

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

REVIEW OF NONPOSTAL SERVICES

Docket No. MC2008-1

STATEMENT OF PATRICK R. DONAHOE
ON BEHALF OF
UNITED STATES POSTAL SERVICE

Table of Contents

I.	Autobiographical Sketch	1
II.	Purpose of Sworn Statement	2
III.	Overview.....	2
IV.	Core Business-Related Activities.....	3
	A. Property-Related Activities	5
	1. Real Property.....	5
	2. Disposal of Property Other Than Real Propert.....	8
	3. Web-Based Affiliates.....	10
	B. Other Core Business-Related Activities.....	13
	1. Purchasing Arrangements that, as a By-Product, Generate Revenue.....	13
	2. An Arrangement that Facilitates the Change of Address Core Function.....	16
	3. Additional Sources of Revenue.....	18
V.	Government-Related Activities.....	19
	A. Law Enforcement Activities.....	19
	B. Other Governmental Function Revenue, Including Philatelic Services.....	20
	C. Interagency Agreements.....	20

1 **I. Autobiographical Sketch**

2 My name is Patrick R. Donahoe. Since April 2005, I have been the
3 Deputy Postmaster General and Chief Operating Officer. I report directly to the
4 Postmaster General and am a member of the Postal Service Board of
5 Governors.

6 I have responsibility for mail processing, transportation, field operations,
7 engineering, delivery, retail, facilities, and network operations. The following
8 officers reporting directly to me: the Senior Vice President of Operations,
9 Managing Director and Senior Vice President of Global Business, and nine Area
10 Vice Presidents.

11 In 1975, I entered the Postal Service as a clerk in Pittsburgh,
12 Pennsylvania. My previous officer positions have included the Chief Operating
13 Officer and Executive Vice President; Senior Vice President, Operations; Senior
14 Vice President, Human Resources; and Vice President, Allegheny Area
15 Operations.

16 I earned a Bachelor of Arts degree in economics from the University of
17 Pittsburgh and a Master of Science degree as a Sloan Fellow at the
18 Massachusetts Institute of Technology.

1 **II. Purpose of Sworn Statement**

2 The purpose of this statement is to justify the continuance of activities¹
3 not otherwise discussed in the sworn statements filed in this docket of Pranab
4 Shah, Alice VanGorder, Thomas Foti, Margot Meyers and Tina Lance.

5 **III. Overview**

6 In order to give a framework to my statement, I discuss the activities as
7 belonging to one of two broad categories. Admittedly some activities may fit into
8 both categories, but I have grouped them this way simply for conceptual
9 purposes. All the activities share common elements: their primary purpose is
10 not to generate revenue, and my understanding is that they are and continue to
11 be specifically authorized by law.

12 The first category includes the activities that are related to and support
13 the Postal Service's core function of providing postal services. The law requires
14 the Postal Service to operate under best practices of honest, efficient and
15 economical management and provides the authority to do so. I refer to these as
16 core business-related activities which include, for example, the sale, lease, and
17 disposal of real, tangible and intellectual property.

18 The second category includes activities that relate to our governmental
19 status and do not directly relate to enabling the performance of our core business
20 function. For example, the Postal Service engages in a variety of law
21 enforcement functions mostly through the activities of the Postal Inspection

¹ The activities I discuss have already been addressed in the Postal Service's June 9, 2008 filing in this docket. Throughout my statement I provide cites to the descriptions provided in that filing.

1 Service. These actions may result in the Postal Service receiving money or
2 property through forfeiture or a judgment of civil penalties, fines or restitution. I
3 refer to this category of activities as government-related activities.

4 **IV. Core Business-Related Activities**

5 As the largest postal operator in the world, the Postal Services processes
6 and delivers approximately 40 percent of the global volume of mail. Last year, we
7 delivered 212 billion pieces, or approximately 1430 pieces per delivery address.
8 As such, the operation of the Postal Service is necessarily complex. We have
9 one of the largest retail networks in the United States with over 34,000 facilities.
10 We have one of the largest transportation fleets, owning over 220,000 vehicles.
11 We are the second largest civilian employer in the United States with over
12 785,000 employees. We have extensive capital equipment holdings including
13 automation mail processing machines, distribution equipment, and computers. In
14 the ordinary course of business, we acquire unclaimed merchandise and funds,
15 judgments in court cases, and many other sources of revenue.

16 To enable the Postal Service to operate and provide its core functions, my
17 understanding is that the law provides the ability of the Postal Service to buy,
18 maintain, sell, lease, or otherwise dispose of property as we deem necessary.
19 Thus, we have the ability to, for example, buy, lease, and/or maintain buildings,
20 vehicles and equipment; purchase supplies; train our employees; maintain the
21 value of our intellectual property; and create and maintain a website that enables
22 us to provide high-quality postal services in a sound fiscal manner.

1 We also have the power to dispose of our property. Prudent management
2 requires that such disposal be done on terms that maximize the value of such
3 property. In the discussion below I highlight some of the complexities involved in
4 disposing of property in ways that maximize our return. I also discuss several
5 activities related to our core functions that, as an off-shoot, generate revenue, but
6 have proven to be effective methods of supporting postal services. Finally, I
7 discuss some of the revenue generating activities that result from the normal
8 operation of our business, such as the recovery of unclaimed merchandise found
9 in the mail stream.

10 Overall, the scope of our core business activities is very broad. The
11 revenue generating aspects of some of these activities are a small but essential
12 part of the ability of the Postal Service to manage its operations and provide
13 postal services effectively and efficiently. In my view, there is a clear public
14 benefit when the Postal Service conducts the activities and programs I am
15 describing below in a professional and business-like fashion. In total, they
16 provide hundreds of millions of dollars of contribution to institutional cost
17 recovery, and thus play an important role in the maintenance of the nation's
18 postal infrastructure. I believe that the public much prefers that necessary funds
19 be raised through prudent conduct of these activities, rather than through
20 increases in the prices and fees for postal services. On the other hand, I have no
21 doubt that the public would be justifiably concerned if the Postal Service failed to
22 manage its assets judiciously.

1 A. Property-Related Activities

2 1. Real Property

3 To house our retail, processing and delivery networks, the Postal Service
4 has extensive real estate holdings. Of the 34,000 facilities, we generally own our
5 larger strategic assets, such as processing plants, and we lease our smaller
6 assets, such as retail operations. The USPS follows an established process for
7 aligning space with operational requirements. This process prevents the Postal
8 Service from acquiring space over and above its needs. If a property is deemed
9 excess or underutilized, we assess from operational and financial viewpoints
10 whether we should dispose of the property. Excess properties are marketed for
11 sale or lease as soon as possible, often before they are vacated.²

12 In prime real estate locations (e.g., Manhattan, Boston) or in other
13 situations where the cost of relocating a postal facility will be outweighed by the
14 value of the disposed asset, the Postal Service maximizes the disposal value of
15 the asset. For example, our assessment of the Church Street station in New
16 York revealed that this large office building, retail post office, and processing
17 facility would benefit from an extensive renovation in the 1990s. We decided to
18 work with a subsidiary of a large and successful real estate management and
19 development firm. We master leased the entire building to this developer, which
20 then performed an extensive renovation of the building, creating “First Class”
21 office space which it leased to various tenants. The Postal Service leased back

² Barriers to prompt disposal of property include adverse market conditions and community opposition. In addition, occasionally, the historic nature of a property, or its physical condition, lengthens the disposal process.

1 space in the restored historic lobby, as well as other office space in the building.
2 The developer found tenants for the rest of the newly renovated building, and in
3 this way the Postal Service has been able to realize a solid return on investment
4 for the past several years. The developer also suggested that full property and
5 casualty insurance be procured for the building, in keeping with its normal
6 business practices for "First Class" Office space; we agreed to this approach,
7 even though we rarely purchase this type of insurance. As a result of this
8 arrangement, the Postal Service was able to collect \$75 million from the building
9 insurers for damages suffered as a result of the 9/11 terrorist attacks on the
10 World Trade Center, which was located directly across the street from our 90
11 Church Street facility. We received a partial insurance payment in 2003 and the
12 remainder in 2005.

13 Disposal of property is an essential tool to keeping the costs of managing
14 our large facilities network under control. In 2007, the Government Accounting
15 Office reviewed the management of federal real property by nine federal
16 agencies, including the Postal Service. See GAO Report GAO-07-349. These
17 agencies hold over 93 percent of the government's owned and leased space.
18 GAO Report at 2. While excess and underutilized property was a significant
19 issue at a number of agencies, the Postal Service was found to be one of three
20 agencies with relatively low levels of excess property. GAO Report at 23-24.
21 The report noted that an important tool in effectively managing federal realty
22 assets is the ability for an agency to lease to public and private entities and to
23 receive as payment under the lease cash or other consideration such as

1 construction, maintenance, restoration, and repair of facilities or services that
2 benefit the agency. GAO Report at 20.³ The flexibility that the Postal Service
3 enjoys allows the Postal Service to implement the best management practices of
4 the commercial real estate industry in order to support the core functions.

5 There are circumstances where we determine that it is in our interests to
6 lease the property below the fair market value. For example, we have leased
7 space to Federal Credit Unions for as little as one dollar. This enables the Postal
8 Service to provide our employees access to on-site banking services as one of
9 the benefits of employment.

10 The Postal Service's June 9, 2008 filing in this docket discusses the
11 disposal of real property at length at pages 11 to 13 and 16 to 17. I would like to
12 highlight three additional activities that are consistent with maximizing the value
13 of our retail assets. One is the non-exclusive drop box contract with Fed Ex.
14 See June 9, 2008 filing at 16. Pursuant to this arrangement, the Postal Service
15 receives what amounts to lease payments in exchange for allowing FedEx to
16 locate its express drop boxes outside of, or in proximity to, post offices. Another
17 example is the meter manufacturers marketing program (June 9, 2008 filing at
18 16), as a non-exclusive marketing relationship in which the Postal Service has
19 made space available in designated retail lobbies for exhibits promoting the use
20 of Pitney Bowes meter machines and scales.

³ Appendix II to the GAO Report, GAO-07-439, contains information on the lease authority for the major real property holding agencies. A review of Appendix II shows that the Postal Service has the broadest authority to lease with minimal restrictions on the use of the proceeds.

1 As the second largest civilian employer, the Postal Service has a
2 continuing and wide-ranging need to train its employees. To do so the Postal
3 Service has purchased and operates two training facilities that provide overnight
4 accommodations, food service, classrooms, equipment and other materials to
5 support this vital function. The excess capacity of the facilities in Norman, OK
6 and the suburban Maryland, outside of Washington, DC is made available to
7 outside parties, both to other governmental agencies and to external groups.
8 June 9, 2008 filing at 18-19. This business strategy offsets only part of the
9 costs of the facilities and reinforces the primary mission of the facilities: to
10 provide a premier learning environment for postal employees.

11 The payments that arise out of these arrangements—the Fed Ex drop box,
12 the meter manufacturer program and the training facilities—relate to the non-sale
13 disposition of the Postal Service’s rights in real property. They maximize the
14 value of our assets by disposing of them in logical, fiscally responsible ways.

15 2. Disposal of Property other than Real Property

16 Beyond the management of real property, the Postal Service also
17 acquires, maintains, and disposes of tangible and intellectual property. During
18 the normal course of operating the Postal Service, we acquire valuable
19 intellectual property. This occurs, for example, during the continuous
20 development of technology to improve the efficiency of processing the mail and
21 the digital interface with customers. Our brand is also valuable. The June 9,
22 2008 filing in this docket describes at length the importance of maintaining the

1 value of the Postal Service's intellectual property and the consequences of the
2 failure to do so.

3 In the course of operating its retail, processing, delivery, and related
4 facilities, and operating the transportation networks which link those facilities, the
5 Postal Service accumulates an unimaginable variety of objects and materials.
6 Obsolete or unusable distribution or transportation equipment, undeliverable
7 and/or unclaimed mail, excess supply inventories, defunct computers, and
8 "vintage" office and retail furniture are some examples of the kinds of tangible
9 objects which can potentially clutter up postal facilities. And just as a household
10 must regularly clean out the garage in order to ensure sufficient room for the
11 family vehicles, so too the Postal Service must dispose of items which are in its
12 possession, but for which it has no current use, in order to be able to keep the
13 mail moving. Naturally, sound fiscal management requires that such disposal be
14 done on terms that allow realization of the maximum value still remaining in such
15 property. Although the Postal Service achieves that objective in a variety of
16 ways, under a variety of different circumstance, with revenues that I understand
17 are booked into a variety of accounts in the General Ledger, these activities can
18 generally be grouped as "disposal of miscellaneous property." The Postal
19 Service routinely receives revenue from these disposal activities, as I imagine it
20 has done throughout its existence. Disposal of such items is but one of the
21 myriad of activities which must be conducted in the course of managing the day-
22 to-day operations of the Postal Service, although, of course, it is a relatively small
23 part of the overall management effort.

1 Disposing of such miscellaneous personal property is closely related to
2 the disposal of another type of excess postal property, vehicles. In FY07, the
3 Postal Service owned a fleet of nearly 220,000 vehicles. Of these, almost
4 200,000 were delivery vehicles, and the rest included tractors and trailers for mail
5 transport, Inspection Service vehicles, mobile post offices, and plant,
6 maintenance, and administrative support vehicles. To meet its transportation
7 needs efficiently, the Postal Service seeks to keep its fleet of vehicles as modern
8 as possible. Thus, for example, the Postal Service owns over 35,000 alternative-
9 fuel vehicles – which I understand to be the largest fleet of alternative-fuel
10 vehicles in the world. Maintaining a modern fleet, however, requires the
11 replacement each year of some fraction of vehicles, as they reach the end of
12 their service life for the Postal Service. These surplus vehicles are sold. Once
13 again, this disposal must be done using whatever means generate the maximum
14 return to the Postal Service for the disposal of these assets.

15 3. Web-Based Affiliates

16 Americans are increasingly relying on access to the internet from their
17 homes and businesses for conducting many different kinds of inquiries and
18 transactions. Initially launched in 1997, the Postal Service public website,
19 www.usps.com, has more than 20 online applications and thousands of pages of
20 useful information. Visits to the Postal Service's web site, www.usps.com, totaled
21 nearly 387 million in FY 2007, approximately 232 million of which were from self-
22 described personal users. An August 2007 survey of visitors to the Postal
23 Service's website indicated that 85 percent of personal users and 78 percent of

1 business users consider using the website a convenient alternative to conducting
2 transactions they have routinely performed at the post office. The Postal Service
3 continuously improves the website's functionality as new ways of meeting
4 customer needs are identified.

5 The Postal Service's public website is an important part of the Postal
6 Service's strategy to provide an alternate retail channel through internet access
7 to information about Postal Service products and services and to other mailing
8 information. The website provides household and business customers with the
9 convenient, around-the-clock ability to access a wide range of tasks and obtain
10 services including:

- 11 • finding ZIP Codes
- 12 • calculating and printing postage
- 13 • printing shipping labels
- 14 • scheduling carrier pickup
- 15 • tracking packages and confirming delivery
- 16 • locating post offices and available Post Offices boxes
- 17 • ordering shipping supplies
- 18 • purchasing stamps and philatelic items
- 19 • filing change-of-address or mail forwarding notices
- 20 • filing requests for a temporary hold on mail delivery
- 21 • requesting redelivery of missed packages or other mail pieces
- 22 • submitting inquiries or complaints

1 Some of the key uses (as measured by transaction numbers) of the Postal
2 Service public website in Fiscal Year 07 and through the second quarter of Fiscal
3 Year 08 were tracking packages and confirming delivery, finding Zip Codes, and
4 printing of postage and labels for mailing and shipping services. In addition to
5 providing valuable information and services related to the Postal Service's core
6 function of delivering the mail, the Postal Service also provides helpful links on its
7 website to government services, such as USA.gov, the U.S. Government's official
8 Web portal, the Social Security change of address service, the U.S. Citizen and
9 Immigration Services, GovBenefits.gov, the official federal government benefits
10 portal and passport information sites.

11 The Postal Service is increasing the value of its public website by
12 maintaining and adding links to various mail service and other providers who
13 offer value-added services that allow customers to use the mail more efficiently
14 and effectively and to access special mail-related services. This internet access
15 to mail-related services and information helps to showcase the many uses of the
16 mail and the many ways in which the mail can accomplish customer goals.

17 For some of these links, such as links to "shipping consolidators" that pick
18 up, sort and transport parcels, the Postal Service receives no revenue other than
19 what it receives from any additional postage. The Postal Service also has
20 entered into agreements with certain other linked mail service providers that do
21 provide revenue to the Postal Service. This revenue helps to defray the costs of
22 running the website. See June 9, 2008 filing at 29-32. These arrangements
23 partially capture the property value of the Postal Service's popular website, in

1 essence making rational economic use of the “virtual real estate” represented by
2 the site in much the same way that the Postal Service has leased physical real
3 estate. In summary, access to these mailing resources through the internet
4 channel not only makes the public website more valuable to customers, but also,
5 in certain cases, assists the Postal Service in its efforts to cover the costs of
6 maintaining the website through the revenue that these providers generate.

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8 B. Other Core Business-Related Activities

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10 1. Purchasing Arrangements that, as a By-Product, Generate 11 Revenue

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The Postal Service, like enterprises of virtually any substantial size, has a variety of contractual arrangements intended to facilitate achievements of its core mission. Because the size and scope of postal operations exceed those of nearly any comparable institution, the range of commercial arrangements into which the Postal Service enters is likewise extraordinary. Essentially, though, these relationships are established to allow the Postal Service to procure goods or services needed in order to fulfill its postal functions. Without doubt, their primary purpose is to spend money to obtain necessary resources, rather than to generate revenue. But because the world of business involves increasingly sophisticated and innovative structures, there are instances in which such commercial relationships will occasionally lead to collateral financial activity that will show up on the Postal Service’s books as revenue. I address three such arrangements in this section: transportation asset management program, the

1 warranty repair program, and the NASCAR sponsorship.⁴ As discussed further
2 below, the Postal Service needs the flexibility to enter these contractual
3 relationships to acquire necessary goods and services under the most favorable
4 terms possible.

5 CMC Transportation Asset Management Program

6 Among other functions, the transportation asset management program
7 uses an electronic card system to keep track of fuel purchases, in order to allow
8 the Postal Service to receive rebates on those purchases, and to obtain refunds
9 on state excise taxes from which the Postal Service is exempt. Both of these
10 activities generate funds which, I am told, show up as “revenue” on the Postal
11 Service’s books. Clearly, however, the only underlying operational activity is the
12 purchase by the Postal Service of fuel. The nature of the broader commercial
13 relationships requires utilization of a complex reporting and compensation
14 mechanism, but that system should not be allowed to cloud the essence of the
15 activity. When a household pays \$150 for a DVD player, but subsequently
16 receives a \$20 rebate check, I suspect most consumers would view this series of
17 transactions as buying something for \$130, rather than as buying something for
18 \$150, but also receiving \$20 in “revenue.” Similarly, when the Postal Service
19 pays a certain amount for fuel, but later receives a rebate, any “revenue”
20 received from this process can hardly be considered to relate to activity
21 independent of the fuel purchases.

⁴ These items were discussed in the June 9, 2008 filing at pages 25 (transportation asset management), 28-29 (warranty repair), and 35 (NASCAR).

1 Warranty Repair Program

2 Another example is the Warranty Repair program. As I understand this
3 program, we are compensated by the equipment manufacturer for repair work
4 conducted under the Postal Service’s auspices when the equipment in question
5 is still under warranty. This arrangement evolved because this particular
6 manufacturer is located in Europe, has no American facilities, and the Postal
7 Service had needed to develop its own equipment repair capabilities anyhow for
8 equipment which was no longer under warranty. What emerged is a common-
9 sense solution that facilitates the broader commercial relationship between the
10 Postal Service and the equipment manufacturer, but which also happens to
11 generate a small amount of revenue. The revenue reimburses the Postal Service
12 for its costs when completing warranty repairs plus helps to cover the overhead
13 costs of maintaining a repair facility. The Postal Service also receives a small
14 amount of revenue for its expenses in completing repairs for other customers of
15 the equipment manufacturer. The small amount of revenue involved in this
16 program, however, in no way changes the fundamental nature of the relationship
17 between the Postal Service and its vendor, or alters the direction of the net flow
18 of funds – the Postal Service spends money to fulfill its needs with respect to this
19 particular equipment.

20 NASCAR

21 The NASCAR sponsorship also demonstrates the ever evolving nature of
22 contractual relationships. The Postal Service purchases advertising to promote
23 its core products in a number of media, and its sponsorship of a NASCAR race

1 team is one way to promote our brand. This agreement allows selected Postal
2 Service trademarks to appear on the team's race cars and related paraphernalia.
3 But one side feature of the arrangement is that a portion of the revenue obtained
4 from the sale of team-related paraphernalia (e.g., jackets, shirts, die-cast toy
5 vehicles) bearing the Postal Service's trademarks is shared with the Postal
6 Service. This revenue, however, is entirely a by-product of a broader commercial
7 relationship.

8 The significance of these types of arrangements extends well beyond the
9 individual relationships discussed above. The Postal Service needs the flexibility
10 to pursue commercial relationships which enable acquisition of necessary
11 outside resources under the most favorable terms that can be negotiated.
12 Occasionally, depending on the needs and wishes of its commercial partner,
13 some of the deals ultimately consummated may include features which create
14 revenue flows in, as well as expense flows out. It is important that the Postal
15 Service's hands not be tied by injecting regulatory uncertainty into the negotiation
16 process.

17 2. An Arrangement that Facilitates the Change of Address
18 Core Function
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20 The processing of change-of-address orders in the ordinary course of
21 postal operations is a vital and necessary part of maintaining service to the
22 public. Approximately 46 million change-of-address orders are submitted to the
23 Postal Service each year by postal patrons requesting mail forwarding. In order
24 to provide a high-quality, effective, and secure address change process, the
25 Postal Service supplies customers with a Movers Guide that includes PS Form

1 3575 – Change of Address Order and a variety of move-related information,
2 including postcards that the customer can use to notify magazines, catalogs,
3 utilities and others of the new address. To confirm that a particular Change of
4 Address Order is valid, the Postal Service also sends two letters to the customer:
5 the Move Validation Letter is sent to the customer's old address and the
6 Customer Notification Letter is sent to the new address. Please see the
7 statement of Alice VanGorder for a further description of these materials.

8 The Postal Service's costs of annually processing 46 million change of
9 address orders are significant. Accordingly, in 1995, the Postal Service and
10 Imagitas, Inc. formed a strategic alliance designed to help defray the costs and
11 add value to the change of address process. The MoverSource Strategic
12 Alliance pays the costs of the change of address program, including such
13 expenses as printing, paper, processing the Change of Address Orders,
14 distribution of forms to post offices, postage, and overhead. The Alliance also
15 regularly measures the customer satisfaction with the change of address
16 program and makes continuous improvements to the program. These costs are
17 paid for by revenue from advertising of move-related services that are placed in
18 the Movers Guide or the two mailings to customers. Imagitas is solely
19 responsible for acquiring the advertising and, on its own, maintains the direct
20 relationship with the companies who advertise. To the extent that the revenue
21 from the advertising exceeds the costs of the Alliance, Imagitas and the Postal
22 Service share the net revenue.

1 A Hammer award, given by the National Partnership for Reinventing
2 Government under the direction of Vice President Al Gore, was awarded jointly to
3 the Postal Service and Imagitas in 1997 for their work in creating the
4 MoverSource Alliance. The Alliance was saluted for being the first
5 entrepreneurial partnership so recognized. The Vice President's Hammer Award
6 is reserved for teams of pioneers who create an innovative and unique process
7 or program to make government work better and achieve results Americans care
8 about. Hammer Awards go to teams that have shown large impacts on customer
9 service, bottom-line results, streamlining government, saving money and
10 exemplary achievements in government problem-solving.

11 3. Additional Sources of Revenue:

12 The massive scale and scope of the Postal Service's core business leads
13 to other instances where revenue is generated in the normal course of business.
14 When the Postal Service is successful in a law suit, it often recovers the costs of
15 litigation. From time to time, it pursues lawsuits to recover losses from vehicle
16 accidents and other torts, affirmative contract claims, and other affirmative
17 claims. The Postal Service also manages its financial portfolio as soundly as
18 possible. It receives income from interest, the sale of securities, the repurchase
19 of debt, interest on overdue accounts receivable, and mortgage interest. The
20 Postal Service may sometimes acquire unclaimed monies found in letters and
21 parcels at Mail Recovery Centers, unclaimed meter deposits, unused flexible
22 spending, unidentified cash receipts and fees from employees for parking. See

1 June 9 filing at 24 to 25. It is difficult to give a complete list, although all money
2 received is recorded in the General Ledger.

3

4 **V. Government-Related Services**

5 The Postal Service engages in a number of activities that do not directly
6 enable our core functions. My understanding is that these activities are all
7 authorized under a variety of statutes, and they arise primarily as a result of the
8 Postal Service's governmental status. As such, the public need and benefit have
9 already been determined by Congress and further justification is not needed.

10

11 A. Law Enforcement-Related Activities

12

13 The Postal Inspection Service is authorized to investigate a variety of
14 criminal and civil statutes. The outcome of some of those investigations is a
15 judicial decision or settlement that results in the Postal Service acquiring property
16 or cash through asset forfeiture, civil penalties, restitution, fines or other
17 payments. See June 9, 2008 filing at 9-10 and 24. The Postal Service also
18 receives reimbursement for services provided to other law enforcement
19 agencies. See June 9, 2008 filing at 10.

20 Other law-enforcement type activities that may generate revenue include
21 fees for maintaining a list of persons who do not want to receive sexually oriented
22 advertising (June 9, 2008 filing at 27), and the recent authority to assess civil
23 penalties for hazardous material (June 9 filing at 8-9).

24

1 B. Other Governmental Function Revenue, Including Philatelic Services

2 As a governmental entity, the Postal Service is required to respond to
3 requests under the Freedom of Information Act and the Privacy Act. My
4 understanding is that under those Acts, the Postal Service is authorized to be
5 compensated for research and/or copying fees. Additional examples of
6 government-related revenue that we receive are emergency preparedness
7 appropriations and recovery from employees pursuant to the Debt Collection Act.

8 Philatelic services promote continued interest in the mail. As far as I
9 know, stamp collecting has been around as long as stamps have, and is an
10 integral and acknowledged part of our culture to the point that the law specifically
11 states that the Postal Service will provide philatelic services. The services
12 include selecting images for issuance on commemorative stamps, issuing
13 stamps and providing services to philatelists. Because stamps are used to pay
14 for services of the federal government, the counterfeiting of stamps can be
15 punished under the counterfeiting criminal laws. This underscores the inherent
16 governmental nature associated with the producing, issuing and accounting for
17 postage stamps. The main focus of the philatelic services we provide is to
18 ensure a secure means of payment of postage through stamps and to promote
19 the hobby of stamp collecting.

20
21 C. Interagency Agreements

22
23 The Postal Service has the authority to enter into agreements with federal
24 agencies to receive property and services and to provide services and property

1 to them. Many of our contracts with other agencies, including our numerous
2 leases with the GSA, are styled as memorandums of understanding (MOUs).

3 Under MOUs, we have provided a number of services directly. For
4 example, we have become one of the most efficient agencies to process EEO
5 complaints. We currently have agreements to provide EEO complaint processing
6 services to eight agencies including the Departments of State, Housing and
7 Urban Development, Agriculture, Treasury, and Interior as well as the Federal
8 Deposit Insurance Corporation, the Army, and the Air Force.

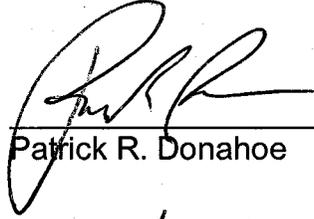
9 Because the Postal Service is a governmental entity with a nationwide
10 reach we also have agreements to provide services on behalf of agencies to
11 meet important national needs. For example, the Postal Service has entered into
12 an agreement with the Department of State to process new passport applications
13 for which we receive an execution fee. See June 9 filing at 16. The Postal
14 Service does not set the execution fee for this service. The Department of State
15 sets the fee, and my understanding is that the fee is the same whether the
16 application is processed directly by the Department of State, or by one of the
17 other acceptance facilities which include many Federal, state and probate courts,
18 post offices, some public libraries and a number of county and municipal offices.

19 The Postal Service also cooperates with other federal government
20 agencies to provide emergency assistance in times of disaster. For example, in
21 the immediate aftermath of Hurricane Katrina, the Postal Service, at the request
22 of the Federal Emergency Management Agency, had its letter carriers distribute
23 leaflets in affected areas containing emergency information and guidance for the

- 1 victims. An interagency agreement set the terms of the arrangement, including
- 2 reimbursement for the Postal Service's costs, and was an effective mechanism to
- 3 allow the Postal Service to respond quickly to the request from FEMA.

DECLARATION

I, Patrick R. Donahoe, declare, under penalty of perjury, that the foregoing statement is true and correct to the best of my knowledge, information and belief.



Patrick R. Donahoe

6/23/08

Date