

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, INTERNATIONAL
TRADE AND TOURISM

April 19, 2006

5:21 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair
Representative Jay Ramras, Co-Chair
Representative John Coghill
Representative Bob Lynn
Representative Nancy Dahlstrom

MEMBERS ABSENT

Representative Harry Crawford
Representative Beth Kerttula

OTHER LEGISLATOR PRESENT

Representative Michael "Mike" Kelly
Representative Mary Kapsner
Representative Reggie Joule
Senator Donny Olson

COMMITTEE CALENDAR

PRESENTATION: ECONOMIC IMPLICATIONS OF PROPOSED USPS BYPASS
MAIL SYSTEM BETWEEN FAIRBANKS AND NORTH SLOPE BOROUGH

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

STEVE DEATON, Western Area Distribution Networks Office
United States Postal Service
Anchorage, Alaska

POSITION STATEMENT: Provided a presentation regarding the
proposed USPS bypass mail system between Fairbanks and the North
Slope Borough.

DENNIS ROPER, Special Assistant to the Mayor
Office of the Mayor
Government and External Affairs

North Slope Borough
Anchorage, Alaska

POSITION STATEMENT: Expressed concerns with the proposed USPS bypass mail system between Fairbanks and the North Slope Borough.

JAMES DODSON

Fairbanks Economic Development Corporation
Mayor's Office
Fairbanks North Star Borough
Fairbanks, Alaska

POSITION STATEMENT: Expressed concerns with the proposed USPS bypass mail system between Fairbanks and the North Slope Borough.

TRENT BLANKENSHIP, Superintendent
North Slope Borough School District
Barrow, Alaska

POSITION STATEMENT: Shana Blankenship read Superintendent Blakenship's testimony regarding concerns with the proposed USPS bypass mail system.

BILL MACKAY, Senior Vice President, Alaska
Alaska Airlines
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to the USPS plan to truck the Fairbanks-Barrow nonpriority bypass and in-house nonpriority mail from Fairbanks to Deadhorse where it would then be flown to Barrow.

NATE OLEMAUN, JR., Mayor
City of Barrow
Barrow, Alaska

POSITION STATEMENT: Expressed concerns with the proposed USPS bypass mail system between Fairbanks and the North Slope Borough.

REX WILHELM, President/Chief Operating Officer
Alaska Commercial Company
Barrow, Alaska

POSITION STATEMENT: Expressed concerns with the proposed USPS bypass mail system between Fairbanks and the North Slope Borough.

LINDA WENNING, Finance Director
City of Barrow
Barrow, Alaska

POSITION STATEMENT: Expressed concerns with the proposed USPS bypass mail system between Fairbanks and the North Slope Borough.

SUSAN HOPE

Barrow, Alaska

POSITION STATEMENT: Expressed concerns with the proposed USPS bypass mail system between Fairbanks and the North Slope Borough.

JOHN GLEASON, Manager

Wells Fargo Bank - Barrow

Barrow, Alaska

POSITION STATEMENT: Expressed concerns with the proposed USPS bypass mail system between Fairbanks and the North Slope Borough.

ACTION NARRATIVE

CO-CHAIR JAY RAMRAS called the House Special Committee on Economic Development, International Trade and Tourism meeting to order at [5:21:47 PM](#). Representatives Neuman, Ramras, Coghill, and Lynn were present at the call to order. Representative Dahlstrom arrived as the meeting was in progress. Representatives Joule, Kapsner, and Kelly and Senator Olson were also in attendance.

PRESENTATION: ECONOMIC IMPLICATIONS OF PROPOSED USPS BYPASS MAIL SYSTEM BETWEEN FAIRBANKS AND NORTH SLOPE BOROUGH

[5:22:46 PM](#)

CO-CHAIR RAMRAS announced that the only order of business would be the presentation regarding the economic implications of the proposed U.S. Postal Service (USPS) bypass mail system between Fairbanks and the North Slope Borough.

[5:24:38 PM](#)

STEVE DEATON, Western Area Distribution Networks Office, United States Postal Service, turned the committee's attention to the PowerPoint presentation entitled, "Fairbanks to Barrow Mode Conversion Overview." He explained that the current business plan indicates that the certified air carriers of Everts Air Cargo, Northern Air Cargo, and Alaska Airlines transport bypass mail and in-house nonpriority mail between Fairbanks and Barrow and Barrow's Bush points. The [bypass mail and in-house

nonpriority mail] form a single rate class that is referred to as standard mail. The business plan identifies a proposal to create a surface leg of this route such that the mail is trucked from Fairbanks to Deadhorse at which point it would be flown to Barrow on any of the mainline carriers interested in participating in the mail movement.

CO-CHAIR RAMRAS inquired as to the general weather patterns in Deadhorse.

MR. DEATON related that there has been established road service into Deadhorse and established air service out of Deadhorse for over 20 years. However, he acknowledged that there are certainly days when the weather restricts/eliminates the use of air traffic. He then turned the committee's attention to a slide with a map of the proposed service via land and air. As mentioned earlier, there is already a contract in place to move mail via the road on a three-day a week schedule and then transfer it to air carriers to fly to its final destination. This contractor has existing facilities located in Deadhorse that are sufficient to handle mail storage, transfer, and ground handling activities. One of the concerns of the USPS and the customers is the actual handling of the mail as it moves up the road to Deadhorse. The trailer specifications in the contract include technology for a specific type of temperature control van, Thermo King vans, which allow for dry, freeze, and chill capacity within the same van. In the winter, these vans can utilize a heater so that dry and chill products don't freeze. The facilities in Deadhorse for the ground handler and the participating air carriers will also be heated and meet storage requirements.

[5:31:54 PM](#)

MR. DEATON continued by reviewing the projected mail volume. He explained that the in-house nonpriority (IHNP) mail consists of the nonpriority mail and boxes that consumers bring into the post office. Bypass mail is mail that authorized shippers provide in 1,000 pound minimum units to the USPS for transport to restaurants, stores, businesses, and people. Based on fiscal year (FY) 05, the projected IHNP is about 1.7 million pounds per year.

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MR. DEATON, in response to Co-Chair Ramras, specified that bypass mail can, at the shipper's risk, accept perishable,

freeze, and chill items. In further response to Co-Chair Ramras, Mr. Deaton said that the bypass mail program recognizes that there are subsistence-type commodities that are more difficult and costly to obtain in a freight manner. The USPS doesn't guarantee bypass mail freeze and chill perishable items because by the domestic mail manual it isn't mail-able. However, in recognizing the need of those in the Alaska Interior, shippers and customers are allowed to enter such a product so long as it's frozen solid upon entry and clearly marked freeze and chill. Carriers, whether surface or air, are asked to make every effort to care for the product in freeze and chill facilities if they have such and to expedite the movement of such mail so that it doesn't degrade. Therefore, shipper's risk acknowledges that the items aren't technically allowed in the bypass mail system, but all will be done to transport such mail and have it arrive in a reasonable condition.

5:35:24 PM

CO-CHAIR RAMRAS asked if such mail is likely to take longer on the proposed bypass than the current mechanism for delivery.

MR. DEATON said that it's possible, but noted that later in the presentation he will discuss the service standard of such mail. He then returned to the projected mail volume and related that bypass mail amounts to about 8.5 million pounds of mail that would be added to the surface contract. He pointed out that volumes specified on slide 10 would be divided equitably, per the statute requirements, between the participating carriers.

5:36:23 PM

MR. DEATON moved on to slide 11, which relates that the current cost of transporting [bypass] mail from Fairbanks to Barrow is \$6.7 million to USPS. He emphasized that the surface mail rate is being paid for this mail, although it is to be transported by air in Alaska due to the lack of roads. The aforementioned causes a serious shortfall in the amount of about \$60 million a year for the USPS budget. Therefore, this proposal attempts to decrease the revenue losses the USPS experiences in Alaska.

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MR. DEATON continued with slide 12, which relates the projected cost of surface transportation. He informed the committee that the USPS has negotiated a rate, about \$.11 per pound, with the incumbent surface provider. Therefore, the surface movement of

the 10.2 million pounds of nonpriority rate mail yearly will cost approximately \$1.2 million a year to move to Deadhorse. Slide 13 relates that the existing rate of \$.41 per pound for transportation of the 10.2 million pounds of mail [via air] between Deadhorse and Barrow would cost the USPS about \$4.1 million. Therefore, this proposal results in \$1.35 million in savings annually, which is fairly substantial savings.

[5:39:28 PM](#)

CO-CHAIR RAMRAS asked if the USPS takes into account the impact the service has on the communities or is this all about profit and loss and seeking efficiency.

MR. DEATON emphasized that with this and all modal changes, the impact to the communities is considered, which is why the USPS has had several meetings with the communities, the mayoral offices, and borough offices. In fact, slide 15 specifies some of the community meetings that have been held. Generally, when the USPS makes transportation decisions, they are based specifically on the service standard.

[5:42:32 PM](#)

CO-CHAIR NEUMAN inquired as to the general consensus of the meetings in Barrow and Fairbanks. He also inquired as to whether the USPS had discussions with some of the smaller communities such as Fort Wainwright.

MR. DEATON explained that prior to the presentation in Barrow, the meeting announcement was posted in the Point Lay and Fort Wainwright post offices and community offices. A number of people flew in or called in from those outlying areas to have their comments heard. He related that at the time, people were negative about the proposal. However, they hadn't heard the proposal or the facts but rather had heard rumors and fears. Some people from Barrow and the outlying communities were also in attendance in Fairbanks and the concerns remained. In fact, there are still many people who are concerned with regard to the proposal and its potential impacts.

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MR. DEATON, in further response to Co-Chair Neuman, related his belief that the majority of the impacted residents are hesitant to embrace this proposal. He opined that some of the hesitancy has to do with the perception that the proposal will impact the

residents negatively. However, Mr. Deaton said that this proposal will have absolutely no impact on the Bush service or the mail service standard for the mail from Barrow to any of the [outlying communities]. He opined that the USPS believes this change will be transparent, but he acknowledged that many people are concerned because of their uncertainty with regard to how the proposal will happen.

[5:46:25 PM](#)

MR. DEATON continued with slide 16, which relates the service standards for non-priority standard mail that includes IHNP and bypass mail. The service standards are universal across the country. The service standard for bypass mail is 5-7 days. He explained that carriers are required to move the mail from Fairbanks to Barrow by the end of the second day following the day of tender. If the mail hasn't been transported by the first-leg air carrier by the end of the second day following the day of tender, it's subject to transfer to a second carrier. The Bush carrier has until the end of the day following the day of receipt to deliver the mail to its final destination. This 5-7 service standard for bypass mail doesn't change. The truck surface contract has until the end of the day following the day of tender to move the mail to Deadhorse. Furthermore, the two air legs don't change and continue to have the end of the second day following the day of receipt to transport the mail via mainline to Barrow. The same is true for the Bush carrier for mail going past Barrow. For instance, for Barrow mail if mail was tendered to the surface contract on Monday, that mail would be in Deadhorse by Tuesday and the air carrier would have until the end of Thursday to move that mail to Barrow for delivery. This still falls within the five to seven days. If the mail's destination is past Barrow, one day would be added, which still falls well within the five to seven days. Mr. Deaton opined that now and under the proposal, the USPS anticipates the mail will move faster than the service standard and transit windows.

[5:51:03 PM](#)

MR. DEATON then pointed out that the Fairbanks to Barrow modal change isn't unique in the postal service nor within Alaska. The USPS has done many modal changes and surface diversions in Alaska over the last 20 years. For example, all bypass mail was diverted to Dutch Harbor from air to once a week service on container ships [in 1992]. He noted that the USPS offers other products if people want to move mail within one to three days. In terms of impacts to the community, one of the concerns was in

regard to passenger service regarding space and cost under this proposal. Alaska Airlines has attended all of the USPS meetings at which it has consistently said that it doesn't know the impacts to the passenger services. Mr. Deaton specified that although the USPS doesn't set carrier schedules or pricing, it does realize that mail piggybacks on those flights. Alaska Airlines does have an essential air service minimum requirement to provide service to Barrow at the level of 14 flights a week in the summer and 7 flights a week in the winter.

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MR. DEATON recalled that similar concerns to those expressed regarding Barrow were heard when USPS diverted Dutch Harbor to surface once a week. As slide 19 relates, when the surface diversion to Dutch Harbor took place Alaska Airlines provided one flight daily and one flight six days a week with the cost of a "Y" fare one-way ticket of \$537.00 and the cost of a seven-day advance one-way ticket of \$447.00. However, after the diversion, PenAir began providing five flights daily on a 30-passenger aircraft. The cost of a "Y" fare one-way ticket decreased by \$10 while the cost of a seven-day advance one-way ticket increased by \$10. Although the aforementioned doesn't predict the future, it does provide a like circumstance and the results.

[5:55:52 PM](#)

MR. DEATON reiterated that this proposal is not unique. The USPS is scheduled to lose over \$1 billion this year nationwide. Nationwide the USPS is seeking cost deferments and reduction efforts. In Alaska, the aforementioned is being accomplished and past surface diversions in Alaska have happened statewide, in the communities specified on slide 20. Although the changes weren't readily accepted by the communities, the change was transparent to the customer.

[5:57:14 PM](#)

CO-CHAIR RAMRAS interjected that a recent Fairbanks Daily News-Miner article reported that Fairbanks mail is going to Anchorage for processing and then to Fairbanks for distribution. Therefore, no one in Fairbanks is enjoying a three-day service standard.

MR. DEATON indicated that may be a misunderstanding because a small portion of one class of mail [is being delivered to

Anchorage] in order to temporarily use Anchorage's automated system to delivery point sequence the mail. He related his understanding that the goal is for Fairbanks to obtain that type of automation equipment in the future. In further response to Co-Chair Ramras, Mr. Deaton opined that all mail coming into Anchorage that is utilizing the delivery point sequence is still moving that evening via surface up to Fairbanks.

[5:58:37 PM](#)

MR. DEATON highlighted slide 20, which relates the locations of other successful past surface diversions in Alaska. In conclusion, Mr. Deaton specified that the USPS is not changing anything in the bypass mail program, rather it's simply implementing a modal change within that bypass mail flow. He reiterated the USPS's belief that the change in mail flow will be transparent to the customer, the mail will continue to arrive at its destination well within the service standard. Furthermore, he opined that the freeze and chill should enjoy better conditions due to the technology of the transport vans, which is not the case with mail being transported by aircraft. Mr. Deaton specified that this proposal doesn't effect the Bush communities because once mail arrives in Barrow, the same carriers will take it out to its destination in the Bush within the service standard. With regard to passenger air fares and service, the essential air service program is designed and has established the required minimum number of flights of a carrier. All of the aforementioned will contribute to decrease the revenue shortfall in Alaska for the USPS, which allows the USPS to continue to operate using certificated air carriers and assist in providing a stable air transportation system within the state.

[6:02:35 PM](#)

DENNIS ROPER, Special Assistant to the Mayor, Office of the Mayor, Government and External Affairs, North Slope Borough, began by stating that this issue has been tracked by the North Slope Borough since it was first introduced last year. Therefore, the borough has stayed in contact with the congressional delegation. In fact, he said that he has personally made three trips to Washington, D.C., when the matter was on the agenda. Mr. Roper informed the committee that over 100 people attended the public hearing in Barrow. Mr. Roper pointed out that the cost issues are up for debate. Although the USPS says it can save \$1.3 million by using the truck haul approach, the air carriers view the USPS's numbers as

unrealistic. The air carriers, he said, believe the savings will be small or nonexistent. The North Slope Borough's big concern is the local and social impacts this change will have on the communities. The potential lack of air service and/or increase in fares is of concern because it will make it more difficult for people to do business. Mr. Roper characterized the proposal as a step backward, the impacts of which will be greatly magnified in the outlying communities. For example, weather is a factor that results in products sitting in Barrow waiting for weather that will allow small aircraft to depart/arrive.

MR. ROPER said that the loss of the current bypass system will result in a range of effects in the community, including lowering the quantity and quality of perishable goods. Recalling raising his children in Barrow, Mr. Roper opined that no one wants to return to the days of black bananas, soft tomatoes, and powdered milk. Furthermore, the lack of service or increase in air fare could impact tourism in the area; increase difficulties in recruiting teachers, doctors, and other professionals; impact those with medical needs; and the travel required for academic activities as well as sports.

MR. ROPER opined that this is a difficult issue, for which Mayor Itta is preparing to monitor if the change occurs. In fact, Mayor Itta has requested that one of the economists in the Government and External Affairs agency to track the new system if it's implemented. If the system is implemented and the USPS is saving nickels and dimes as compared to the damage to the local economies, [the borough] plans on contacting the state's congressional delegation.

[6:08:20 PM](#)

MR. ROPER concluded his testimony by reading a quote from Mayor Itta's article in the Arctic Sounder, as follows:

I am very concerned about the long-term effects of the proposed changes in the service. Bypass mail was created to make local economies stronger. If it is eliminated, the economies of Barrow, Wainwright, Atkasuk, Point Lay will suffer. The question is not whether the savings to the Postal Service justifies the economic damage to the communities, I do not believe that they do. For \$1.3 million this is just plain a bad idea.

6:09:09 PM

REPRESENTATIVE NEUMAN inquired as whether the concern is the financial aspect of the proposal or the tradeoff in social terms.

MR. ROPER said that he doesn't have any numbers, but could specify the areas of concern. For instance, the USPS just related that there has to be at least seven flights [a week] in the winter, but the community of Barrow is accustomed to fourteen. He suggested the committee think of the impact to the community from that alone. Within the community of Barrow there are about 4,300 people and it doesn't take long to disrupt the community.

6:11:18 PM

JAMES DODSON, Fairbanks Economic Development Corporation, Mayor's Office, Fairbanks North Star Borough, began by highlighting that Alaska has few transportation road systems. Furthermore, Congress gerrymandered Alaska when it divided the state and disallowed roads in many areas. Therefore, the Rural Service Development Act was intended to provide transportation for quality of life, goods and services, and passenger seats into rural Alaska. The USPS says it costs \$118 million to supply rural Alaska with such service. He pointed out that Alaska doesn't have the federal highway dollars that other states enjoy and thus rural Alaska needs the aforementioned transportation system. If this system is dismantled, the state will have to step in and [make up the difference]. The Rural Service Development Act supports the entire U.S. while the Rural Service Act supports Alaska. Currently, there is a proposal in Congress to cut the Rural Service Development Act by \$77 million. Mr. Dodson said, "We are trying to save \$1.3 million out of \$118 million to dismantle a system that has been effective for years." Today, there are three carriers flying airplanes out of Fairbanks to provide goods, services, and seats. This proposal would have those three carriers fly the same aircraft out of Deadhorse and thus Barrow would be connected with Deadhorse rather than Fairbanks. Therefore, the residents of Barrow would be serviced by Deadhorse and would have to park their cars in Deadhorse and drive the 502 miles to Fairbanks. The aforementioned defies logic, he opined. Moreover, it defies logic that the USPS would suggest that there is no impact to rural Alaska.

6:15:05 PM

MR. DODSON, in response to Co-Chair Ramras, specified that there are no mainline carriers based in Deadhorse. If the USPS is allowed to implement its business plan, the airplanes would have to be flown to Deadhorse for nothing. At that point, the USPS could then charge the \$.41 from Deadhorse to Barrow. Mr. Dodson said that in doing the calculations, he couldn't find the savings projected to occur under this proposal and the USPS claims there is proprietary information. He questioned how there could be proprietary information when the USPS is the only entity doing the job in Alaska as it has been granted a monopoly to move the mail in Alaska.

[6:16:15 PM](#)

REPRESENTATIVE MICHAEL "MIKE" KELLY, Alaska State Legislature, inquired as to how many air carriers have gone out of business because of the bypass mail changes that have already occurred.

[6:16:44 PM](#)

MR. DODSON recalled that the law has changed twice since the law was implemented. He estimated that at least 25 percent of the smaller carriers have went out of business.

REPRESENTATIVE KELLY posed a situation in which a route that was profitable going from Fairbanks to Deadhorse to Barrow is changed to only go from Deadhorse to Barrow. He asked if in such a situation, the cost of air fare will increase considerably once re-bid because the plan has to travel empty to accomplish this proposal.

MR. DODSON related that the Department of Transportation & Public Facilities (DOT&PF) is charged with gathering the costs of the mainline carriers and recalculating it annually. He opined that the cost to the carriers will increase and consequently the cost of moving mail will increase.

REPRESENTATIVE KELLY mentioned that he used to fly bypass mail service and worked for one of the small carriers that closed due to the change in bypass rules. While one may applaud the USPS in its attempts to cut costs, the result in Alaska could be devastating for these communities. He inquired as to how many passenger seats this proposal might eliminate from Fairbanks to Deadhorse.

MR. DODSON answered that he didn't know. However, he related his understanding that Alaska Airlines is about to file its new schedule, which will provide that information.

6:18:40 PM

REPRESENTATIVE KELLY asked if the result might be very different than that of the situation of Dutch Harbor and PenAir, as presented by the USPS.

MR. DODSON replied yes, and opined that there will be a drastic reduction of seats between Fairbanks and Barrow.

TRENT BLANKENSHIP, Superintendent, North Slope Borough School District, had his testimony read by Shana Blankenship as follows [original punctuation provided]:

In the Postal Reorganization Act of 1970, the US Postal Service is granted special protection for the right of post boxes and delivery of first class mail to the US Government because of its commitment to provide a standard of service to all box holders, rural and urban.

In a 1976 amendment to the act, the US Postal Service was required to provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining; it being the specific intent of Congress that effective postal services be insured to residents of both urban and rural communities.

In assisting the Senate to craft reform legislation, the Governmental Accounting Office [GAO] crafted GAO-04-803 USPS Report on Delivery and Retail Services. In it was the recommendation that the Postmaster General provide improved transparency and communication to inform Congress and other stake holders of the actions it plans to take regarding its retail optimization strategy, including:

- (1) The criteria USPS will use to make decisions related to changing its retail network; we have requested the cost analysis and specific data used to propose this decision, and it has not been provided.
- (2) The process it will use to communicate with postal stake holders throughout the decision-making process; The Rural Post Office and Community Preservation Act

of 2003 and H.R. 3432, Post Office Community Partnership Act of 2003, requires USPS decision makers in our region to involve us in decisions that will impact the quality of service we receive. The Alaska postmaster has not given us the information we requested, we have not been given the opportunity to propose and examine alternatives to this plan. Clearly this decision hasn't been responsive to the Rural Post Office and Community Partnership Acts.

(3) The impact on customers, including those in rural areas; Where is the impact data on Barrow and the North Slope for this decision? You are required to share it.

(4) The time frames for implementing all phases of its retail optimization initiative; We have requested the cost analysis, impact data, timelines and specific data used to propose this decision, and it has not been provided. We have asked you to involve us, to generate alternatives, you have not responded. The GAO noted that the US Congress has made it clear on several occasions to the USPS that the Universal service standard is not to be compromised in rural areas in any contemplated reform, we have requested information that assures us that the Universal Standard will be preserved here; that the mail on the North Slope will be delivered in as timely and reliable fashion under this proposal as it has been delivered previously, but our concerns to this end were not addressed either.

But there is hope for us. In February, S662 on Postal Reform passed, despite being opposed by the USPS. We support their reform of the USPS; we are encouraged to see Congress exert control over our postal system to protect us. We know all too well, it cannot come soon enough for us.

If this decision moves forward, without having provided us a timeline, fiscal impact, cost-benefit analysis, or opportunity for participation, we must be prepared to act as a community.

We need to let this bill's sponsors: Senator Collins of Maine and Senator Carper of Delaware, know that, in the eyes of the Alaska USPS, the people of the North Slope are somehow less deserving than the rest of Alaska.

That while the Senators are championing transparency at a national level, this transaction is being rushed to completion behind closed doors, with no cooperation with our elected representatives in the Borough, the Tribes or the cities.

That while the Senators are championing universal service to all rural areas - in Alaska, the USPS believes it is only those rural areas surrounding Anchorage and Fairbanks that should enjoy comparable services, while the service to native peoples in the bush is held to a different, more cost effective standard.

That while those Senators believe that providing universal postal service is the cornerstone of USPS's mission, the Alaska USPS will discriminate among its customers in order to provide a trucking contract and a processing center to businessmen in Fairbanks.

We need to write to Senators Collins and Carpers, Senators Murkowski and Stephens and support their belief, embodied in S662, that, and I quote,

"universal service is essential to the nation's communications network and economy; that it is vital to the American people, many of whom rely upon the consistency of mail delivery and convenient access to the retail postal network."

We can prove that, without roads, consistent access to mail is more important here than almost anywhere in America. It is the cornerstone of not only our economy, but our quality of life.

In summary, if this proposal moves forward without transparency, opportunity for participation or regard for universal service, we must come together as a community and provide universal opposition however and wherever possible.

[6:27:07 PM](#)

BILL MACKAY, Senior Vice President, Alaska, Alaska Airlines, paraphrased from the following written testimony [original punctuation provided]:

Co-chairs Ramras, Neuman and members of the Committee, my name is Bill MacKay and I serve as Senior Vice President, Alaska for Alaska Airlines. I am joined today by Jeff Carlson, the Manager of Contract Stations for Alaska Airlines. We are grateful for the opportunity to discuss the Barrow bypass mail issue with you today and appreciate the Committee's leadership in addressing this important matter. In my Anchorage-based position, I am involved in leading many aspects of our operations here in the state of Alaska and have been coordinating Alaska Airlines' response to the Barrow mail issue for over a year.

Alaska Airlines is opposed to the U.S. Postal Service plan to truck the Fairbanks-Barrow nonpriority bypass and in-house nonpriority mail from Fairbanks to Deadhorse where it would then be flown to Barrow. Having spent over two decades in statewide leadership positions for Alaska Airlines here in Alaska, I have come to understand very well the critical role the bypass mail program serves in getting essential goods shipped into rural Alaska communities. What's more, this program helps to ensure the economic viability of scheduled passenger airline service to these towns and villages - air service that is critical given the lack of any road connections to these locations.

Alaska Airlines currently operates at least 11 non-stop flights each week between Fairbanks and Barrow. We operate an additional daily roundtrip flight from Anchorage to Deadhorse. This level of service assures that Barrow residents receive all of the necessities moving under the bypass mail program on a daily basis. The Postal Service, however, is now proposing to transfer the approximately 10 million pounds of annual bypass and in-house nonpriority mail for surface carriage from Fairbanks to Deadhorse to connect with an as yet undetermined number of flights between Deadhorse and Barrow. While we are committed to minimizing the negative impact for residents of the North Slope and the interior, the Postal Service plan will force us to significantly alter our schedule and pattern of service to Fairbanks, Barrow and Deadhorse.

Alaska Airlines understands and appreciates that the plan is driven by the Postal Service's desire to

reduce its costs. However, we sympathize with those living in the North Slope Borough who are very concerned with how this altered flow of shipped goods will impact the timeliness and quality of mail delivery to their communities. Their very understandable anxiety over delays in receipt of mail and increases in damaged goods caused by the new overland segment and additional handling of the mail should be carefully considered.

Alaska Airlines, therefore, hopes that the Legislature will encourage the Postal Service to indefinitely postpone implementation of its proposed Fairbanks-Barrow program until there has been additional review, with full participation by the residents of Barrow and the other affected communities, of the entire range of social and economic costs the program would impose in addition to whatever savings the USPS might accrue.

I thank the co-chairs and the committee for your time and interest in this very important matter.

[6:30:51 PM](#)

CO-CHAIR RAMRAS asked if there will be a reduction in seats for passenger service between Fairbanks and Barrow.

MR. MACKAY responded that it remains to be seen because it's difficult to determine the necessary reaction until there is an implementation date. He highlighted that Alaska Airlines' operation is a bit complex as there is aircraft scheduling challenges, flight and ground crew rotations, and advanced loading of computer schedules. Furthermore, the \$1.3 million in savings predicted by the USPS will be a loss in revenue to some entity. How much of that loss will be incurred by Alaska Airlines remains to be seen, he remarked.

[6:32:17 PM](#)

REPRESENTATIVE DAHLSTROM asked if the USPS was established as a service to the people of this country or as a money-making organization.

MR. DEATON related his understanding that the USPS was established as a governmental entity to provide mail service.

REPRESENTATIVE DAHLSTROM asked then whether the USPS has received a federal mandate to now be charged with making money rather than an organization that provides a service.

MR. DEATON pointed out that one of the tenets of the Postal Reorganization Act of 1970 removed the USPS from the Federal Treasury and mandated that USPS act as a business entity. Therefore, the USPS no longer receives tax dollars. Although USPS still has postal rate commissions and oversights that regulate its fees, USPS is required to operate as a business and generate its own revenue. Since the early 1970s the only funds from the Federal Treasury have been the \$5,000-\$10,000 a year for free mailing for the blind.

[6:35:37 PM](#)

MR. DEATON, in response to Representative Dahlstrom, said that the USPS losses money some years and makes money some years. He related his understanding that the USPS is looking at a loss of about \$1 billion. In further response to Representative Dahlstrom, he said that he didn't know whether, during years in which the USPS makes money, it's invested.

REPRESENTATIVE DAHLSTROM asked if all federal agencies mandated to act as a business entity are required to make money.

MR. DEATON related that he doesn't know of any other federal agency that does not receive government tax dollars other than the USPS.

[6:37:05 PM](#)

REPRESENTATIVE DAHLSTROM surmised that it appears as though the original goal of the USPS has been changed and now the effects of that are being seen.

MR. DEATON informed the committee that universal service doesn't mean that everyone receives mail service to their town or house because there are density requirements. Therefore, in some places people must go to a distribution sight to receive mail. The case being addressed today is a situation in which the communities qualify for mail service of a specific type and service standard. The intention is for nothing to change in Barrow as the community will continue to receive the same service standard for the products purchased as they did in the past.

REPRESENTATIVE DAHLSTROM inquired as to whom Mr. Deaton reports. She opined that the legislature is interested in continuing negotiations so that the best deal for everyone involved results. Therefore, she asked if Mr. Deaton has the understanding that this proposal is a done deal.

MR. DEATON responded that the most current decision was to move to the last step of the proposal, which was to request that interested carriers submit schedules to the USPS. He reminded the committee that the USPS doesn't dictate the schedules, flight patterns, or fares of carriers. If the carriers as a group aren't interested in participating in the Fairbanks to Barrow leg, then the proposal cannot move forward and the status quo would continue.

MR. DEATON, in response to Representative Dahlstrom's earlier question, explained that he works for the Western Area Distribution Networks, which is based out of Seattle and Denver. Mr. Deaton further explained that he is in a two-person office in Anchorage that the USPS established because of the uniqueness of Alaska. He specified that he reports to the manager of the Western Area Distribution Networks Office in Denver. This project is being jointly proposed and shepherded by the Western Area Distribution Office and Commercial Air in USPS headquarters.

[6:41:56 PM](#)

NATE OLEMAUN, JR., Mayor, City of Barrow, began by relating to the committee that his family has a long history with mail service. In fact, his grandfather Perry Inavenna was a dog team mail carrier from Barrow to Nome in the 1900s. Furthermore, Mayor Olemaun's dad was a telegram and Morse code operator with the Army Signal Corp. before there was regular delivery of mail to Barrow. Mayor Olemaun then recalled the August 24, 2005, public meeting in Barrow that was attended by approximately 150 residents and was broadcast over the local radio station. He then provided the committee with some of the statements that arose at that meeting. Mayor Olemaun opined that no one has taken the time to investigate the nature or management of these impacts. This proposal, he further opined, will return residents back to the 1960s in terms of air transportation. Without bypass mail [traveling by air], the current passenger air service will be severely reduced. He predicted that the current 15 flights per week would be reduced to 4 flights per week. Moreover, either passenger fees will skyrocket or air carriers will serve the market with much smaller planes. This

while a new airport runway is being built to accommodate more air service to Barrow.

MAYOR OLEMAUN expressed concern with regard to the reduction of USPS service because it will significantly delay the delivery of perishable goods and thus cause more spoilage. Therefore, retail costs in the communities will increase. Moreover, even with bypass mail, [Barrow] is running out of stock for whaling crews preparing for the hunt. Without enough supplies, the whaling crews will return to the 1950s when whalers lived on what they caught while camping on the ice. In conclusion, Mayor Olemaun related his support for the committee's letter to the Postmaster General regarding the Rural Service Improvement Act.

[6:47:18 PM](#)

REX WILHELM, President/Chief Operating Officer, Alaska Commercial Company (AC), paraphrased from the following written statement [original punctuation provided]:

Mr. Chairman and Committee Members my name is Rex Wilhelm and I am the President and CEO of Alaska Commercial Company. ACC is the largest retailer of food, apparel, and general merchandise in rural Alaskan communities. We have 28 stores in 26 rural Alaskan communities and as of May 1 through an acquisition on Prince of Wales Island, we will have 32 stores in 29 rural Alaskan communities. I am a 25 year Alaskan and from 1986 through 1990 I had the pleasure of managing the AC store in Barrow so; I have first hand knowledge of the community.

As a retailer looking to ship more than 5.5 million pounds of bypass to Barrow this year, I am very concerned that this change will negatively impact our store, Barrow, and the surrounding communities.

The Haul Road from north of Fairbanks to Deadhorse is very rough and will inevitably lead to more damaged mail, which for AC is mostly food. The mail trucks will encounter extreme temperatures and winds, road problems including closures, all of which will cause delays and possibly more damaged freight. Also, the unloading and loading in Deadhorse will result in the mail being handled two more times with the added potential for even more damage.

Since there are no claims allowed with bypass mail, our store would have to absorb the lost product and shipping costs, which in turn would be reflected in higher local retails.

Another issue of concern is the added transit time. Under the present situation, our bypass generally arrives in Barrow within 3 days of mailing. Under the proposed change, it would take a minimum of 4-5 days for the mail to reach Barrow. Those extra days would decrease the life expectancy and quality of produce and dated products such as dairy.

Additionally, the post office does not require hubs, such as Deadhorse, to have coolers and freezers. Under the new scenario, once the mail reaches Deadhorse and is transferred to the air carrier, the post office will allow the air carrier two days to move the mail from Deadhorse to Barrow. I am concerned that our freeze and chill products could be potentially stored in unrefrigerated storage space during those two days.

Lastly, another concern is the inevitable reduction of scheduled service to Barrow by large aircraft for both passengers and cargo. I assume a reduction of 10.2 million pounds to the three carriers has to decrease their ability to keep their current service schedule and both passengers and cargo will then move less frequently into and out of Barrow.

Alaska Commercial Company is the largest retailer in Rural Alaska and we work hard to keep our prices down. I am seriously concerned this proposed change would result in lower product quality and increased damage and loss of products all of which will be reflected in higher retails to our customers. I feel this change would be a disservice to the people of Barrow and the surrounding communities.

[6:50:22 PM](#)

CO-CHAIR RAMRAS inquired as to who wins under this proposal.

MR. WILHELM said that he didn't believe anyone wins. Ultimately, the large losers are the consumers in Barrow and the surrounding villages. These individuals have the right to

expect the same lifestyle that other Americans enjoy, which was why the bypass mail service was created. He echoed Mayor Olemaun's testimony regarding the concern that Barrow will slip significantly backwards. Although Mr. Wilhelm said he wasn't sure of the results of such a change, in his experience a change of this magnitude is of great concern.

[6:51:45 PM](#)

REPRESENTATIVE REGGIE JOULE, Alaska State Legislature, surmised that while this may be the first step in the loss of service to one part of rural Alaska, is the main store concerned that it could become a trend.

MR. WILHELM, recalling his experience as a grocery manager in Barrow in the early 1980s, said the bypass mail system was more effective than today. He expressed concern that if this change happens in Barrow, there will be changes in other areas that rely heavily on the bypass mail system to keep the cost of living [reasonable].

[6:55:14 PM](#)

LINDA WENNING, Finance Director, City of Barrow, said that she attended the August 24, 2005, meeting at which only 4,100 people were allowed only two hours to present. The presenters claimed that the meeting had to end [by a certain time] because they had to fly out that night. However, the presenters didn't leave until the next morning. Ms. Wenning characterized it as an adversarial situation. Furthermore, the USPS doesn't seem to understand the current level of service that Barrow enjoys. The proposed changes along with the increase in fuel prices will negatively impact Barrow's air passenger service, which will impact tourism. Moreover, medical care access is also of concern [under the new proposal]. Ms. Wenning pointed out that the weather will need to be good in three locations: Fairbanks, Deadhorse, and Barrow, in order to fly. She predicted that there will be more canceled flights, which will result in worse mail service. She then questioned why there is only one trucking firm and three airlines involved in this.

[6:56:40 PM](#)

SUSAN HOPE provided her understanding of how bypass mail would move out of Seattle to Anchorage, then to Fairbanks and be driven up the Haul Road to Prudhoe Bay where it's placed on an air carrier destined for Barrow and then on to one of the

outlying villages. With the ability for each location to have about two days to move the mail, she questioned how the mail could arrive in just seven days. She said that it doesn't include the 19 hours of driving time between Fairbanks and Barrow. Ms. Wenning then turned to the storage facilities and the concern that already there have been situations in which food hasn't been stored properly and has been lost. For example, when only one carrier was going to Kaktovik, the carrier couldn't store all of a meat order and thus the school district lost \$10,000-\$14,000 worth of meat. Therefore, she inquired as to how [USPS] will regulate what moves or how it is prioritized. For instance, if Barrow has all of its [food being sent] bypass on an air carrier, she questioned what happens to the food for Fort Wainwright. It seems that there would be the possibility for inconsistency. She expressed concern that Barrow will inundate the carriers with so much freight that the smaller carriers won't be able to serve the villages. She informed the committee that it's even difficult to charter planes not to mention the weather delays, which she indicated impact the smaller carriers more so than the larger air lines. Ms. Wenning related that her biggest concern is that if things do return to the old ways, not everyone will be able to afford to follow the old ways.

[7:02:36 PM](#)

CO-CHAIR RAMRAS explained how the follow up to this issue is going to be handled.

[7:03:40 PM](#)

REPRESENTATIVE LYNN asked if the legislature has contacted the Alaska congressional delegation regarding this matter.

CO-CHAIR RAMRAS replied yes. He said that the congressional delegation is aware of the concerns and the USPS is awaiting a response from them. By and large, the congressional delegation seems to maintain neutrality on the matter.

[7:04:36 PM](#)

REPRESENTATIVE LYNN commented that he would hope Alaska's congressional delegation wouldn't remain neutral as it and the USPS are federal entities.

CO-CHAIR RAMRAS reminded members that US Senator Ted Stevens authored the Rural Service Act and that his stance is in regard to the legislature addressing the bypass mail issue.

[7:05:07 PM](#)

CO-CHAIR NEUMAN noted that the social impacts have been well stated, but the fiscal impacts have not been addressed as thoroughly. However, in reviewing the backup material the City of Barrow estimates that the USPS will lose a minimum of \$400,000 a year. While in Fairbanks there will be an estimated loss of \$240,000 in landing fees. Alaska Airlines will have a loss of approximately \$2 million, of which he queried how much would be shifted to passenger traffic. Furthermore, the Fairbanks North Star Borough estimates a loss of visitors to the Top of the World day trips in the amount of \$260,000 in pure and direct spending and an additional \$80,000 in indirect spending for a total of \$340,000 in lost revenue. Co-Chair Neuman commented that the USPS does a good job, but he expressed concern that the actual costs are being transferred to these communities.

[7:07:16 PM](#)

REPRESENTATIVE JOULE inquired as to the vehicle infrastructure required to move 5.5 million pounds of freight a year. Furthermore, he inquired as to what type of schedule would have to be kept to meet such demand. Highlighting the increased traffic, he inquired as to who pays for the road maintenance and improvements and questioned whether those costs would outweigh the proposed savings.

[7:10:09 PM](#)

JOHN GLEASON, Manager, Wells Fargo Bank - Barrow, informed the committee that currently Wells Fargo Bank has the luxury of working on the same day banking system and thus the proof work is processed and delivered to Anchorage to the processing center the same day via Alaska Airlines Gold Streak. Any change in the airlines schedule could drastically impact customers in Barrow and how quickly their funds are credited to their account. [The teleconference link was lost.]

The committee took an at-ease from [7:10:44 PM](#) to [7:11:52 PM](#).

[7:11:55 PM](#)

CO-CHAIR RAMRAS related that it seems there are technical difficulties in Barrow. He then informed the committee that the information obtained today will be processed and a letter will be authored and sent to USPS for response.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Economic Development, International Trade and Tourism meeting was adjourned at 7:12 p.m.