

Universal Service Obligation (USO) Testimony of Matt Panos

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Postal Regulatory Commission Public Hearing

Flagstaff, Arizona

My name is Matt Panos and I am pleased to be here to provide testimony on behalf of the DMA Nonprofit Federation and the charitable community on the universal service obligation of the United States Postal Service and the postal monopoly. This is a very timely hearing in light of the recent passage of postal reform and the push at the state level to reduce mail under a variety of ill-conceived Do Not Mail bills.

Although I am happy to have this opportunity, a note of caution is needed. We need to keep in mind both the intuitive versus quantitative changes that may occur as a result of hastily wrought changes. We know you have to provide a detailed set of findings based on postal reform law, but it is too early to fully offer all answers given all that you and the postal community face, and as mail users, we need an opportunity for more in-depth quantitative analysis to determine the effect on us. In fact, the effect of laws that would inhibit nonprofit mailing could be catastrophic for non profits and it could undermine one of the pillars of our tax code which encourages citizens to take the opportunity to support society's needs rather than the burden of that support falling directly on the US government. We know as nonprofits that by offering a person compelling needs and an easy way to give, the more they *will* give. By reducing a vital communications channel such as the United States Postal Service, there will be the effect of less giving and more support needed from limited government resources.

I believe that if you were to ask the man or woman on the street what they think the universal service obligation is today, you would get a variety of opinions and some blank stares. Yet this should not diminish the importance of taking the current measure and view of the Universal Service Obligation (USO) as we are all looking at the future of the USPS and what it means to us both as individual recipients of the mail and as charities and businesses counting on the Postal Service for years to come. I therefore applaud the

PRC for holding this important hearing which will guide and direct decision-makers as they work towards shaping the appropriate path for this vital government agency.

Let me first provide you with my background, my organization's mission and the charitable community that relies on the United States Postal Service:

In 27 years of non-profit marketing and major gift fund development experience, I have held leadership positions with the Muscular Dystrophy Association, St. Jude Children's Research Hospital and Baptist Hospital and Health Systems and I serve as the VP of Ministry Partnerships and Resources with Food for the Hungry in Phoenix, Arizona.

In my professional volunteer roles, I am a former president of the National Voluntary Health Association of California and have held leadership roles with the Los Angeles and Orange County Chapters of the former National Society of Fund Raising Executives (now AFP) as well as memberships in the Southern California Planned Giving Round Table, the Phoenix AFP and the Direct Marketing Association's Non Profit Federation where I currently serves as an Advisory Board Member.

Food for the Hungry is a Christian International Relief and Development organization with US national headquarters in Phoenix, Arizona.

Vision: God called and we responded until physical and spiritual hungers ended worldwide.

Mission: To walk with churches leaders and families in overcoming all forms of human poverty by living in healthy relationship with God and His creation.

Our organization counts on the mail to receive support from donors and to communicate with our donors and the public about our important mission. In just the last month we have needed direct mail to share the emergency needs in Myanmar and China; we've asked donors to provide funds to help ship millions of dollars worth or donated medicines

to Latin America and Africa and we have also asked our supporters to match funds awarded to Food for the Hungry by the United States Agency for International Development.

We typically do 40 – 45 separate mailings per year, with an annual volume of more than 4.5 million pieces. We use the mail to anchor our fundraising efforts as do most large nonprofit organizations that count on public support. 73% of our direct mail donors are over 50 and 45% are over 70 and 15% are 80 or more! Many of these supporters do not use any other medium for their giving. Based on my relationships in the nonprofit world, I can say that most long standing nonprofits have similar donor demographics in their direct mail programs.

You will not be surprised that as an anchor, the mail is an irreplaceable fundraising channel, bringing in the lion's share of revenues for FftH and many other organizations. The USPS reports that there are over 350,000 nonprofit permit holders (April 24, 2008 Statement of Postmaster General John E. Potter before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia of the Committee on Oversight and Government Reform, United States House of Representatives.) Individual support is the lifeblood of charities—according to the Giving USA Foundation, out of \$295 billion raised for charity in 2006, \$223 billion was raised from individuals, and we believe that most of that was donated due to appeals sent through the United States Postal Service. (See Giving USA Foundation at www.givingusa.org)

The mail supports the million points of light in the charitable sector—each providing someone with a critical support system-whether seeking a cure for an illness, providing shelter and food to the poor, advocating for basic human services, supporting children, alerting residents about a local disaster, and so many other worthy missions. Beyond providing this level of support as a fundraising and communications channel, the U.S. mail system provides a life line to the elderly and disabled in our communities. Local carriers are often the only human contact these individuals have and there are impressive actions taken by carriers to help the sick and needy that are not well-known, such as

carriers who save lives or collect food donations to give to the poor and needy. This aspect of the mail as a public support system is not often raised, but is a cornerstone of the United States Postal Service and must be kept in mind throughout this process.

When I turned to your questions regarding the universal service obligations and the current postal monopoly, it was good to see that you are exploring a wide range of issues. This is a challenging list. I want to caution that I am not a postal insider, and I am not familiar with the internal processes of the mail system itself. However, I will attempt to address the main points raised from my perspective as a mail user and as a representative of the DMA Nonprofit Federation. I am providing comments on the sections that are most relevant. Those that are not mentioned are not necessarily unimportant, but they are not areas that I am prepared to address today.

1. Scope of the Universal Postal Service and the Universal Service Obligation:

I believe that the “universal service obligations” set forth in section 1.1 raise important questions. The proposed definition outlined with its six features/service elements seems to cover the scope needed for a service to be considered “universal.” The geographic scope seems reasonable as covering the entire population of the United States and military personnel. The range of products seems suitable, dependent upon the needs of the mail users. Under access to the postal system, the need for “reasonable economies” will need further discussion to ensure a balance between well-populated, urban areas and the smaller populations. The needs in a rural community v. a large city must be explored to ensure that a basic level of service is the metric.

Further, the rates and affordability of service as well as quality of service are the most critically important to the nonprofit community. The definition states “universal service charges prices that are fair, reasonable, non-discriminatory, and based on a fair and equitable apportionment of costs.” This definition needs to be looked at in light of the changes rendered by the recent postal reform law that provides for a price index based on the Consumer Price Index (CPI). The new index and how it impacts rate levels based on the measures of “fair and reasonable” may no longer be the same since it is tied to an

economic metric, yet fairness is a key factor for the many kinds of mail users in the postal system.

Quality of service is another critical factor for charities that must wait for the contributions in order to perform their vital work. The current definition seems reasonable, and shall need further examination based on postal delivery standards that the USPS will be issuing this year.

1.2 Universal Service Obligation

I am not prepared address the specific legal obligations of the USO, or the legal scope of current law, but certainly the PRC needs to examine the mailbox monopoly to ensure that mail users and recipients continue to feel confident that the mail system is one of the most secure, if not the most secure communications channel in the country. For charities, ensuring that their communications go out without any tampering, and ensuring that donors' gifts come back to the organization without threat of theft is a key reason that charities can rely on the USPS. Opening the mailbox to other competitors needs serious discussion to ensure the postal system remains secure.

As a secure channel, we also know that the mail channel is the least intrusive form of communications. Nonprofits are exempt from the Do Not Call list registry, and that form of communications may be seen differently. A television ad may be seen as intrusive to the recipient watching a program. But a mail recipient is able to pick and choose when they will go to their mailbox and open their mail. If the mail box were to be opened to competition resulting in less secure and unobtrusive mail, this could result in a major loss of trust in the mail stream, impacting the nonprofit mailers negatively, and the USPS could not recover the loyalty of citizens.

2. Topic No. 2 Historical Developments of the Universal Service, the USO and Monopoly Laws

This section raises important historical issues and developments that we are all wrestling with within the mailing community as the landscape is shifting to digital

communications. Especially relevant to the nonprofit mailing community is the impact of this changing communications and marketing landscape. An organization must become a multi-channel marketer to succeed in this new era. Although mail is the anchor of the fundraising plan for most charities, email, telephone solicitation, mobile marketing, events, social marketing and other developing channels are providing new choice, leading to less emphasis on the mail at some organizations.

The effect of the Internet is a relevant question, and certainly personal correspondence mail has diminished as the public is more reliant on email and text-messaging. However, one area that seems even more key than competing channels is the impact of price on demand. We are seeing that the increase in pricing for postal service has had an impact on mail volume. As it becomes more expensive for nonprofits to mail, they will turn to digital media to reach their potential donors.

Further, since nonprofit rates are tied to the commercial rate, as forces push the Standard rate up and volume down, the rate for nonprofits—that have few alternatives to the mail—could also be impacted by this ripple effect.

3. Topic 4 Universal Service: Range of Product Offerings

The questions raised in this section regarding the types of service offerings to be provided by the Postal Service in the near future are very important. Certainly, we urge that there be no change to the nonprofit rate offering under Standard Mail. We urge the PRC to ensure that the USPS is seen first as a public agency rather than as a business. This will ensure that it will serve the public with a basic level of services that will serve all users and recipients without profit as the main driver. We know that if the USPS becomes focused on providing a new set of services and products beyond this basic scope, the focus to drive revenue may move the agency away from a public service mandate. At the same time, we do not urge restrictive measures that would tie the hands of the Postal Service and not allow it to offer products and services to support its public mission and favorably impact pricing for mail users such as nonprofit organizations. I suggest that the

USPS be asked to provide a roadmap regarding future offerings that the mailing public can respond to and ensure that the USPS stays on course.

4. Topic No. 5: Universal Service: Access to Postal Facilities and Services

The issues raised regarding postal facilities are quite complex and need a further engagement with the USPS to adequately provide a full scope on questions such as contract workers v. full-time employees and the like. However, if the USPS network is redesigned over the years to provide mail users with better options, we would applaud efforts that make the process more efficient so that the nonprofit community can focus on mission and reduce its expenses.

Further, the need to have the United States Postal Service deliver to every address is a key question. We would support continuing providing service to every “address” under the assumption that this includes individual and business addresses. Since nonprofits seek support from the general public and provide support to the needy, having the ability to access every address is essential.

5. Topic No. 6: Universal Service: Frequency of Service

As a minimum standard, six-day a week delivery seems to serve the needs of charities. At the same time, the offering of discounts based on lessening the frequency of service is an enticing option, but this would assume that the day of delivery would be more certain. Unfortunately, we are hearing more and more from organizations that their mail is delayed, leading to declines in support. A charity may send out a mail piece seeking help but may not receive a response back for 4 weeks due to poor mail delivery. For some organizations that need timely delivery for a run or a walk to raise support for a disease or other mission, lack of timely delivery especially harms their event. If there were a practical way to track and improve delivery without raising prices, we would heartily support those efforts.

6. Topic No.7: Universal Service Obligation: Rates and Affordability of Service

For nonprofits, affordability of postal rates is the most important factor in use of the USPS. As the new Consumer Price Index goes into effect, the “affordability” of such a pricing methodology is a subjective response based on the size and scope of the organization or business. However, as a general guiding principle, rates for nonprofit organizations cannot be increased dramatically year-to-year without a major impact on nonprofit organizations that count on generous donations to survive and cannot pass on price increases to anyone—they simply do not have “customers.” If a price increases for a nonprofit, this will translate into a reduction in its ability to serve their beneficiaries. I am hopeful that the PRC and other decision-makers keep the less fortunate in mind as they look at this important area.

7. Topic No. 8: Universal Service: Quality of Service

This topic asks the second most important set of questions outside of rates for the nonprofit mailing community—how should the quality of service be measured for universal service? Quality seems to imply timely delivery. For nonprofit mailers, we are still at the point of reacting to diminishing levels of acceptable service standards. We see delivery of up to four weeks for mailings that are urgently needed for support. As the development of service standards proceeds, this will need to be folded back into this set of questions. For nonprofit mailers, they need a standard to begin with, a floor for delivery from which to measure the results. Without such a basis, there is a huge range in expectations for appropriate delivery standards and quality measures. But the current four-week timeframe that we are hearing about from many other charities is unacceptable to our community and our organization. This drastically hurts our ability to provide aid.

8. Topic No. 12: Other Issues

This section raises important questions for us:

--What effect will environmental issues have on demand over the next 3, 5, 10, or 15 years? We are seeing the impact of environmental concerns develop much more quickly. Today, the USPS is facing a serious challenge with states offering Do Not Mail legislation. This is driven by environmental concerns that paper-based

communications will harm the environment due to waste and that scarce resources will be depleted. This is not a topic that should be deferred as a future impact. If a Do Not Mail bill passes, it would gut the universal service obligation by allowing the states to regulate and govern the mailbox, leading to a decline in postal volume, less revenues, less support for the Postal Service infrastructure, and leading ultimately to the demise of this basic government service.

--To what extent will new technologies increase or alter the demand for universal service by changing the nature of postal services? For nonprofit organizations that are using multiple marketing and communications channels, we would favor a positive approach by the USPS. It needs to ensure a basic level of postal service that is affordable and timely. Beyond that, demand should remain steady as marketers within organizations use it as the anchor for a multi-channel approach to raising money.

CONCLUSION

Thank you for inviting me to testify today. As a participant, I am happy to see the breadth and depth of the questions being raised. I remain hopeful that the decisions made and that the ultimate definition of the USO retains the services needed by the nonprofit community in order to ensure they can continue to raise money to support their missions. We cannot survive without a healthy and thriving USPS for many decades to come and I stand ready to help continue this important effort to shape its future.

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