
254 The ripple effects of successive rounds of staggering postal  
255 rate increases will be very destabilizing to the economy.

256

257 In the last twenty years, postal management has relied  
258 increasingly on substitution of automation for labor. This has  
259 been a very expensive strategy for flats. One may debate  
260 whether their strategy has resulted in net cost savings--it has  
261 succeeded for letters, but failed for flats. There is  
262 agreement, however, that relying predominantly on rate  
263 increases to raise sufficient revenue to pay for a continuation  
264 of that strategy and to pay for the Postal Service's other  
265 costs is a bankrupt approach.

266

267 True productivity means to eliminate the cause of loss and  
268 waste--that is improving the reliability of service--without  
269 new capital investment. To achieve such productivity will  
270 require top postal management to solicit its employees at every  
271 level in order to identify those places in the system that  
272 cause waste and loss. Only top management has jurisdiction  
273 over the system. That's why top management and labor must work  
274 together if the Postal Service is to improve productivity  
275 without investing new capital.

276

277 It is imperative that management achieves productivity  
278 without new capital in order to achieve the objectives of  
279 postal reform. Otherwise the Postal Service will continue on  
280 its present course--raising rates to cover ever-rising costs

281 and new capital investment with the concomitant effect to price  
282 more and more mail out of the postal medium.

283

284 Only Congressional Action Now Will Prevent

285 Destabilization in 2006

286

287 In addition to the need for broad and deep postal reform,  
288 there is an immediate rate crisis close at hand that could  
289 raise rates by double digits for nonprofit organizations.

290

291 Postage increases will become a destabilizing economic  
292 force at the beginning of 2006 unless Congress acts now to  
293 address the unforeseen impact of two provisions in P.L. 108-18,  
294 the Postal Civil Service Retirement System Funding Reform Act  
295 of 2003. The magnitude of the rate impact and the urgent need  
296 for action immediately needs your attention.

297

298 Top postal management has apprised mailers throughout 2003  
299 that it will need to boost postal revenue by early 2006. As a  
300 result, postal economists will begin this spring or early  
301 summer to prepare the filing that will initiate the next postal  
302 rate case in fall of 2004.

303

304           Fall 2004 to January 2006 is barely sufficient to conduct  
305 the ten-month trial-like rate proceeding and also afford time  
306 for the Board of Governors to act on the Postal Rate  
307 Commission's recommended decision in the rate case.

308

309           Thus, unless Congress mitigates the increased postage  
310 impact that P.L. 108-18 will have on the rate proposal the USPS  
311 is preparing to file this year, the result will be double-digit  
312 rate increases for my organization and charities across the  
313 nation.

314

315           We cannot absorb such increases without cutting services  
316 to Elks' state-wide charitable programs such as summer camps  
317 for children who are financially disadvantaged or with  
318 disabilities; in-home disability treatment; children's  
319 hospitals; cancer research; eye care; temporary haven for  
320 abused families; local, state and national disaster relief;  
321 community recognition programs; and Elks national youth  
322 programs like "Hoop Shoot" or "Soccer Shoot;" scholarships;  
323 drug awareness literature; and veterans service programs.

324

325 The Magnitude of the Prospective Increase

326

327 Beginning in FY2006, P.L. 108-18 requires the Postal  
328 Service to establish and fund an escrow account to hold the  
329 difference between the amount of money that the old postal  
330 civil service retirement formula would have generated and the  
331 new formula set forth in P.L. 108-18.

332

333 Unless Congress acts very soon, postal management will  
334 request a postage increase that averages 5.4 percent higher  
335 than it otherwise would need in order to fund the mandated  
336 escrow fund beginning in 2006.

337

338 The 5.4 percent would come on top of whatever increase  
339 postal economists estimate will be needed in order to pay for  
340 the higher operating expenses of the Postal Service since the  
341 last postal rate increase in 2002. Thus, if postal economists  
342 were to determine that postal operations require a modest  
343 increase in postal revenue, say two to four percent, then the  
344 5.4 percent increase would approximate a double-digit increase.

345

346 If postal economists determine that the Postal Service has  
347 been spending at an even faster pace, say five to ten percent,  
348 since the last rate increase, then the combined postage

349 increase management requests would average ten to fifteen  
350 percent. As unconscionable as that may sound, it is plausible.

351

352 The average add-on increase of 5.4 percent in postage in  
353 2006 will be even greater depending on resolution of a separate  
354 issue: Who pays for certain federal military retirement costs  
355 --all taxpayers or only mailers?

356

357 P.L. 108-18 also transferred responsibility to the Postal  
358 Service to pay for the retirement benefits of postal employees  
359 earned through military service. Previously, Congress assigned  
360 this responsibility to the Department of the Treasury, that is,  
361 to all taxpayers.

362

363 **Destabilizing Impact of A Double-Digit Increase in Postage**

364

365 For most mailers, postage is the single largest expense  
366 item when it comes to direct mail marketing and publishing.  
367 Thus, it is difficult for most mailers to absorb a double-digit  
368 increase in postage.

369

370 A double-digit increase in postage is particularly  
371 devastating for nonprofit organizations. Nonprofit mail rates  
372 are the lifeblood of organizations that provide safety net

373 services, support education, and foster the arts without  
374 government funding and in the face of government cutbacks  
375 particularly severe this year because of declining budgets.

376

377       As mentioned above, nonprofits use the mail to solicit  
378 contributions from the public, disseminate news and  
379 information, and communicate with donors, supporters, and the  
380 public at large from public health information to results of  
381 scientific studies. Despite widespread use of the Internet, we  
382 find there simply isn't alternative technology to accomplish  
383 these vital functions as effectively for charities.

384

385       Mailers that sell goods and services may be able to offset  
386 some of the postage increase by raising the price of the goods  
387 or services they sell through the mail. Nonprofits, however,  
388 do not sell goods or services and have no way to absorb  
389 increases without great harm.

390

391       The only way that nonprofits can respond to higher postal  
392 rates is to mail fewer solicitation appeals, cut back service,  
393 curtail new programs, and reduce staff. To permit double digit  
394 increases now would result in an enormous loss of social  
395 programs that provide services not performed by government.

396

397

**Conclusion**

398           As you look ahead to chart the future course of the Postal  
399 Service, you must look back.

400

401           For decades Congress has recognized that affordable  
402 nonprofit mail rates and good works that nonprofits perform in  
403 the public interest go hand in hand. To allow nonprofit mail  
404 rates to rise at a double-digit rate would erode the ability of  
405 nonprofits to perform good works for which there isn't any  
406 substitute provider. That's an important reason why nonprofit  
407 mail rates have historically been a good investment for the  
408 Nation as a whole.

409

410           You can be certain that the Elks will continue our good  
411 works in support of government regardless of the direction of  
412 postal reform. If you call on us, we will be there. However,  
413 Congress has the ability to set the stage for fostering charity  
414 or to shrink our abilities through postal reform. We urge you  
415 to help us.

416