ISSUES FACING CIVILIAN AND POSTAL SERVICE VEHICLE FLEET PROCUREMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON
GOVERNMENT OPERATIONS

OF THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

MAY 21, 2015

Serial No. 114–28

Printed for the use of the Committee on Oversight and Government Reform

Available via the World Wide Web: http://www.fdsys.gov
http://www.house.gov/reform

U.S. GOVERNMENT PUBLISHING OFFICE

95–388 PDF WASHINGTON : 2015

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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ISSUES FACING CIVILIAN AND POSTAL SERVICE VEHICLE FLEET PROCUREMENT

Thursday, May 21, 2015

House of Representatives,
Subcommittee on Government Operations,
Committee on Oversight and Government Reform,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:05 a.m., in Room 2154, Rayburn House Office Building, Hon. Mark Meadows [chairman of the subcommittee] presiding.

Present: Representatives Meadows, Jordan, Walberg, Mulvaney, Buck, Carter, Grothman, Connolly, Norton, Plaskett.

Also Present: Representatives Huffman and Lawrence.

Mr. Meadows. The Subcommittee on Government Operations will come to order.

And, without objection, the chair is authorized to declare a recess at any time.

The Federal Government spends more than $4 billion per year on its 650,000-vehicle fleet. With a responsibility to deliver more than 150 million addresses, 6 days a week, the Postal Service relies on a fleet of nearly 200,000 vehicles to deliver mail and parcels.

Even small changes in the fleet management practices can save significant amounts of money. Private and public fleet management best practices seem to support a rolling replacement of vehicles as the most cost-effective strategy in the long term. The goal of a rolling replacement strategy is to make incremental improvements to a fleet so that technical, safety, and energy-efficiency upgrades are made more frequently than once every other decade or once every 20 years.

Additionally, technologies like telematics are enabling organizations to better track vehicle use. The use of these best practices and new technologies has already enabled the government to save millions in costs, but there is still much more to do. That is why it's puzzling to me in a recently issued request for information, the Postal Service seems to suggest that it has planned to eventually select one supplier to build 180,000 identical new vehicles over the next 5 to 7 years, putting essentially all their eggs in one basket, so to speak.

So to help put this in perspective. The UPS operates the second largest commercial fleet in the Nation with about 90,000 vehicles. And despite a fleet of less than half the size of the Postal Service, UPS is able to successfully secure favorable pricing terms using a rolling replacement model, despite only procuring less than 10,000 vehicles per year.

By any measure, the Postal Service must begin to replace its vehicle fleet. I think we all understand that. The Postal Service has 140,000 older models, right-hand drive delivery vehicles with an average age of about 23 years, and at the end of—most of them and certainly are at the end of their useful service life.

According to the Postal Service inspector general, 22 percent of these delivery vehicles require annual maintenance worth about $8,300 or more. A new fleet is expected to cost in excess of $5.4 billion if the Postal Service lacks the liquidity to fully fund this cost.

Even without a new vehicle fleet, the agency projects its cash flow position to grow worse over the next several years. And so another hurdle is the diversity of the Postal Service's business. Some mail delivery routes are hundreds of miles long, others less than 10 miles, some routes have dozens of packages per day, while others only a few. Does this mean that it makes sense to have multiple new vehicles, or does volume pricing make one vehicle the better choice?

I'm pleased to see that Mr. Corbett's testimony suggests a greater sense of flexibility, Mr. Corbett, on the part of the Postal Service. I appreciate that.

This flexibility, as well as an increased reliance on the lifecycle cost analysis will be vital in ensuring that the Postal Service makes the best long-term choices for its fleet.

I hope that today we will be able to hear the lessons that the private and public sector have learned about fleet management and how those lessons can be applied to achieve incremental improvements through the GSA and transformational improvements for the Postal Service.

Finally, I would like to thank the witnesses for their time today. I look forward to your testimony.

Mr. MEADOWS. And as we are about to embark, what I'm going to do is reserve the time for the gentleman from Virginia, the ranking member, for his opening statement when he gets here.

I would ask unanimous consent that our colleagues Mr. Huffman and Ms. Lawrence be allowed to fully participate in today's hearing.

Without objection, so ordered.

I will hold the record open for 5 legislative days for any members who would like to submit a written statement. We will now recognize our panel of witnesses.

I'm pleased to welcome Mr. Joe Corbett, Chief Financial Officer of the United States Postal Service, welcome; Mr. William Toth, Jr., the Director of the Office of Motor Vehicle Management at the GSA or General Services Administration; and Ms. Kate Vigneau, director of professional development at NAFA Fleet Management Association; and Ms. Lori Rectanus, Director of Physical Infrastructure Issues at the GAO as well.

Welcome to you all.

Pursuant to committee rules, all witnesses will be sworn in before they testify. So if you would please rise and raise your right hand.

Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Let the record reflect that all the witnesses have answered in the affirmative.

And thank you. You may be seated.

In order to allow time for discussion, please limit your testimony, your oral testimony to 5 minutes. Your entire written statement will be made part of the record.

So I will go ahead and recognize our first witness, Mr. Corbett, for 5 minutes.

WITNESS STATEMENTS

STATEMENT OF JOSEPH CORBETT

Mr. CORBETT. Good morning, Chairman Meadows, and Members of the Subcommittee, and thank you for calling this hearing. Again, my name is Joe Corbett, and I'm Chief Financial Officer and Executive Vice President of the Postal Service. I'm pleased to be here today to discuss our next-generation delivery vehicle acquisition program and to explain why upgrading the vehicle fleet is considered an investment necessary to the organization's future.

We currently maintain a diverse fleet of vehicles including long-life vehicles as well as delivery vans and light trucks. Going forward, the Postal Service continues to require vehicles capable of operating in a full range of climates, regions, and operational conditions.

The planned useful life of the existing long-life vehicles when acquired was 24 years. The fleet has continued to provide needed delivery service but at very high maintenance costs and increasing risk of part shortages and structural fatigue. Replacing the aging delivery fleet, which is on average over 23-years-old, will not only help to reduce operating and repair costs; it will also improve delivery operations efficiencies.

In fact, both the Postal Regulatory Commission and the GAO have recognized our immediate need to invest in a new delivery fleet. The goal of this acquisition program is to secure new purpose-built, right-hand drive delivery vehicles that will accommodate a diverse mail mix, enhance safety, improve service, reduce emissions, and produce savings.

Letter carriers and vehicle maintenance employees were asked to submit their ideas for improved vehicle features and design, and feedback informed the proposed specifications. Additionally, a comprehensive third-party requirements analysis was conducted, and we solicited input from perspective suppliers through the request for information process. Specifications were updated based on vehicle industry feedback.

We arrived at a general layout which would meet the delivery demands on 99 percent of our existing routes. However, our business and available vehicle technology are changing and will continue to change. Our process is to designed to allow us to remain flexible and to make adjustments as our needs evolve.

Prospective suppliers were required to submit their qualifications and capabilities to develop vehicle prototypes and to produce, deliver and provide for national deployment up to 180,000 vehicles.

The Postal Service pre-qualified suppliers, including both traditional and alternative fuel manufacturers, who responded to the open request for information. Pre-qualified suppliers are eligible to receive the request for proposal for a competitive prototype development.

We were inclusive in our process, pre-qualifying firms with a range of power train expertise in order to evaluate wide product offerings from the market. The list of pre-qualified suppliers includes firms that specialize in unleaded fuel, electric, compressed natural gas, flex-fuel and hybrid vehicles.

We plan to release our request for proposal for the prototypes in the near future. The design, build, and testing of vehicle prototypes will take over 2 years to complete. A second request for proposal planned for 2017 will solicit our production requirements and explore our financing options. We remain open to and encourage innovative designs and the potential for a mixed delivery-vehicle fleet.

While economies of scale and operational benefits associated with a large standardized fleet point toward the selection of only one supplier. We remain open to all possibilities. Also, as we finalize the production requirements, we are open to considering leasing or other financing proposals. Our business case analysis will address and evaluate the best value for the Postal Service relative to all aspects of the program.

Questions regarding our decision to pursue a new fleet, given our finance challenges, continue to surface. We believe the correct question is, how can we afford not to make this investment as we fight to ensure that we remain viable and fully able to perform our obligation to provide prompt, reliable, and efficient Postal Services for the Nation? Of course, given we are a self-funded organization we must be fiscally responsible. Therefore, the lifecycle operating costs of the new fleet are an important consideration.

Thank you, Mr. Chairman, for this opportunity to testify.

I welcome any questions that you and committee members may have.

[Prepared statement of Mr. Corbett follows:]

UNITED STATES
POSTAL SERVICE

Statement of Joseph Corbett
Chief Financial Officer and Executive Vice President
U.S. Postal Service
Before the
Subcommittee on Government Operations
United States House of Representatives

May 21, 2015

Good Morning Chairman Meadows, Ranking Member Connolly, and members of the Subcommittee. Thank you, Chairman Meadows for calling this hearing on best practices in federal large vehicle fleet administration and procurement. My name is Joe Corbett and I am Chief Financial Officer and Executive Vice President of the United States Postal Service. I have served in this position since 2009, heading the organization's Strategy, Finance, Treasury, Accounting, Supply Management, and Regulatory Reporting functions. I am pleased to be here today to discuss the Postal Service's Next Generation Delivery Vehicle (NGDV) Acquisition Program and to explain why upgrading the vehicle fleet is considered a capital infrastructure investment necessary to the organization's future.

Why Fleet Replacement is Necessary

The Postal Service currently maintains a diverse fleet of delivery vehicles including Long Life Vehicles (LLV), as well as delivery vans and light trucks. Going forward, it continues to require a diverse and flexible fleet of vehicles capable of operating in a full range of climates, regions and operational conditions.

The planned useful life of LLVs when acquired was 24 years. The fleet has continued to provide needed delivery service, but at very high maintenance costs and increasing risk of parts supply problems and structural fatigue. The LLV's operational efficiency, safety, and technology are very outdated. Replacing the aging delivery fleet, which is on average over 23 years old, will not only help to reduce vehicle operating and repair costs, it will also improve efficiency of delivery operations.

In its order granting the Postal Service an exigent price increase, the Postal Regulatory Commission noted that "capital outlays must be increased in order for the Postal Service to maintain and continue to develop the Nation's needed postal services," and that "[l]ow levels of capital investment have impaired the Postal Service's ability to maintain and improve business assets". The Commission went on to specifically state that "the consequences of continued low levels of liquidity and related low levels of capital investment are significant to the entire postal system. If the Postal Service is unable to repair, maintain, and replace its fleet of delivery vehicles, it could very quickly lose its ability to meet the delivery requirements of the Universal Service Obligation."

Similarly, in its report entitled "U.S. Postal Service: Actions Needed to Strengthen the Capital Investment Process, GAO-14-155 at 2 (Jan. 2014)," the Government Accountability Office stated that the Postal Service's "limited resources have constrained its funding for capital investments to fulfill its primary mail-delivery mission and restructure and modernize its operations. For example, about 10 years ago, USPS was scheduled to replace large portions of its approximately 210,000-vehicle fleet, but has deferred the replacements—as well as other capital-investment needs—due to a shortage of funds. As packaging and shipping continue to be an area of revenue growth, it will be important for USPS to invest in vehicles to effectively serve that market and meet its mission of providing prompt, reliable, and efficient mail service to all areas of the country. Effective capital investments can improve productivity, provide much-needed cost savings, and prevent larger, more costly expenses in the future."

The Next Generation Delivery Vehicle

In order to effectively meet the needs of our customers and employees, the Postal Service must invest in and maintain its existing infrastructure—of which our delivery fleet is a critical component. The goal of the NGDV program is to secure new purpose-built, right-hand drive delivery vehicles that will accommodate a diverse mail mix, enhance safety, improve service, reduce emissions and produce savings.

To determine the requirements for the NGDVs, the Postal Service began by surveying the employees who know delivery vehicles best. Letter carriers and Vehicle Maintenance Facility (VMF) employees were asked to submit their ideas for improved vehicle features and design via national surveys, and their feedback informed the proposed specifications. The Postal Service also hosted a design conference and reviewed suggested specifications with our carriers.
Additionally, input has been solicited from prospective suppliers through the Request for Information (RFI) process, and a comprehensive third-party requirements analysis was conducted. Specifications were updated based on feedback from the vehicle industry.

Taking into account the input received from multiple sources, the Postal Service arrived at a general layout for the NGDVs, which would meet the current delivery demands on 99% of existing routes. The proposed dimensions would allow for better organization of mail and packages, and a more concise delivery sequence. However, our business and the vehicle landscape are changing and will continue to change over the next two decades. Our process allows us to remain flexible and to make changes as our needs evolve.

Request for Information/Supplier Prequalification

The Postal Service is currently in the initial phases of a multi-year process to acquire a long overdue new delivery fleet, having prequalified prospective suppliers—including both traditional and alternative fuel manufacturers—who responded to an open Request for Information (RFI).

The RFI, published on the Federal Business Opportunities Website (https://www.fbo.gov) in January 2015, included high-level objectives and specifications for the NGDVs, as well observations, or "lessons learned", from the existing fleet. Its objective was to inform prospective suppliers of the Postal Service's preliminary specifications and plans to acquire fleet replacements, invite comments on the specifications and plan, obtain expressions of interest in the acquisition, and receive information on qualifications and capability of potential suppliers. Interested parties were invited to attend a suppliers' conference in February, providing them the opportunity to ask questions about the technical requirements, acquisition process, and program schedule.

As part of the RFI, a prequalification component was included to narrow the field of prospective suppliers to those most qualified to meet the NGDV acquisition objectives. Those determined to be prequalified suppliers are eligible to receive the Request for Proposal (RFP) for a competitive prototype development. In response to the RFI, prospective suppliers were required to submit their qualifications and capabilities to develop vehicle prototypes and to produce, deliver and provide for national deployment of up to

180,000 vehicles under the acquisition program. Prospective suppliers were requested to submit at a minimum the following information:

a. An overview of management, vehicle prototype development, and production capabilities to be mobilized to meet USPS acquisition requirements.
b. Past performance and experience relevant to management, vehicle prototype development, and vehicle production.
c. Information on the financial strength and resources of the organization or organizational team to manage and execute the prototype development and production requirements of the program, including financials, technical capability, workforce, and facilities.

Generally, the suppliers that were not prequalified failed to meet the manufacturing and production capabilities required to support the national program. Some advertised their particular product or service as if intending to team with another company, while others offered consulting, fleet management and other support services that were not part of the RFI or vehicle requirement. The letter notifying these firms of the Postal Service's decision indicated that there may be opportunities for their organization to subcontract with one of the prequalified firms. It also advised that firms that were not prequalified may contact the Postal Service for feedback and provided contact information for the Contracting Officer should they have any questions. In this case, only one firm inquired about our decision. This firm accepted the explanation provided and no further inquiries have been received.

The Postal Service was inclusive in its process, prequalifying firms with a range of powertrain expertise, in order to be able to evaluate wide product offerings from the market. The list of prequalified suppliers includes firms that specialize in unleaded fuel, electric, compressed natural gas, flex fuel, and hybrid vehicles. The prequalified firms are deemed to be capable of designing and building prototype vehicles within the next phase of the acquisition program and of producing vehicles in the future national deployment that we contemplate.

While we began the RFI process with draft specifications, we are currently evaluating the benefits of standardization versus the value of multiple vehicle platforms and delivery methods, weighing customers' future needs, operational matters and financial tradeoffs. In completing this analysis, the Postal Service will consult with revenue projection analysts, vehicle vendors and other stakeholders.

Request for Proposal/Prototype Development

The Postal Service plans to release its RFP for prototypes—open to eligible suppliers—in the near future. It is important to note that this RFP is not for production vehicles; rather it will require each responding offeror to deliver prototype vehicles for testing and review. The design and build of the purpose-built vehicle prototypes, followed by Postal Service testing, will take over two years to complete. A second competitive RFP, planned for 2017, will solicit our NGDV production requirements and explore financing options.

The prototype RFP will be flexible as to fuel source, as we plan to encourage suppliers to also propose vehicles with alternative fuel powertrains such as Electric, Hybrid Electric, Compressed Natural Gas and Hydrogen. Recognizing that powertrain technology may change significantly over the planned 20-year life of the vehicles, the Postal Service is seeking a flexible design platform that may accommodate different powertrain configurations as technologies evolve. Based on the responses received from suppliers and the maturity of the technologies proposed, the Postal Service remains open to and encourages innovative designs and the potential for a mixed delivery vehicle fleet.

Consideration of alternative fuel powertrains is not a new concept for the Postal Service. In fact, we have tested several platforms and our current fleet includes vehicles powered by E-85/gas, compressed natural gas, hybrid technology, propane, batteries, and even one powered by hydrogen fuel cells. The lessons learned from these tests and the Postal Service's experience with alternative fuel powertrains will inform the design and selection of the NGDV. Furthermore, the Postal Service is discussing its future vehicle fleet with officials at the Department of Energy and the General Services Administration in order to take advantage of their expertise concerning safety, efficiency, alternative fuel technologies, and other areas.

Throughout this process, prequalified suppliers are expected to develop an understanding of the Postal Service's diverse operating environments, including our delivery (and collection) route structures, historical and projected mail and package demand, and other trends in the delivery business. Suppliers will be encouraged to use this data to think out of the box and tailor their proposals for prototype vehicles.

Production Phase

After testing and evaluation during the prototype phase, and possible technical revisions, the Postal Service will issue a production RFP and make a contract award or awards for the NGDVs. While economies of scale and operational benefits associated with a large standardized fleet point toward the selection of only one supplier, we remain open to the possibility that we may select more than one supplier. Also, as we finalize the production requirements we will remain open to considering leasing or other financing proposals. The production RFP and business case analysis will address and evaluate the best value for the Postal Service relative to all aspects of the program.

Production financing is not planned to be included as a component of the design prototype RFP, however, the Postal Service will continue to review options to provide best value in contracting for the delivery of the NGDV replacement. The production phase business case will include a cost-benefits analysis of all financing options. Whether our analysis finds leasing or purchasing NGDVs to be the most cost effective procurement option, questions regarding the Postal Service's decision to pursue a new fleet—given our financial challenges—continue to surface. It is important that I also address this issue. For the Postal Service, the question is not how can we afford to purchase new vehicles at this time, the question is how can we afford *not to* make this investment as we fight for viability. In fact, it is a fiscally responsible decision.

Conclusion

The Postal Service looks forward to moving ahead with its planned delivery vehicle replacement program. Our current delivery vehicles are rapidly nearing the end of their useful life and it is now time to move into the future with a new generation of vehicles that will better serve customers, employees and the American public.

Thank you, Mr. Chairman, for the opportunity to submit this testimony. I welcome any questions that you and Committee Members may have.

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Mr. MEADOWS. Thank you, Mr. Corbett.
Mr. Toth.

STATEMENT OF WILLIAM TOTH, JR.

Mr. TOTH. Good morning, Chairman Meadows, Ranking Member Connolly, and members of the subcommittee. I appreciate the opportunity to speak with you today regarding the General Services Administration's role——

Mr. MEADOWS. Is your mic on?

Mr. TOTH. It says——

Mr. MEADOWS. Move it a little closer to you then, pull the whole box there.

Mr. TOTH. How's that?

Mr. MEADOWS. Ah.

Mr. TOTH. My name is Bill Toth and I am the Director of the GSA's Office of Motor Vehicle Management. I've been the Director for the past 8 years and with GSA for 25 years. The mission of GSA's Office of Motor Vehicle Management is to deliver safe, reliable, and low-cost vehicle solutions that allow Federal agencies to effectively and efficiently meet their missions.

The Federal fleet can be broken down into three categories of roughly equal size: One-third is owned by GSA and leased to eligible entities; a second third is owned and maintained by the United States Postal Service; and the final third is owned and maintained by non-Postal Service Federal agencies.

GSA's status as a mandatory source for vehicle purchasing, with the exception of the Postal Service, guarantees that all Federal agencies benefit from the government's buying power inherent in having a single strategically sourced point of purchase. In fact, in fiscal year 2014, GSA's negotiated discount on these vehicles averaged 17.6 percent below dealer invoice. Given GSA's fiscal year 2014 procurement of 58,050 vehicles, this discount saved the American taxpayer an estimated $315 million.

As a full-service vehicle leasing option for Federal agencies GSA drives down costs for Federal customers by providing end-to-end fleet management services at an all-inclusive rate. The leasing program has demonstrated savings year after year by leveraging the government's buying power and consolidating redundant fleet management functions duplicated in many different agencies.

GSA's motor vehicle program provides customers with a comprehensive fleet solution that includes vehicle acquisition; maintenance and accident management; a fleet services car with a dedicated waste, fraud and abuse protection team; and many other solutions as outlined in my written testimony.

GSA fleet leasing supports over 15,000 unique customers who collectively lease over 204,000 vehicles. To demonstrate our commitment to provide customers with the best possible value, GSA decreased its leasing rates over the past 2 fiscal years by 1 percent and 2 percent respectively.

In addition to the leveraged buying power and governmentwide administrative cost savings inherent in a centralized fleet management program, GSA prioritizes helping customers make smart decisions about the composition and size of their leased fleet.

While GSA is proud of the progress it has helped customers make in optimizing a fleet size and composition, Federal agencies themselves are empowered to analyze their mission needs and, accordingly, make the final decision about how many vehicles they need to successfully fill the mission tasked to them by Congress. Ultimately, authority for vehicle purchasing and operating decisions remain with each Federal agency.

GSA partners with its customer agencies to help them stretch limited resources and maximize their mission impact. Each year, GSA replaces eligible vehicles in its leased fleet with new, safe, fuel-efficient vehicles. Vehicles added to the lease fleet in fiscal year 2014 had an average of 20.5 percent higher miles per gallon rating than the vehicles they replaced.

In addition, GSA launched hybrid and electric initiatives and to date has funded over 7,000 hybrid sedans and 300 electric vehicles. Two other unique solutions available to all Federal customers include GSA's short-term rental program for vehicle and equipment rentals and GSA's dispatch and reservation module, which is an electronic car-sharing program for scheduling vehicle reservations and generating utilization reports.

As a motor vehicle leasing provider, GSA assumes responsibility for providing solutions that save the American taxpayer money. Our strategy for meeting these goals involves maintaining vehicles in superior condition, thus decreasing the need for costly maintenance and repair and vehicle down time.

GSA replaces vehicles on schedules designed to maintain a safe, modern, dependable, and fuel-efficient fleet while taking advantage of manufacturer warranties to minimize maintenance costs. Used vehicles are actively remarketed to the public to ensure highest possible proceeds are captured upon the sale of each vehicle. Through these and other solutions outlined in my written testimony GSA is able to reduce the need for administrative overhead across the government by centralizing operational and administrative fleet support functions.

We also offer the opportunity to consolidate agency-owned vehicles and commercially leased vehicle requirements into the GSA fleet to reduce governmentwide costs and redundancies.

I appreciate your support of GSA's concerted efforts to drive continuous improvements in the Federal fleet and your partnership in delivering best value to the American taxpayer. Thank you for the opportunity to testify today. I look forward to answering your questions.

Thank you.

[Prepared statement of Mr. Toth follows:]

STATEMENT OF

WILLIAM TOTH JR.

GENERAL SERVICES ADMINISTRATION

DIRECTOR, OFFICE OF VEHICLE MANAGEMENT

SUBCOMMITTEE ON GOVERNMENT OPERATIONS

BEFORE THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

UNITED STATES HOUSE

MAY 21, 2015

Good Morning Chairman Meadows, Ranking Member Connolly, and Members of the Subcommittee. I appreciate the opportunity to come here today to discuss GSA's role in the Federal Fleet.

The mission of GSA's Office of the Motor Vehicle Management is to deliver safe, reliable, and low cost vehicle solutions that allow Federal agencies to effectively and efficiently meet their missions. The Federal fleet can be broken down into three categories of roughly equal size: one-third is owned by GSA and is leased to those entities designated as eligible, a second third is owned and maintained by the United States Postal Service (USPS), and the final third is owned and maintained by non-Postal Service Federal agencies. In accordance with the Federal Property Management Regulation, excepting the Postal Service, executive branch agencies are required to purchase non-tactical vehicles through GSA. Accordingly, those vehicles leased to Federal agencies by GSA and those non-tactical vehicles owned and maintained by non-Postal Service executive branch agencies are procured from the same GSA supply source.

GSA's status as a mandatory source for vehicle purchasing guarantees that all Federal agencies leverage the buying power and reduce government-wide administrative costs inherent in having a single strategically sourced point of purchase. In fact, in fiscal year (FY) 2014, GSA's negotiated discount on these vehicles averaged 17.6% below dealer invoice. Given GSA's FY 2014 procurement of 58,050 vehicles, this discount saved the American taxpayer an estimated $314.9 million.

As a full service vehicle leasing option for federal agencies, GSA drives down costs for Federal customers by providing end-to-end fleet management services at an all-inclusive rate. The leasing program follows GSA's motor vehicle purchasing program model that has demonstrated year-after-year cost saving results. This model drives down costs by leveraging buying power and consolidating redundant Fleet management functions duplicated in many different agencies across government into one high-performing program. Our goal is to empower each Federal agency to focus finite financial and human capital on their missions instead of spending those scarce resources on fleet management functions. GSA's motor vehicle program provides customers with a comprehensive fleet solution that includes:

- Vehicle acquisition
- Maintenance management
- Accident management
- A fleet services card for fuel and maintenance with a dedicated waste, fraud, and abuse detection team
- A fleet management information system designed to capture detailed vehicle data for purposes of efficiency analysis and cost reduction
- Operational support and vehicle management
- Vehicle tag management
- Vehicle remarketing
- A comprehensive training program for drivers and fleet managers

GSA Fleet leasing supports over 15,000 unique customers who collectively lease over 204,000 vehicles. To demonstrate our commitment to providing customers with the best possible value, GSA decreased its leasing rates over the past two fiscal years by 1% and 2%, respectively. These decreases were a result of the excellent sales proceeds generated on GSA Fleet vehicles by our dedicated remarketing program.

In addition to the leveraged buying power and government-wide administrative cost savings inherent in a centralized fleet management program, GSA prioritizes helping customers make smart decisions about the composition and size of their leased fleet. Specifically, the program actively works with customers to encourage them to use the most economical vehicle to meet their mission needs, help them select an alternative fuel vehicle wherever feasible, and eliminate unnecessary vehicles from their fleets. While GSA is proud of the progress it has helped customers make in optimizing their fleet size and composition, Federal agencies themselves are empowered to analyze their mission needs and, accordingly, to make the final decision about how many vehicles they need to successfully fulfill the mission tasked to them by Congress. In particular, GSA is not an enforcement agency and cannot require customers to turn in vehicles deemed underutilized. Ultimately, authority for vehicle purchasing and operating decisions remain with each Federal agency.

GSA partners with its customer agencies to help them stretch limited resources and maximize their mission impact. Additionally, GSA assists agencies in meeting Executive Order 13693 in regard to meeting sustainability goals. Some tangible successes in meeting overarching goals include:

- Each year, in accordance GSA's vehicle replacement standards, GSA Fleet replaces eligible vehicles in the GSA leased fleet with new, more fuel efficient vehicles. Vehicles added to the fleet in FY14 had an average of 20.5 percent higher miles per gallon rating than the corresponding vehicles they replaced.

- To ease the cost-burden of agency access to newer, more fuel efficient technology, GSA launched a hybrid initiative two years ago and to date has funded over 7,000 hybrid sedans, saving agencies an estimated $6,000 per vehicle. GSA also introduced the first electric vehicles into the Federal fleet, and to date has integrated over 300 electric vehicles at no additional cost to customer agencies. To further support data capture and management, GSA also provided electric vehicle charging stations with data management software to customers participating in a pilot program, where needed.
- GSA supported Federal customers in purchasing alternative fuel vehicles to further realize the fuel efficiency of the Federal fleet. Nearly 81 percent of the vehicles purchased through GSA this fiscal year were classified as alternative fuel vehicles.
- GSA's Short Term Rental program is available to all Federal customers at no additional cost and allows customers to leverage GSA's best value rates to rent vehicles and construction equipment. The program eliminates the need for agencies to purchase expensive vehicles and equipment that may be utilized for only a season each year or during a disaster.
- The Dispatch and Reservation Module is an intra-agency car-sharing program offered by GSA that allows customers to combine GSA Fleet leased and agency-owned vehicles into motor pools, schedule vehicle reservations, and generate utilization reports all through an electronic system. This information technology car sharing solution allows agencies to track vehicle utilization and thereby identify potential reductions in fleet size to increase efficiency and productivity.

As a motor vehicle leasing provider, GSA also assumes responsibility for providing solutions that saves the American taxpayer money. Our strategy for meeting these goals involves:

- Maintaining vehicles in superior condition, which decreases the need for costly maintenance and repair and vehicle downtime.
- Replacing vehicles on schedules designed to maintain a safe, modern, dependable, and fuel efficient fleet while taking advantage of manufacturer warranties to minimize maintenance costs.
- Negotiating all maintenance and repairs over $100 to ensure we receive competitive pricing.
- Actively remarketing our used vehicles to the public to ensure the highest possible proceeds are captured upon the sale of each vehicle.
- Providing automated management information systems that allow customers to update, query, analyze, and report on all of their fleet vehicle data and to leverage that data to more effectively manage their fleet.
- Creating an environment for predictable budget planning and removing the need for large capital outlays for vehicle replacements.
- Assisting in compliance efforts for mandates that agencies are required to meet, especially those mandates related to personal safety and procurement of environmentally sustainable products.
- Reducing the need for administrative overhead across the government by centralizing operational and administrative fleet support functions.

- Where appropriate, consolidating customer agency-owned vehicles and commercially leased vehicle requirements into the GSA Fleet to reduce government-wide costs and redundancies.

GSA supports the United States Postal Service (USPS) in a limited capacity for their administrative vehicles. A total of 389 vehicles are currently leased in the GSA Fleet program to the USPS for administrative purposes. Additionally, the USPS takes advantage of GSA's Short Term Rental program for surge requirements. In FY 2014, GSA Fleet provided 1,061 short term rental vehicles for an average of 77 days each for seasonal needs. The USPS and GSA are in discussions to acquire approximately 1,000 vehicles through GSA's 751 Schedule for a period of one year. Schedule 751 is GSA's Multiple Award Schedule that provides commercial motor vehicle leases to entities for periods from 1 to 3 years.

The recent GAO report, GAO-14-443, recommended that GSA examine the tradeoffs of changing our lease-rate structure so that agencies pay for their actual fuel use. GSA conducted an extensive analysis on the economic costs, mission impacts, and system changes required. We concluded that changing the billing model would dramatically increase internal and external administrative costs to support this decentralized process change as all agencies, individually, would be required to review transactional data and potentially impact customer agency missions as a result of no longer having a stable mileage rate for budgeting purposes. In addition, executive branch agencies are required by both statute and executive orders to dramatically reduce their fuel consumption. Agencies are diligently striving to comply with these mandates and fuel efficiency is improving. Therefore, GSA did not believe, given current circumstances, the additional cost to the taxpayer outweighed the benefits.

As cited in the GAO-13-659 report, best practices in fleet management include maintaining a formal fleet management information system, analyzing life-cycle costs to inform investment decisions, and optimizing fleet size and composition. Agencies that lease from GSA are afforded full access to a fleet management information system with the data available to make informed decisions for their fleet. In addition, GSA developed and launched a Federal Fleet Management System designed to assist in the management of Federal agency-owned vehicles. Offered to Federal agencies at no additional cost, this automated fleet management tool allows agencies to better control cost, establish utilization criteria, and manage fleet resources for maximum effectiveness and efficiency. This tool provides Federal agencies a solution to capture the necessary data elements essential to fleet management best practices.

GSA's mission is to deliver the best value in real estate, acquisition, and technology services to government and the American people. The GSA Office of Motor Vehicle Management is committed to this mission by delivering better value and savings, serving our partners, expanding opportunities for small businesses, making a more sustainable government, leading with innovation, and building a stronger GSA. In achieving these goals, GSA continually meets our promise in delivering the right vehicle at the right price with great customer service and the data required to effectively and efficiently manage a fleet. Our program strives to ensure that safe, reliable, cost-saving vehicle solutions are provided to assist Federal agencies in successfully meeting their missions.

I appreciate your support of GSA's concerted efforts to drive continuous improvements in the Federal fleet and your partnership in delivering best value to the American taxpayer.

Thank you for the opportunity to testify today and I look forward to answering your questions.

Mr. MEADOWS. Thank you, Mr. Toth.
Ms. Vigneau.

STATEMENT OF KATE M. VIGNEAU

Ms. VIGNEAU. Good morning, Chairman Meadows, and subcommittee members. My name is Katherine Vigneau. And I'll be testifying on behalf the NAFA Fleet Management Association, which is the world's primary not-for-profit association for professionals who manage fleets of all types of vehicles around the globe.

I'm going to concentrate my testimony today in five areas, lifecycle costs, long-term capital replacement planning, centralization of fleet management functions, the use of the vehicle selector lists and alternate fuels and sustainability.

So, first, lifecycle cost analysis, which we have already heard mentioned from the chairman. Vehicles and equipment should be replaced at various points in their service lives depending on vehicle type, nature, and intensity of use and a variety of other factors.

The optimal point at which to replace any vehicle asset from an economic perspective is when the total cost of owning that asset is at its lowest. That is when the combined cost of ownership or depreciation, capital costs, and operating costs, particularly maintenance are at a minimum just before those costs begin to increase significantly.

So these lifecycle costs analysis should be used not only to choose the optimal replacement point of a vehicle but also for lease-versus-buy analysis, for alternate-fuels analysis, and for any decision whether to go with a custom or off-the-shelf solution.

In terms of capital replacement planning, all fleets should create multiple-year replacement vehicle capital forecasts. And, from this, they should have capital budget approved and centralized capital funds created solely for vehicle acquisition. Best practice in replacement planning is to smooth the peaks and valleys of fleet replacement so there is a predictable annual requirement allocated for vehicle replacement.

In terms of centralization, a dominant trend over the past 25 years is the consolidation of fleet management functions into a centralized service-like organization. This move toward centralization in the industry can be traced to the increasing cost and complexity of fleet management as well as an increase in emphasis on savings and efficiency. Not only that, there is a recognition that fleet management requires training and expertise to do well, and there are also liability concerns.

Vehicle selectors, organizations should use a formal process to decide what type of vehicle best meets all requirements. In order to avoid a lengthy selection process for every vehicle replacement decision, they should have an approved selector list of frequently purchased assets.

Finally, the fleet industry in general has a unique to make considerable environmental impact. In fact, NAFA has recently released a sustainable fleet accreditation program to track improvements in environmental impact for individual organizations' fleets. But sustainability does not mean only alternative fuel sources, it can also be achieved through a host of other initiatives, including purchasing smaller vehicles, reducing speed, better route planning, smaller engine sizes, and driver behavior encouraging ecofriendly driving. In all alternative-fuel decisions the cost-benefit analysis using total cost or lifecycle costs should always be undertaken.

In looking at the OIG report and a variety of public documents available, lifecycle costs analysis has definitely been used by the Postal Service to demonstrate that they are operating costs are rising significantly. This methodology should further be extended to analyze custom versus commercial purchase options and alternate fuel options.

The OIG report also mentions weaknesses in long-term replacement strategies. The strategy should envision a smooth replacement cycle with regular predictable capital requirements. This should also look to provide a long-term solution to avoid being in this position we are in now at the end of these vehicles' lifecycle in 25 or 30 years.

Fleet management should be centralized. Individuals responsible should be trained in best practice. A selector list should be built that considers lifecycle costs as well as safety and the environment, and finally, alternative fuels and other sustainable initiatives should be considered in the acquisition decision and throughout the life of the vehicle.

Thank you for your attention. That concludes my testimony today.

[Prepared statement of Ms. Vigneau follows:]

NAFA
Fleet Management Association

Statement

Katherine Vigneau

For

NAFA Fleet Management Association

Issues Facing Civilian and Postal Service Vehicle Fleet Procurement

Committee on Oversight and Government Reform
U.S. House of Representatives
May 21, 2015

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I am here today on behalf of the NAFA Fleet Management Association.

I am Lieutenant-Colonel (retired) Katherine Vigneau, the former Fleet Manager of the Canadian Armed Forces, a NAFA volunteer since 1999 and currently NAFA's Director of Professional Development.

NAFA Fleet Management Association has been asked to give testimony regarding fleet management best practices as they may pertain to the acquisition practices of the United States Postal Service (USPS). From its creation in 1957, NAFA has become the world's premier not-for-profit association for professionals who manage fleets of sedans, law enforcement vehicles, trucks, and buses of all types and sizes, and a wide range of military and off-road equipment for organizations around the globe. NAFA is *the* association for the diverse vehicle fleet management profession regardless of organizational type, geographic location, or fleet composition.

NAFA has thousands of Full and Associate Members who are responsible for the specification, acquisition, maintenance and repair, fueling, risk management, and remarketing of more than 3.7 million vehicles including in excess of 1.2 million trucks. The vehicle fleets of passenger cars, vans, and SUVs managed by our Members total 1.4 million and account for $45 billion in assets.

NAFA is also supported by fleet professionals who do not qualify for either Full or Associate Member status, yet have a great interest in the field. NAFA Affiliates represent companies that have products or services, such as vehicles, aftermarket equipment, and service shops, to offer to Full and Associate Members.

NAFA's purpose is to promote the highest levels of professional management of vehicles, enabling all members to improve their ability to contribute to an employer's success. We seek to accomplish our goals through quality educational endeavors, sharing of fleet expertise, government and industry relations, and a broad range of direct services to members.

I have reviewed the Office of the Inspector General (OIG) report entitled "Delivery Vehicle Fleet Replacement" and various press releases available in the public domain. I understand that the USPS is seeking to replace an aging fleet of vans and that their desired course of action is a one-time capital procurement of approximately 180,000 custom vans. I will concentrate my comments in 5 areas of fleet best practices. All of these areas are covered in NAFA's certification and education materials and are accepted industry practice in the areas of lifecycle cost analysis, capital replacement plan, centralization, vehicle selectors, and alternative fuels

In short, NAFA supports the following best practices:

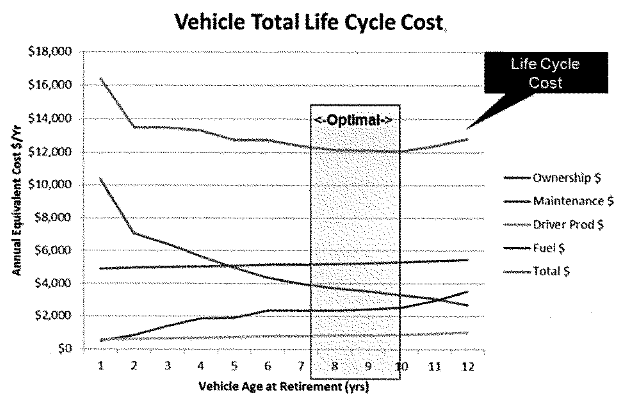
1. The organization uses NAFA's lifecycle spreadsheets (or similar) and defines and observes optimal vehicle lifecycles, avoiding the pitfalls of extended replacement.
2. A long-term capital procurement plan exists and is regularly reviewed and updated.
3. Management of fleet assets is centralized for efficiency, liability and control reasons.
4. A vehicle selector list is created taking into consideration lifecycle costs, safety and the environment as a minimum.

5. The organization sets goals for fuel and emissions reductions in accordance with NAFA's sustainability standard.

Lifecycle Cost Analysis

In the past, items were purchased and used until it was no longer viable to use them. The only way a new piece of equipment or vehicle would come into a fleet would be if something could not be repaired or was so damaged that its intended function was no longer possible. While this is an easy way to determine when something really needs to be replaced, waiting until it breaks is the worst strategy to take. Optimally, a piece of equipment or vehicle should be replaced at the point right before it breaks. That way, the new piece of equipment can immediately take over for the old piece with no disruption in service.

Vehicles and equipment should be replaced at various points in their service lives depending on the type of vehicle, the nature and intensity of its use, and various other factors. Timely replacement is important for controlling vehicle availability, safety, reliability, and efficiency. The economic theory of vehicle replacement holds that vehicles should be replaced when the sum of ownership and operating costs is at its lowest historical point. The figure below shows the operating and capital cost curves. The capital cost curve (ownership$) shows the decreasing cost over time of a fleet asset as it ages and depreciates. The operating cost curves (maintenance, driver productivity and fuel) illustrate the increasing maintenance, repair, and fuel costs for the same asset over its life cycle. The total cost curve combines the two. The optimal point at which to replace this asset from an economic perspective is when the "total cost" curve is at its lowest. That is, when the combined cost of owning and operating the unit is at a minimum, just before it begins to increase.



Besides figuring out which vehicle would be the most cost-effective to place in a fleet, a lifecycle analysis can also be used to:

- Determine Replacement Times – A lifecycle model can reveal the optimum time to remarket a vehicle based on various factors and costs.
- Lease vs. Buy – For many organizations, purchasing a vehicle may not be the most effective way to acquire the vehicle. A lifecycle model can compare the overall costs of owning versus leasing a vehicle, thereby showing the optimum decision for a particular set of circumstances.
- Alternate Fuels – Is placing a CNG truck in a fleet cost effective? Or would an electric vehicle make more sense? A lifecycle model can compare the options and give you a better picture as to which one may give a greater return on investment.
- Custom vs. commercial – The lifecycle model should be used to understand the full cost implications of buying a custom vehicle rather than one commercially available.

A recent survey found that 44 out of 50 states allow for LCA-based procurement practices. Seven out of 13 Canadian provinces and territories do the same.

Capital Replacement Plan

Fleet financial management strives to strike a balance between reducing costs without impacting the productivity of the fleet user groups. The fleet finance management attributes, which are common to best-in-class organizations, are:

- Fleet Services is responsible for the entire capital budget for new and replacement vehicles.
- Multi-year capital forecasts are done annually by Fleet Services. The capital approval and release for spending is an annual exercise and depends on the organization's resources.
- Fleet Services is responsible for operating costs and holds this budget.
- All cost details are captured at a vehicle or equipment level in the Fleet Management Information System (FMIS).
- FMIS is used for all fleet related cost data and it is the "system of record" for fleet-related costs, transactions and workflows.

Fleet Services should create a multi-year vehicle replacement capital forecast. From this, a capital budget is approved and a centralized capital fund is created for the purchase of vehicles and up fitting. Capital requirements for vehicle replacement can fluctuate greatly from one year to the next. Best practice in replacement planning is to smooth the peaks and valleys of fleet replacement so there is a predictable annual requirement. This takes skill and experience and an in-depth knowledge of finance options and vehicle remarketing.

Centralization

A dominant trend over the past twenty-five years is the consolidation of fleet management functions into one centralized service organization. Traditionally, it was believed that the effectiveness or responsiveness of a fleet management organization was highly correlated to its proximity to the fleet users it served. The result of this belief was the creation of numerous independent fleet management programs within an organization, each serving the purported unique needs of its own group of customers. Decentralization, however, creates redundancies and dilutes the expertise needed to effectively operate the fleet. As a result, the trend in the fleet industry is towards greater consolidation of fleet management functions.

The move towards consolidation in the industry can be traced to the increasing cost and complexity of fleet management and a simultaneous increase in emphasis on efficiency. Developments in areas such as computerization, personnel management, professional development, risk management, regulation of environmental protection, occupational safety and health, and automotive technology have changed the definition of "effective" fleet management, making it prohibitively expensive for many independent fleet management organizations to keep up. In short, the complexity of fleet management today produces significant economies of scale that often can be captured only through collective effort. Fleet centralization, then, is being driven by costs, efficiencies, expertise, and liability.

Vehicle Selector

Organizations should use a formal process to decide what type of vehicle best meets requirements. In order to avoid a lengthy selection process for every vehicle replacement, they should have an approved selector list of frequently purchased assets.

Some criteria to be considered in selecting the right vehicle for an organization are:

- Operational requirement or purpose of the vehicle. Vehicles should be acquired to best fulfill their primary role. Where pooling is the norm, flexibility of purpose should be kept in mind.
- Acquisition costs. While lifecycle costs may be a better indication of total costs, the acquisition cost of a vehicle may also play a role in selection.
- Disposal/resale value. The value and ease of disposal should be considered at time of purchase.
- Operating costs. Fuel and maintenance costs factor into the total cost of operating a vehicle and should be important purchase considerations.
- Vehicle availability. The availability of a vehicle in a specific area or the time required ordering it may influence the purchase decision.
- Warranties. The availability of maintenance warranties and the location where warranty work will be performed should be considered.
- Maintainability/reliability. The availability of replacement parts, ease of installation and level of complexity to repair affect the maintainability of the vehicle and the cost to keep it running, and reduce the opportunity cost associated with downtime. Repair history and recalls may also indicate engineering or quality problems with given makes and models of vehicles.
- Environment impact. Gas mileage and emissions are important considerations.

- Safety. A vehicle's safety rating is determined by its construction and add-on equipment such as airbags.
- Image or public perception. While a public fleet may need to purchase conservative, economical vehicles, CEOs of private firms may want more upscale vehicles to portray an appropriate image.
- Employee morale. The purchase of smaller, more economical vehicles may have a negative impact on morale especially if this is a departure from previous policy.

All factors may not be relevant for every acquisition decision. Potential vehicle choices can be compared using the selection criteria that are pertinent to the acquisition decision being made at that time.

Purchasing policy in the Public Sector differs from its Private Sector counterpart in some significant ways. The common perception is that governments usually publicly bid projects, services, supplies and equipment, including vehicles, and the private sector does not. In fact both the public and private sectors use a variety of purchasing options, including open bids, limited bids, quotes, requests for proposals and sole source procurement. The most significant difference is that the public purchasing process is more tightly regulated and proscribed by federal, state and local law.

The overriding factor that drives public purchasing policy and process is proper stewardship and accountability of public funds that are expended for needed services, supplies and equipment. Almost all public purchasing procedures are directed toward ensuring that the expenditure of public funds is done in an open and fair environment, thus demonstrating to the taxpayer that the best value was received at the lowest cost. A common misunderstanding is that this concept means the low bid is always chosen. In reality, purchasing codes require that the successful bid is the lowest responsive bid, i.e. the lowest bid that meets or exceeds the minimum requirements of the bid or request for proposal.

Since every acquisition decision is different, fleet managers must be able to develop and tailor selector lists for the decision at hand. There are four steps involved in developing a selector list:

Step 1: Consider the specific acquisition decision to be made and decide which selection criteria (from the above list) are important.

Step 2: Rank the selection criteria deemed important in order of importance.

Step 3: Assign a relative rank to each of the selection criteria. For example, safety may be the most important criteria with acquisition cost ranking second. Safety, however, may be three times as important as cost so it needs to be weighted accordingly.

Step 4: Conduct a trial run with your list and make any necessary adjustments.

Alternative Fuels

The fleet industry in general and USPS in particular have a unique opportunity to make a considerable environmental impact. NAFA's Sustainable Fleet Accreditation Program is the distinctive accreditation program that provides the tools that help automotive fleets measure and track improvements in their environmental impact. Sustainable does not simply mean an alternative fuel source, but can be achieved through a host of other initiatives such as:

- Purchasing smaller vehicles
- Reducing speed
- Better route planning
- Smaller engine size
- Eco-friendly driving

If the decision is made to pursue alternative fuels, a cost-benefit analysis should always be undertaken to demonstrate the financial impacts of this decision.

Conclusion

In accordance with NAFA best practice, the USPS has a definite requirement to replace a significant portion of their fleet. Lifecycle Cost Analysis has been used to demonstrate that operating costs are rising significantly. Extended replacement also has the disadvantages of not introducing important safety and technological improvements in the fleet. The lifecycle methodology should be used further to analyze custom vs. commercial purchase options and alternative fuel options.

The OIG report continually mentions the weakness in the long-term replacement strategy. Without a detailed strategy, the acquisition process cannot continue. The strategy should envision a smoothed replacement cycle with regular, predictable capital requirements. The strategy should also seek to provide a long-term solution to avoid being in this position as the replacement vehicles end their lifecycles in a further 25 years.

Fleet Management should be centralized and the individuals responsible should be trained in fleet management best practice. Centralization will give better control over the long-term replacement cycle.

A selector list should be built that considers lifecycle costs as well as safety and the environment. Although fleet standardization is highly desirable due to efficiencies in mechanic training, driver training and parts, it is possible that one vehicle will not meet every need. A possible solution is to have a few variants of the same model, potentially varying in size or configuration.

Alternative fuels and other sustainable initiatives should be considered in the acquisition decision and throughout the life of the vehicles.

Mr. MEADOWS. Thank you, Ms. Vigneau.

Ms. Rectanus, you are recognized for 5 minutes.

STATEMENT OF LORI RECTANUS

Ms. RECTANUS. Thank you.

Chairman Meadows and members of the subcommittee, I'm pleased to be here today to discuss Federal fleet management practices.

As the chairman noted, fleet investment is significant. Given this investment, there's continued focus on making sure Federal fleets are managed effectively. In that respect, in 2011 the President issued a memo that called for executive agencies to determine their optimal fleet size and achieve those targets by this year.

Today, I will highlight our past work that identified leading practices for effective fleet management as well as some specific challenges the Postal Service has faced for replacing its aging delivery vehicles. The first leading practice entails having a comprehensive fleet management information system that allows managers to monitor fleet performance. Among other information, this system should include data on direct costs, such as fuel, repairs and vehicle depreciation, as well as indirect costs, such as personnel, office supplies, building rental and utilities. The system should also include utilization information, such as vehicle milage or whatever metric the agency is using to justify the vehicle.

The second leading practice involves lifecycle costs to inform procurement decisions. Lifecycle analysis captures vehicle costs from the beginning to the end of vehicle ownership and can help agencies make the best investment decisions. For example, lifecycle analysis can show if an agency can extend the use of a vehicle without causing operational problems or whether it would be better to replace that vehicle, such as when maintenance costs begin to outweigh the retail value. It could also show whether an agency should own or lease the vehicle.

The third leading practice involves optimizing fleet size and composition, which means reducing a fleet size to the fewest number of the right type of vehicles needed to meet the agency's mission. To support this, GSA recommended that agencies establish specific utilization criteria for each vehicle and assess actual utilization against that criteria. Through this process, agencies can determine the optimal number and type of vehicles they need and identify underutilized vehicles. One of the ways agencies can get the needed information is by using telematics, which can monitor vehicle locations, idle time, and miles traveled, among other things. For example, when installed in a vehicle, telematics can show that a vehicle is being driven fewer miles each year than the criteria would require, thus allowing the manager to potentially eliminate that vehicle.

Turning to the Postal Service, as we reported in 2011, the Postal Service's delivery fleet was aging well beyond its 24-year expected operational life. However, the negative financial condition for the Postal Service prevented it from replacing or refurbishing those vehicles.

The Postal Service selected not to replace its fleet as that would cost about $5 billion. It also chose not refurbished the vehicles, which would have cost about $3.5 billion, although that may have extended vehicle life by 15 years. Instead, the agency chose to focus on maintenance while planning how to address its longer term needs.

While understandable, this approach has had tradeoffs. For example, there have been high yearly maintenance costs, about $750 million at the time of our review, and it is about $1 billion today. There have also been operational costs such as overtime costs when vehicles broke down and needed to be repaired. We recommended that the Postal Service develop a strategy that addressed its fleet needs in light of operational and legal requirements.

As noted, earlier this year, the Postal Service issued a request for information for its new-generation delivery vehicle. For potential purchase of about 180,000 vehicles, the Postal Service could spend between $4.5 billion and $6.3 billion. While we are encouraged to see this effort, it would be critical for the Postal Service to conduct the necessary work to ensure this investment is sound.

In summary, effective fleet management relies on a complete and integrated information system, the use of lifecycle cost analysis and appropriate decisions about fleet size and composition. When these practices are done well, agencies can make sound decisions about their fleets and provide assurance that the fleets are meeting missions in the most cost-efficient manner possible.

Chairman Meadows and Members of the subcommittee, this concludes my prepared statement. I'm pleased to respond to any questions.

[Prepared statement of Ms. Rectanus follows:]

United States Government Accountability Office

GAO

Testimony
Before the Subcommittee on Government Operations, Committee on Oversight and Government Reform, House of Representatives

For Release on Delivery
Expected at 10:00 a.m ET
Thursday, May 21, 2015

FEDERAL VEHICLE FLEETS

Leading Practices for Managing Fleet Operations

Statement of Lori Rectanus,
Director, Physical Infrastructure

Chairman Meadows, Ranking Member Connolly, and Members of the Subcommittee:

I'm pleased to be here today to discuss our work on federal fleet management practices. In fiscal year 2013, federal agencies spent over $4.4 billion to acquire, operate, and maintain about 635,000 nontactical vehicles to help carry out agencies' varied missions.[1] The United States Postal Service (Postal Service), which operates the single largest civilian fleet, accounted for over 200,000 of those vehicles and $1.6 billion of those costs. In recent years, Congress, the Office of Management and Budget (OMB) and the President have raised questions about the size and cost of federal agencies' fleets. For example, in May 2011, the President issued a memorandum that directed agencies to, among other things, determine their optimal fleet inventories and set targets for achieving these inventories by the end of 2015.

My statement today discusses (1) leading practices for effective fleet management and (2) challenges faced by the Postal Service in replacing its aging delivery vehicles. This testimony is based on reports issued in July 2013, May 2014, and May 2011.[2] Each of these reports contains a detailed overview of our objectives, scope, and methodology. We identified leading management practices by interviewing fleet management experts and representatives of fleet management associations. We determined the challenges faced by the Postal Service by analyzing vehicle cost data from the Postal Service's accounting system, conducting site visits, and reviewing prior studies on the Postal Service's financial challenges. All of the work for these reports was performed in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

[1] *Fiscal Year 2013 Federal Fleet Report,* General Services Administration. April 2015. These data are the most currently available.

[2] *Federal Vehicle Fleets: Adopting Leading Practices Could Improve Management,* GAO-13-659. (Washington, D.C.: July 31, 2013); *Federal Vehicle Fleets: GSA Has Opportunities to Further Encourage Cost Savings for Leased Vehicles,* GAO-14-443, (Washington, D.C.: May 7, 2014); and *United States Postal Service: Strategy Needed to Address Aging Delivery Fleet,* GAO-11-386, (Washington, D.C.: May 5, 2011).

In summary, effective fleet management relies on a complete and integrated fleet management information system (FMIS), the use of life-cycle cost analysis, and appropriate decisions about fleet size and composition. When these practices are done well, agencies can make sound decisions about their fleets and provide assurance that the fleets are meeting missions in the most cost-efficient manner possible. The Postal Service has faced challenges replacing its aging delivery fleet, and it has recently issued a request for information from potential suppliers to develop a next-generation delivery vehicle.

Leading Practices For Effective Fleet Management

Given the large financial investment in the federal fleet and the increased focus on cost reduction, agencies need to provide assurance that they are managing their fleets in the most cost-effective way possible. In our 2013 report, we identified three leading practices that facilitate effective fleet management. These practices were based on views provided by fleet management experts from the private sector, local government, nonprofit entities and fleet management associations. Because the General Services Administration (GSA) purchases vehicles for agencies, leases vehicles to them, and provides guidance to agencies on managing their fleets, we compared these practices against GSA guidance and discussed these practices with GSA officials. According to GSA officials and experts we interviewed, these practices, as discussed below, provide a foundation for agencies to manage fleet costs while meeting their missions.

Maintain a Well-Designed Fleet Management Information System

As discussed in our 2013 report, a well-designed and comprehensive FMIS allows managers to monitor fleet performance and conduct the analysis needed for management decision making. To be comprehensive, an FMIS should include data on critical aspects of fleet management, such as costs, utilization, and repair and service history. Costs include direct costs such as fuel, repairs, and vehicle depreciation, as well as indirect costs such as personnel costs, office supplies, building rental, and utility costs.[3] Utilization information would include mileage or other metrics to justify owning or leasing the vehicle. According to GSA,

[3]In our 2013 report, we recommended that GSA develop and publish guidance for agencies on estimating indirect costs attributable to fleet management. In February 2014, GSA published guidance to help agencies better estimate indirect costs. See GAO-13-659.

agencies should also integrate their FMIS with their financial and property management systems to improve data accuracy and completeness and reduce duplication of data entry.

Analyze Life-Cycle Costs to Inform Procurement Decisions

As we found in 2013, life-cycle cost analysis—which captures vehicle costs from the beginning to the end of the vehicle ownership—can help agencies make cost-effective fleet investment decisions, such as when to replace a vehicle, and whether to purchase or lease that vehicle. When agencies consider life-cycle cost information along with information on costs and benefits of alternatives, they can better evaluate investment options and make choices that cost-effectively meet their mission. For example, an agency could use life-cycle analysis to show whether vehicle lives can be extended without reducing mission effectiveness; an agency could also use life-cycle analysis to identify when vehicle replacement is warranted. Fleet management experts and GSA have recommended that agencies base decisions about whether to purchase or lease vehicles on a comparison of the direct and indirect costs projected for the life-cycle of the owned vehicles to the total lease costs over an identical life cycle.

Optimize Fleet Size and Composition

Reducing fleet size to the optimal amount of vehicles needed to meet the agency's mission can reduce costs. As discussed earlier, in May 2011 the President issued a memorandum directing each federal agency to determine its optimal fleet inventory and set targets for achieving these inventories by the end of 2015. The memorandum specified that agencies should use a methodology that emphasized eliminating unnecessary vehicles and ensuring that vehicle composition met the agency's mission. GSA's implementing guidance called for agencies to:

1. establish specific vehicle utilization criteria,
2. conduct an assessment of vehicle utilization to determine how and the extent to which vehicles are used and apply the criteria to each vehicle,
3. identify underutilized vehicles and determine the optimal number and type of vehicles needed in the fleet inventory by considering utilization, mission needs, and other alternatives; and

4. review and update this study annually or sooner as mission needs change.[4]

To help achieve the optimal fleet size and composition, some agencies have adopted telematics. "Telematics" are devices that, when installed in a vehicle, can monitor vehicle location, idle time, and miles traveled, among other things.[5] According to experts we consulted for our 2014 report, telematics can help inform agencies' decisions on fleet size.[6] Specifically, with information gained from these devices, fleet managers can identify—and potentially eliminate—vehicles that may be underutilized or not used efficiently.

Postal Service Fleet Replacement Challenges

The Postal Service's delivery vehicle fleet is essential to accomplishing its mission of delivering mail to a network of over 150 million delivery points. We found in 2011 that many of the Postal Service's custom-built delivery vehicles were approaching the end of their 24-year expected operational lives. However, the Postal Service's deteriorating financial condition posed a significant barrier to replacing or refurbishing those vehicles.[7]

Given the Postal Service's continued reported losses and billions of dollars in unfunded liabilities, we found in 2011 that the Postal Service elected to not replace its delivery fleet—about 175,000 vehicles at that time—largely because it would cost about $5 billion. The Postal Service said that planning and executing the necessary custom-built vehicle acquisition would take 5-6 years from initially identifying the vehicles' specifications and negotiating with manufacturers through testing and deploying the vehicles. The Postal Service also chose to not refurbish the vehicles, which would have cost about $3.5 billion.[8] According to a Postal

[4]In our 2013 report, we recommended that GSA request supporting documentation from agencies when agencies submit their annual updates on fleet optimization targets. GSA has asked that agencies provide it with information and supporting documentation on the methods they used to produce their fleet inventory targets. See GAO-13-659.

[5]These telematic devices may use GPS navigation, in-vehicle video recording, or data recorders integrated with the vehicles' internal systems, among other technologies.

[6]GAO-14-443.

[7]GAO-11-386.

[8]Refurbishing would entail replacing nearly all vehicle parts subject to the effects of wear and aging.

Service contractor, refurbishing the vehicles could have allowed the Postal Service to extend the vehicle life by 15 years. Rather, according to Postal Service officials, the agency chose to sustain its delivery fleet though maintenance while planning how to address its longer-term delivery fleet needs.

While the Postal Service's approach was reasonable given its serious financial situation, we found that it was not without financial and operational tradeoffs. For example, there were high maintenance costs, including unscheduled maintenance costs, for some vehicles—resulting in about $750 million a year for maintenance at the time of our report.[9] This also led to operational impacts, such as increased overtime costs when vehicles broke down and needed to be repaired.

We recommended that the Postal Service develop a strategy that addressed its delivery fleet needs and considered the effect of any operational changes, legislative requirements and other factors. In response, the Postal Service stated that it was developing a strategy to address immediate and long-term needs of their delivery fleet. In 2015, the Postal Service issued a request for information from potential suppliers to develop a next-generation delivery vehicle to meet future capacity needs and delivery operation requirements, such as enhanced package volume. For a potential purchase of 180,000 vehicles, the Postal Service estimates it may need to spend between $4.5 and $6.3 billion.

Chairman Meadows, Ranking Member Connolly, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this statement, please contact Lori Rectanus on (202) 512-2834 or rectanusl@gao.gov. In addition, contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of the statement. Individuals who made key contributions to this testimony include John W. Shumann, Assistant Director, and Alison Snyder, Senior Analyst.

[9] These costs have increased since our report was issued in 2011.

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Mr. MEADOWS. Thank you so much.

Thank all of you for your testimony. I'd like to recognize the gentleman from Virginia, the ranking member, Mr. Connolly, for his opening remarks.

Mr. CONNOLLY. Thank you, Mr. Chairman.

And forgive me for being late, but we had multiple commitments at the same time, and I do not have the gift of bi-location, though I pray for it. Thanks so much for calling this hearing to examine the Postal Service's next-generation delivery vehicle acquisition program. The United States Postal Service owns and operates one of the largest vehicle fleets in the country, approximately 190,000 vehicles collecting and delivering mail across all 50 States.

Many Americans are no doubt familiar with the flagship USPS delivery vehicle as the 142,000 Grumman long-life vehicles have been ubiquitous in American communities since 1986. In many respects, these custom vehicles have been a success, enabling letter carriers to fulfill the universal service obligation at what had been a reasonable cost, but that has to come to an end.

As the USPS Office of Inspector General's recent audit on fleet replacement warned, our analysis of the delivery vehicle inventory and motorized routes showed the Postal Service could sustain delivery operations nationwide until fiscal year 2017. That's a year away.

As these vehicles begin to exceed their expected service life, it's neither cost effective nor sustainable to operate them without some kind of timetable in mind. I'm disappointed that, under the prior leadership, the Postal Service repeatedly delayed making critical long-term capital investments such as replacing its antiquated fleet. In fact, I recall a conversation spurred by Ruth Goldway, the head of the Postal Regulatory Commission back in 2009, in which we sat down with the Postmaster General to discuss the possible replacement of the fleet by using some of the economic recovery money. We could have looked at, at that time a budget of about $3 billion to purchase hybrid and electric vehicles primarily. It could have been a win-win. We could have infused the capital the Postal Service didn't have. We could have helped jump-start the electric car market here in the United States, and we could have saved a lot on the cost Ms. Rectanus just talked about in terms of maintenance.

And in what I'm afraid was a typical response to any kind of innovative thought the Postmaster General Donahue at that time said, "Well, we don't want to go into that; we don't went to be guinea pigs," even though the competition UPS and FedEx are in fact exploring and using those vehicles. The Postal Service hardly would have been a guinea pig, and we lost that opportunity if we, in, fact, have had it. So now we have to look at how we find the capital. One of the things we have to do it seems to me in Congress if we're going to unlock some capital is to get rid of the onerous prepayment burden that Congress back in 2006 put on the Postal Service. It is a $5 billion sword of Damocles over our head. It is actually more than that; the sword comes down actually. And only Congress can really address that. We have a scoring problem that's a technical problem, but a real one. But that prepayment makes no sense. It's is terrible burden that is unique to the Postal Service, and it distorts the ledger page. And, it actually is an opportunity cost because we could figure out some capital here to address in a more accelerated way than needs of the Postal Service in terms of its vehicular fleet.

So I thank the witnesses for being here today. Mr. Chairman, I know you share my concern about innovation and making the Postal Service more efficient. This hearing is very useful in that regard, and I look forward to working with you. I'm and trying to find common ground for solutions. Thank you.

Mr. MEADOWS. I thank the gentleman.

The chair now recognizes the vice chair of the subcommittee, the gentleman from Michigan, Mr. Walberg.

Mr. WALBERG. Mr. Chairman, I thank the witnesses for being here today. I always like to make a statement when we look at the Postal Service, having experienced the lack of ability to have good postal service at other places in the world, we have become accustomed to a Postal Service that, to a great degree, works. Our letters get there. Our packages get there—generally not squashed unless you let the gorilla out for a day. But generally it makes it there. We put checks, we put cash, valuable things in the mail. It gets there.

We have postal workers that take their job seriously. Surely my rural postal carrier takes it very seriously even taking time—I hope I don't get her in trouble—for attending to my mother, my elderly mother's needs at times in special ways. So we appreciate that fact. I also know that Shirley right now does not like the postal vehicle she has been assigned. As a rural carrier, taking away her four-wheel-drive vehicle that was her own vehicle and giving her that little mini box truck that causes her to be stuck along the postal routes many times these past several winters. So I appreciate the fact you're looking at something new. How we get it done is the question. That's why I am glad you are all here today.

Let me start with a question to Mr. Corbett. Initially, it seemed like it was almost a done idea that you were going to go for a purchase of 180,000 vehicles in one solid, put-together purchase agreement. Now it appears that you have some deviation from that to allow some flexibility and consideration. Why was that, and why is that now?

Mr. CORBETT. Thank you, Congressman.

The request for information that we put out in January specked an initial vehicle that would accommodate up to almost 99 percent of our existing routes. It was never our intention to go and buy 180,000 vehicles at that time, but we wanted to make sure that whoever responded to the RFI and who was pre-qualified to respond to the RFP had the ability to go up to the maximum number of vehicles that we would——

Mr. WALBERG. Even if ultimately it was leased, is that what you're saying? That they could produce those vehicles, but if there was a lease agreement or some other arrangement, you are concerned that the vehicles would be theirs? Is that what you're saying?

Mr. CORBETT. Yes. Mostly on a production side, the ability to actually have the facilities, the management and track record to produce that number of vehicles, as that would be the outside maximum number of vehicles we would purchase under this procurement.

Mr. WALBERG. Was there in that RFI, was there a request to show that they could upgrade and keep up with technology during the course of that production so that the starting vehicle may have been the best the industry has to offer, but you would be assured that in future years, there would be a vehicle that had been upgraded technologically, electronically, power train, and all of that?

Mr. CORBETT. The RFI did not focus on that. The RFP, which will go out for the prototype vehicles, will focus very much on those aspects, the ability to continually keep pace with technology and make the changes necessary.

Mr. WALBERG. Okay.

Ms. Vigneau—close, I hope— is it standard practice in the private sector to use the same vehicle for every delivery service throughout the country? And, in other words, do companies look to match the type of vehicle with geographic demands?

Ms. VIGNEAU. Yes.

Mr. WALBERG. We'll go on then.

Ms. VIGNEAU. Certainly. You have to balance the benefits of fleet standardization, which are many, which come from driver training, mechanic training, spare parts delivery, overall cost efficiency, with the unique demands and requirements. So what you see a lot of large fleets doing is going for some kind of common chassis, common vehicle type with variance that take into account the need for four-wheel drive, for example, left hand versus right hand. Working with the United Nations on common specifications for agencies around the world. This is exactly what they have pursued.

Mr. WALBERG. So it doesn't necessarily mean that the one vehicle would work in Boston or in Tipton, Michigan, but it would have the variance that makes sense for the place that it's at.

Ms. VIGNEAU. In a best case situation, that——

Mr. WALBERG. Can most users of these vehicles, including the Postal Service, could we assume that that would work, that type of approach of having multiple platforms or a platform with multiple uses and multiple component parts to make it useful in varied areas, would work even for the Postal Service?

Ms. VIGNEAU. I have not looked in detail at the specific requirements of the U.S. Postal Service so my testimony is really on industry best practice. So I'd like to say that for large fleets operating in North America, that that solution can be very successful.

Mr. WALBERG. Thank you.

My time has expired.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes the gentleman from Virginia, the ranking member for 5 minutes of questioning.

Mr. CONNOLLY. Mr. Chairman, some of my colleagues got here before me, and I would like to defer to them.

Mr. MEADOWS. All right.

Well, the chair would recognize Ms. Plaskett from the Virgin Islands.

Ms. PLASKETT. Thank you. Thank you, Mr. Chairman.

Mr. Ranking Member, you're so gracious. Good morning everyone.

Mr. CONNOLLY. I just want a free trip to the Virgin Islands.

Ms. PLASKETT. Always, it is America's paradise, your paradise.

Good morning, everyone. I heard a number of concerns about the Postal Service's RFI, and I wanted to talk a little bit with you, Mr. Corbett, right.

Mr. CORBETT. Correct.

Ms. PLASKETT. About the financial challenges that the Postal Service is facing as a result of its aging fleet. You talk a little bit about the extremely high maintenance cost to a fleet at the Postal Service. Can you give us a rough estimate on how much the Postal Service spends a year on maintenance and repair costs?

Mr. CORBETT. Yes, as it relates to our long-life vehicles, the vehicles we are looking to replace, the annual maintenance cost is approximately $700 million, and that has grown over $200 million over the last 7 years. And the line is just like this so that we've got to replace them quickly because the cost continues to escalate.

Ms. PLASKETT. Now the cost escalating, what is attributing to that?

Mr. CORBETT. As the vehicles gets older, of course, just like your personal cars, they continue to break down. You have to replace parts to keep them in service.

Ms. PLASKETT. But this is not a cost that is incrementally higher than it would have been 10 years ago or something, this is just a cost because the size and the depth of the Postal Service, that it continues to grow or is there something happening that causes that number to change?

Mr. CORBETT. Yes, the wear and tear on the vehicles causes—has caused that number to continue to increase each year, on a per-vehicle basis as well as fleet wide. As the vehicles get older, they require more maintenance, more parts being replaced, et cetera. That contributed to the $200 million increase we've seen since 2007 in the overall cost.

Ms. PLASKETT. I'm going to get back to that statement. But you discussed supply problems and structural fatigue. What are you referring to by that?

Mr. CORBETT. In terms of continuing to maintain a fleet, which is on average 23-years-old, it's becoming more expensive. And to get suppliers to continue manufacturing those parts, they know we are going to replace them and so they don't invest in their own business to be able to manufacturer the parts that we ideally need to maintain the older vehicles.

In terms of fatigue, we're really referring to not just engine parts and transmission parts but also the fatigue in terms of the actual frame of the vehicle and chassis of the vehicle, which after running for over 100,000 miles can tend to crack, and it is very difficult with an aluminum body to actually fix that.

Ms. PLASKETT. Okay, that's very interesting. You know, of course, this goes back maybe to our investment in our roads as well as our transportation and our infrastructure, which probably causes a lot more wear and tear on the road—on the vehicles themselves that are traversing the roads here in the United States.

Do you find that there is more wear and tear on the—how do you distribute that? My question is, is there more wear and tear on those vehicles which are in rural areas as opposed to those that are primarily within cities or urban areas or those areas that have better roads, per se? How do you determine which areas get that? And do you find—have you done in analysis of the rural areas to determine whether or not that wear and tear is more on them?

Mr. CORBETT. I don't have that information broken down.

Ms. PLASKETT. Do you think that's been done?

Mr. CORBETT. Excuse me?

Ms. PLASKETT. Do you think that has been done? You don't have it with you, but do you know if this is an analysis which has been done?

Mr. CORBETT. I don't know, actually, but I am glad to look into it and bring that back to the committee or to you.

Ms. PLASKETT. Okay. And the reason I'm asking, of course, it is for self information for my own district's information. Because we are a rural area, our roads are not that great. But, more importantly, we also have issues, environmental issues, like salt blasts, which affects our vehicles probably at a higher rate in terms of corrosion of the metals because of those wonderful beaches and the sand and sea that we face that we have structural damage. And, you know, before this hearing, I went and called our postal unions and others, and we have not had a purchase of a new vehicle in over 10 years.

And so I was wondering how you determine which areas—my next question then would be which areas then get the new vehicles, and how is that distribution done? What's the analysis that's done in determining which areas get new vehicles?

Mr. CORBETT. We have not purchased new vehicles, new delivery vehicles, for quite some time now. And so it actually precedes when I joined the Postal Service. I actually couldn't answer what the policy was.

Ms. PLASKETT. Well how long have you been there? What does that time mean?

Mr. CORBETT. Six years.

Ms. PLASKETT. Okay.

Mr. CORBETT. So but what we're doing—and we agree with all the experts here that it's been too long. We have to get on with the purchase of new vehicles. We clearly have not done this in a best-practice way. In 2009 alone, the Postal Service lost $7 billion in revenue. We nearly ran out of cash, and we clawed our way back to a point now where we can begin replacing the vehicles.

In terms of the allocation of resources today, we're essentially replacing the vehicles as they deteriorate and just keeping them maintained. We're not putting new vehicles out—right-hand-drive vehicles out— anywhere in the country.

Mr. MEADOWS. I thank the gentlewoman for her questions.

The chair recognizes the gentleman from South Carolina, Mr. Mulvaney.

Mr. MULVANEY. Mr. Chairman, thank you.

I thank all of the panelists for doing this. It is very helpful. I'm going to follow up on a line of questioning that Mr. Walberg started regarding, Mr. Corbett, the type of vehicles. Did I hear you correctly say that you're going to put out a request for proposal on a single type of vehicle that would meet 99 percent of your needs?

Are you going to essentially going to have one standardized vehicle nationwide?

Mr. CORBETT. No. Sorry, if that's what I said, I apologize. Absolutely not. But we did put in the RFI very specific specifications of a vehicle that would satisfy 99 percent of our delivery routes.

Mr. MULVANEY. Okay, I think we're saying the same thing. So I guess to Mr. Walberg's question, do you intend to use the same vehicle in New York City as you do in suburban South Carolina as you do for rural Colorado?

Mr. CORBETT. We haven't made a determination. That will be—the next phase will be a request for proposal for prototype vehicles. We will encourage manufacturers to look at, for example, four-wheel-drive versus two-wheel-drive vehicles. For example, your flex-fuel, your CNG, hybrid vehicles, and unleaded vehicles, et cetera.

Mr. MULVANEY. So you're open to the concept of a different type of vehicle in different service areas.

Mr. CORBETT. We absolutely are, yes.

Mr. MULVANEY. Okay.

And Ms. Vigneau mentioned, and I think it makes perfect sense, that one of the things you analyze when you are making these type of fleet decisions is the benefits of having a specific use or a tailored use versus the cost savings that come from a uniform platform, from an identical platform.

Let me ask you, Ms. Vigneau, you mentioned large fleets. When you managing a large fleet, that's one of the things you look at. How big is a typical—how big do you have to be to be a large fleet?

Ms. VIGNEAU. NAFA has different bans that classifies fleets as small fleet. First of all, to be a fleet, you have to have more than five vehicles.

Mr. MULVANEY. Okay, we are pretty much beyond that.

Ms. VIGNEAU. We are definitely beyond that. I think our large fleet designation is actually 500 vehicles or more.

Mr. MULVANEY. So I guess my point is this, and I would encourage Mr. Corbett to consider this, as they look at the weigh in the benefits of having a somewhat tailored vehicle versus the cost savings of the economies of scale, it sounds like you might be able to get some of the economies at the fleet of 500 vehicles or more and that the post offices can have such a large fleet, they could have seven different types of vehicle that qualify by themselves as large fleets, right?

Ms. VIGNEAU. Yes. But then you still have a disadvantage of the multiple training programs for mechanics, for drivers, multiple parts——

Mr. MULVANEY. Sure, you do, but if all vehicles in New York City are a particular type, yeah, you might not be able to send them to Colorado to get their training, but you are still big enough at 500 vehicles to get some economies of scale. Yet, I'm not trying to micromanage what you pick. I'm glad to hear Mr. Corbett is open-minded to the possibility of having different types of vehicles in different areas. I just don't think makes sense to have the same vehicle that serves such Colorado, South Carolina, and New York City, but again, maybe the cost savings are there.

I want to talk to you, Mr. Corbett, about finances, if I can, because I don't understand very much about how the post office works. You all are buying a lot of vehicles. How are you going to pay for them?

Mr. CORBETT. That's yet to be determined because we have not gotten to the stage where we will be evaluating financing proposals. Again, the next stage is a request for proposal for prototype vehicles.

Mr. MULVANEY. Right. When do you expect to start taking delivery on these? In a best case scenario, what is your ball park, 2017?

Mr. CORBETT. Early 2018.

Mr. MULVANEY. And yet you tell me you haven't decided yet whether you will pay for them out of operating revenues or debt. How do you all typically pay?

Mr. CORBETT. We would typically—again, we haven't bought vehicles, this level of vehicles, in the past, in the recent past anyway—typically we finance from our own cash and borrowings.

Mr. MULVANEY. Okay. Quick question, again, I very little about the Postal Service. When you all borrow money, is it guaranteed by the government?

Mr. CORBETT. Excuse me?

Mr. MULVANEY. Is it guaranteed by the Federal Government? When you go to the bank and say, would you please lend us $20,000 to buy this truck, does that carry an implicit or explicit government guarantee, or are you just standing on your own balance sheet when you borrow that money?

Mr. CORBETT. The government does not guarantee. We also do not have any third-party borrowings. All of our borrowings to date have been from the Federal Finance Bank of the U.S. Treasury.

Mr. MULVANEY. Okay, all right. Okay. I've got some other questions, but maybe I'll wait on the other ones.

Thank you very much, Mr. Chairman.

Mr. MEADOWS. Mr. Corbett.

Mr. CONNOLLY. I am so sorry. I was just going to ask my friend, Mr. Mulvaney, if you would yield for a second.

Mr. MULVANEY. I would be happy to.

Mr. CONNOLLY. I think both the chairman and I would love to work with you on this because I think there is concern that too much uniformity can actually, with the best of intentions, actually not work out all that well. We would like to work with you in making sure that as we replace the fleet, which is a huge fleet, we're taking into account the differences in routes, urban, rural, suburban, et cetera. And to make sure that we also are getting the best bang for our buck from an environmental point of view as well.

Mr. MULVANEY. If the gentleman will yield, my followup questions—I do want to continue this conversation about whether or not—how many companies can deliver 180,000 of the same type of thing? Does it open up for more competition if we have three or four different types of vehicles. Maybe we can explore that later.

Mr. MEADOWS. The chair recognizes the gentlewoman from Michigan, Ms. Lawrence, for 5 minutes.

Mr. CONNOLLY. Mr. Chairman, before her time starts, I believe Ms. Lawrence knows more about this than anybody. She is a 30-

year veteran of the U.S. Postal Service and retired 7 years ago as a letter carrier so——

Mr. MEADOWS. Welcome.

Mr. CONNOLLY. She's our expert.

Mr. MEADOWS. It's good to have an expert. Sometimes we lack that here on the dais. So you go ahead with your 5 minutes of questioning.

Mrs. LAWRENCE. Thank you.

Mr. Corbett, I have a number of questions. As stated, I started my career in the Postal Service as a letter carrier so I've driven a number of the vehicles, 1 tons, LLVs, the minivan thing; I went through that with Chrysler. So while you've been there 6 years, I actually have driven some of those vehicles.

The concern I have in having lived through the deployment when we brought in the LLV vehicles, there was this massive movement of old vehicles moving from one station to another. You bring in the new ones, and then you move them down the road. So we're talking about starting in 2018, and I'm very concerned when you say you have not—you don't have the numbers because to incorporate a new fleet of vehicles, there are costs—and Ms. Vigneau—that she stated. There is the mechanical training. There is the actual impact on moving vehicles in, moving vehicles out. So there's some major questions I have for you.

If we are already in a crisis mode and you gave us the numbers, how can we sustain our fleet until 2018? Because understand, this is bigger than fleet; this is delivery standards. And, in the morning, I can tell you in Michigan, where I live, those cold mornings and those old trucks do not start. And that is an immediate impact on delivery standards because you're trying to find ways to get trucks from other places so that you can get the mail out of the door. So how are we going to be able to survive between now and 2018? What is the plan?

Mr. CORBETT. Thank you for your question, Congresswoman. The same way we're surviving today, and we will get through it. We will continue to repair and, in some cases, overhaul our existing vehicles until such time as we have a replacement vehicle for it. In your example, that's very common in cold-weather States to have vehicles with either aging batteries or problems with the starter, and we will replace that if those problems occur. We also do maintain spares to the extent that it takes longer than a day to repair a vehicle.

Mrs. LAWRENCE. I was a delivery supervisor. I'm very much aware of that.

So we're saying that we—the current conditions of our 142,000 LLVs have extended their service life, but you're saying that between now, 2015, 3 more years, we will be able to continue to just repair them and maintain standards?

Mr. CORBETT. That's correct. Everything on the vehicle—other than the frame really, which is aluminum and is very difficult, if it cracks, to replace—can be replaced or repaired as we sit here today. In terms of the overall aluminum frames, our analysis and assisted by an outside party also indicates that those frames should last for another 10 years on average.

Mrs. LAWRENCE. I am—I heard the number 2007 until now has been a critical period for our vehicles. And we are constantly hounded by our delivery standards that that is the ultimate goal of the Postal Service is to have a standard that we can maintain. And these vehicles and I can tell you as they age becomes a critical, critical deterrent to getting to that point. And I won't even go into the discussion of how we can say that we keep kicking the can down the road when we know that it is having an impact on our delivery standards?

I am very concerned that when you as a chief financial officer, you're challenged with the numbers that it would take. You have not reached that point of, what would it cost to be able to replace the fleet? It seems like—and I know how the government works—so if we're still at the point we haven't designed the vehicle, we don't know what it's going to cost and there's additional internal costs that would immediately come on to the Postal Service when we bring in these fleets, how can you sit here today and say that we can purchase these vehicles? Because when we went through this crisis before—and I was there—we literally had to stop purchasing vehicles because we ran out of money, when we did the minivan thing. And we had this whole plan, and we couldn't implement it.

Mr. Corbett?

Mr. MEADOWS. The gentlewoman is out of time, but you can, please, answer that question.

Mr. CORBETT. Yes, Congresswoman.

We, as we sit here today, the Postal Service from nearly a zero balance just 6 years ago in terms of cash and with all our borrowing capacity taken up, we now sit here today with about $6 billion of cash. It's gotten to the point where the replacement of the vehicles has got to start now. I believe there is almost universal agreement of that. We have got to move as quickly as we possibly can to do that, and we have to make it a priority to fund that from the cash that's available and from operating cash in the future.

Mrs. LAWRENCE. When will you have numbers?

I'm sorry, Mr. Chairman, when will you have a budget, and when will you have numbers that you can actually talk about?

Mr. CORBETT. Well, I can tell you now that we've done the analysis, and we're looking at somewhere in the neighborhood of $4.5 billion to $6.5 billion depending upon the nature of the vehicles that we buy.

Mrs. LAWRENCE. Thank you, Mr. Chair.

Mr. MEADOWS. I thank the gentlewoman.

The chair recognizes the gentleman from Colorado, Mr. Buck.

Mr. BUCK. Thank you, Mr. Chairman.

Mr. Corbett, I haven't been here this long, but let me give you a warning, never tell Members of Congress that you have $6 billion in reserves because that money will be spent in some other way.

I have a question for you, every time I hear the prices are going up at the post office, I hear folks from the post office and also analysts talk about that if Congress just allowed the post office to compete in the free market, the post office would do much better. If you were made king tomorrow, what regulations, what laws, what would we take off, what burdens would we take off the post office to allow you to compete in a way that would really encourage the purchase of these vehicles more quickly or give you the flexibility you need to deliver the kind of service—and I have to tell you, I have worked in the Federal Government and have been very impressed that postal inspectors I worked with as a prosecutor and very impressed with the post office personally and professionally. So I'm big fan. I just would like to know what can we do to help you in the area of competition?

Mr. CORBETT. Thank you, Mr. Congressman.

Mr. MEADOWS. Please hit your mic.

Mr. CORBETT. Let me, please, first put the $6 billion in perspective. The Postal Service spends almost $3 million a day. So you can see that this is just a less than a month of operating cash. Having said that, we have got to prioritize our expenditures and our priority has go to be to invest in these vehicles; we cannot wait any longer.

Now, in terms of the additional flexibility the Postal Service seeks, for 4 years now, we've been working on comprehensive legislation and many of the asks if you were have been embedded in the previous Senate bill, et cetera. But the largest, by far, combination we need is to integrate Medicare with our retiree health benefit plan, which would save almost $5 billion a year in terms of the required payments for the Postal Service.

In addition to that, we seek a refund and a reduction in the amount we pay into to the Federal Employee Retirement System. Our account overfunded, and we are looking for that.

Third, in terms of priority most likely is pricing flexibility. As many of the members probably know today, we have a price increase back in January of 2014, and our regulator has determined that we need to roll back our prices, even though we're continuing to lose money, that we need to roll back that price increase beginning some time toward the end of July or early August. That date has not yet been determined.

In addition to help with the exigent price increase, we need more pricing flexibility. Also the ability to go into new products and services that may be related to our delivery business—and most cases are—or maybe something different. For example, just a shipment of beer, wine and spirits. There are hundreds of millions of dollars that can be earned from that, but we are precluded by law from doing that today. And so those are some of the main items that we seek help with.

Mr. BUCK. I represent a rural district. I'm just wondering what the burden is. I have four members of the Postal Service in my office right now talking about the need to maintain post offices in rural areas.

Is that a burden compared to the issues that you've just mentioned? Where does it fit on the sort of the cost analysis?

Mr. CORBETT. First, let me say, we have no plans to close any post offices that we've been discussing internally, so I'm not sure the nature of the discussions you're having.

And so we are planning on keeping those open. So the things I mentioned are—all of them are worth more in terms of dollar value in terms of getting us back to financial stability than closing post offices, for example.

Mr. BUCK. Thank you.

I yield back, Mr. Chairman.

Mr. MEADOWS. I thank the gentleman.

Mr. Corbett, I want to verify one thing, because we've talked about a cash-on-hand and then you talked about prefunding just now. But it's my understanding that the reason you have so much cash on hand is because you haven't been paying the prefunding. Is that correct?

Mr. CORBETT. That is correct.

Mr. MEADOWS. So to say we've got cash just means that you haven't been paying an obligation you're required to. And the ranking member and I are willing—I'm willing to invest political capital in terms of prefunding. You know, as we start to look at this, I really am willing to invest, but I think we need to be transparent to indicate that you have this cash, really it's because you haven't been paying for 4 years on other obligations. Is that correct?

Mr. CORBETT. That's correct, chairman. In fact, let me even underscore that more. It's not just the fact that we've been missing that payment. On our balance sheet and off our balance sheet, we have a—our liabilities and underfunded—our liabilities recorded on our balance sheet and underfunding of our retirement and health plans, the liabilities exceed our assets by $90 billion. So by no stretch was I trying to imply that our balance sheet is in good shape and this cash has been generated through peer profits.

Mr. MEADOWS. So if you were CFO in the private sector, your company would be in deep trouble?

Mr. CORBETT. Correct.

Mr. MEADOWS. All right. Thank you.

I recognize the gentleman from California, Mr. Huffman, for 5 minutes.

Mr. HUFFMAN. Thank you, Mr. Chairman, and Mr. Ranking Member, for allowing me to participate in this hearing.

I especially want to thank Ranking Member Connolly, who has been a champion on this issue. Almost 2 years ago, he and I started working together on a bill that came to be called the FLEET Act, Federal Leadership and Energy Efficient Transportation. We introduced that bill because the need for modernization of the postal fleet was very obvious as we looked at the age of the vehicles, as we looked at this snowballing cost for maintenance, as we looked at the embarrassing fuel economy of this fleet, one of the largest fleets in the Nation.

And we also were interested because we know you only have the opportunity to replace a fleet like this once a generation or so. And so we wanted to get it right. We wanted to be a model for this country and for the world.

And so, Mr. Corbett, it sounds like you're hearing a chorus of guidance from both parties that this one-size-fits-all approach that some of us bristled at a little bit from the RFI should evolve to a more nimble, flexible approach, and I was really pleased to hear your openness to looking at different vehicle types to meet different needs throughout your service areas.

I just want to ask you in that regard, since your competitors are certainly fielding very nimble fleets with different types of vehicles for different purposes, what you are going to be doing to sort of identify your opportunities in that regard? You could come up with lots of different scenarios, but one that comes immediately to my mind are concentrated, densely populated urban areas where an electric vehicle would seem to be well within its range and could meet your needs. Now, that might not be, you know, a standardized vehicle, and conventional wisdom might say that you would have to train people to handle special maintenance costs, but anyone who has an electric vehicle knows they require almost no maintenance. You pretty much put air in the tires and windshield wiper fluid in that part of it, and you don't have to do a lot of maintenance on these vehicles. They're wonderfully economical.

So, tell me, if you could, what you're doing to think about the ways in which you could have a nimble fleet that could be opportunistic in taking advantages of technologies like that.

Mr. CORBETT. Sure. Thank you, Congressman.

Yes. There's a number of things we're doing. We have a number of ongoing programs, and also I also will comment on what we're doing in the RFP, in order to gather more information as to the prospects for alternative-fuel vehicles.

We have, today, alternative-fuel vehicles in our fleet. We have 43 electric vehicles. We have been testing vehicles along with five manufacturers. Three have dropped out. They didn't have the ability to continue with our testing. We have over 41,000 flex-fuel vehicles. We have almost 600 compressed-national-gas vehicles. We have about a thousand hybrid vehicles, and we even have one fuel-cell-hydrogen vehicle we're testing out. So we continue to look at the possibility of alternative-fuel vehicles.

And one of the principle aspects of our RFP for the prototype vehicles is going to be to encourage the industry to be creative and to propose to us how they can work with us to bring the most efficient vehicle, also keeping in mind our requirements on emissions and greenhouse gas, et cetera. We have various different things we need to balance here.

At the end of the day, we'll balance those all against the lifecycle cost of replacing a substantial percentage of our 180,000 vehicles. I don't have that information right now, so I really can't tell you what our response would be, but we'll evaluate it again against the criteria of lifecycle total cost, including the cost of the infrastructure and the maintenance cost, both near term and long term, and also balance that out against emissions standards and greenhouse standards.

Mr. HUFFMAN. Thank you. I'll just leave you with two quick questions. If you're able to tell us anything you're beginning to learn from those pilots, I would appreciate it. The flex fuel, I'm aware you've got a lot of vehicles, but the information I've received is that you're not really using the alternative fuel. So I don't know really what we're gaining by having that flex-fuel technology that doesn't get used.

I just want to, last, end by asking you about California. Now, our Air Resources Board has all sorts of incentives in California to work with fleets. They are working with local government fleets to put in hydrogen charging stations, for example, where the economies of scale can make that work. And if ever there's a fleet big enough where they might qualify as a partner for the State of California to do something like that, it would be the Postal Service.

Have you reached out to the State or other States to see if there may be partnering opportunities like that that could be a win-win for you?

Mr. CORBETT. Yes, we definitely have. I cannot comment on the conversations because I don't have that knowledge. But we have a sustainability office. They work with various State administrations in terms of ways that we can, again, reduce our emissions or greenhouse gases and other nonvehicle-related ecology things.

Mr. HUFFMAN. Thank you, Mr. Chairman.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes the gentleman from Georgia, Mr. Carter.

Mr. CARTER. Thank you, Mr. Chairman.

And thank all of you for being here today. Mr. Corbett, I spent all last night preparing these questions, and then you say something that arouses my curiosity here.

I'm a pharmacist. The number one drug problem we have in the country right now is prescription drug abuse. If you can mail prescriptions, and you can send controlled substances, but you cannot send beer, wine, and spirits through the mail?

Mr. CORBETT. That's correct.

Mr. CARTER. Amazing. Amazing.

Okay. I'll get on to the questions that I prepared last night.

I want to talk, just briefly, about the maintenance part of this. And let me preface this by saying that I was a mayor at one time, and I had to manage fleets. And we used the best practices. We made sure that we were buying so many fleet vehicles every year, so many maintenance vehicles every year, so that we weren't hit with this kind of situation, and I understand that. But we also found that sometimes it was better for us to go to the private sector to have maintenance and repairs done on our vehicles.

How do you handle repairs and maintenance on your vehicles?

Mr. CORBETT. Yes. Of the $700 million a year for our long-life vehicles maintenance costs, about $200 million of that is spent in private industry for parts and service, and the remainder of that is done internally by our folks.

Mr. CARTER. So you do utilize some private sector facilities?

Mr. CORBETT. Yes, we do.

Mr. CARTER. How many maintenance facilities does the post office operate?

Mr. CORBETT. I'm afraid I can't give you that number. I believe it's in the neighborhood of 500 across the country.

Mr. CARTER. Okay. That's close enough to what I've got. How many employees do you have in those facilities?

Mr. CORBETT. I'm sorry. I also don't have that information.

Mr. CARTER. Okay. Can you get that for me?

Mr. CORBETT. I'll be glad to get it to you.

Mr. CARTER. Okay. I appreciate that. Do you ever put RFPs out to see if the private sector can do the maintenance for you?

Mr. CORBETT. Yeah. We looked at this very carefully. And the—one area of our business where it's fully competitive, really, with the private sector is the wages paid for mechanics. Mechanics are paid quite a high wage in the private sector, and so in—on balance, we're actually, assuming all other things are equal, we are better using internal labor in a lot of cases rather than——

Mr. CARTER. Okay. So you're saying that the laborers in the post office that are employed by the post office are not paid comparable wages?

Mr. CORBETT. What I'm saying is—and, again, it does vary by market, and that's why we spend some on the outside and some on the inside. But we actually have found that in a number of cases when we evaluate whether we should outsource versus continue to use our union labor, that the union wages that we pay are consistent with, or in a lot of cases, competitive——

Mr. CARTER. The $700 million that you gave us as a figure, does that include labor cost?

Mr. CORBETT. Yes. That's all labor, parts, both internal and external, for the maintenance——

Mr. CARTER. And it includes employee benefits and everything else?

Mr. CORBETT. Correct.

Mr. CARTER. Obviously, because you haven't bought any new vehicles lately, you're having an increase in the amount that you're having to spend on maintenance, and that is understandable because you haven't used best practices to buy vehicles and to try to keep your fleet up to date. Do you have any idea how much per vehicle you're spending now?

Mr. CORBETT. Yes. I think, in 2014, we spent an average of about $4,200 per vehicle, for the long-life vehicles, in maintenance, which is way too high.

Mr. CARTER. As you've been going through this process of trying to get your financial affairs in order, have you looked at possibly doing away with your maintenance facilities and going to the private sector, how much that might save you and how much it might work more efficiently?

Mr. CORBETT. Again, on a market-by-market basis, we have looked at this. And it's relatively neutral as to where you will save money versus pay more. And it's, again, market by market.

Mr. CARTER. So you have looked at this? So you've got facts and figures. Can you provide that to us? Do you mind doing that?

Mr. CORBETT. Sure. I'd be happy to provide that information.

Mr. CARTER. Okay. Well, that's essentially all I had on that line of questions. But, again, I want to end with what I started with. I find it highly hypocritical that you cannot spend beer, wine, and spirits through the mail, yet you send controlled substances through the mail every day. And the number one growing problem in our Nation is prescription drug abuse.

Thank you, Mr. Chairman.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes the ranking member for 5 minutes.

Mr. CONNOLLY. I thank the chair.

Ms. Rectanus, if I can begin with you. In 2011, GAO issued a report on the Postal Service's delivery fleet. Are you familiar with that report? The report stated that 54 percent of the Postal Service's flex-fuel vehicles run exclusively, however, on gasoline. So, in other words, even though the vehicles had the capability to run on alternative fuels, many of them were still running exclusively on gasoline. Is that correct?

Ms. RECTANUS. Yes.

Mr. CONNOLLY. Can you explain how that could be the case?

Ms. RECTANUS. What we found in our report is the Department of Energy does a lot of waivers to agencies if they are unable to use their alternative-fuel vehicles with alternative fuel. And so the Postal Service had gotten a waiver from DOE because they met the criteria. In other words, there was not sufficient fueling stations available, or they were not available within a certain mileage. And so they were able to get a waiver for that 54 percent.

Mr. CONNOLLY. Do you think circumstances have improved with regard to that since that 2011 report was issued?

Ms. RECTANUS. We have not looked at it since that point, so I don't have an answer to that.

Mr. CONNOLLY. We would welcome an update.

Ms. RECTANUS. Okay. Sure.

Mr. CONNOLLY. Mr. Corbett, based on my reading of the request for information, the next-generation delivery vehicles should be an alternative-fuel vehicle either dedicated or dual-fuel vehicle, as defined in 42 U.S.C. 13211. Is that correct?

Mr. CORBETT. Excuse me, Congressman.

Mr. CONNOLLY. You have to turn on your mic.

Mr. CORBETT. Excuse me, Congressman. I'm not familiar with the exact cite you just read. But, yes, in general that is the——

Mr. CONNOLLY. I'm quoting from the RFI.

Mr. CORBETT. Okay.

Mr. CONNOLLY. My concern here is that's a noble goal, but in light of the exchange I just had with Ms. Rectanus, I'm concerned that you are going to continue—those new vehicles would continue—if they are dual-use vehicles, would continue to run on gasoline. What are we doing to try to take advantage of the technology to use alternative fuels, including hybrids and electric? Because, right now, even with vehicles that are designed to use alternative fuels, 54 percent of them are exclusively or mostly using gasoline in your current fleet.

Mr. CORBETT. That's correct, at least at the time of the study. And, again, I'll underscore, the reason for that was that there was not a filling station within a reasonable distance in order to drive those vehicles to get the flex fuel. So, in other words, you'd be using more fuel and more emissions to go fuel up with flex fuel, and that was contrary to our overall goal. So we wouldn't do that.

In terms of the evaluation for the new vehicles, whether it would be electric, flex, CNG, et cetera, or hybrids, that is still open. We're open to all proposals that we receive. I would point out, as with the flex fuels, the biggest hurdle with the flexible-fuel vehicles is not the vehicles themselves but, rather, the infrastructure to maintain those vehicles at an added cost. So we're looking for people to be creative, aggressive, and to give us proposals that make sense from a lifecycle cost perspective.

Mr. CONNOLLY. And that gets back to the idea of not having one size fits all because there may be places where alternative fuels are readily available, and the infrastructure exists; there may be other parts of the country where that's a much more difficult proposition. You would agree?

Mr. CORBETT. Yes. Absolutely.

Mr. CONNOLLY. I would bring to your attention a letter that I circulated, along with Mr. Huffman, on this very subject, and it's signed by a number of Members of Congress, dated May 6. It's addressed to the Postmaster General on the process of replacing the aging mail-delivery vehicle fleet, and it talks about the RFI and the need for looking at—well, avoiding the one size fits all with respect to vehicles. Have you seen this letter? Are you aware of it?

Mr. CORBETT. Yes, I am, Congressman.

Mr. CONNOLLY. Any idea when the Postmaster General intends to respond to it?

Mr. CORBETT. I'm afraid I don't know the status of that.

Mr. CONNOLLY. Okay. We'd ask, for the record, if you could bring back the request. I understand it's only been a little over a week, but we think it's kind of important and very relevant to the subject at hand. So, yeah.

Mr. CORBETT. Out of all respect, we had our National Postal Forum this year, which is an annual event. It's in California, and so most of—the Postmaster General and the senior team have been out on the West Coast this week.

Mr. CONNOLLY. Okay. Well, especially in light of this hearing, perhaps this hearing could help inform the response. I thank you.

And, with that, I yield back, Mr. Chairman.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes the gentleman from Wisconsin, Mr. Grothman, for 5 minutes.

Mr. GROTHMAN. Thank you.

And, Mr. Corbett, I recently did a drive-along with some of the local Postal Service guys—at least in Wisconsin, becoming more widespread nationwide—collecting food for the local food pantries along with the regular route. And I'd like to thank you guys for doing that, and there's certainly hard-working guys and gals, and it was a very enjoyable experience.

One of the things you said to Congressman Carter, just—my hearing a little bit now. We're talking about buying another 180,000 vehicles. Are most of those the type of vehicles—or how many of those the types of vehicles that you use, you know, the kind of small vehicles that you see driving around the streets all the time?

Mr. CORBETT. Actually, again, it's unlikely we'll buy 180,000 of the same vehicle, but up to was the specification. And it actually is a vehicle that we expect—at least the body; the drivetrain is still wide open—but there are certain aspects of this that will enhance safety and improve service and reliability. And as it relates to our employees, the safety aspect is critical. So this vehicle will be taller than our existing vehicles. It will be longer than our existing vehicles. It will allow the letter carriers to actually walk between the shelving where they pick the mail and the packages off so they're not bending over and having accidents, et cetera.

But it will be roughly, in terms of cargo space or in terms of internal space, about twice the size of the existing vehicles. That would be—we would need those on certain routes, and then we'll continue to look at other modifications as need.

Mr. GROTHMAN. Great. About how many of those do you anticipate buying?

Mr. CORBETT. Until we will get to the RFP and complete our analysis, I really can't specifically respond to that, what number. One thing that I am certain is that there will be some number of vehicles that size that we need because the majority of our routes can be accommodated by that vehicle.

Mr. GROTHMAN. I'm not trying to catch you on anything. It's just the notes we have here says 180,000, but that just could be 100, could be 50, could be 150. I don't know.

Mr. CORBETT. Again, it's premature to know to how many would be exactly at spec.

Mr. GROTHMAN. That's fine. You just said you're spending $4,200 bucks a year on maintenance. Is that really just on maintenance per vehicle?

Mr. CORBETT. That's correct.

Mr. GROTHMAN. What are they doing? It just seems to me it's kind of a high number. That's all. I wasn't planning on asking it. Congressman Carter asked you. I don't spend $4,200 on my car. I just wonder, what do they do for $4,200 bucks?

Mr. CORBETT. Again, I want to underscore the fact that the average vehicle is 23-years-old. So virtually every component of that vehicle, other than the frame and the chassis, has been replaced at some point in its life and continues to fail as it's used longer and longer. So, yes, it is a high number. It underscores the fact that we need to move as quickly as possible to replace these.

Mr. GROTHMAN. Yeah. I'm just wondering. I mean, you know, I realize it's not like you're doing highway miles either. It's start and stop all day long. I just wondered, for $4,200 bucks a year, what are you doing every year on a vehicle? It just seems to be a high number. I just wondered.

Mr. CORBETT. I'm sorry. Could you repeat the question, please?

Mr. GROTHMAN. Yeah. You said you're spending $4,200 a year per vehicle. Usually, I think what I spend on my vehicle each year, I can think of things that had to be replaced, maybe you need new tires and new brakes every year. I don't know. You're starting and stopping all the time. I'm just saying, $4,200, it's a kind of a high number. In an average vehicle, what are you doing every year that you working your way up to $4,200 on average?

Mr. CORBETT. As I said, I don't have a component-by-component answer for you. So if you are looking for that, I'd be glad to provide that. But when you think about it, our vehicle—some of our vehicles are turned on and off, stop and start, 600 times a day. So you can imagine we go through, for example, starters, very, very quickly in those vehicles, even when they're young. And as they get older, that need continues. Transmissions, more wear and tear in terms of start and stop. Brakes, more wear and tear than any normal vehicle in terms of stop and start. So pretty much every component of the vehicle is subject to stress.

Mr. GROTHMAN. That's what I mean. Maybe you put a new starter in every year. I don't know. Final question I have for you, how many miles on your average vehicle you're replacing? And, again, I realize it's stop, starting. It's not like you're putting a million miles on highway.

Mr. CORBETT. The average right-hand drive vehicles, the LLVs, long-life vehicles we're talking about here, drive about 19 miles per day. So they don't go very far on a daily basis. But when you have 163,000 of them out there, that accumulates to quite a number of mileage.

Mr. GROTHMAN. Okay. So maybe 6,000, 7,000 miles a year?

Mr. CORBETT. That's about right. Yes.

Mr. GROTHMAN. Okay. Thanks for coming over and answering all the questions.

Mr. CORBETT. Thank you.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes the gentlewoman from the District of Columbia for 5 minutes.

Ms. NORTON. Thank you very much, Mr. Chairman.

I thank all of the witnesses for being here.

I have a question for Mr. Corbett.

Mr. Corbett, as laymen, we are taught to buy—and the way you appear to be buying these vehicles—bulk purpose purchase, larger size, if you lease, you lease for longer periods of time; that saves money; you're leasing for shorter periods. And I'm going to say, if the reason for this bulk purpose purchase has to do with a condition Congress has left the post office, that would be altogether understandable. You're at the end of one lifecycle, awful lot of vehicles, all your vehicles, virtually.

Was it cheaper to buy bulk the last time, even when you considered the replacement parts—what was it—that my colleague asked for, the $4200 per vehicle? Was it cheaper? Was the bulk purchase cheaper, all things considered, than doing annual or some other form of purchase?

Mr. CORBETT. Yes. Let me clarify. When we talk to up to 180,000 vehicles, we will be looking at procuring about 25,000 vehicles per year. So we would not receive all 180,000. So you are talking about a 7- or 8-year effort. In addition to that, some of those vehicles may be redesigned during that period of time.

Ms. NORTON. I'm sorry. How many are you purchasing at a time, bulk purchase?

Mr. CORBETT. In our RFP, we'll ask the suppliers for pricing schedules based on, for example, the quantity we would purchase from them because they need to achieve certain economies of scale and return on the facility they put in place to build these and the annual number of vehicles we would actually take delivery.

Ms. NORTON. At any one time? The annual number that they would be manufactured at the same time?

Mr. CORBETT. Correct. They would need to know what sort of facility they need to put in place and what the workforce looks like and how constant that flow of work will be so that they can determine how to price the overall supplies.

Ms. NORTON. When you decided to do another bulk purchase, as you did last time, did you consider other forms of purchase, compare prices, or compare other ways that might be advantageous to the Postal Service?

Mr. CORBETT. There are kind of two ways to answer your question. One is that because we had a bulk purchase 20 years ago, we're almost forced to have a bulk purchase this time around. However, we're going to spread that purchase over 7 or 8 years so that it starts to elongate in terms of when you need to replace these in the next cycle.

Ms. NORTON. But does that mean that the vehicles, though, are any different? I mean, isn't the same bulk purchase, the same vehicles, the same technology; it's just one when you bring them on?

Mr. CORBETT. No. I'm sorry. Earlier in the hearing, we were addressing some of the design issues. And let me go back over it real briefly. In the RFP we were putting out for our prototype vehicle, we were encouraging the suppliers to come with us with innovative designs and that can, in often cases, will differ from the specifications we put out for the main vehicle.

Ms. NORTON. So, year by year, purchase by purchase, that come on to the Postal Service, they could be different vehicles?

Mr. CORBETT. They could be. I would expect it to be, you know a few years one type of vehicle, and as they're developing the next vehicle or next technology, which may or may be able to be integrated with the platform that they have with——

Ms. NORTON. And they put those in for the same price, same costs to you because you've made a single purchase request?

Mr. CORBETT. I would anticipate that if they proposed two different vehicles or three different vehicles over a 7- or 8-year period, that they would all be at different costs.

Ms. NORTON. So you might not get a single bulk cost for all of the vehicles because you may have to upgrade the technologies, there may be differences in them, just like there are differences in the cars we buy every day that cost us more?

Mr. CORBETT. That's correct. I mean, I would anticipate a large number of vehicles being from an essentially bulk purchase over a number of years, but also with the flexibility, for example, if they can propose this for a new drivetrain, a new technology, a new safety method, et cetera, to be able to integrated into the existing fleet as well as into the newer vehicles.

Ms. NORTON. Now, that's interesting. So you think you're getting the advantages of bulk purchase along with differences, innovations that may occur along the way as you accept these purchases. Is that correct?

Mr. CORBETT. That, for us, is utopia, and that's where we're pushing the suppliers. How well they'll be able to stimulate that and give us a competitive bid is yet to be seen, but we're encouraging them to be aggressive.

Ms. NORTON. Well, considering the number of vehicles you are ordering, it seems to me you may be using the government's advantage here to good measure.

I just want to ask one more question, Mr. Chairman, if I could because the Office of Inspector General did indicate in its report, apparently before you put this purchase in: Fleet management best practices involve investing predictable and consistent sums annually to renew the fleet continuously and allow adoption of new technologies.

Well, your answer to me just now appears to say, you're trying to build that into bulk purchase. Are you trying to build what the inspector general says you get by investing in smaller numbers into your bulk purchase because you are investing so much that there may be an advantage in price to the manufacturer in changing the technologies we're giving you, at least some of the advantages of a bulk purchase?

Mr. CORBETT. That's correct.

Ms. NORTON. Thank you very much, Mr. Chairman.

Mr. MEADOWS. I thank the gentlewoman. The chair recognizes himself for 5 minutes.

I want to go ahead and follow up and ask a few different things, perhaps, not as much specific questions, Ms. Vigneau. But what I would like to ask you to provide this committee, that if you were to do this as managing a large fleet, if I were a private individual, how would you best let me maximize my dollar in terms of lifecycle costs and the number of vehicles? There has to be a sweet spot in terms of the number of vehicles that you purchase at a particular time, and so if any of you can speak to that and submit that in writing to the committee, it would be extremely helpful if you would do that.

Mr. Corbett, let me come back to you because one of the concerns that I have is the ranking member and I have been in a number of meetings with different stakeholders that have a real interest in terms of the long-term viability of the Postal Service. There are competing measures there, and what you've done this morning is you've added this 180,000-vehicle bombshell, as I would say, because it's a huge amount of money, on top of what we're already having to do. And what I don't want to do is look at inefficiencies in terms of vehicle acquisitions that may affect the postal workforce. Because you mentioned prefunding, I told you that we're more than happy to look at that and address that. But that doesn't get us all the way home. You're the CFO. You know the type of problems that we have.

Your testimony today does not really align with the RFI or potentially the RFP that you're talking about, just because you keep talking about having multiple options, but you talk about a prototype. And when you mention a prototype or the prototype that you have on several occasions, it would indicate to me that you're looking at one vehicle type with maybe three different engines, you know, an E85 engine, an electric engine, but it becomes one vehicle. So is that really what you're talking about, a one size fits all to handle 99 percent of what you're talking about with different engines or transmissions as a prototype?

Mr. CORBETT. We, again, are wide open in terms of the RFP. We're soliciting——

Mr. MEADOWS. But your RFI doesn't indicate—I mean, it's been very specific what you're asking for. You're asking for a prototype with the potential of delivering 180,000 of those, which would say, one vehicle 180,000 times. Am I misreading the RFI?

Mr. CORBETT. The RFI said that this is our general specification, and we were very specific especially about the body of the actual vehicle in terms of the square footage and the height, et cetera.

Mr. MEADOWS. So, based on that square footage, what percentage of packages would the Postal Service be delivering? I mean, obviously, you figured for the next 20 years, Postal Service is going to have X number of first class, X number of packages in order to design this prototype, so what percentage of packages did the Postal Service figure in for the size of the vehicle?

Mr. CORBETT. Currently, today, for roundtrip packages that we pick up and deliver—rather, that go—an origin to destination and we deliver those, we have about 20 percent of the package market.

Mr. MEADOWS. I know the numbers. I've talked to the Postmaster General, I've talked to a number of them. I'm saying, in your design that you're designing for the next 20 years, I guess, what percentage did you figure that to be? Say it's 20 percent? Because nobody in the Postal Service believes it's going to stay at 20 percent.

Mr. CORBETT. We believe that our market share will grow, and we've accommodated that in the size of these vehicles, and we believe that the overall market will grow—although it's growing hyper in terms of e-commerce today—we believe the overall market will grow closer to 6 percent per year.

Mr. MEADOWS. All right. So your analysis says that your packages on the Postal Service is going to grow at 6 percent?

Mr. CORBETT. That's correct.

Mr. MEADOWS. So, again, I guess my question is, how many packages, what percentage of the packages versus first class—I guess what I'm saying is, are we going to buy a van that is primarily for packages, or are we going to buy a van that is primarily for mail? What's the mix? Is it 50–50? Is 75–25? Where, obviously, you get in the prototype, you have to define that.

Mr. CORBETT. Well, the size of the actual body of the van is not very price elastic. In other words, you could chop off 3 feet off the back of a 15-foot van and you would probably save somewhere in the neighbor of $500. Plus, it's just an aluminum wrap over the actual vehicle, working on the same chassis and working on the same sort of internal components, whether it be alternative vehicle or unleaded. But the reason for the procurement is not related to package solely. It's actually enhanced safety. We have 20,000 accidents per year—20,000 accidents per year. We've got to improve the ergonomics of the overall vehicle so our employees are not put in harm's way. We don't have air bags. We don't have automatic braking when you get up off the seat. Things today that people take—we don't have backup cameras. Things like this really need to be made available. The service and reliability. The reliability is impacted by this.

Mr. MEADOWS. Again, and I appreciate all those things, and those are important things to look at. But if you were only looking at those items, you would get a postal vehicle that is very similar to the one you have today with just all those bells and whistles on there. So I guess what I'm looking at is, when will the design, after the prototype, be approved?

Mr. CORBETT. The actual design and selection of the vehicles from the prototype stage could be as much—almost 2 years from today when we'll make that final decision.

Mr. MEADOWS. All right. So I guess my question then is, how do you do an RFP before that when you're not assured of what the design is going to look like? You know, you've got to have the design before you actually do an RFP. If not, you're doing an RFP that has so many qualifiers that it's meaningless.

Mr. CORBETT. The RFP, the next RFP that was——

Mr. MEADOWS. Is for prototypes. I've got that.

Mr. CORBETT. Yes.

Mr. MEADOWS. So when does the postmaster, when will she sign off on the design, the DAR?

Mr. CORBETT. Before we go out with the RFP for the actual production vehicles.

Mr. MEADOWS. All right. And what I'm hearing, and I want to make sure that I'm correct, that design is actually going to be more of a one-size-fits-all in terms of what it looks like on the outside that may have a number of different engines. Is that correct?

Mr. CORBETT. I don't want to pre-conclude that, so I can't confirm that.

Mr. MEADOWS. Okay. Let me be more specific. I live in a rural area. When I get stuff delivered to me, I may get a big UPS brown. I may get a small UPS brown, depending on what it is logistically. And that's just at my one location in North Carolina. And what I'm having a hard time with, with all the questions that have been on both sides of this, is how we're going to do a design for 180,000 units that may have a different engine or this or that, but, yet, it's a one size fits all. And I guess I want to encourage you to reevaluate that and perhaps slow that down and do it in buckets of 40,000 or buckets of 50,000 based on needs because in Mr. Connolly's district, you could do it with electric vehicles extremely well. In my district, as you start to go up the mountain, I can assure you that it won't work nearly as well as it does in Mr. Connolly's. And both of them are 11th Congressional Districts, but they have very different geographical components.

So I really want to encourage you to go back and look at, perhaps, slowing down the process but also making it smaller for two reasons: One is technology is going to change because, really, what we're looking at here is you're going to make a bulk purchase over the next 5 to 7 years, maybe 5 to 8 years, based on your testimony, but the RFI says 5 to 7 years. So you are going to make a bulk purchase. We're not going to make another bulk purchase, then, for 20 more years. You know, based on that, technology is changing very much. You know, I have an iPhone in my pocket. Twenty years ago, I had a bag phone that I put on the outside of my car to try to make it. And so we need to understand that technology is changing rapidly, and to do that, do I have your commitment that you're willing to relook at that and put it in smaller buckets before the RFP goes out?

Mr. CORBETT. In the prototype RFP, we're going to encourage, again, the suppliers—and we have 15 prequalified suppliers, so we should get a range of alternatives—to propose not only our base vehicle but other vehicles based—and they're going to have knowledge on our delivery routes. They are going to have knowledge on economic data, the package growth over the country, and other types of things. And we're going to ask them for their input as well as input we already have that we received from our third-party consultants. And we're going to assimilate that and decide how many, which vehicle to put out for the production RFP. So I think it's premature for me to commit to tranches of 50,000 or 40,000 or some other number because I just don't have the data to make that equipment. I'm sorry.

Mr. MEADOWS. Well, if you don't have the data to make that commitment, Mr. Corbett, then you don't have the data to make the commitment that 180,000 is correct either because if you can't make the commitment that a smaller one is accurate, you don't have the same data that would say that 180,000 is accurate. You follow my logic there? You either have it, or you don't.

Mr. CORBETT. Excuse me, Mr. Chairman. What I was saying was that in terms of the 180,000, we know——

Mr. MEADOWS. You know you have to replace 180,000 vehicles. I understand that. But what I'm saying is in terms of the needs of those individual vehicles, you wouldn't know, if you don't know the buckets to put it in, whether 180,000 works or whether it's 20 or 50.

Mr. CORBETT. I see what you're saying. But both of these matters will be a lot more clear after the prototype phase, when we actually get the data from these suppliers and are able to assimilate that.

Mr. MEADOWS. Well, perhaps we just have—I don't understand how you do a prototype for something that you're designing that you're not sure what you're designing for other than—well, we'll go on. I'll close with this.

I'll yield to the ranking member for his closing statement.

Mr. CONNOLLY. Thank you, Mr. Chairman.

I just have a couple of CFO-related questions to get on the record, if I may.

Mr. Corbett, can you name a single company in the United States that has 100 percent health prepayment requirement?

Mr. CORBETT. No, I cannot.

Mr. CONNOLLY. Can you name a single Federal agency that has that requirement?

Mr. CORBETT. No. I'm not aware of any.

Mr. CONNOLLY. So the requirement put upon USPS, the 100-percent requirement, is unique?

Mr. CORBETT. I believe so, yes.

Mr. CONNOLLY. And if we had repealed that prefunding requirement, what's the annual saving?

Mr. CORBETT. Approximately $5 billion a year.

Mr. CONNOLLY. $5 billion a year. Is it accurate that, had we done that last year, you would have actually shown an operating profit?

Mr. CORBETT. Last year, with that and factoring in other noncontrollable, noncash Workers' Compensation adjustments, yes, we would have shown an operating profit.

Mr. CONNOLLY. To the chairman's earlier questioning, although you're not paying it—you're not meeting that obligation. It's not like it's to an external entity. So it's a bookkeeping matter at the moment. But, from a bookkeeping point of view, what is the cumulative obligation with respect to prepayment?

Mr. CORBETT. I think it's approximately $27 billion.

Mr. CONNOLLY. And there's another item, isn't there, a FERS overpayment that's been identified?

Mr. CORBETT. That's correct.

Mr. CONNOLLY. Is that overpayment about $8 billion.

Mr. CORBETT. No, I don't believe so any longer. At one point it was, but my understanding is that OPM's actuaries have reevaluated that, and that overpayment now stands at somewhere in the neighborhood of $1.5 billion.

Mr. CONNOLLY. But that could be some relief for you, obviously, from a ledger point of view. Is that correct?

Mr. CORBETT. That's correct.

Mr. CONNOLLY. Okay. One final point. You were talking to Ms. Lawrence about the hydraulics of certain vehicles and the need, because of stop-and-go traffic, there's more wear and tear on some vehicles than on others.

Were you familiar with the fact that UPS and FedEx actually did avail themselves of some recovery money back in 2009 and 2010 and used it for sort of innovative vehicles and trucks, and they showed a real improvement in miles per gallon, emission reduction, and lower maintenance costs? Are you familiar with the vehicles they purchased?

Mr. CORBETT. I'm vaguely familiar, but not with the specific vehicles, Mr. Connolly.

Mr. CONNOLLY. This is the program I was trying to get USPS to avail itself of. It didn't, but your competitors did. And it apparently lived up to the promise. So it might be worth looking at how they did it and whether we can learn from that or not.

With that, I thank you all for being here today.

And thank you, Mr. Chairman for the hearing.

Mr. MEADOWS. I want to thank each of you for the testimony.

Mr. Corbett, my questioning of you being very direct is really one out of caution. We are at a critical stage from an investment standpoint. I think all of us want the Postal Service and system not only to be efficient but be what we've always—what we've grown up with it to be, is, you know, neither rain, nor snow, nor sleet. You know, when we think of that, I thought the Postal Service could go through almost anything, and that's what we want to see it in the future.

Unfortunately, here, today, the real stumbling block is a changing in the way that we do business both from first class mail, to a tough economy, to e-commerce, and everything else, and its managing through there.

I need you to be transparent. And the ranking member talked about some of those prefunding issues where, you know, there are very few other areas that would have the same requirement. But I also need you to be transparent. There are some of those areas where we're not funding properly. And, as a good CFO, I need you to help me with those and be cautious in the way that we look at this acquisition, not because of the vehicle or the lack of the vehicle need that we have but really because there are hundreds of thousands of postal workers that we need to take care of.

And I'm committed to the ranking member to work diligently to make sure that we come up with postal reform that does exactly that. And, yet, at the same time, if you go out and purchase

180,000 vehicles the way that it's set to do, it makes it very constrained for us as we start to look at where do we give, what do we do, and we need to look at technology.

So I'm asking you that today, and my pointed questions is really one out of caution just because I've heard so many different things from so many different groups. And we do have some expertise here. I talked to Mr. Lynch just yesterday because he's got a family of letter carriers and postal workers.

And so I said: You've got real credibility. I want you to help me on some of these other areas.

And so, with that, if your pledge to this committee is that you're willing to be open and honest, I can tell you that you will find a bipartisan support that you've never seen before as we start to try to really address this in a real way.

For the others of you that have come today, I thank you for your testimony. I know there will be followup questions that we will ask you to respond to the committee on.

And, with that, if there is no further business, this committee stands adjourned.

[Whereupon, at 12:00 p.m., the subcommittee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

Post-Hearing Questions for the Record from
Subcommittee Chairman Mark Meadows
Subcommittee on Government Operations
Committee on Oversight and Government Reform

submitted to

Joseph Corbett
Chief Financial Officer
United Stated Postal Service

May 21, 2015
House Subcommittee on Government Operations Hearing
"Issues Facing Civilian and Postal Service Vehicle Fleet Procurement"

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1. Is the Postal Service considering a total periodic vehicle replacement strategy or a rolling replacement strategy? When will the Postal Service make a final decision on its strategy?

Answer:

The Postal Service's Long Life Vehicle (LLV) fleet has reached its end of life and requires replacement. Our current plan is to replace these vehicles over a multiple year period. The strategy is to replace this aging fleet over time, replacing the oldest vehicles that have the highest mileage and are the most expensive to maintain first. We will evaluate proposals that may include different unit pricing based on delivery schedule and we remain flexible as to the total length of the deployment period.

2. Did the Postal Service use a total periodic replacement strategy in the 1980s when it began consideration of the "Long-Life Vehicle" (LLV) (the postal mail trucks)? When was the contract awarded for those vehicles? When the LLV contract was awarded, what did USPS predict for its long-term business model? How does that differ from where we are today?

Answer:

Yes, the LLV was specified to be designed with a life expectancy of 24 years. It was also anticipated that the LLVs would be replaced in 24 years using the same total periodic replacement strategy due to the uniqueness of the right-hand drive requirement. The LLV production contract was awarded for 142,655 LLVs in 1986. The LLVs were deployed over a period from 1987 to 1994. As the Postal Service anticipated back then, it continues today to utilize the LLV to ensure fulfillment of our commitment to universal mail delivery service for the American people. Since 2000, the Postal Service has procured more than 22,000 Flexible Fuel Vehicles, and expects to have that same flexibility with the NGDV procurement.

3. What do the Postal Service's financial condition and business needs look like for the next 20 years? How do the proposed Next Generation vehicles fit into these projections? With such uncertain conditions, making a massive procurement of 180,000 vehicles does not seem like the wisest plan. Please explain how this is an appropriate model.

Answer:

Although the Postal Service's financial outlook remains challenging for the foreseeable future, the decision to modernize our delivery vehicle fleet is not and cannot be based solely on short-term financial considerations. It is essential that we deploy a fleet of reliable, safe and cost-effective right-hand drive vehicles in order to continue to fulfill our universal service mandate. The current LLVs are, on average, over 23 years old, and they are inefficient and becoming increasingly costly to maintain and repair. It is absolutely essential that we now begin the process of replacing these obsolete vehicles.

4. What led the Postal Service to indicate a preference of purchasing 180,000 vehicles in one contract? Has this preference changed since the RFI was issued in January?

Answer:

The Postal Service has not yet determined the firm quantity required for this fleet replacement. The purpose of noting within the Postal Service's Next Generation Delivery Vehicle (NGDV) prequalification process the potential for a single award of up to 180,000 vehicles was two-fold. First, the Postal Service is seeking firms that have the necessary manufacturing capabilities and production capacity to produce large volumes of vehicles and organizations which could also vary production schedules to accelerate deployment if it was determined to be beneficial based on submitted proposals and discussions concerning price sensitivity of differing manufacturing time frames. Second, in order to leverage volume and establish the highest probability for establishment of commonality of parts and vehicle components within our operations, a single supplier will likely result in lowest procurement and maintenance costs. We remain flexible as to multiple awards should it be deemed a more advantageous alternative.

5. If there were other ways to procure the vehicles that turned out to be more cost effective and practical in the long run, will the Postal Service consider those options?

Answer:

Yes.

6. The Postal Service requires a Decision Analysis Report, or DAR, for major capital expenses over $5 million. According to the proposed acquisition timeline released with the RFI, the DAR will not be developed until August of 2016, which is long after prototype testing is slated to begin.

   a. Has the timeline for having a DAR considered and approved changed since the RFI was issued?

   Answer:

   Yes. The DAR referred to in this question is the DAR for the production purchase of NGDV vehicles. The timeline for completion of the production vehicle DAR has changed from November 2016 (RFI Schedule) to July 2017 (Current Plan). The DAR development and approval timeline is dependent upon the completion of prototype testing and the submittal of pricing data from the suppliers for the production vehicles as these are key elements of the business case. The submittal of production price proposals has shifted from October 2016 to June 2017 since the RFI release, due to a delay in the release of the prototype RFP and expanded timelines for the submittal of prototype proposals and the time to build prototypes. These timelines were expanded from the RFI schedule based on feedback received from the RFI respondents during the RFI process. It should be noted that there will also be a DAR developed for the prototype phase of the program. This

DAR will cover funding to be used to share the prototype development costs with the successful suppliers as well as funding for prototype testing and support costs. The prototype DAR is currently planned to be presented for approval in Fall 2015.

b. Why is USPS waiting until the prototypes are delivered to have the DAR approved?

Answer:

Testing units and incorporating any changes in requirements for the production program are necessary to finalize a production DAR business case. We expect to learn and benefit significantly from the NGDV prototype testing. As a result of prototype testing and evaluation, key features may be added or deleted from the production vehicle specifications that may impact production costs.

c. What will happen if the Postmaster General does not approve the DAR?

Answer:

Production contract award cannot proceed until the PMG approves the DAR for the NGDV production investment.

d. What assurances do developers have that a DAR will be approved?

Answer:

The NGDV Production Program is a planned award and a component of the Postal Service's Five Year Financial Plan. The right-hand drive delivery vehicles covered under the NGDV Program have reached their end of life. The Postal Service is committed to and must replace this important segment of our fleet.

e. If there are assurances on the approval of a DAR, what is the point of the DAR if the outcome is already decided?

Answer:

The compelling need for replacement vehicles does not obviate the need to justify the business case. Development and approval of a DAR is required by Postal policy and serves as an internal financial management control. The DAR documents the business need, detailed costs and schedules, as well as cash flows, internal implementation expenses and operating variances.

7. Will the USPS offer a lowest-price technically acceptable contract or a best value contract? Will USPS commit to considering lifecycle costs in awarding the contract? Will USPS allow for full and open competition?

Answer:

Consistent with the Postal Service's purchasing policies, a best value approach will be used for both the competitive Prototype NGDV acquisition and the NGDV Production Program. Life cycle costs will be utilized within the NGDV Production Program for purposes of best value selection. As to the extent of competition, the Postal Service prequalified 15 suppliers who responded to an open public announcement published on the Federal Business Opportunities website. These firms were deemed to have the capability of designing and producing a purpose-built, right-hand drive vehicle. Our Prototype NGDV RFP will be released to these

firms and the Production RFP is planned to be released to selected suppliers resulting from the prototype selections and testing.

8. The RFI seemed very specific on vehicle requirements, but your testimony indicates you are taking a more general approach. If it is more cost effective over the long run to have different vehicle types for different delivery contexts, will the Postal Service choose this option? Why were the potential benefits of variance not discussed in the RFI?

Answer:

The USPS already deploys different vehicle types for different delivery contexts, and will continue to employ this strategy into the future: Nearly 163,000 right-hand drive LLVs (121 cubic feet) are the backbone of the delivery fleet and are used on routes with significant amounts of curbline delivery; 23,000 minivans (144 cubic feet) are assigned primarily to park and loop (foot delivery) and expedited delivery routes; and about 7,000 mixed delivery and collection vehicles (535 cubic feet), have historically been used primarily on collection and relay routes. With respect to right-hand drive vehicles, the RFI contained an anticipated approach and preliminary/draft specifications based on lessons learned with the current LLV fleet and projections for the intended use of a new NGDV. As the Postal Service is still evaluating our delivery needs, the outcome of our evaluation will determine how many NGDVs (right-hand drive) will be required as well as the need for other left-hand drive variants. LLVs replaced by non-NGDV variants will require a different specification and separate RFP and we are in the process of procuring a number of left-hand-drive vehicles. As previously stated, the purpose of the RFI was to provide information to industry for the specific purpose of obtaining information from suppliers about their capabilities and qualifications. Its publication was not intended to obtain information about all options that are available to the Postal Service for implementation of the NGDV Program. The RFP for prototype vehicles will include a discussion of different sized and alternative drivetrain vehicle possibilities.

9. In your testimony, you stated "economies of scale and operational benefits associated with a large standardized fleet point toward the selection of only one supplier." If this is the case, why do many in industry take a different approach? You go on to say that the Postal Service "remain(s) open to the possibility that (you) may select more than one supplier." Can you further explain what that means? Are you evaluating different approaches?

Answer:

As described in the answer to Question #1, the Postal Service has a unique and necessary requirement for right-hand drive vehicles for the segment of our fleet associated with the NGDV Program. Right-hand drive vehicles are not commercially available for purchase from vehicle manufacturers. Design and certification of a new purpose built right-hand drive vehicle requires several years of development, testing, safety evaluation, and a significant investment, which will likely make it inefficient to pursue multiple vehicle platforms. The Postal Service is also reviewing requirements for smaller left hand drive vehicle solutions for routes that have very limited curbside delivery, and these vehicles could be purchased from a different supplier than the one chosen to build the NGDV. Regarding other industries utilizing a non-standard fleet, only the Postal Service has the unique requirement for right-hand drive vehicles. The delivery industry, including UPS and FedEx, use left-hand drive commercially available vehicles that can be purchased at any time and that are available from multiple suppliers. Therefore, other delivery organizations within the industry have the flexibility to replace or augment their fleets at any time without incurring the investment and extensive development cycle associated with a right-hand drive design.

10. It is my understanding that the Request for Information calls for the new delivery vehicles to be larger than the current delivery vehicles.

    a. If the new vehicles have larger dimensions than the current ones, how does the Postal Service plan to adjust its other systems to accommodate the new vehicle makeup?

    Answer:

    The Postal Service intends to utilize the NGDV to improve its current operating system from a delivery perspective. There are many features of a new vehicle makeup that will allow the Postal Service to realize efficiencies currently not available due to existing vehicle limitations. The primary reason for the height increase is to allow our carriers to walk into the vehicle upright and be able to work inside the vehicle in a more ergonomically safe manner. This will allow for better organization and handling of various mail more efficiently. The length of the vehicle will be increased to allow for future projections of mail volume. The cargo area design will also accommodate both current and future mail equipment designs that will allow for more efficient loading of the vehicle. The incremental cost of taller and larger vehicles will be recovered very quickly through improvements in efficiency. Our salaries and benefits delivery costs are over $25 billion per year. Each one percent improvement in efficiency will save $250 million per year. Additionally, the larger vehicles will be more ergonomic and will result in lower accidents, injuries, and lower workers' compensation costs.

    b. Are the Postal Service's loading docks designed to fit equal numbers of new larger sized vehicles?

    Answer:

    Offices have multiple dock sizes now for incoming mail and for customer mail. Delivery vehicles are typically loaded in the lot and will continue to have a similar arrangement.

    c. Will adjusting the Postal Service's facilities to accommodate the new vehicle cost the Postal Service additional money?

    Answer:

    At this point, we are not anticipating any significant need for this.

11. If the plan is to test multiple different prototypes, what will the Postal Service do if it likes certain engine components of one prototype and some from another?

    Answer:

    One of the main purposes of the prototype testing phase is to evaluate different features from a cost/benefit perspective. With regard to the Production NGDV Statement of Work and finalized requirements, after evaluating and testing the delivered NGDV Prototype units, the Postal Service intends to describe the attributes and needs for the Production NGDV Vehicle, including any changes incorporated from the prototype phase to attain needed performance. However, the means or methods used by each individual supplier in responding to the RFP requirements is likely to be considered proprietary information belonging to those firms and would not be shared or disclosed to others within the competitive field. Proprietary features or design elements will not be specified in the production RFP.