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LAYING OUT THE REALITY OF THE UNITED STATES POSTAL SERVICE

HEARING

BEFORE THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED FOURTEENTH CONGRESS

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LAYING OUT THE REALITY OF THE UNITED STATES POSTAL SERVICE

THURSDAY, JANUARY 21, 2016

U.S. SENATE,
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington,

The Committee met, pursuant to notice, at 9:30 a.m., in room 342, Dirksen Senate Office Building, Hon. Ron Johnson, Chairman of the Committee, presiding.

Present: Senators Johnson, Lankford, Enzi, Carper, McCaskill, Tester, Baldwin, Heitkamp, Booker, and Peters.

OPENING STATEMENT OF CHAIRMAN JOHNSON

Chairman JOHNSON. This hearing will come to order.

I want to welcome all of the witnesses. Thank you for your time and for your testimony.

I am going to keep my opening statement incredibly brief because I am going to want to spend more of my time asking questions once we hear from the witnesses. I have an opening statement, which I will ask to be entered into the record.[1]

My questions will all be about eliciting the reality of the current situation and what is going to be happening in the next couple of months and why it is so important that we address this issue. So, that is what I am hoping that we are going to hear in testimony and that will be the thrust of my questions.

Chairman JOHNSON. With that, I will turn it over to the Ranking Member for his opening statement.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. Thank you, Mr. Chairman. Good morning, everybody.

[Chorus of responses.]

This is a chipper looking group. I am glad that we are doing this today and not on Saturday. This is pretty good timing. I want to thank our Chairman for scheduling this hearing and all of you for showing up, giving us your thoughts, and responding to our questions.

As we are all aware, the United States Postal Service (USPS) has been struggling with some serious longstanding financial challenges for a while. One of my top goals since I joined this Committee 400 years ago—— [Laughter.]

[1] The prepared statement of Senator Johnson appears in the Appendix on page 57.

No, 15 years ago—has been to address these challenges and to help the Postal Service find a way to thrive in the 21st Century.

The Postal Service operates, as we know, as the center of a $1.4 trillion mailing industry that employs, I am told, about 7.5 million people across our country. This industry provides 6 percent of our Nation's jobs, and that puts it on par, when it comes to total jobs and revenues, with the airline industry and, I am told, the oil and gas industry as well. And businesses, both large and small, depend on the Postal Service's one-of-a-kind retail processing and delivery network, a 200-year-old legacy delivery network.

But, as we sit here today, there are some real questions that continue to be asked about what the future holds for the Postal Service.

Despite having finished 2015 with an operating profit, the Postal Service continues to report billions of dollars of losses. On top of that, it has maxed out its $15 billion line of credit with the U.S. Treasury. This has left Postal management with no other choice but to default on another $5.7 billion health care payment last year, the fourth year in a row that the Postal Service has been unable to fulfill that statutory obligation. When the Postal Service closed its books on fiscal year (FY) 2015, it announced a $5.1 billion loss, its ninth consecutive multi-billion-dollar loss.

Complicating matters is the fact that the emergency rate surcharge that went into effect in 2014 to compensate the Postal Service for its losses during the recession, is set to expire—I believe in late March or early April. And by all accounts, the income being generated by this increase is now the biggest thing keeping the Postal Service's head above water. When the surcharge expires, rates for the Postal Service's core products will decline, diminishing the Postal Service's revenues and liquidity as well as erasing the small operating profits that it has recently shown.

But, I think that we can still be optimistic about the future of the Postal Service. I am, and I hope that you are, too. And I say that because, despite what the Postal Service has been through, we have seen some significant growth in an important area, and that is package delivery. The Postal Service's total volume for this line of business jumped more than 14 percent—is that right, General?—14 percent last year. In addition—this is even more encouraging, at least to me—the steady decline of First-Class Mail volume since 2006 appears to be leveling off, and by some accounts, we may be starting to see some new demand for this product, which has always been the biggest money maker for the Postal Service. If that happens, then we are off to the races, so we will keep our fingers crossed. This past holiday season was much stronger for the Postal Service than anticipated, with mail volume related to e-commerce reportedly exceeding expectations.

For the Postal Service, though, to truly be successful in the digital age, Congress must enable—we need to be enablers—the Postal Service to take full advantage of the opportunities offered by the package boom and other recent successes. I like to say, as they say at Home Depot, "You can do it, we can help." And that is our job, to help.

Nearly 10 years have passed since major Postal reform legislation was last signed into law, although we have made several attempts in recent years without getting the ball into the end zone. It is now time for Congress to get off the bench, get into the game, and let us score a touchdown.

Absent legislative intervention, the Postal Service will continue twisting in the wind. It will remain unable to fully invest in its future. Its employees and customers will continue to be uncertain about what the future holds for them.

There are a handful of Postal reform provisions that we have debated on this Committee, as some of us know, for years. Taken together, they would set up the Postal Service and its leadership up to turn the agency's finances around further and set it up to succeed in the years to come.

The most important of these provisions, we know, is to address health care costs at the Postal Service. And, in fact, this agency is the single largest payer into Medicare, yet it does not receive full value from the program for its contributions. I put forward legislation in the last Congress with our former colleague Dr. Coburn—many of our colleagues here have supported it—and this year, with Senators Moran, McCaskill, and Blunt, that would allow the Postal Service to do what private businesses do when they coordinate their health care plans with Medicare. This has the potential to largely eliminate the unfunded liability for the retiree health benefits (RHB) and to save the Postal Service some $32 billion over the next 10 years.

Our proposal would also give the Postal Service significant savings when it comes to pension costs, which the Office of Personnel Management (OPM) now determines using inaccurate data that does not account for the makeup of the Postal Service's workforce and other important factors. Requiring OPM to use the right data would also reap more than $2.5 billion in savings over the next 5 years alone.

We also freed, in our legislation, the Postal Service to innovate and explore new business opportunities by removing dated restrictions, in current law, on the type of products and services that they can offer. This part of our bill would let the Postal Service do some specific things, like join United Parcel Service (UPS), Federal Express (FedEx), and others in offering and delivering beer, wine, and spirits. It would also encourage the Postal Service to test new innovations, much like its existing authority to initiate Sunday package delivery, and to experiment with things like grocery delivery in other parts of the country. Coupled with our proposal to make permanent the emergency rate increase currently set to expire, this part of our bill has the potential to bring in significant revenues in the coming years.

Finally, our bill will also push or prod the Postal Service to do what the last Postmaster General often told me was his top goal if we are able to get Postal reform done, and that is to put the "service" back into Postal Service. Since 2002, the Postal Service has made great strides to be more efficient, cutting total work hours by nearly 30 percent, fueling $17 billion in savings. We have also seen the number of mail processing centers cut in half, from more than 600 to about 300 today.

But the solution to the challenge that the Postal Service faces today cannot be just about more cuts. Cutting costs was certainly necessary. Concern has been raised that further cuts will only degrade service and end up chasing customers away. I share those concerns. We may also be seeing service suffer due to deep cuts that have been made in some areas.

In order to thrive in coming years, the Postal Service actually needs to invest in a new generation of delivery vehicles—we know that—as well as in its processing plants and in its Post Offices themselves. It needs to harness and deploy new technology that can improve service and contain costs, rather than continue to make cuts that will further erode service.

All right. Coming to the end. That is why our bill, a bipartisan bill, would pause further service standard changes for 5 years and mail processing closures for 2 years. This will give the Postal Service and the Postal Regulatory Commission (PRC) time to explore what the appropriate level of service should be and, hopefully, to return service to the levels that were provided to customers until last year, when service standards were set at the modified 1-, 2-, and 3-day delivery standard that many of us supported.

So, in sum, I believe that our bill, a bipartisan bill, represents real and lasting reform that can help the Postal Service be just as important for my sons' generation as it was for my generation—our generation—and for my parents' generation. We have offered legislation that enjoys wide support among the Postal stakeholders, whose often widely diverging priorities and goals have made Postal reform hard to achieve in recent years. And that is because after months of effort to find common ground, the Postal Service, its unions, and large contingencies of Postal customers and stakeholders have finally succeeded in coming to an agreement on a number of key provisions that they feel—that we feel—need to be contained in any Postal bill for the Postal Service to succeed, truly succeed. These key provisions are contained in our bill.

Lastly, while working together, it is important that Congress provides some certainty to both Postal employees and customers and that it ensures that taxpayers—along with all of the fiscal challenges that we face—are not saddled with shoring up a failing Postal Service. We cannot afford to be here a year from now discussing how we can dig ourselves out of yet another Postal crisis. I do not believe any of us want to do that. I sure do not. We do not want to kick the can down the road one more time.

As it turns out, if we are smart enough and creative enough and bold enough, we do not have to. We can do what needs to be done to actually fix the problem.

So, Mr. Chairman, thank you again for holding this hearing, thank you to everybody for attending and for providing testimony, and thank you to my colleagues for being here. I look forward to working with our colleagues in the weeks ahead to promptly enact Postal reform legislation that will enable the Postal Service and its employees to seize the day and provide the services that are needed in the 21st Century.

I think that they really have it right at Home Depot when they say, "You can do it, we can help," and the time has come. Let us just do it. Thank you.

Chairman JOHNSON. Thank you, Senator Carper.

We will, I believe, have a vote scheduled at 10:30, at which point in time I am going to have to leave and I will be turning the gavel over to Senator Carper. You have some experience with this, right, so——

Senator CARPER. I am pretty new at it. [Laughter.]

Chairman JOHNSON. It is the tradition of this Committee to swear in witnesses, so if you will all rise and raise your right hand.

Do you swear the testimony you will give before this Committee will be the truth, the whole truth, and nothing but the truth, so help you, God?

Ms. BRENNAN. I do.

Mr. TAUB. I do.

Ms. RECTANUS. I do.

Mr. WILLIAMS. I do.

Mr. MILLSTEIN. I do.

Chairman JOHNSON. Thank you. Please be seated.

Our first witness is Ms. Megan J. Brennan. Ms. Brennan is the Postmaster General of the United States Postal Service. She began this post in February of last year, having served prior to that as Chief Operating Officer (COO) and Executive Vice President of the Postal Service. Ms. Brennan began her Postal Service career as a letter carrier in Lancaster, Pennsylvania. Ms. Brennan.

TESTIMONY OF MEGAN J. BRENNAN,[1] POSTMASTER GENERAL AND CHIEF EXECUTIVE OFFICER, U.S. POSTAL SERVICE

Ms. BRENNAN. Thank you, Mr. Chairman. Good morning. Good morning, Ranking Member Carper and Members of the Committee. Thank you, Chairman Johnson, for calling this hearing. I am proud to be here today on behalf of the dedicated men and women of the United States Postal Service, who work hard every day to serve the American people.

The Postal Service currently operates with a business model that is unsustainable. In the past decade, total mail volume has declined by 27 percent, and First-Class Mail, our most profitable product, has declined by 35 percent. To put this in perspective, the annual value of the revenue loss as a result of this volume decline is $21 billion per year.

We continue to make difficult, but necessary, business decisions within the constraints of our business model to adapt to a rapidly changing marketplace. We have streamlined our operations, restructured our networks, and have improved productivity for six consecutive years. As a result of these efforts, we have achieved annual cost savings of nearly $15 billion. We have also been successful in stabilizing marketing mail revenues and growing our package delivery business, which together enable America's e-commerce. However, all of these actions cannot offset the negative impacts caused by the continuing decline in the use of First-Class Mail.

Since 2012, the Postal Service has been forced to default on more than $28 billion in mandated payments to the U.S. Treasury for retiree health benefits. Without these defaults as well as the deferral of capital investments and aggressive management actions, we

[1] The prepared statement of Ms. Brennan appears in the Appendix on page 61.

would not have been able to pay our employees, our suppliers, or to deliver the mail.

Without legislative reform, our net losses will continue to grow, regardless of our continuing efforts to grow revenue and improve operational efficiencies. If allowed to continue, this will have a devastating impact on the future of the organization and the customers that we serve.

Mr. Chairman, we need legislation now. Over the past year, we have been working with key stakeholders, including our labor unions and a cross-section of the mailing industry, to identify potential key reforms about which there is broad consensus and which would return the Postal Service to financial health. As part of this process, we have sought to understand the interests and concerns of our stakeholders and to educate them about the needs of the Postal Service.

The legislation that we are seeking reflects the results of these discussions and includes the following provisions: Requiring Medicare integration for Postal retiree health plans, continuing our exigent price increase for market dominant products, calculating all retirement benefit liabilities using Postal-specific salary growth and demographic assumptions, and providing some additional product flexibility.

By enacting legislation that includes these provisions, the Postal Service can achieve an estimated $27 billion in combined cost reductions and new revenue over the next 5 years. Together with other important initiatives, this would make us financially stable.

Medicare integration is the most important of these provisions. As the second largest contributor to Medicare, our proposal allows the Postal Service and our employees to fully utilize the benefits for which we have already paid. By requiring Medicare integration for Postal Service retirees, we will essentially eliminate the current unfunded liability for retiree health benefits. Further, in most cases, it will cost less for our employees and retirees while providing them with the same or better health coverage.

Also significant is the need to make the exigent rate increase a part of our rate base. The continuation of the exigent pricing surcharge is critical to the Postal Service's financial health. An expiration of the surcharge, which is expected to occur this April, will reduce our revenues by approximately $2 billion each year, further worsening our already precarious financial condition.

Mr. Chairman, our financial challenges are serious, but they can be solved. While the set of proposals we are advancing today are narrower in scope than we previously sought, they are fiscally responsible. They enable the Postal Service to invest in the future and to continue to provide affordable, reliable, and secure delivery to every business and residential address in America. Importantly, we believe that these provisions are capable of gaining broad support among key Postal stakeholders.

Mr. Chairman, I look forward to working with this Committee to restore the financial health of the United States Postal Service.

This concludes my remarks and I welcome any questions that you and the Committee may have. Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you, Postmaster General.

Our next witness is Robert Taub. He is the Acting Chair of the Postal Regulatory Commission. He has been on the Commission since October 2011 and prior to that was the Special Assistant to the Secretary of the Army. Chairman Taub.

TESTIMONY OF ROBERT G. TAUB,[1] ACTING CHAIRMAN, POSTAL REGULATORY COMMISSION

Mr. TAUB. Chairman Johnson, Ranking Member Carper, and Members of the Committee, good morning. I will hit on a few key points from the Commission's very detailed written testimony.

In 2015, the Postal Service had a total net loss of $5.1 billion, which is an improvement from 2014. However, this is the ninth consecutive net loss since 2007 and has increased the cumulative net deficit since then to $56.8 billion. These continuing losses have negatively impacted liquidity, requiring the Postal Service to use all of its $15 billion statutory borrowing capacity and causing total liabilities to far exceed total assets by almost $50 billion.

In the past 5 years, the Postal Service has not made any of the required prefunding payments into its future Retiree Health Benefit Fund. This accruing nonpayment into the fund has skewed the Postal Service's current liabilities in relation to its assets. To reduce its debt ratio to historic averages, the Postal Service would have to significantly increase its cash position or investments in capital assets as well as reduce its obligations to the Retiree Health Benefit Fund.

Low liquidity levels in recent years have impeded the Postal Service's ability to make capital investments in infrastructure. It now operates an aging vehicle fleet, increasing the need and, consequently, the cost for maintenance and repair. Also unmet is the need to invest in sorting and handling equipment to fully capitalize on business opportunities in the growing package delivery markets.

Total mail volume in 2015 dropped to levels not seen in more than 27 years, and the Postal Service anticipates further reductions in total volumes in 2016. The continuous decline in First-Class Mail seriously jeopardizes the Postal Service's ability to cover its fixed overhead costs.

Recent increases in revenues and subsequent higher liquidity are largely due to the temporary market dominant product exigent surcharge. The additional revenue from competitive products, which are mainly parcels, is not sufficient to offset the future revenue loss resulting from the termination of the exigent surcharge when it is removed this April. At that point, in order to maintain the operating net income that it is currently achieving, the Postal Service would have to make up the loss of that revenue, which is approximately $2.1 billion annually.

With the growing liability of retiree health benefits, the inability to borrow for needed capital investments, and the continued loss of high-margin First-Class Mail revenues, the important task of improving the financial condition of the Postal Service is daunting.

Despite the financial news, there is still strength in the system. The Postal Service is the one government agency that touches every American on a daily basis. It is an organization that literally

[1] The prepared statement of Mr. Taub appears in the Appendix on page 78.

serves 150 million American households and businesses on a typical day. It facilitates trillions of dollars in commerce. The fundamental problem is that the Postal Service cannot currently generate sufficient funds to cover its mandated expenses and also invest in critically deferred capital needs.

Where can we look for answers? I would argue that the starting point is to look at ourselves. What do we, as a Nation, need from a Postal and delivery system and what is its cost? What exactly is universal mail service in the United States? The Commission has determined that, unlike in other countries, the universal service obligation (USO) in the United States is largely undefined. Instead, it is comprised of a broad set of policy statements with only a few legislative prescriptions. The Commission estimates the cost of providing universal service to be more than $4 billion annually. When assessing the current State of the Postal Service, policymakers should look at this fundamental issue and decide exactly what we, as a Nation, need from the Postal Service, and most importantly, how those expectations are to be funded. I note that Senator Carper's bill would require an assessment of the USO.

Thank you, Mr. Chairman, for convening this hearing to shine a spotlight on this important part of our infrastructure. I know that you appreciate deeply the importance of these matters.

Senator Carper, it has been a long journey, fifteen years ago, when we met with then-Congressman McHugh off the Senate floor when you were first exploring how to modernize our Postal laws. It took us in the House a dozen years to see the 2006 law enacted, and we could not have done so without your leadership here in the Senate. Thank you for your continued commitment.

There are no easy answers, but answer, we must. The Commission stands ready to assist in the search for solutions. On behalf of all the Commissioners and the hard working agency staff, thank you for the opportunity to testify.

Chairman JOHNSON. Thank you, Chairman Taub.

Our next witness is Lori Rectanus. Ms. Rectanus is the Director of Physical Infrastructure at the U.S. Government Accountability Office (GAO), overseeing GAO's audit portfolio for Postal issues, Federal fleet management, currency and coin production, and Federal building security. Ms. Rectanus.

TESTIMONY OF LORI RECTANUS,[1] DIRECTOR, PHYSICAL INFRASTRUCTURE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Ms. RECTANUS. Thank you. Chairman Johnson, Ranking Member Carper, and Members of the Committee, I am pleased to be here today to discuss the Postal Service's financial challenges.

The Postal Service is a critical part of the Nation's communication system, but its financial situation, as we know, is dire. We placed the Postal Service on our "High-Risk List" in 2009, where it remains.

Today, I will discuss the factors affecting the Postal Service's deteriorating financial condition, the status of its unfunded liabilities,

[1] The prepared statement of Ms. Rectanus appears in the Appendix on page 110.

and the choices that Congress faces in addressing these financial challenges.

The Postal Service's financial struggles are well documented. Beginning in 2007, expenses began consistently exceeding revenues and it has lost over $56 billion since then. The situation is primarily caused by a decline in mail volume, as we have heard, particularly in profitable First-Class Mail, commensurate with increasing expenses, largely because of salary increases. Increases in compensation and benefits alone will add over a billion dollars in additional costs in fiscal year 2016. The gap between revenue and costs continues despite significant efficiency initiatives undertaken by the Postal Service.

Regarding unfunded liabilities and debt, they are a large and growing burden on the Postal Service. At the end of fiscal year 2015, the Postal Service had about $125 billion in unfunded liabilities and outstanding debt, which accounted for about 182 percent of its revenues. Retiree health benefits accounted for about $55 billion of the unfunded liability, partly because the Postal Service has not made required prefunding health payments for the last 5 years and does not expect to make the required 2016 payment.

Given this history and future events, it is not likely that the Postal Service will be able to make its required retiree health and pension payments in the near future. Beginning in fiscal year 2017, the Postal Service will be required to start making annual payments for health benefits on top of annual pension payments. Using available data, we determined that these payments could total about $11 billion. Although this is less than what was required in fiscal year 2015, it is about $4.6 billion more than what the Postal Service paid.

The expiration of the temporary rate surcharge and a lack of major cost savings initiatives will further stress the Postal Service's ability to make these payments.

Having large unfunded liabilities for Postal retiree health and pension benefits places taxpayers, employees, retirees, and the Postal Service, itself, at risk. Postal retirees participate in the same health and pension benefit programs as other Federal retirees, so if the Postal Service does not adequately fund these benefits and Congress wanted these benefits to continue, the Treasury and, hence, the taxpayer may need to step in. Alternatively, unfunded benefits could lead to pressure for reductions in benefits or pay. For the Postal Service, unfunded benefits endanger its future viability by saddling it with bills later, after employees have already retired.

Postal Service actions alone, under existing authority, will be insufficient to achieve financial solvency. Comprehensive legislation is needed. In doing so, Congress faces difficult decisions and tradeoffs in key areas.

First, what is the level of Postal services needed in the 21st Century and what are we willing to pay for those services? Given how communication is changing, Congress could consider what Postal services should be provided on a universal basis and how those services should be provided.

Second, what is the appropriate level of compensation and benefits that should be paid in an environment of revenue pressures? Congress could consider revising the statutory framework for collective bargaining to ensure that the Postal Service's financial condition be considered in binding arbitration.

Third, what is the continued viability of the Postal Service's dual role of providing affordable universal service while remaining self-financing? In assessing any alternatives to the current structure, Congress should consider costs that might be transferred from the Postal Service, which is financed by rate payers, to the Federal Government, which is funded by taxpayers.

In conclusion, we must take a hard look at what level of Postal services we need and what we can afford. The status quo is not sustainable.

This concludes my prepared statement. Chairman Johnson, Ranking Member Carper, and Members of the Committee, I would be pleased to answer any questions that you have.

Chairman JOHNSON. Thank you.

Our next witness is David Williams. Mr. Williams is the Inspector General (IG) of the United States Postal Service and has been Inspector General since 2003. Prior to that, he served as the Deputy Assistant Administrator for Aviation Operations at the Transportation Security Administration (TSA). Mr. Williams.

TESTIMONY OF DAVID C. WILLIAMS,[1] INSPECTOR GENERAL, U.S. POSTAL SERVICE

Mr. WILLIAMS. Thank you, Mr. Chairman, Ranking Member Carper, and Members of the Committee.

There are two sharply opposing views of the reality facing the Postal Service and judgments are difficult to make when viewing ongoing financial data through the distorted lens of prefunding expenses.

The first view is that the financial situation is dire and that the Postal Service's mission is antiquated. The Postal Service is losing more than $5 billion every year and has exhausted its borrowing limit of $15 billion. First-Class Mail volume, which has always supported the network, is in decline and will never return, and the Postal Service owes nearly a billion dollars in unfunded liabilities for retiree benefits and workers' compensation.

The second view is more elaborate. First, the Postal Service has weathered the storm of the digital disruption with much opportunity on its horizon. Technological advances are paradoxically creating new societal needs that the Postal Service's extensive network is uniquely positioned to fulfill regarding e-commerce, e-Government, and coming smart infrastructure services. For example, the Postal Service could provide physical transaction points for industries that have gone partially virtual and offer neighborhood logistics support for emerging smart cities.

Second, the Postal Service ended 2015 with more cash reserves than it has had for many years, $6.6 billion. It has set aside an unprecedented $337 billion and possesses significant real estate to meet future contingencies. The $15 billion Treasury debt is entirely due to required payments for distant and vacillating future retiree health obligations.

[1] The prepared statement of Mr. Williams appears in the Appendix on page 128.

Now, it is very difficult to decide exactly what is needed to stabilize the infrastructure when prefunding activities are commingled with actual ongoing financial operating data. The arbitrary $5 billion prefunding payments show up as annual losses in financial statements, even if no cash is spent at all. Most stakeholders are simply lost attempting to understand postal financial reports. The Postal Service either made a controllable profit of $1.2 billion last year or it lost $5 billion. Since 2007, did the Postal Service make a billion dollars or did they lose nearly $57 billion? Decisions are extremely difficult with this kind of seemingly conflicting data—and these numbers do not include the neglect of infrastructure investments and that some of the savings were achieved through service cuts.

The Postal Service has historically been required to break even. So, there was no extra money when the sudden 2006 Postal Accountability and Enhancement Act (PAEA) mandated $5 billion annual payments went into effect. A Consumer Price Index (CPI) price cap, and prohibitions against entering new business lines and closing certain facilities, barred the Postal Service from attacking these problems using normal business strategies, such as price increases, rightsizing, and product diversification, which are available to other world posts and private express carriers.

The Postal Service's survival is a tribute to the men and women working there, as well as to the American people, who demand that, like every nation, we have a Postal Service infrastructure to connect the world to our homes and our workplaces.

Legislative efforts to provide relief for the Postal Service have failed for the last 6 years, but recent legislative proposals offer some needed solutions. Replacing the arbitrary retiree health funding schedule with actuarially based payments will make prefunding retiree health payments more affordable for the Postal Service and improve transparency of financial reporting. Proposed Medicare changes for postal retirees will likely eliminate much of the remaining unfunded retiree health care liabilities.

Another useful proposal is to permit the Postal Service to explore offering modernized services in response to changing citizen needs and also to enable private sector strategies. Collaboration between the Postal Service and the private sector has worked well. It is a good deal for citizens, and it is a great deal for American business.

Finally, a more flexible, responsive pricing regime is needed to help ensure the Postal Service's financial stability at a time of rapid change.

In recent years, stakeholders have been starved for clear information, causing confusion about the road ahead for the Postal Service. In this age of extraordinary threats and game-changing opportunities, other nations are not confused. Other world posts are racing to support innovators, citizens, and businesses. The United States cannot afford to stagnate in decisions regarding investments for its public infrastructures if we hope to enable citizens and maintain our leading position among nations.

Thank you.

Chairman JOHNSON. Thank you, Mr. Williams.

Our final witness is James Millstein. Mr. Millstein is the founder and Chief Executive Officer (CEO) at Millstein and Company. Mr.

Millstein is the former Chief Restructuring Officer at the U.S. Treasury and has an extensive background in the restructuring of large private and public entities. Mr. Millstein.

TESTIMONY OF JAMES E. MILLSTEIN,[1] FORMER CHIEF RESTRUCTURING OFFICER AT THE U.S. DEPARTMENT OF THE TREASURY, AND FOUNDER AND CHIEF EXECUTIVE OFFICER, MILLSTEIN & CO.

Mr. MILLSTEIN. Thank you, Chairman, Ranking Member Carper, and Members of the Committee.

I am here today because the Postal Service is in trouble—trouble that we can fix, but it does require a financial restructuring to restore its ability to meet its ongoing obligations and, frankly, a restructuring of the regulatory regime under which it operates, to enable it to deal with the challenges of a very rapidly changing market for its products and services. Some of these challenges require immediate fixes. Others can be handled in a more deliberate fashion after further study and public debate.

If I can, in the short time that I have for an opening statement, I think that I will lay out the four challenges that I see and we can discuss the fixes down the road.

So, Congress intended the Postal Service to be a self-sustaining governmental entity. The sale of its postage products and services was intended to cover the cost of its operations with no governmental or taxpayer support. Nevertheless, the Postal Service faces four significant challenges that have put its ability to sustain itself, in that fashion, in jeopardy.

First, as a result of the growth of e-mail and Internet advertising, physical mail volume is down over 24 percent since the financial crisis. Running a nationwide delivery network with shrinking volumes makes it increasingly difficult for the Service to cover its network operating costs.

The second challenge is the rigid regulation of its pricing. Established under the 2006 Act, Congress presumed that the Service would have a monopoly in its First-Class and standard mail products, and so to protect the public against price gouging and to protect competitors in the package space against unfair competition, the Service is prohibited from increasing rates on its First-Class and standard mail by more than the rate of inflation. Hit by the double whammy of a downturn in volumes resulting from the great recession and from the rapid growth of e-mail and Internet advertising, this regulatory regime has left the Service with very little flexibility to adjust its prices to recapture lost revenue so as to be able to cover the operating costs of its network and be self-sustaining.

Employing the only safety valve in the statute, the Service applied for and received a so-called exigent price increase from the PRC, allowing it to cover its costs and make a small operating profit. However, this temporary price increase expires this coming April, which will again leave the Service unable to be self-sustaining in covering its operating costs.

[1] The prepared statement of Mr. Millstein appears in the Appendix on page 133.

The third challenge is the Postal Service's legacy liabilities, and in particular, the statutory mandate imposed under the 2006 Act, in which the Service was required to prefund its post-retirement health care plan. The Act required the Service to make 10 annual installments of $5 billion each, the last of which would be due next year. Not surprisingly, the Service has defaulted on the majority of these payments, as it would have had to raise prices well beyond what its price regulation permitted—or that the market could bear—to generate $5 billion in incremental revenue every year to satisfy this mandate. As a result, its Retiree Health Benefit Fund remains $55 billion underfunded, based on projected liability of $105 billion.

The fourth challenge is presented by the universal service obligation, an obligation to touch all 155 million delivery points on a regular basis at uniform prices in an era of overall declining volumes and limited price flexibility. The cost of this obligation is assumed to be offset by the benefit of the mailbox monopoly that the Service is alleged to enjoy. But in an era of rapidly growing electronic alternatives, it is unclear, at least to me, that the Service has any monopoly at all and, therefore, is being saddled with a financial burden it is not being adequately compensated to carry. With competitors skimming the most profitable business away, electronic alternatives reducing its volumes, and rigid price regulation limiting its flexibility, the universal service obligation, as currently conceived, is slowly choking the Service to death.

So, in the short term, in my business, in the financial restructuring business, the first job is to keep the patient alive, and in this instance, that means making sure that it has sufficient cash revenue to service its operating expenses.

In the long term—and these are the big questions that this Committee and this Congress has to face—the question is, what do we want this Postal Service to be? How are we going to permit it to transform itself to meet the challenges—the technological challenges, the market challenges, and the competition—that it faces, and at the same time, serve the public interest by keeping this Nation connected—keeping those 155 million delivery points connected with each other?

Thank you very much.

Chairman JOHNSON. Thank you, Mr. Millstein.

Again, I kind of reserved my opening statement so that I can spend a little more time asking questions. I do want everybody to refer to this basic balance sheet with a number of columns, and what I have tried to do is—because we have a financial problem and we have to look at numbers—I just want to quickly lay out for my colleagues and for the witnesses how this thing is set up.

The first column is the current balance sheet the way that it is reported by the government, which is not using Generally Accepted Accounting Principles (GAAP).

The second column puts on the balance sheet the fund balances, as well as the unfunded liability, of the retirement system and the health care system.

Then as to the columns A, B, and C, the first scenario, A, simply reamortizes the short-term liability back into where it really should be classified. It basically reclassifies the long-term liability to where it should be. Then you start talking about Medicare integration as well as current debt restructuring.

Now, I realize that this is relatively complicated, but if you really take a look at this, I think that it really lays out and crystalizes the main problem here, and that is the point, I think, of this hearing: to let us try and make this as simple as possible. I think, Mr. Millstein, that you did a really good job of laying out the four main problem areas.

Let us go to number two. We talked about rigid regulation of pricing. I know that in the last go-around here, we compared U.S. Postal Service price increases to their competitors, UPS and FedEx. Off of the top of my head, I think that over a 6-year period—this was a couple of years ago—UPS and FedEx had increased their prices about 33 percent. The Postal Service was somewhere between 14 and 16 percent, depending on which service you are looking at. Is that—do you have any information on the current status of that, of how far the Postal Service is behind competitively, in terms of raising prices?

Mr. MILLSTEIN. I do not, sir, but in the materials that we provided, there is one interesting statistic. The Postal Service carries, in the package business, about the same volume as FedEx, and yet it earns half of the revenue of FedEx. The market—the dominant market package deliverer is UPS. So, the Postal Service is a real competitor and a growing competitor in that package space and it is the future, I think, of the business, but it is hamstrung in competing in that package space by the price regulations under which it operates. In part—it is not limited in the package space in the same way that it is limited in the First-Class Mail and standard mail space.

But, the key here is that the Postal Service must maintain a network that reaches all 155 delivery points, whereas UPS and FedEx can pick their spots, can pick dense urban markets, where the cost per delivery—per unit of delivery—is much lower than servicing all 155. So, the issue that we face surrounds giving the Service the pricing flexibility to be able to price all of its products in a way that will allow it to be able to maintain that network.

Chairman JOHNSON. OK. Again, I want to go—when the exigent price increase is no more, and, basically, they have recovered the amount of money they were supposed to recover—it is not about timing, it is about how much business they have done—I do want to talk about what that would actually do to Postal rates when you combine the—I would say the misclassification of the long-term liability, as it was forced to be classified as a short-term liability. The combination of those two things—I will go to the Postmaster General. Can you talk about what effect that would have in pricing?

Ms. BRENNAN. Let me say, Mr. Chairman, first, if I may address the comment about competitive pricing, we do consistently evaluate where we have had room to take price on the competitive side. We recently just raised our prices roughly 10 percent, the first time in 3 years.

Now, on the market dominant side, the challenge is, those products generate roughly 76 percent of our revenue and they are capped. So, that is why the urgency of addressing the exigent surcharge and the rollback in April is critical to us, because it will impact us, causing a billion dollar negative hit on our top-line revenue this fiscal year and $2.1 billion going forward.

Chairman JOHNSON. And it will require legislation to prevent that rollback, correct?

Ms. BRENNAN. Sir, yes. The PRC order requires that once we achieve or collect the $4.6 billion, we need to roll prices back.

Chairman JOHNSON. As an accountant, I have always been a little bothered by the talk of prefunding the health care plan, because we really did not prefund it. We just really reclassified a long-term liability into a short-term liability, correct? I mean, it has really just been a balance sheet entry, correct?

Ms. BRENNAN. Yes.

Chairman JOHNSON. There really was not any funding going on. We just borrowed more money. It was short-term borrowing, and we have just, I think, improperly reclassified a long-term liability into a current liability. Is that basically true?

Ms. BRENNAN. Yes, sir.

Chairman JOHNSON. So, in terms of what we must do, I mean, from my standpoint, just according to GAAP, we should accurately reflect this as a long-term liability, as opposed to a short-term liability. But, you have a four-point plan. Having done this a couple of years ago and having the scars on my back for trying to actually come to a compromise here, what are the areas of agreement between all of the interested parties—and there are a lot of them—what are the areas of agreement? I know that Senator Carper wanted a touchdown. Maybe we ought to be thinking about a field goal.

What are the things that we absolutely must do to avoid a real calamity in terms of the Postal system or pricing, and what is going to be possible to do here in the short term?

Ms. BRENNAN. Sir, in terms of pricing, it would maintain the exigent, making that part of the rate base. That will generate $2.1 billion annually. In terms of the large——

Chairman JOHNSON. Is there any resistance to that?

Ms. BRENNAN. Yes. Now, I will say that there are many in the industry, a broad cross-section, who support that, because part of the proposal that we put forth would bake the exigent into the rate base and then forego any CPI price increase in calendar year 2016 or 2017, and then in 2017, we will have the price review that the PRC will undertake—and that is critically important.

Chairman JOHNSON. OK. So, again, in business, you try not to roll back prices——

Ms. BRENNAN. Right.

Chairman JOHNSON [continuing]. Particularly when you are already at lower prices than your competition anyway. So, to me, that would be somewhat of a no-brainer, but OK. So, that is the first thing. We do not have total agreement on that, but I think that, if you really have a level head, and you want to see a vibrant, viable Postal system, then you have to agree to that.

What is the next area of agreement?

Ms. BRENNAN. Sir, cornerstone—and I have heard no one dispute the fact that we should ensure that we are fully integrated with Medicare for retirees 65 and older. As mentioned, the Postal Service has paid $29 billion into that fund and our employees should benefit from it. We are asking to be treated like any self-funded entity.

Chairman JOHNSON. What the game plan there would be, though, would be to offload the roughly $100 billion liability of the health benefit plan, the pension health benefit plan, onto Medicare, but without transferring the assets in that health benefit plan? So, you are going to offload about a $100 billion liability into Medicare, but the Postal Service is going to maintain the $50 billion of assets in their fund?

Ms. BRENNAN. Well, and I think, as discussed, accounting principles would indicate that that should shift, as well.

Chairman JOHNSON. But right now, according to the proposal as it is being laid out for me, that is not being contemplated and we would not integrate it.

Ms. BRENNAN. I think that is——

Chairman JOHNSON. So, the Postal Service holds on to the $50 billion and offloads a $100 billion liability onto Medicare, the American taxpayer. I would agree that you would probably get some credit for the $29 billion, and as we talked about earlier in the anteroom, we do not know, out of that $29 billion funding from payroll deductions, how much the Postal Service has actually used——

Ms. BRENNAN. Yes. We do not have access to that information.

Chairman JOHNSON. They have used some of it, correct?

Ms. BRENNAN. Correct.

Chairman JOHNSON. OK.

Ms. Rectanus, you talked about a $100 billion unfunded liability. According to the balance sheet here, it is about $79 billion. Looking at the summary figures here, can you tell me where the difference comes from?

Ms. RECTANUS. You mean $100 billion for retiree health benefits?

Chairman JOHNSON. OK. You are only talking about that.

But that is not unfunded because they have $50 billion of offsetting assets in their fund.

Ms. RECTANUS. Yes. According to the Congressional Budget Office (CBO) data that we used, the unfunded obligation left over was $101 billion. That was based on the $50 billion that they do have in assets.

Chairman JOHNSON. So, the total liability is $150 billion, offset by $50 billion in the asset fund.

Mr. Millstein, can you address that?

Mr. MILLSTEIN. I do not think that that is right. I think that the CBO liability is $105 billion and the asset offset is around $50 billion.

Chairman JOHNSON. OK. Well, sure. Let me just say that this is—and, again, I am not beating up any witness here—this is the problem that I have been having for a number of years. Again, as an accountant, I understand numbers and I cannot get them. There is just so much confusion on this issue, and yet we are—we passed the 2006 law that reclassified a long-term liability into a short-term liability that created a real pinch on the Postal Service that never should have occurred. So, if we are going to pass something, we need the information and we need it to be accurate. So, we have a long way to go.

I guess that I will stop at this point in time. I guess that I have kind of made my point. I am still not there in terms of understanding the financial condition of the Postal Service, exactly what these proposals would do, as well as who is for these proposals and who is against them.

The way that you get results—and we have actually proven this in this Committee—is by looking for areas of agreement that unify, as opposed to exploiting differences. You can actually get results that way. We have actually passed 55 pieces of legislation through this Committee. Sixteen have already been signed into law. We have to find that sweet spot here, because everybody that I talk to says that we have to keep the Postal Service viable—and I agree with that—and yet we have not had all of those parties come together and find an agreement.

So, the first thing you have to agree on, though, is we have to have the numbers right and we have to know what we are actually doing—and we are not there yet.

Mr. Williams, you can quickly comment before I turn it over to Senator Carper.

Mr. WILLIAMS. Thank you, Senator. I think that the liability, as you said, the $79 billion, that is the mandate. We have additional liabilities, though. Workers' Compensation brings it up to about $98 billion. And when you add the Treasury debt, it is $125 billion. Those are all of our liabilities. The mandate is to prepay $79 billion.

Chairman JOHNSON. OK. So, again, I have been after this—I have been at this for quite some time, trying to get—so, what we need to do is, working with you, let us come up with a relatively simplified balance sheet that lays it out so that there are not any questions about this, and so that we are not dealing with a bunch of different numbers. "Oh, that is not included here," or "This is off of the balance sheet there." I think that this is a pretty good format and I am really just going to ask people, just for my benefit if for nobody else's, to give me the information. OK, work on this, and we will talk to you afterwards. Senator Carper.

Senator CARPER. I am going to yield my time to Senator Tester, who needs to leave. But, I do want to say something before I do that.

First of all, your testimony is very good and, I think, very helpful and very instructive. But, what we really have been doing with the Postal Service is requiring them to maintain this universal network, 150 or 160 million delivery points. They have to do that. And while making that the requirement, we limit their ability to increase prices for a number of their products. We limited, in some cases, the kind of products that they can offer through their distribution network.

And we require the Postal Service to do something that I do not know if any other business in America does—not only to recognize the liability associated with their 65-and-over retirees for health care, but to address that and to pay that down—not over 30 or 40 years—but over 10 years. I am not aware of any company in America that does that. So, that is a pretty good to-do list there for us, and our job is to do it.

I have wrestled with the numbers, as Senator Johnson has alluded to, and I do not pretend to be an expert on this, but if I can understand it, I think that most of us can. And one of the things that we need from the Postal Service, Postmaster General, is something that we talked about just yesterday, and that is a 10-year financial statement laying out your expected revenues and your expenses. Give us an opportunity to see what happens and where that leaves us in a cash position each year, and see if that cash position is sufficient to enable us, not just to meet some of these liabilities and to pay them down, but also to capitalize—or recapitalize—the Postal Service's vehicles, modernize their fleet, modernize their package handling facilities, and modernize their Post Offices. That is our challenge. And, actually, I think that we can do that. Senator Tester.

OPENING STATEMENT OF SENATOR TESTER

Senator TESTER. Thank you, Tom, for your generosity.

I will make this very quick. First of all, I appreciate all of your testimonies. I mean that. I think that you pretty much all said the same thing in a different way.

But, I am going to start with you, Mr. Williams. You have been around the block in the IG world, and you can answer this, too, Jim, if you would like. Is there any other agency in the government that has to prepay their benefits?

Mr. WILLIAMS. There is not.

Senator TESTER. OK. So, the Postal Service is alone in this.

Mr. WILLIAMS. Right.

Senator TESTER. And, I think that you made the point very well in your testimony, about getting numbers that make sense, whether the Postal Service made money or lost money, as they move forward. But, I think that the prepayment thing, if we do not get our arms around that, along with the Medicare thing—I do not know if you guys will ever get to a point where you would be solvent. Would you agree with that, Postmaster General?

Ms. BRENNAN. Senator Tester, if I may, first, to the Chairman, the Postal Service will provide certainly the current assets and liabilities to ensure that we have valid numbers.

Senator Tester, looking ahead, based on our projection——

Senator TESTER. Yes.

Ms. BRENNAN [continuing]. We would be liquid, have manageable debt with legislation. We still would have liabilities, and the discussion then would be about how to amortize those liabilities to make——

Senator TESTER. But without dealing with the prepayment issue, would you still be liquid?

Ms. BRENNAN. Without dealing with the prepayment issue?

Senator TESTER. Yes.

Ms. BRENNAN. No, sir.

Senator TESTER. OK. So, unless we are willing to agree on that single issue, we are never going to get you to a point—and then be able to deal with the others, also. I would agree with that.

Did anybody on this panel, and I am not making any accusations, take a look at the contracts between the private carriers in the last mile to see if they are appropriate? Go ahead.

Mr. TAUB. Senator Tester, the contracts that the Postal Service has, to the extent that they are negotiated service agreements——

Senator TESTER. Yes, that is correct.

Mr. TAUB [continuing]. That goes before the Postal Regulatory Commission.

Senator TESTER. Yes.

Mr. TAUB. Under the law, we look at that to ensure that they cover their costs and that, collectively, all competitive products have to contribute to the overhead. So, that has to go through review through the Commission.

Senator TESTER. So, is it a zero-based thing or do they make profit?

Mr. TAUB. As long as they are covering their costs, it is in compliance with the law. But, I would note that for competitive products, we require that, collectively, they contribute 5.5 percent to the institutional costs. This last year, they contributed over 13 percent.

Senator TESTER. OK. The universal service obligation was brought up several times during the testimonies, and the thought occurred to me, who are you going to prune off? I mean, Heidi and I have customers that live a long ways apart from one another. If we prune those folks off, it would probably save a lot of money, but arguably, they may be the folks who most need the service.

So, Jim, do you have any ideas on how we can deal with this issue?

Mr. MILLSTEIN. Yes. I do not think that we have to invent this out of whole cloth. Obviously, you can vary service in terms of how often it is done to try to manage the costs.

But, other countries that have an equal interest in making sure that all of these points of contact are maintained on a regular basis allow their postal services to do other things to subsidize that universal service obligation. We have tightly restricted the Postal Service's products and services and so it does not have the ability to earn revenue and profit from other lines of business that it could enter into in order to meet that universal service burden—and it is a burden. So, it really is a question of, if the Congress wants to keep it up, it could subsidize it——

Senator TESTER. OK.

Mr. MILLSTEIN [continuing]. But you have determined, as a group, that you want this thing to be self-sustaining. If you want it to be self-sustaining, you have to give it the ability to generate the revenue necessary to meet that universal service obligation.

Senator TESTER. David, do you want to respond?

Mr. WILLIAMS. I really do not think that we need to begin down that trail.

Senator TESTER. Good.

Mr. WILLIAMS. But if we do start down that trail, I honestly think that it is time to give up. When we cut off that first person——

Senator TESTER. Yes. I would agree 100 percent with that, and I am glad that you guys clarified that within your statements. I appreciate that.

I will just say one last thing. Those who think that the Postal Service is antiquated need to come to my house, because without the Postal Service, I am in a world of hurt—and I have fiber coming into my house. So, it is a big deal.

And, the last thing that I will say, with OPM breach that this Committee has dealt with—I just met with Beth Cobert the other day—the most secure way to send information to the folks who have been breached is through direct mail, and we need to keep that in mind as we go forward.

Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you, Senator Tester. Senator Booker.

OPENING STATEMENT OF SENATOR BOOKER

Senator BOOKER. Just for the record, I heard that Senator Tester said, "Those who think that the Postal Service is antiquated should come to my house." I am going to take that as an invitation, which he has never given me before, to his house. [Laughter.]

Senator TESTER. I look forward to that, Booker.

Senator BOOKER. I appreciate that. I am one of those house guests that will never leave. [Laughter.]

I do think that the Post Office is antiquated, but not in the ways that have been discussed, and not in the ways that would make my friends in rural States annoyed. I am just concerned about some of the updates to equipment that could make it more efficient and more effective.

I have introduced legislation, the Postal Innovation Act, which stresses the urgent need for the U.S. Postal Service just to modernize, from updating the 190,000 vehicles in the Postal fleet with new crash avoidance technologies to investing in innovation. USPS has the opportunity to really show leadership in technology and safety efforts that could help in some ways, as the government did with seat belts, to lead the way into a new era of protecting lives, as well as integrating technology. And on top of that it could accrue long-term savings, which seems to be one of the buzz words here.

So, to the Postmaster General, I would just like to ask, how will USPS be working to incorporate new safety technology in the Postal fleet to reduce accidents and to lower greenhouse gas emissions?

Ms. BRENNAN. Thank you, Senator Booker. In terms of the next generation delivery fleet, we are working with industry experts and we are looking at industry best practices in terms of safety. The requirements assessment, as we move forward in this process, is the safety, ergonomics, fuel emissions, fuel efficiency, and also, from an operational standpoint, having enough cargo space, given the change in the product mix for the vehicles.

Senator BOOKER. So, when I was the mayor of a city, the challenge that I often had was that, if we made a significant up-front investment, then it would cost a lot of money, but the savings would accrue over many years. And, do you all have the resources to invest in the kind of innovations that would create long-term savings, or is that a problem for you?

Ms. BRENNAN. Well, Senator, legislation will give us some additional capital moneys that we can invest in the infrastructure, because, as mentioned, we have deferred capital investments in the past due to not having money available. We will continue to prioritize the available capital moneys that we have. But we need to be in a position where we are able to invest in the infrastructures, repairs, and alterations of our more than 30,000 buildings, as well as the new vehicle fleet. Roughly 212,000 vehicles are on the road 6 days a week, and increasingly 7 days a week, traveling nearly four million miles. So, we have to invest in our infrastructure to enable us to continue to compete in this critical marketplace.

Senator BOOKER. I completely agree. I appreciate that.

I also believe that, in order to maintain the robust delivery service and continue to reap the benefits of a thriving connected country, we must take action toward forming a comprehensive Postal bill, which you all seem to be calling for and some of my colleagues seem to be calling for. I am really happy that Senators Carper, McCaskill, Moran, and Blunt have put forth what I think is a very balanced, bipartisan proposal that could keep the USPS afloat, although I am hoping that some other innovations will be included in it as well.

And, so I just want to ask the panel real quick before I conclude, do you agree that there is this need? What is the urgency, in terms of the timeline for this legislation? How urgent is it to act? I would like to sort of highlight that.

Ms. BRENNAN. Senator Booker, the time is now.

Senator BOOKER. And the consequences of delay?

Ms. BRENNAN. The consequence is that it would necessitate us making decisions around defaulting on additional obligations and potentially put our core mission, delivering the mail to every American, at risk.

Senator BOOKER. So, this is not something that should wait until after a Presidential election or until the next Congress? This is something that really needs to be done right now?

Ms. BRENNAN. The time is now, sir.

Senator BOOKER. Thank you very much.

Mr. Chairman, I appreciate the time.

Chairman JOHNSON. Thank you, Senator Booker.

There is a vote called at 10:30 and I really do have to leave, so I will turn it over to the capable hands of Senator Carper. You are going to have to figure out how to—if you want to recess to have everybody vote or whatever, that is fine and that will be up to you.

Again, I want to thank the witnesses. This is an issue, as Senator Booker's question elicited, that we have to address. Literally, failure is not an option. So, I wanted to hold this hearing, and Madam Postmaster General, I will definitely be sitting down with you——

Ms. BRENNAN. Thank you.

Chairman JOHNSON [continuing]. And I think you understand my passion to get the actual facts and figures straight——

Ms. BRENNAN. Yes, sir.

Chairman JOHNSON [continuing]. So that I know exactly what we are dealing with when we head to some kind of markup, in terms of the areas of agreement that we need to get resolved. OK?

Ms. BRENNAN. Thank you, Mr. Chairman.

Chairman JOHNSON. So, again, that is my commitment. We will definitely jump into this.

And with that, I will turn it over to Senator Carper. Thank you.

Senator CARPER [Presiding.] What I would like to do is to play tag team here. Is there someone who would like to go vote and then come right back and I will continue to—OK. That would be great. Gary, I think that you are next. Thank you, Heidi.

OPENING STATEMENT OF SENATOR PETERS

Senator PETERS. Thank you, Senator Carper, and thank you to the panel for your testimony. We definitely have a significant issue here, one that is going to take a lot of effort to work through.

And I have some questions, but before I do that, I actually want to begin by reading an e-mail that I received from a constituent, someone who is very agitated about mail service. I promised that I would read this beacuse I was going to be with the panel. I think that it highlights the challenges that we have with the service and how we need to be part of the solution to help you.

But, this is a quote from the gentleman's e-mail, "I am on the Martin Luther King Holiday Commission and we proudly give $15,000 in scholarships each year. The students apply to the Commission via mail and were informed to provide their applications this year postmarked by December 4, with the actual judging to be held on December 12.

I went to the Post Office every day between December 4 and December 12 to be sure to get every application. They seemed to trickle in this year, but for some odd reason, they only came from the Lansing schools and there was an unusually small number of them. I even went to the Clerk's desk on the morning of December 12, asked them if there was any other way that our mail could have been misplaced. They checked the sorting room and said that everything had been received. I continued to get our mail the following week and did not receive any other applications, and aside from the normal checks, receipts, ads, et cetera.

On Tuesday, December 22, one of our Commissioners in my absence went to the Post Office to check the mailbox and [oh my goodness] there were found 40 applications all postmarked December 4 and routed through Grand Rapids. Forty young people within a stone's throw of Lansing were denied a chance at up to a $5,000 scholarship because our government has made the Postal system inept."

We certainly do not want the government to make the Postal Service inept and allow for something like this to happen. If you do the math here, it took 18 days for applications that were postmarked on the day that they were supposed to be to actually get into the hands of this Commission.

So, I hear these types of comments frequently in Michigan and I guess I feel like we are in somewhat of a death spiral. I understand the impact on First-Class Mail and revenues and the financial stress that that puts on the Service, but as service degrades, then people figure, "I am not going to use the Service anymore. I am going to have these students just do it electronically going forward." And I know that there have been a number of closures related to that.

Postmaster, it looks like you want to respond to this. I was not going to ask for a response to this, but I would love to hear your thoughts.

Ms. BRENNAN. No, Senator Peters, I just would like to say that service is foundational and it is key to growth for the Postal Service. It is in our name. So, we are working day in and day out to improve service reliability. This particular example is certainly unacceptable and not indicative of the caliber of service we typically provide. But, know that we are committed to improving service.

Senator PETERS. Well, I know that you are and I did not mean to suggest that you were not. I meant that, as a situation, this shows that we have a problem here. And I know that the folks, the men and women who work in the Postal Service are hard working and dedicated individuals. But, also, as you cut costs and close facilities and do these types of things, it is going to have an impact on service, and we have to figure out a way so that that does not happen, so that we are not in this death spiral.

And, I think, Mr. Millstein, that your testimony was particularly interesting. The comment that you made was that the Congress and the government treat the Postal Service as a monopoly—when it clearly is not a monopoly, and yet we saddle USPS with the regulations that you would expect from an electric utility—perhaps even more than an electric utility, which we know is a monopoly since it is only that one line into the household. There is no monopoly occuring in this space—and it is not happening, particularly, when taking into account the universal service obligation.

I want to pick up on the universal service obligation, as well, because I also represent—Michigan has a number of very rural areas, as well, and I am concerned about that universal obligation. And your comments to Senator Tester, that we should not end that, I agree with. We have to continue that service.

You mentioned that other countries have flexibility, but are there any countries that do not subsidize that type of thing? And, I look at subsidies—Congress currently subsidizes because we want airline service to extend to rural areas. We subsidize airlines to fly airplanes to those areas. We are expecting the Postal Service to make a profit in very rural areas. Are there countries that do not subsidize, or is that only related to flexibility, or is there more to it?

Mr. MILLSTEIN. Yes. There are a number of countries. Japan, Italy, Britain, and Australia have privatized their postal services, and in the context—having privatized them—require them to still meet a universal service obligation. And you do not have to go down the full road to privatization in order to do this, but what you do have to do is permit what privatization permitted in these countries, which is to allow those postal services to engage in other lines of business and to use the profits made in those other lines of business to subsidize their ability to meet the universal service obligation.

So, you can do this in a couple of different ways. The Congress, itself, could do it by direct appropriation in order to ensure that rural communities are served and those 155 million points of delivery have regular service. Or, you can expand the kinds of businesses that the Postal Service is permitted to be in so as to generate incremental revenues to foot that bill. But, either way, it costs something to maintain this network, and clearly, the price constraints under which the Service is currently operating, do not permit it to do this very well for very much longer without incremental price increases or incremental revenues.

Senator PETERS. Mr. Williams.

Mr. WILLIAMS. Thank you, sir. Actually, the hallmark—the world posts are doing much better now, but the hallmark of their success has been pricing flexibility as well as the ability to diversify. World posts now make—last year, they began making more money on non-mail than on mail.

As far as privatization, it has some intriguing aspects to it, but when you talk about privatization, there are posts that are moving in that direction. The only ones that are privatized so far are in tiny places, and we would be really foolhardy to try to extrapolate from what the city-State of Singapore is doing—they are privatized—or Belgium, the size of Maryland, and others. The larger countries, in terms of geography, have not privatized—or else they have only partially privatized. The Postal Service is partially privatized. The work share discounts and the partnerships that they have constitute probably around 25 to 28 percent privatization. We have just done it in a different way, and we have done it in a way that preserves our promises to our people.

Senator PETERS. Mr. Millstein.

Mr. MILLSTEIN. Yes, but I think that there are some larger industrial nations that have begun the process of privatizing their postal services. They are not fully done. They still own a substantial majority of the equity, but they are in the process of selling that equity into the public markets.

That said, that is a big step. You do not have to go there to fix the short-term problems that the Postal Service faces. But what you do have to do is find a way to give the Postal Service flexibility to raise prices and increase revenues to maintain this universal service obligation. They cannot do it—it costs money to do it. They have to be able to generate the revenues to cover the burden.

Mr. WILLIAMS. There is a reason that the large countries are not finished privatizing. It is because they stopped. They started forward, they began to sag, and they have halted the effort.

Senator PETERS. Yes.

Mr. WILLIAMS. The only one that is a little bit larger is England. When England privatized, they took over all of the liabilities. Not only is that not on the table, to take over our liabilities, but, in the past legislation, you asked that we prefund them. I know that you are trying to do some really interesting, clever things in the proposed legislation, but as far as large countries that have privatized—there are not any. They started and they stopped.

Senator PETERS. Yes. Well, I appreciate that. Certainly, I am a big proponent of maintaining universal service. I think that it is a critical part of the Postal Service. I appreciated the comment that you lose your soul if you end that feature of the Postal Service. But understand that you are also being cannibalized, your business, by very aggressive private companies that are out there taking the real profitable parts of your business.

So, I just want to say, my time has ended, but I am here for you in figuring out a solution to this. I look forward to working with you. Sorry about the time constraints on this panel, but I know that all of you are committed to finding a solution, and I am, as well. I look forward to working with you in the—it will have to be in the months ahead—not years. Too many years have already gone by. We have to figure this out and we have to figure it out as soon as possible.

Ms. BRENNAN. Thank you, Senator Peters.

Senator CARPER. I like that sense of urgency. That is a sense of urgency that all of us on this panel need to feel—all of us. Thank you, Senator Peters.

I joined Senator Peters and Senator Stabenow about 10 days ago in Detroit for the opening of the Detroit Auto Show, and before I left, I stopped by one of the restrooms there, Gary, and as I was coming out, there was a janitor waiting to go in. And, as you know, there were tons of people, the place was just packed with thousands and thousands of people there for the opening day.

And, I said to the janitor, "The restrooms here are really clean. I mean, this is amazing, all of these people and they look so presentable and they are clean." And, I said, "Who does this?" And, he thought for a second and he said, "Well, I do." And, I said, "Well, you are doing a good job." He said to me, I will never forget—he said, "That is my job and I am proud to do it." And, I said, "Terrific." And, he said, "We all have our jobs. We need to do our jobs well."

He was right. And our job here is to be an enabler. We cannot fix this problem by ourselves, but we can certainly enable the Postal Service to do a lot of what others have suggested that they need to do. So, we are going to do our job.

Part of our job is to unleash innovation and creativity within the Postal Service. General, you and I have talked a bit about some of the innovations that are being pursued, that could be pursued, and I would just like for you to share with us some of what you are doing now that you think is promising, in terms of generating additional revenues. I am not interested in the Postal Service owning a bank. In some countries, the postal services own banks. I do not know, could we lease space for bank branches like we do in supermarkets? That might make sense. I am not interested in the Postal Service owning an insurance company.

But, those things notwithstanding, there are some innovations that can be made and we can do a number of things. The Postal Service can do a number of things if you want to and if we let you. So, go ahead and just give us—and then I am going to ask the other panelists to react to those ideas and maybe give us some of your own. Please, General.

Ms. BRENNAN. Thank you, Ranking Member. If you consider our infrastructure, it is important that we innovate at the core, which we have been doing when you consider the growth in market share of our package volume, looking at customized delivery solutions with this exponential growth in e-commerce.

When we look beyond the current statute—and fundamentally, we are looking for more flexibility in pricing and product. One example that we should consider is that, if we have more than

200,000 vehicles, as I mentioned, traversing more than four million miles on any given day—Inspector General Williams mentioned smart cities—is there an opportunity for us to partner with these local municipalities and apply sensors to our delivery vehicles that could capture air quality samples, that could consider road conditions, traffic patterns, and the like? That is just one example.

Also, we are currently partnering with the Census Bureau on onboarding Census employees, similar to our passport operation that we have in our retail offices, where you come in, we validate your information, and we authenticate your identity. Something that we are currently doing with another Federal agency, but maybe there is application there, as well, that we can pursue. So, these are just two examples.

I think that we have been very innovative with the mail, in terms of bridging hard copy and digital and working with the industry to look at promotional pricing to say, "How do you enhance the value of hard copy communication?" So, I think that there are a number of opportunities—certainly within our current constraints and then with some additional flexibility—that we can pursue.

Senator CARPER. Can you talk about what is going on with respect to delivering groceries in a couple of metropolitan areas.

Ms. BRENNAN. Yes, sir. We actually started grocery delivery in San Francisco roughly 2 years ago and we have since expanded to other markets. And we look at that, again, as an opportunity to innovate at the core, leveraging our infrastructure and looking for other ways to generate revenue. So, we are talking with a number of potential customers about expanding that type of service, and also looking at other physical goods that we could deliver.

Mr. TAUB. Senator Carper, I have a few observations.

Senator CARPER. Chairman Taub.

Mr. TAUB. First and foremost, as you have heard, I think, throughout all of the witness testimonies this morning and certainly the Commission's testimonies, there is a financial balance sheet mess and that has real world implications in terms of very low liquidity, very little working capital to invest, and critically deferred capital investments, whether it is vehicles or package sortation equipment. So, we can think of great ideas, but unless you have that capital to invest, there are some costs there and I think that the Postmaster General outlined some of these. While we think about broadening the aperture, I do not think that we should lose sight of the core of the Postal Service and innovating the products that they have today.

The other aspect that I observe also goes to this issue that I mentioned—and the Commission's testimony outlines this aspect of universal service. We had some discussion here earlier today. I would point out, though, that in the United States, unlike most other countries around the planet, we have not specifically defined the various features—except for the 33 years of the annual appropriation bill mandating 6-day delivery—in law. That has served the Postal Service and our Nation well for 240 years, the flexibility to balance those needs. But now, when you are in the financial situation that we are, a better understanding of the costs of what we expect of the Postal Service helps us to determine—if we are looking to broaden that aperture—the costs of getting in an area, the potential benefits of getting in an area, and if getting in that area will still allow the Postal Service to be self-sustaining.

Senator CARPER. All right. Thank you for those thoughts.

I am going to ask the rest of our panel just to keep in mind a response to my question, responding to what the General has said. I am going to pass the gavel to Senator Heitkamp and run to vote. I will be back shortly. Thank you, Heidi. Thank you all.

OPENING STATEMENT OF SENATOR HEITKAMP

Senator HEITKAMP [Presiding.] It will be a fleeting moment of fame, I am quite certain. [Laughter.]

I want to follow up on what Senator Tester was talking about. No big surprise there, Megan, but I obviously continue to be very concerned about rural Postal delivery. I just want to give you some statistics, and I want to thank you all for once again appearing. I ran into several of my colleagues as I was rushing back here, telling them that we are working on Postal reform. This has been an issue that so many people have spent so many hours on, and I thank both Jim and Dave.

You basically nailed it. There is not any idea out there that we have not vetted, that we have not figured out, or that we have left behind. There is no magic bullet. We just have to do the work that a board of directors should do for an entity that runs very much like a business.

And, certainly, I think that there has been a lot of effort on this Committee—it has not been successful, I mean, let us be honest. I watched, in my location here in D.C., the mail being delivered at Christmastime with U-Hauls. We even saw it in North Dakota, so we know that we have some issues that we have to confront in terms of mail delivery.

And, I certainly share the sentiment that once we start telling someone, "We are not going to deliver the mail at the end of the mile," then we are not the United States Postal Service. We are not meeting our constitutional obligation.

And, so, my focus has been mostly on what this means for rural America. And, so, I want to kind of give you some statistics, just so that you understand what Senator Tester is talking about, in terms of the prominence and importance of mail delivery in rural America.

The Inspector General of the United States Postal Service released a report in April 2015 about the variance in originating First-Class Mail single piece volume declines throughout the United States. From 1995 to 2013, the originating First-Class Mail volume in North Dakota only decreased by 37 percent. That is the lowest rate of volume decline of any State in the country. It is significantly lower than the 61 percent national average First-Class Mail volume decline for this same period. And I want to point out that other rural States, such as South Dakota, Montana, and Vermont followed a similar pattern. If you want to know where you have not seen this same rapid rate of decline, it is in rural States. It is in rural communities. So, that just impresses upon people how important rural delivery is.

And, we recently, and I do not know—Megan, I am sure your staff has briefed you about the situation that we have in Fargo——

Ms. BRENNAN. Yes——

Senator HEITKAMP. It is a subdivision in Fargo, basically, but it is rural delivery. And we have talked several times about this, about the contracting for rural Postal carriers and the difficulty that we have when old deliverers, basically, are edged out monetarily by somebody who wants the contract.

I am going to talk a little bit about what is happening in this neighborhood in South Fargo. The residents recently formed a Facebook group, and everybody in the subdivision is on this Facebook group. Do you know why? So that they can swap mail, because the mail is not getting delivered to the right Post Office (P.O.) box.

Now, think about the time of year that we are in and what is being delivered. Senator Tester has explained that the safest way to protect your personal data and your personal information is the U.S. Postal Service, right? So, what is being delivered to your neighbors right now? Your W–2s, right? Confidential information—1099s, tax data, and information that contains some of the most private information, other than your medical information: your financial information.

And when we followed up on this, and the Postmaster in Fargo is busy working on this, but when we followed up on this, we asked, "What is the training for somebody who gets a new contract?" They said, "24 hours." 24 hours to try and figure out how to deliver the mail.

And, I do not mean to say that this one incident proves the point of what is happening in rural delivery, but you know and I know, from the portal we opened up called #fixmymail, that this is not an isolated circumstance. It is unique, because it is occuring in rural Fargo, as opposed to Dunn County or one of the more rural counties.

So, how are we going to reestablish that trust and faith, Postmaster General, in rural delivery, when in rural America they just think that they have lost a whole lot of quality in the delivery of Postal services?

Ms. BRENNAN. Senator Heitkamp, we are committed to rural America and I, personally, am as well. And in terms of training, that is an investment in our employees and that is something that we have addressed this year and——

Senator HEITKAMP. Well, they are not really your employees, though. They are your contractors, right?

Ms. BRENNAN. But they represent the Postal Service, so——

Senator HEITKAMP. They sure do.

Ms. BRENNAN. We need to train them. Whether it is a contract employee or a career Postal employee, they need to be trained.

In terms of improvements in rural America, we have been working to establish hubs, entry points specifically for our county newspapers, by working with the National Newspaper Association. In many rural areas, we have adjusted transportation and also added additional capacity where it is needed. But, please know, we are committed to rural America.

And, as you know, we are also looking to enhance service measurement, working with the regulator, so that we can have more granular data and that we can identify pinch points or any systemic issues, if we have them, and so that we can address it quicker and ensure that we are providing consistent and reliable service. That is our commitment.

Senator HEITKAMP. And I have no doubt that your words are heartfelt. I mean, we have had these conversations and I have been grateful for all of the meetings and the work that we did on our rural Postal bill, many provisions of which have been included in this bill. But, service standards are not what they were. They just are not, and they are not acceptable. Even in the old days, when I was a kid—and I think that I have told you this story, where I challenged my law school classmates in Portland, Oregon to send me a letter that said "Heidi" and the zip code—and I got that letter. I got their letters. I mean, they took up the challenge. And I got them in 2 days. That does not happen anymore.

And, so, we recognize the challenges and the financial challenges facing the Postal Service, but I do not want this just to be about spreadsheets. I want this to be about service and about once again reestablishing, especially in rural communities—we desperately need to have a fair balance between cost cutting and economy measures and continuing the mandate that we believe the writers of the Constitution gave us, which is to have a Postal system that works for the entire country.

And, so, I just want to make sure of that, and we will have follow-up questions, Megan. I know that you are heartfelt, but we just do not see it in rural America. We do not see that concern being translated into improvements.

Ms. BRENNAN. And I would say, Senator Heitkamp, that financial stability does support those service efforts. We are committed and we look forward to continuing to work with you on these issues.

Senator HEITKAMP. I have used up all of my time, and I see that Senator Baldwin is back. I am going to yield and give her time, and if they do not show up, then we will have it all to ourselves, Tammy.

Senator BALDWIN. Great. [Laughter.]

Thank you, Chairman Heitkamp.

Senator HEITKAMP. The inmates are in charge of the asylum. [Laughter.]

OPENING STATEMENT OF SENATOR BALDWIN

Senator BALDWIN. I appreciate it, and in their absence, I want to recognize the Chairman and Ranking Member Carper for this hearing. Everybody has commented on the fact that the Postal Service touches each one of our constituents, each one of our communities, and I am appreciative of the work of all of the stakeholders in getting us to have this conversation. And, I will talk to him directly when he returns, but I appreciate Senator Carper's work and look forward to continuing to work with him on the rate provisions, in particular, in the legislation.

So, everyone has acknowledged the significant changes to dealing with printed mail in the era of e-commerce and in the wake of our recession. The Postal Service affects our communities in different ways, and I think that last session, many of my colleagues heard me talk about some of the unique ways in which it impacts Wisconsin, because we have this incredible workforce of loyal Postal Service workers, but we are also a State that is forested in the north of the State and is the number one producer of paper in the country. Because of that, we have a vibrant graphics and printing industry and we have many mailhouses in the State. Fully a third of the communication papers printed in the State of Wisconsin are delivered through the Postal Service. So, the health, vibrancy, and future of the Post Office, I think, has a disproportionate impact on the State of Wisconsin.

As a consequence of that, I not only hear from Postal customers, but also from my constituents who work in the mailing industry. From them, I hear about the challenges associated with the changes in mail volume. One of the things that I have heard about is the importance of having consistent rates and predictable pricing, so that businesses can plan and budget accordingly.

Chairman Taub, one of the purposes of the current rate structure and the upcoming rate review is to ensure pricing stability, yet it appears that the effect of the exigency surcharge may have exactly the opposite effect. For example, it seems like, if we do not take action, rates are likely to go down in April and will potentially go back up at some point—either through legislation or after the PRC review.

So, I have a couple of questions, but I want to start with this one: Can you speak to the importance of pricing predictability and how the constant changing of rates, or this yo-yo effect that we see, affects consumers and the mailing industry?

Mr. TAUB. Certainly, Senator. First and foremost, I would like to point out that in 2017—or actually starting December 20 of this year—by law, the Commission will begin a proceeding to look at the decade of experience that we have with this price-cap system and the market-dominant rate system that is in place. I certainly would not and could not prejudge what the Commission will do at that time, but as the law mandates, that will be conducted in a very open and public way, with notice and an opportunity for public comment. And the key mandate of that study is for the Commission to look at this decade of experience, look at the nine objectives in law and the 14 factors we take into effect, and assess how it has been working.

I would say, certainly, the law has been clear that there is a CPI cap. The law also included a provision for, in an extraordinary and exceptional circumstance, an opportunity to recover losses due to that event. That has occurred here, all done in an open and public way with advance notice. But, we certainly will be looking at that.

Of the nine objectives, number two is to create predictability and stability in rates, and as I said, that is one of nine. Our most recent annual report observed that some of these can sometimes seem in conflict with one another, but the bean will be on our nose, starting December 20 of this year, to look at that. But, clearly, whatever we look at, objective number two goes to your point, which is the need to create predictability and stability in rates—and that will have to be applied equally with the other eight objectives.

Senator BALDWIN. Well, in your testimony, you talked about the balancing of certain objectives and factors, and you have repeated that now. Talk a little bit more about the balancing issue, because, I mean, I think that that is clearly what is most critically important to constituents who have such interactions with the U.S. Postal Service in the State of Wisconsin and elsewhere. How do you make sure that it is both fair and equitable to consumers, while at the same time ensuring that it sustains the Postal Service?

Mr. TAUB. Indeed, that is the challenge that the 2006 law, in its wisdom, put on for the Commission. The Commission promulgated regulations shortly after that law was enacted to create this new system. In essence, what it did was say that we are going to take this current CPI limitation, that is very clearly delineated in statute, and then we will look to make sure that, whenever the Postal Service makes changes, they are balancing those nine objectives and factors. It is going to shift December 20 of this year when we start that review, because now the bean is back on our nose to look at those nine objectives and ask, "In the 10 years of experience, have they achieved that?"

And maybe just to highlight a few for the record, not only are you creating predictability and stability in rates, but number 5 is to assure adequate revenues, including retained earnings, to maintain financial stability. Number 4 is to allow the Postal Service pricing flexibility. Number 8 speaks of just and reasonable rates.

Sometimes, certainly, I think that even describing that can be in conflict, and so it is going to be our challenge to make sure that when we look at this—whatever system is the outcome—we hit that sweet spot.

If I could just add to that, looking ahead to 2017, there is a large spectrum, it seems to me, just reading the law and having been involved in it, of what the Commission may or may not do. And as I said, I do not know what the Commission will do. It will have to look at this. But, the outcome could be everything from looking at it and saying that the status quo is where we are at, to, as the law says, devise such modifications or an alternative system to set rates to meet those objectives. That is a broad spectrum. I do not know where the Commission will set in, but please know that, first, we are planning right now for that study so that we can hit the ground running. There is going to be a lot of focus on that, understandably, and the stakes are high and we want to do it right. We do not want to end up with a study that raises more questions than it answers.

Senator BALDWIN. Mr. Chairman, I have gone over my time, so I yield back.

Senator CARPER. [Presiding.] Did you ask what you wanted to ask?

Senator BALDWIN. I did.

Senator CARPER. OK, good. Heidi?

Senator HEITKAMP. I have just a couple more questions, if that is OK.

Senator CARPER. Yes. Go ahead.

Senator HEITKAMP. Thank you.

Going back to the statistics that I cited, Megan, can we just get a commitment that you actually will look at geographic needs in rural America, that we can get a greater sense of where meeting those needs fits within the Postal Service's priorities?

Ms. BRENNAN. Yes, Senator Heitkamp. Yes. Absolutely.

Senator HEITKAMP. OK. Thank you.

And a question for the Inspector General, Mr. Williams. Thank you for all of your great work. And in your testimony, you state that the Postal Service's survival is a tribute—and I am sure that the Postmaster General would agree with this—to the men and women who work there. I have met with Postal workers who are incredibly dedicated, walking in this kind of ice, delivering mail. This is hard work and they do it every day because they love their customers, they love their route, and they are so committed and dedicated.

But, we see morale going down and down and down. And, I commissioned a report that you guys were very generous in helping with, providing some great data regarding challenges in the Bakken with overtime and taking a look at how we could continue to address morale concerns. Are you currently working on any additional morale or workforce studies that really highlight some of the needs that we have to continue to recognize and appreciate the people who work for the Postal Service?

Mr. WILLIAMS. The proposed legislation, the Improving Postal Operations, Service and Transparency Act of 2015 (iPOST), contains a provision whereby we would conduct a comprehensive study. So, we have begun the process of trying to imagine what that would be like and structuring for it. We are looking at that. Intuitively, you do worry. We are into the sixth or seventh year where postal workers are being told that their performance is poor and that we are facing bankruptcy and insolvency. That has affected morale. I have not counted it yet, but you can feel it. You can feel it everywhere.

So, I would say that we do have a problem. There are results coming out of a recent employee survey that the Postal Service conducted called "Postal Pulse" by Gallup. That will be coming out. That will tell us some.

I do know that the Postal Service is struggling with that. They have created a program called "Postal Proud," which is an effort to try to instill in workers a sense of pride, to express to them a sense of appreciation, and to remind them of the importance of their mission.

Senator HEITKAMP. Yes. Not to belabor this point, but my husband, who is a family physician, takes care of a number of postal workers. He came home and told me that we were very bad employers. And, I take that to heart. I mean, again, one story does not make the case, but certainly we know that we have an issue. We included a morale component in the rural bill that I developed, but we need to find better ways to say thank you—and I want to make that point.

Thank you, Mr. Chairman, for giving me the extra time.

Mr. WILLIAMS. If I may, Senator, I am sorry, but——

Senator CARPER. No, go ahead.

Mr. WILLIAMS. I think—well, we were asked, when is the time to pass legislation? In some ways, we are already beginning to see casualties from that legislation not having been passed. The vehicles that we are planning for the future are probably not exactly the vehicles that we would have. The build-down, which has caused some disruption—we hope temporarily—partially caused that because it had to be rushed. There was not enough money to have a coherent, gentle glide into it. And, I would say, morale is another casualty. The time to pass legislation has passed and we are beginning now to unscrew lightbulbs from the tree.

Senator CARPER. I am going to yield to Senator McCaskill in just a second, but would the rest of you just react to what the Inspector General has just said about a sense of urgency? Mr. Millstein.

Mr. MILLSTEIN. Yes. As I said in my opening remarks, the first thing you need to do is stabilize the patient—and this patient is soon to be bleeding cash, not making revenue. And as it bleeds cash, it has really no choice but to cut back on service standards and cut back on the network, in order to be a self-sustaining entity. So, the first order of business here is to find ways to increase its revenue so that it can cover its costs.

Senator CARPER. All right. Thank you. Ms. Rectanus.

Ms. RECTANUS. Thank you——

Senator CARPER. Your reaction to what Mr. Williams just said?

Ms. RECTANUS. Yes. Thank you. Well, as you know, the Postal Service's financial position has been on our "High-Risk List" for many years, and we have been saying words like "urgent" and "dire" also for many years.

While we definitely support providing the Postal Service the resources it needs to do its job—because we know right now that expecting it to provide universal service while being self-sustaining is not working—we would caution that there is a downside to only looking at rates and revenue generation without an equal expectation of and the flexibility for the Postal Service to also do what it can to reduce its excess capacity and better align costs with revenues. This is something that we had talked about for comprehensive reform. So, we would also say that that is urgent.

Senator CARPER. Good. Thank you. Mr. Taub, Mr. Commissioner?

Mr. TAUB. Senator, I think that I simply concur with what you have heard already. Frankly, the time to pass, as the Inspector General indicated, has passed. We are late on this and the Postal Service needs that financial breathing room, and I would suggest that that should be the real primary focus. If they can get some of that breathing room, frankly, I think that there is a lot in the 2006 law that is working well. The tools are there for the Postal Service, if they just have that financial breathing room to move forward.

Senator CARPER. All right. Thank you.

General, sense of urgency?

Ms. BRENNAN. Mr. Chairman, as mentioned earlier, the time is now.

If you would indulge me, please, may I respond to Senator Heitkamp's comments about employee morale?

Senator CARPER. Go ahead.

Ms. BRENNAN. Morale is critically important, because we are a human organization—and I take that responsibility very seriously. In fact, one of my core objectives is employee engagement at all levels of the organization. And Inspector Williams mentioned a new initiative called "Postal Proud." That is intended to leverage the pride and the commitment that Postal employees have to serve their customers.

And if I may, also, Mr. Chairman—just to respond to Ms. Rectanus' comment about cost reductions—I think that the Postal Service has demonstrated—by taking out nearly $15 billion from our annual cost base and also by projecting out another $5 billion reduction through 2020—that we recognize that there are two sides of a financial ledger. We have to grow the business and we also need to continue to drive operating efficiency. Thank you.

Senator HEITKAMP. Mr. Chairman.

Senator CARPER. Yes?

Senator HEITKAMP. Can I just follow up and say that I want to applaud you personally, because I do not think that when I came to the Senate that was true—that there was an attempt to reach out to and to work with the employees. I think that that is a great improvement that we have seen since you have taken over the helm. And, so, I want to personally acknowledge the hard work that you have engaged in and the outreach that you have done.

Ms. BRENNAN. Thank you, Senator Heitkamp.

Senator CARPER. General, are you going to sit there and take that? [Laughter.]

Ms. BRENNAN. I welcome that. Thank you.

Senator CARPER. Senator McCaskill.

OPENING STATEMENT OF SENATOR MCCASKILL

Senator MCCASKILL. Thank you.

Last year at a hearing, I expressed concern about the blurring of the line between customer and competitor for last mile agreements. We all know that the last mile is one of the most important drivers of costs in our Postal infrastructure. It is that last mile that is very expensive. And, so, the notion that we are doing business with our competitors for the last mile, to me, deserves a great deal of scrutiny.

And after that hearing, I was really concerned that that scrutiny was not occurring, and so we asked GAO to take a look at it, as Ms. Rectanus knows, and it is not good, folks. Our competitors do an analysis on every single load as to weight and whether they can make more money by using the Postal Service or delivering it themselves.

Meanwhile, we do not even know what our costs are based on weight. We do not even collect information on the size of the packages that we are delivering under those agreements. The Postal Service does not know the impact of package size and weight on its delivery costs in those agreements.

Now, I do not get that. These are the competitors, who we have to beat to be successful as a Postal Service—and they are fleecing us. They are analyzing every instance to see whether they are going to push these off on us because they can make more money, or whether they are going to keep them, themselves, because they can make more money.

Meanwhile, we have in these contracts an agreement that there must be a minimum volume—and we are not collecting those payments when they do not meet their minimum volume. Sales officials told GAO that they decided not to require payment for business reasons, including maintaining this mailer as a source of package volume. We look like suckers. We need the volume. We do not care if you are making money off of us. We will do the expensive part because we do not even realize that we should turn you down for this unless you pay us more. There should never be an instance when our competitors are making money off of us for the last mile, ever.

So, who is responsible for enforcing these contracts and who is making this decision to give our competitors a free ride when they do not even meet the minimums on the contract?

Ms. BRENNAN. May I address that, Senator McCaskill?

Senator MCCASKILL. Yes, please. I think that you are in charge.

Ms. BRENNAN. The negotiated service agreements are profitable, and given the commercial sensitivity——

Senator MCCASKILL. How do you know that?

Ms. BRENNAN. Given the commercial sensitivity, I would be happy to talk with you in more detail in a closed session. But, suffice it to say that negotiated service agreements are reviewed by the regulator. The negotiated service agreements that you are commenting on have grown revenue and contribution year after year. It is a high contribution product, Parcel Select, because it is entered at the destination facility, at the local Post Office, and it eliminates all of that upstream cost of transportation and distribution.

Senator MCCASKILL. If you are not analyzing these packages on the same basis as your competitor, how do you know that they are profitable?

Ms. BRENNAN. Senator McCaskill, in response to your inquiry and the GAO study, we did go back and look at cube and weight, and I have that information and I would be happy to share that with you.

Senator MCCASKILL. That is terrific. So, why are we not enforcing the provisions of the contract on minimum volume?

Ms. BRENNAN. I am not sure which contract you are referring to, but I would—I would welcome the opportunity to discuss that with you——

Senator MCCASKILL. Well, it is in the GAO report——

Ms. BRENNAN. Right.

Senator MCCASKILL [continuing]. Which I am sure you know by now, right?

Ms. BRENNAN. I am familiar with it.

Senator MCCASKILL. So, in the GAO report, it says that you do not collect the payments on the volume targets that they are required to be, and GAO—am I correct that GAO was told that this was due to business reasons and wanting to maintain the customer—and therefore, it was decided not to enforce the provisions of the contract?

Ms. RECTANUS. Yes. What we were told was that there were circumstances where there were broader business reasons for them to want to maintain the contract, including anticipating additional volume in the future. So, they did it with a reasonable basis, but it had not been documented, which is what we were talking about, in terms of improving the procedure, so that when you make decisions like that, it is clear as to why those decisions are being made.

Senator MCCASKILL. I just think that this needs a lot more attention, Postmaster. First of all, I think that you have done a much better job of marketing since we began examining the challenges that the Postal Service faces. I think that you are doing some positive things and that a lot of the blame for the problems needs to be pointed in our direction—not in your direction. This Congress has been incapable, despite this guy who works on this, I think, 24/7, and we all get to the point where we see him coming down the hall and we go, "Oh, Post Office." [Laughter.]

We know he is going to be on us about this.

You are in a death struggle with your competitors, and I just do not want them to have any advantage over us, because we have no choice about that last mile. They do. And I want to make sure that choice is profitable for us, because they are making a choice sometimes to say, no, we will carry it ourselves. So, that is what I am really worried about.

Ms. BRENNAN. Yes. And if I may, Senator McCaskill, there is such competition in that space—not just with our traditional competitors, but also with what I will describe as the "Uberization" of package delivery, the crowdsourcing of package delivery, the leisure carriers, or the regional carriers. So, we have to be pretty deliberate, in terms of how we price, because it is a very competitive landscape. But, do know that we are very conscious of the need to increase yield per package.

Senator McCaskill. That is great.

Mr. Taub, how close is the Postal Service to being able to break down delivery times for rural and urban areas?

Mr. TAUB. We have been working closely as a result of the request that we received from the Senate. As you know, we started out, at that point, with no rural-delivery information being able to be reported. The Postmaster General may be able to echo some more, but between working with the Senate staff and the Postal Service, my understanding is that the Postal Service may be able to start reporting to us something this spring, which would be a big step forward.

Senator MCCASKILL. I look forward to that. I think that it is really important that we get a handle on this. For those of us who are really pushing to protect rural delivery, I think that it is important that we know what we are working with from a data-driven perspective.

Thank you all very much. Thank you, Mr. Chairman.

Senator CARPER. Thank you, Senator McCaskill.

Just before I ran off to vote, I asked for good ideas—innovative ideas—and the General and the Chairman were kind enough to respond. Lori, David, and Jim, I would love to hear from you all as well.

Before I do, I just will say to the Inspector General, we have been the beneficiaries, in this Committee, of a couple of folks who have served as detailees. One is still with us. He is over my left shoulder. It is Alex Fiske—and earlier it was Bruce Marsh—and they have just done terrific work, not just for the Senate, but, I think, for our country as well. So, we thank you very much for sharing them with us.

Mr. WILLIAMS. Thank you, Senator, for recognizing that.

Senator CARPER. You bet.

OK. Lori.

Ms. RECTANUS. I would like to echo something Mr. Taub said about the flexibility to engage in additional activities. Given what has brought us to this point—about costing the Postal Service more to deliver the services than they are paying for the services—they do not have a lot of places where they can take a risk. And, also, given their current structure, where they have monopolies in some areas and in other areas they may be disadvantaged, I think that it would be very difficult to find the appropriate venue.

So, I do not have any ideas on my own, but I guess that what I would say is that we would want to be very cautious about making sure that, in any area that they would go into, they would not be unfairly disadvantaged or unfairly advantaged because of their unique situation.

Senator CARPER. Thank you. Mr. Williams.

Mr. WILLIAMS. The 21st Century is going to see the proliferation of mega-cities of over 10 million each. Today, we have mega-cities. Almost exactly half of those are heaven and half of those are hell. What is coming at us is an enormously heavy lift.

The Postal Service is in every neighborhood of America, and the difference between a bad mega-city and a good mega-city is a smart city. And we can play a very important role in, as Megan mentioned, collecting essential data, Wi-Fi strength, gas leaks, and all sorts of things as we pass through every single neighborhood.

Post Offices can become the front offices for a number of industries that are partially going virtual. I do not think that we want to live in an all-virtual world. We are atomic structures and cannot do that. So, that will require that, at the end of the day, there be contact points for humans with all of these industries—and we could be that contact point.

In the neighborhoods, the delivery people can do more with regards to logistics management. So, there is enormous challenge and promise ahead of us. It is going to, eventually, become a question of not what can the Postal Service do, but what must the Postal Service do, in a number of these topical areas.

Senator CARPER. Well, those are very thoughtful ideas. Thank you.

Under our legislation, we call for a real focus on innovation and the establishment of positions—essentially a Chief Innovation Officer (CIO)—and you may be one of our first nominees for that because that was pretty good. [Laughter.] Mr. Millstein.

Mr. MILLSTEIN. Well, I actually join in those remarks. But, I come at it from a financial perspective. So, maintaining a network such as the Postal Service's is an expensive proposition, and the key to keeping costs—rather, prices—down is having more unit volume running through that network. So, the best way to moderate the increases that would otherwise be visited upon existing users is to add more users, so as to spread the fixed costs of that network across a greater number of units.

As everyone has said here, that last mile is critical, and driving more unit volume through that last mile is critical to maintaining the integrity of the network and to keeping prices down. So, I think that you have to open them up to allow not just beer, wine, and other product deliveries, but to also let them innovate around partnerships with other businesses in these local environments that deliver goods to their customers. That is one way.

Second, the Post Offices themselves are part of that network, which in the small community I came from, before I came to Washington, was a social center. But, with declining volumes of real mail, this is less and less so. So, the second way is to turn those Post Offices into, as Mr. Williams was saying, the front end of a variety of businesses. You may resist banking and insurance done by the Postal Service, itself, but it should be able to joint venture in that space with banks and insurance companies in the sale of products without—there are issues about putting the United States Postal Service imprimatur around any private business and avoiding any implication that it is government-backed, but nonetheless, I think that you have to drive traffic into the Post Offices, themselves. Otherwise, it is an underutilized asset. It is a key part of the network, and so this solution, to me, is all about driving incremental revenues through that network in order to moderate the price increase that would otherwise occur to offset declining volumes.

Senator CARPER. Those are all very helpful comments.

I have one more quick one and then I am going to yield to Senator Heitkamp and to Senator Baldwin for any last questions that we have for this panel.

General, I understand that this plummet, this deep drop that we have seen in First-Class Mail volume, really since—in part since the advent of the Internet, but really since the Great Recession—that it may be leveling off and the—in a sense, Senator Tester talked about the security aspects and we spend a whole lot of time in this Committee focusing on how to enhance cybersecurity. But, what are the prospects for First-Class Mail going forward? As you look down the road to a couple of years from now, what does it look like?

Ms. BRENNAN. Yes. Senator Carper, in fiscal year 2015, the single piece First-Class Mail, the "Aunt Minnie" stamped mail, declined roughly 5.5 percent. The commercial mail, or the presort volume, was fairly stable.

When we look out, though, to 2020, we are expecting to see, roughly, a 17 percent decline in First-Class Mail. So, that will put tremendous pressure on the organization.

Senator CARPER. All right. Thank you very much.

Senator Heitkamp, I want to thank you for joining us in crafting this legislation that I have been talking about. And I want to thank you and your staff for all of the input that you have provided to us. It is much appreciated and I think that it is going to bear great fruit.

Senator HEITKAMP. Thank you, Mr. Chairman, and I want to thank you for being so doggedly determined that we, as the board of directors for the United States Postal Service, do our duty and do our responsibility. Thank you for this hearing.

I have no further comments, other than to say that I really appreciate the inclusion of a number of provisions that really focus on rural delivery and service performance standards. And, so, we will continue to work with the Chairman and continue to be committed to doing our responsible duty here on this Committee and in the U.S. Congress.

Senator CARPER. Thank you so much.

Senator Baldwin, please.

Senator BALDWIN. Thank you. While you were casting your vote on the Senate floor, I had an opportunity to discuss rate predictability and stability, but I also had the opportunity to commend you, in your absence, on your work and look forward to continuing to work with you, especially on those rate provisions in the bill.

And, we have had them before us for quite a while. This panel has been well grilled, and I am looking forward also to hearing from our second panel.

Senator CARPER. Thank you. Thank you so much. And, we just look forward to working with you as we go forward, and I hope with a sense of urgency.

Maybe one last question. This will actually be for you, General. The Postal Service admittedly struggled to provide high quality, on-time delivery service in 2015, and your annual compliance reports show that no First-Class Mail products met their expected service targets for the year. I would just ask, what steps have you all taken, thus far, to improve delivery performance nationwide?

Ms. BRENNAN. Yes, Senator. There have been a number of activities. One, looking particularly for volume that moves via air, we made some adjustments to our air transportation network, as well as to our surface network. Also, in select markets, we adjusted staffing and scheduling, as well as made adjustments to the operating window—primarily process improvements to ensure that we eliminate the variability of that service performance that you cited.

Also, in terms of stabilizing the network, last spring we made a decision to defer any additional consolidations, recognizing that service is the Governor and that that is the commitment that we made.

Senator CARPER. All right. Thank you.

One of the things that I love to do with panels, and especially with this panel—and I will do it probably with the next panel as well—is just to ask each of you—you gave your opening statements, five or so minutes, and did a great job of staying in the time limit. Just take a minute each—no more than a minute—and just give us a closing thought. It could be something that you have heard, thought about, something other people have said, questions, or whatever may pop up, just something else that you think is important to leave with us. It could be repetitious. I do not care. Just an important, valuable thought that you would like to leave with us before you leave. Thank you. General.

Ms. BRENNAN. Senator Carper, first, thank you for your tireless advocacy on behalf of, not just the Postal Service, but the mailing industry—because it is a supply chain. And, I would like to thank you, on behalf of our employees, because the long-term viability of this organization is vital, and it is vital to the American economy. Our commitment is that we will continue to change and improve to better serve the American public. While we are challenged, these challenges are not insurmountable. With your help, we will preserve the United States Postal Service well into the future and maintain that universal service obligation. But, thank you very much for the opportunity to be here.

Senator CARPER. Thank you for those kind words. You can do it, we can help.

Ms. BRENNAN. Thank you, sir.

Senator CARPER. Mr. Chairman.

Mr. TAUB. Senator, thank you, as well. I echo the Postmaster General's comments, as well as Senator Baldwin's and Senator Heitkamp's. All of you have legislation pending to deal with these fundamental issues and that is critical.

I think the point that I would hit upon is one that we have talked a lot about, which is universal service. I think that it is important to underscore that, unlike in other countries, it is not defined. So, when each of us talk about what is expected of the United States Postal Service, each of us may have a different idea of what they are supposed to do and each of us will have a different price tag.

Your legislation does require us at the Commission to repeat what we did in 2008, which was to undertake a study on universal service. I think that your proposal is crafted in a way to try to drive that definition a little further. But, frankly, until we go to first principles in the United States and really understand what it is that this 100 percent government agency rooted in the Constitution, going back before the Republic to Ben Franklin in 1775, what it is that we expect of them in 2016, we all may not be happy with the results of what they may or may not do going forward.

Senator CARPER. Thank you. Thank you, sir. Ms. Rectanus.

Ms. RECTANUS. Thank you again. I was pleased to be here today.

As GAO has said in its High-Risk Series, for us, we do still believe that comprehensive reform is needed, but we would also encourage you to think about comprehensive reform along three tracks. We have talked a lot today about ratepayer potential effects. We have talked a little bit about taxpayer potential effects. I think that what we would also want to see is support for the Postal Service's continued efforts to align costs with revenue, which does get at some of the level of services that we think are worthy of providing and that we are willing to pay for.

We also would reiterate the importance of restructuring benefits, which we have talked a lot about.

And the final thing to consider is putting in statute an allowance to take into account the Postal Service's financial position in binding arbitration.

Senator CARPER. All right. Good. Thank you, ma'am. Mr. Williams.

Mr. WILLIAMS. Thank you, Senator. Two quick points.

Senator Johnson's very useful balance sheet statement has a line for other Postal assets. It is our property. It is at $16.1 billion. That is exactly how you would put it on a financial statement and it is exactly wrong with regard to how we ought to be viewing these assets. That is the depreciated value, which is what you use on a balance sheet, not the fair market value if we sell that property. I am not sure what the fair market value is. Down and dirty estimates can go up to $80 billion.

The second point—so, I think that we need to—that would be a consideration that this great worksheet has lit up.

Senator CARPER. OK. Thank you.

Mr. WILLIAMS. The second thing is it—I think that a case could be made that it is time to declare victory on prefunding. I think that we are—the risk of overfunding is as great or greater than not having been fully funded at this point and we would love to do a report on that.

Senator CARPER. Great. Thank you. Thank you so much.

Mr. Millstein, I also want to thank you for your earlier work at Treasury——

Mr. MILLSTEIN. Thank you, sir.

Senator CARPER [continuing]. And at a very tough time for our country——

Mr. MILLSTEIN. Thank you, sir.

Senator CARPER [continuing]. And to you and some others who did great work.

Mr. MILLSTEIN. This is a considerably friendlier hearing than the ones that I was subjected to. [Laughter.]

Senator CARPER. I was in some of those and I know what you mean.

Mr. MILLSTEIN. I appreciate how difficult it is to assemble legislative coalitions, but I do think that—and I do not want to be Donny Downer—but I do think that the Service is facing trends that are really working against it in the long term. And, so, I think that there is an immediate need to improve its cash-flow position and its balance sheet by restructuring the health care liability, in particular.

But, for the long term, I think that if this Committee wants to avoid having a repeat of this hearing every year and a repeat of the need for an exigent rate increase, I think that we really have to, as a country, look at the network and what we are willing to let the Service do with it in order to preserve it. And, I do not think that that can be done overnight. I think that that really does require the Service to do some long-term projecting of what the impact of electronic communications is going to be on its business mail and the allegedly market dominant products and the impact of competition, as the Postmaster General said, a variety of competition in the last mile now. The Service needs to take a sober and realistic view, in terms of what the impact of those trends on its revenues will be, and try to come up with a plan that allows the Service to continue to fulfill its important mission all over America.

Senator CARPER. All right. Thank you.

Before you all leave, you said some very kind words about the work that I and my colleagues have done, and I would just say that we appreciate that, but our staffs have worked so much harder than we have. We especially want to say thank you to those sitting behind me: John Kane, John Kilvington before that, and Jennifer, my Ohio State University (OSU) buddy. I also want to thank the other folks on Senator Johnson's team and certainly on Senator McCaskill's staff as well. We are just very grateful to them. We have a couple of other cosponsors. I think that Senator Moran may be stopping by. He is a Senator from Kansas. He and his staff have been terrific to work with and Senator Blunt and his staff have been as well.

So, for everybody that has been a part of this, we are looking forward to keeping it going with a greater sense of urgency and we are going to be calling on each of you for some more help as we move forward. So, thank you all and we will look forward to seeing you again soon and talking with you. Thank you.

Ms. BRENNAN. Thank you.

Mr. TAUB. Thank you.

Ms. RECTANUS. Thank you, sir.

[Pause.]

Senator CARPER. I am going to ask our next panel of witnesses to go ahead and find your seats, please.

[Pause.]

As we welcome our second panel of witnesses and as you take your seats, I am just going to ask, my first question of our witnesses is are any of you from Wisconsin? Are any of you from Wisconsin? OK. We happen to have a Senator here from Wisconsin and we would be delighted if she chose to introduce you, Kathy.

Senator BALDWIN. I would be delighted to, and thank you to all of our panelists.

I want to take a moment to introduce Kathy Collins from my home State of Wisconsin. Kathy grew up on a dairy farm and attended the University of Wisconsin-Madison (UW–Madison). At UW-Madison, she earned a degree in chemical engineering. Ms. Collins joined Domtar in 2013 in the role of Environmental Health and Safety Manager and then was promoted to General Manager of the Rothschild Mill, which I had the pleasure of touring back in October 2014 and once before then.

I do want to note that the mills in Rothschild and Nekoosa have approximately 800 employees and are incredibly important to their communities and to our State's economy.

Ms. Collins has more than 25 years of experience in the pulp and paper industry and we are just very lucky to have you here as a witness, especially to speak on the importance of the health and vibrancy of the U.S. Postal Service to the postal and forestry industry.

Kathy, welcome.

Senator CARPER. Senator Baldwin, thank you very much for introducing Kathy. It is very nice to see you. We look forward to hearing from you here.

I am going to be very brief in our introductions, but Fred Rolando has been the President—I want to say since 2009, is that right, Fred?—of the National Association of Letter Carriers (NALC), the union that represents, I think, over a quarter of a million active and retired letter carrier employees.

I just want to say, for the record, what a joy it has been to have the chance to work with you and the members of your team as we try to fashion a path forward, not just for the Postal Service to survive or to get along, but actually to thrive and to better provide services going forward and to provide additional services—to enable additional services that maybe we have not even thought about. And, I am encouraged that those ideas are out there. We had some good ideas here earlier and I look forward to hearing from you at this time.

So, go ahead, and then I will introduce Chip when it is his turn in the batter's box. Thank you.

TESTIMONY OF FREDRIC V. ROLANDO,[1] PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS

Mr. ROLANDO. Thank you, Senator. Likewise. I want to thank you——

Senator CARPER. I like it when witnesses say, "Likewise."

Mr. ROLANDO. Likewise, yes.

Senator CARPER. You do not hear that every day.

Mr. ROLANDO. You do not. We say it quite a bit, so that was easier. I want to thank you, Ranking Member Carper, and please thank Chairman Johnson for inviting me to testify, and I want to thank the rest of the Committee members, also, for also serving as our board of directors. As you know, you are about the only board that we have now, so we appreciate that.

You have asked me to focus today on the impact of legislative and regulatory burdens that are placed on the Postal Service, including the mandate to prefund retiree health benefits. But before I do so, I would like to comment on the broader theme of the hearing, the reality facing the Postal Service.

In recent years, that reality has changed dramatically for the better. We are not in 2009 any more, when the Great Recession sent mail volume plummeting, and along with the prefunding mandate, crushed the Postal Service's finances and raised doubts about the viability of the Postal Service.

In fact, in more recent years, we have returned to operational profitability, earning $2.6 billion over the past 2 years. Our pension funds are healthy and better funded—at 92 percent—than most private sector pensions. And, we have set aside some $50 billion, more than two decades of future retiree health care premiums, when most large private companies have not set aside a dime.

Postal employees never doubted the viability of the Postal Service, despite seeing the loss of 200,000 Postal jobs since 2006. Postal productivity has increased dramatically, and we have consistently advocated for sensible reforms. Thanks to solid direct mail growth and booming e-commerce, total volume has stabilized in 2015 and total revenue has increased to $69 billion.

As we continue to balance the challenges and the opportunities posed by technological change in the decades ahead, the Postal Service is going to remain a vital part of the Nation's infrastructure. With an approval rating of 83 percent from the American people, we believe that it can thrive in the 21st Century with the right public policies.

That said, there are three significant legislative regulatory burdens placed on the Postal Service under current law that should be addressed by this Congress.

First, there is the legal requirement to massively fund future retiree health premiums decades in advance, regardless of the financial conditions facing the agency or facing the country. All told, 86

[1] The prepared statement of Mr. Rolando appears in the Appendix on page 152.

percent of the Service's $57 billion in reported losses since 2007 stemmed from this inflexible mandate.

Over the years, NALC has suggested a variety of legislative measures to address the prefunding mandate. Fortunately, this Committee has reached bipartisan consensus on an approach to address the burden during the last Congress. Reforms to the Federal Employees Health Benefit Program (FEHBP) to maximize participation in Medicare among eligible Postal retirees would all but eliminate the remaining $50 billion unfunded liability for future retiree health, while raising Medicare spending by less than two-tenths of 1 percent annually. Given that the Postal Service and its employees have contributed billions to Medicare, we urge you to adopt this approach again.

Second, Congress should reconsider the policy that requires 100 percent of Postal retirement funds be invested in low-yielding Treasury bonds. Together, the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) System, those pension accounts, and the Postal Retiree Health Fund hold nearly $340 billion in Treasury securities. That makes the Postal Service and its employees the third largest creditor of the United States Federal Government, just behind China and Japan.

No private company in America would invest its retirement assets in such an unsophisticated way, especially during a period when Treasuries are yielding 2 to 4 percent returns and, of course, health care costs are growing between 5 and 7 percent annually. At least with the Retiree Health Fund, Congress should adopt private sector best practice, which is to invest long-term retirement funds in well diversified portfolios of private stocks, bonds, and real estate, as well as government bonds. The current policy forces the mailing industry to basically give Uncle Sam a low-cost loan instead of sensibly investing to cover future health care liabilities.

My submitted testimony makes the case for prudent investment change and also addresses common objections to it and explains how several independent agencies invest successfully in private securities.

By changing the Retiree Health Fund's investment policy, Congress could raise the long-term rate of return on the fund's assets, achieve our prefunding goals, offset the cost of Postal Medicare integration, relieve upward pressure on postage rates, and reduce the misguided impulse to cut services.

Third, in my full testimony, I address the postage rate making process, which the Postal Regulatory Commission will formally review in 2017. In the meantime, Congress should reverse the scheduled expiration of the 4.3 percent exigent rate enacted during the recession and suspend any CPI-based rate increases until the PRC review is complete. This will preserve the financial stability of the Postal Service as the PRC does its work.

Let me conclude by noting that there is a remarkable degree of consensus among Postal stakeholders about the principles of successful reform. All four unions, the Postal Service, and a wide range of companies providing financial services, prescription drugs, newspapers, direct mail products, and e-commerce sales have agreed on a set of principles for your consideration. I have attached a copy to my written testimony.

In brief, our industry coalition urges you to first stabilize the Postal finances by making the exigent increase permanent and freezing capped postage rates until the PRC review is complete.

And, second, we urge you to resolve the prefunding burden by maximizing Medicare integration among Postal participants in the Federal Employees Benefit Association (FEBA) and by sensibly changing the way that we invest the Retiree Health Fund.

Our coalition's recommendations are grounded in best private sector practice and are drawn from the consensus provisions of your bill, Senator Carper. They represent the measures on which the coalition could agree while remaining confident that they would stabilize the Postal Service for years to come, which will allow the Service to adapt to meet the evolving needs of the Nation.

Senator Carper, you and former Senator Tom Coburn, along with Senator Johnson's support, deserve a lot of credit for your determined and patient work in helping to build this consensus during the last Congress. So, now, let us finish the job, and in doing so, the NALC is ready and willing to engage Committee members and all stakeholders on any other issues of interest, such as changes to the Federal Insurance Contributions Act (FICA), service standard issues, etc.

Thank you, Senator Carper and Members of the Committee for inviting me to testify today.

Senator CARPER. Mr. President, thank you so much for joining us and thank you for your testimony and for your kind words. We very much look forward to working on this and getting this job done.

I failed to administer the oath to our witnesses, something that I did not do as Chairman. Senator Johnson does it and I think that it is a fine policy to have. But you have testified—and not under oath—so I am going to administer the oath, and I will not ask you to give your testimony again——

Mr. ROLANDO. Is this retroactive? [Laughter.]

Senator CARPER. But, I am going to ask you to each stand and to go ahead and swear for us that—do you swear that the testimony you will give before this Committee will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. ROLANDO. I do.

Mr. HUTCHESON. I do.

Ms. COLLINS. I do.

Senator CARPER. Very well. Thank you.

And, President Rolando, now that you are under oath, is there anything that you want to change, or are you going to stick to that story?

Mr. ROLANDO. Good morning. [Laughter.]

Senator CARPER. All right. John, also known as Chip, Hutcheson the third, right?

Mr. HUTCHESON. That is correct.

Senator CARPER. All right. Mr. Hutcheson is the President of the National Newspaper Association (NNA), a 130-year-old organization of community newspapers. He has been a community newspaper publisher since 1976, and could I just ask, where do you live?

Mr. HUTCHESON. I live in Princeton, Kentucky.

Senator CARPER. Princeton, Kentucky. My sister is in Winchester, just east of Lexington. My mom used to live in Ashland.

Mr. HUTCHESON. I am 210 miles west of Lexington.

Senator CARPER. OK. Well, you are out there.

Mr. HUTCHESON. I am.

Senator CARPER. You are out there. OK. Good. Alright well, thank you for joining us today and we look forward to your testimony very much. Thank you. Please proceed.

TESTIMONY OF JOHN "CHIP" HUTCHESON III,[1] PRESIDENT, NATIONAL NEWSPAPER ASSOCIATION

Mr. HUTCHESON. Thank you, Senator Carper and Members of the Committee. I would like to express my thanks to you and to Chairman Johnson for inviting me to appear today. I do represent the National Newspaper Association. We have been in existence for 130 years, lobbying and working for community newspapers—especially related to Postal issues. I do publish a twice-weekly newspaper in Princeton, Kentucky.

I am here to impress upon this Committee the need for urgency. We have heard that mentioned in the previous panel. Without immediate action, the Postal Service will deteriorate further. On behalf of the American people, and particularly those in rural America, I believe that we cannot allow services to be cut further.

Senator Carper, NNA appreciates the work that you have done on S. 2051, the iPOST Act, and we believe that that can provide a vehicle for consensus in this Congress. NNA joins a number of other mailers, the Postmaster General, the employee groups, and others to support urgent action, hopefully by using your bill as a vehicle to reach agreement with all stakeholders.

A package of reforms, including integration of Medicare benefits for Postal retirees, can form the basis for legislation. We want to emphasize, however, that our members need to be assured that the provisions in a final bill will guard against further service deterioration and that USPS will continue to work toward sustainability and efficiency.

NNA's member newspapers are primarily weeklies. We aim to reach rural audiences in rural and small-town America in time for weekend shopping and activities. We must have the mail in order to reach those readers.

Surveys by NNA, the Pew Research Center, and others show how crucial the printed newspaper is today, even with the growth of digital technology. The heaviest dependence on printed newspapers occurs in rural areas and among minorities, senior citizens, low-income earners, and those who have not attended college. The younger, more urban, or better educated demographics may not realize that their digital avenues are paved with newspaper revenues. Without a printed and delivered newspaper, there would be no digital newspapers.

In communities like Princeton, Kentucky, the newspaper holds together community life, democracy, and civic engagement. In a

[1] The prepared statement of Mr. Hutcheson appears in the Appendix on page 177.

year of a landmark national election, getting the newspaper delivered is important to everyone.

We have had extreme problems in many markets, like mine, since the Postal Service began closing mail processing centers. In a survey of publishers, I learned this: 92 percent have experienced problems reaching readers on time with their periodical newspapers. 40 percent report delivery problems, even with First Class or priority mail. Nearly 50 percent attribute the problem to a closed or a downsized plant. Many others report problems, but they are not sure where the snag occurs.

People simply give up when the newspaper arrives late time and time again. Lost subscribers and late newspapers damage our newspapers. They damage the businesses in our towns, which, in turn, damages the commerce in our towns. It damages our residents' incomes.

I do want to give credit where credit is due to the Postal Service. At our request, the Postal Service has begun to implement a measurement system to determine the on-time delivery of rural mail. This measurement has not yet included newspapers, but it is a great start.

Postmaster General Megan Brennan, her management team, and the dedicated people who deliver the mail have helped us to find patches for service cuts. For example, we now have transfer hubs in some locations where plant operations were closed. These help us to move a portion of our mail more directly to its destination. While these patches help, they cannot take the place of an efficient mail processing operation.

We do not want to see more plants closed. For that reason, NNA members are prepared to swallow a bitter pill. We opposed the Postal Service's exigency rate increase 2 years ago because it delivered a postage increase three times inflation or more to our members. But today, we are willing to allow that increase to remain in the Postal Service rate base, provided that the money is used to sustain and improve service.

We asked our members their views on giving up a rollback of postage rates that is scheduled to occur this April unless Congress intervenes. We asked, "Which is the priority for your newspaper, lower the rates or maintain improved service?" The response from 77 percent was to let the Postal Service keep the money, but to not do such a big increase again and definitely, definitely to improve the service.

There are few issues more important to community newspapers than this one. We are urging our members to emphasize the need for action to sustain universal service. Newspapers will be asking candidates on the campaign trail what they intend to do about this critical issue. We stand ready to assist, to help this Committee and the Senate leadership, to enact legislation now.

I would be happy to answer any questions that you may have.

Senator CARPER. Mr. Hutcheson, thank you for what you have just said, and I would just add to that, God bless you and those 77 percent of the respondents.

Mr. HUTCHESON. Thank you.

Senator CARPER. That is very much welcomed.

Kathy, I am just about to get a quick phone call. Senator Heitkamp is here and I think we will be rejoined by Senator Baldwin, but I will be right back to hear most of your comments, so please proceed and thank you.

TESTIMONY OF KATHY COLLINS,[1] GENERAL MANAGER, ROTHSCHILD MILL, DOMTAR PAPER COMPANY

Ms. COLLINS. Thank you, Ranking Member Carper and Members of the Committee. My name is Kathy Collins and I am the Mill Operations Manager at Domtar's Rothschild Paper Mill in central Wisconsin. My written statement is submitted for the record and thank you for allowing me the opportunity to bring highlights of my testimony to the Committee's attention.

I manage 400 hardworking Wisconsin men and women who manufacture approximately 136,000 tons of printing paper each year, most of which is delivered to our end users through the U.S. Postal Service. I speak on behalf of the American Forest and Paper Association (AF&PA) on the business realities and future viability of the U.S. Postal Service.

The paper industry has a large stake in the success of the Postal Service, which delivers over one third, or $6 billion, of the communication papers manufactured by this industry. The packaging sector of our industry is also an increasingly important part of the Postal Service—and it drives their growth strategy, which has been driven by the surge in e-commerce.

The Postal Service is an essential component of our Nation's economic engine. The Postal Service has the infrastructure to enable our customers, from multinational to small mom-and-pop companies, to connect with every household in this country through paper.

A few points about the U.S. forest products industry. It makes up 4.5 percent of the U.S. manufacturing gross domestic product (GDP). We produce $200 billion in products annually. We employ nearly 900,000 men and women. We deliver a payroll of $50 billion annually and we are a top 10 manufacturing sector employer in 47 States. We are an integral part of the fabric and the economy in our host regions, many of which are rural areas where similar job and economic opportunities do not exist.

The Postal Service is facing unprecedented challenges to adapt to new market realities that are also faced by Domtar and the entire paper industry and are caused by shifts in the way people communicate with one another and conduct business.

Our industry has focused productivity efforts on the most efficient manufacturing processes. In the past 10 years, the average output per worker in U.S. pulp and paper mills has increased by nearly 13 percent. We must do more with less.

Domtar and industry survivors have repurposed facilities, enabling us to take advantage of opportunities to produce new and value-added products that serve adjacent markets. Adapting to changing markets and continuing to meet the needs of our customers remains crucial. Developing new revenue streams is impor-

[1] The prepared statement of Ms. Collins appears in the Appendix on page 188.

tant, but so is keeping loyal customers in our mature business, a lesson that the Postal Service must follow.

As we have heard today, the Postal Service has had nine consecutive years in the red. The losses stem, primarily, from the requirement to prefund its Retiree Health Benefits Fund and its workers' compensation expenses, both of which are beyond the Postal Service's control. We commend the Postal Service for its aggressive cost cutting measures by consolidating facilities, changing window hours, changing delivery routes, and reducing its workforce size. However, there is a limit to how much they can cut without degrading service. A look at current performance may suggest that they have cut too deeply.

Domtar and the paper industry support legislative reform measures that will align labor costs, benefits, and future obligations with market competition. Congress must remove the handcuffs and unreasonable burdens that are the largest contributor to Postal Service financial losses. Postal facilities must adapt to the times. Rate stability and predictability are needed for mailers to stay with mail. Congress and the Postal Service must recognize that raising prices while reducing service is not a successful strategy to address declining demand. Mail must be cost-competitive, but we need price predictability for mailers and cost control incentives for the Postal Service. Reliable service is absolutely essential to compete with other communication options. And the Postal Service should have the flexibility to innovate and develop new revenue sources.

Congress can help by passing legislation addressing the basic issues that stand in the way of the Postal Service adapting to the changing world and doing so profitably. We specifically cite prefunding of retiree health care benefits and reform of the Federal Employees Compensation Act (FECA) relative to workers' compensation claims as areas that need prompt attention.

We greatly appreciate the Chairman, Senator Carper, and the rest of the Committee for making reform of the Postal Service a priority. We need to work together to enact comprehensive plans that will put the Postal Service on a path to long-term sustainability.

Thank you.

Senator CARPER. Thank you.

Senator Heitkamp, why do you not lead us off? Thank you. Thank you very much, Ms. Collins.

Senator HEITKAMP. Thank you so much, Ranking Member Carper.

It is absolutely essential to the rural economy that we get this right. I share your concern, Mr. Hutcheson, about what happens when my mother-in-law or grandmother cannot get your newspaper, which connects her to her community. And I think that if you are from a rural State, there is no other way that you can look at this other than as the lifeline of a community. And so, thank you for your efforts. Thank you for your political push on this. We have to make this issue a higher priority in the halls of Congress, and so I really applaud you.

Ms. Collins, I think that what we are going to see is a resurgence of mailers, actually. I think that there is this idea that you can simply run an algorithm and know who your audience is. The surest way to know your audience is to mail directly to that audience, where you know who is on the other end of that. So, good luck as we approach the political season. It should be good for you as we see more and more targeting.

Fred, I want to talk a little bit about morale and about how grateful we are for the employees of the U.S. Postal Service. And, I know and you know that I so much appreciate the Postal unions' hard work in trying to bring about the needed Postal reforms. I do not think that there is anyone who is a stakeholder who does not look at this and know that we cannot ignore this. We need to get something done. But, as stakeholders, we all need to have a voice in the challenges ahead.

And so, I would say that the Postal Service has been working to come up with reforms, and certainly Senator Carper has been leading that effort—herding the cats, so to speak—making sure that everybody is on the same page. But, I want to again emphasize that we cannot ignore the fourth stakeholder, the American customer. Improving service must be part of any Postal reform package.

And, I want to ask you, can the rural Senators have your continued commitment to work to incorporate those customers that you see every day, that your people have the connection with, and make sure that they are represented at the table?

Mr. ROLANDO. Oh, absolutely, Senator. We are on the front lines with the customers. We hear about it every day. We know that our customers depend on us. We know that we depend on our customers. The Postal Service is the one secure delivery method for our customers' communications. This is the strength of the Postal Service. I guess that it is the basis of our 83 percent approval communication rating and, of course, that trust and that service level is essential to the growth of the Postal Service as we continue to grow our current products and any future products. So, absolutely, you have our commitment.

Senator HEITKAMP. I think that maybe we forget how hard the work is, and anyone who—I think that it would be really smart for every one of us to just walk along with the delivery folks—or drive along with the delivery folks—and certainly a day like this reminds us of the commitment that your people—and all of the employees of the Postal Service—have made to continue to keep the American economy working.

Mr. ROLANDO. Well, and I will tell you, it is an honor for letter carriers to walk around and provide that service, because as you know, at the same time, they have the distinct opportunity on a daily basis—because of where they are day in and day out—to serve the American people in so many other ways, in terms of watching out for the elderly, stopping crimes, putting out fires, and just all of the other things that go along with knowing your community and knowing the families.

And speaking to the morale, I just want to mention, that is a big piece of what we need to accomplish with the legislation. You have a workforce that knows that they are the most trusted agency in the Federal Government. They know that we lost 200,000 jobs and still the productivity is at an all-time high. Yet, all that they hear about in the media is how the Postal Service is going broke and is irrelevant and how we had to, in the past, fight the legislation of certain legislators and leaders of the Postal Service, who have bought into this strategy of attacking the networks and the services that we need to grow, rather than addressing the elephant in the room. It is really nice to see now that we have some discussion and consensus going on to address the real problem, the manufactured crisis, rather than attacking the networks, and that that particular leadership of the Postal Service is no longer——

Senator HEITKAMP. I think that it was particularly rewarding when we look at what we would traditionally see as a bean counter, the Inspector General, recognizing the importance of that morale, recognizing the importance of maintaining the workforce, and really expressing to us his concern that we are almost too late, given where we are.

Finally, it is an issue for me. As you know, I am a strong advocate for 6-day delivery and an even stronger advocate for service performance. Fred, why is it so important that we have reliable delivery and service?

Mr. ROLANDO. Well, again, it is the one secure method for delivering communications. Our customers depend on it. They know that it is secure. They know that it is timely. They trust the person who is bringing the mail.

You mentioned the 6-day delivery, which is such an important part of the network. We can barely do it in 6 days. I cannot imagine doing it in less. We need to expand to 7 or 8 days.

Senator HEITKAMP. I want to make this point, because I think that way too often the attitude is that 6-day delivery is just a jobs program.

Mr. ROLANDO. Right.

Senator HEITKAMP. And, I want to applaud you for your response, which really immediately looked at what the customers' needs are. I think that that is an easy dodge for some people when they are talking about 6-day delivery, to say, "Oh, that is just kind of people trying to protect their jobs." No, it is people trying to do their jobs and do what is best for American consumers.

And so, I appreciate that perspective and really look forward to working with the customer groups and the Postal unions as we move forward.

Mr. ROLANDO. As do we. Thank you, Senator.

Senator CARPER. Senator Heitkamp, my wife seems, lately, to be interested in me working with her to update our will. I say, "Martha, I am fine. I feel perfectly healthy. I ran this morning. I work out every day." She says, "No, we should do that."

We were coming home from church a couple of weeks ago and stopped at a stoplight at an intersection. Off to the right was a graveyard, a cemetery, and my wife said—she was already talking about updating our will and other things, and she said, "By the way, what do you want your tombstone to say?" I said, "Martha, I am fine. I feel great. What is this?" And, she said, "No, really, what do you want to have put on your tombstone?" And I said, "Well, OK. All right. Here. 'Return to Sender'." [Laughter.]

When I heard you and Fred going back and forth on days of the week—six, seven, and he actually mentioned 8 days a week—I was thinking, well, maybe for your tombstone, knowing how strongly you have pushed on this, your tombstone epitaph could be, like, "Eight Days a Week." That would be pretty good. Apologies to Lennon and McCartney.

Senator HEITKAMP. Ranking Member, I will take it.

Senator CARPER. All right.

Senator HEITKAMP. "Eight Days a Week."

Senator CARPER. Good. All right. I will ask a couple of questions and then I may have to slip out. I need to be someplace at 12:30, so I would like to ask a couple of questions and then yield to Senator Baldwin to close it out. All right.

First of all, I want to go back to the morale thing for just a second. Some of my staff heard me mention this before, but I can go home at night to Delaware and come back and forth on the train. I usually listen to National Public Radio (NPR) on my way to the train station in the morning from my house. It is not too far away.

And, about a year or two ago, they were reporting on an international study that had been done. They had asked thousands of people all over the world, "What is it that makes you like your job? What enhances your morale in the work that you do?" Some people like getting paid. Some people said that they like the folks who they work with and the environment in which they work. Some people said that they liked having a pension, they liked having health benefits, or they liked vacation time. But, do you know what most people said that they liked? They said that the thing that they liked the most about their job was that they knew that the work that they were doing was important and that they felt that they were making progress. They knew that the work that they were doing was important and they felt that they were making progress.

So, the work that the Postal Service does, with all of their partners and for all of us, is important—in some places, incredibly important. And what we have to do is do the enabling work, in this Committee and in this body in which we serve, to enable the Postal Service, your members or your customers, to do the important work of our country.

The question that I would have, if I could—a question for President Rolando. Let us go back to Medicare integration. My own feeling is—I have always said that this is a liability. The question is, why do we have to address it in 10 years, when a lot of businesses never address it, do not even think much about it? And, I think that it is a liability that needs to be addressed. But, what we have proposed in our legislation is to do it over 40—to amortize over 40 and up to 80 percent of the liability. Does that seem like a reasonable approach to you?

Mr. ROLANDO. Yes. I think that we are pretty much on the same page when it comes to Medicare integration. The issue, just from listening to the first panel, is the whole idea that we are shifting a liability to Medicare off of a balance sheet when, in fact, all we are looking to do is reduce the liability by allowing Postal employees to participate in a program. And it seems the question is how much have Postal employees put in versus how much came out. And I do not think that Postal employees should be treated differently in that way. This is not an Employee Retirement Income Security Act of 1974 (ERISA) plan. It is a social insurance program. If there is something wrong with the Medicare program, that is a discussion for a different day and a different hearing. But, we just want to participate—like everybody else does—in Medicare because we pay in like everybody else does. So, I do not see it as a shift in that liability in any way, shape, or form, as was characterized earlier today.

Senator CARPER. Yes. I fully concur.

Dr. Coburn and I, when we first discussed this issue 3 years ago, came to the conclusion that there is an equity question—equity fairness question—because how can you say that the retirees of the number 2 employer in the country, which pays more into Medicare maybe than almost anybody else, cannot derive the full benefit of those payments. It is just not fair. It is not right.

Mr. Hutcheson, if I could ask a question? In October, I guess that it was last year, a GAO report found that because Postal Service delivery performance is tied to a national standard, their reported on-time mail delivery performance results were not entirely complete and may not give an accurate assessment of service for many communities across the country. Are there measures that can be taken to ensure better delivery performance in all areas as well as on a national level? I think that you spoke to this a little bit in your testimony, but we would love to hear more.

Mr. HUTCHESON. Yes, sir. Thank you. I am certainly not an expert on service measurements and I know that the Postal Service has begun the process of attempting to measure the mail. I think that our concern is that the urban mail is commingled, and those figures are commingled, and I would question—and I do not believe that we have an accurate figure for rural mail. I think that it is difficult to determine. For newspapers, it is impossible, because we do not go through the machines where they can measure that. We cannot be seen in their mail flow. But, I think that rural mail figures are probably obscured when you mix the urban mail in with it.

I do think that the Postmaster General has tools to deal with this situation. We know that the plants that have gone away are not going to come back. We do know that those are gone. But, I do hope that the Postal Service is—in the previous panel they talked about innovation. How can they follow the example of the steel industry of some 20 years ago, and look at smaller and—for lack of a better word—more boutique type of operations, where you can get more mail access points that can deliver the mail and can keep it flowing, rather than keeping rural mail, as we have discussed, flowing to these huge processing centers and there being delayed, like the example that the Senator gave earlier in Fargo.

I think that that is what happens. Mail gets stuck in these large centers and it is—we always wish that it could go back to the way that it used to be, when you could mail a First-Class letter in your community. It had your community's postmark and they would get it no later than the next day. But with all of these plant closings, I think that, for rural mail specifically, if we could get some of these smaller operations that do not impose large expenditures to get started, I think that it could be a real help for the Postal Service. The greater the distance is, the greater the problems that we have.

Senator CARPER. OK.

Mr. HUTCHESON. And if we could do that, I think that it would help.

Senator CARPER. All right. Thank you.

A quick question for you, Ms. Collins, and then I will yield to Senator Baldwin. In your written testimony—I did not hear all of your oral testimony, I apologize—you compared the Postal Service's efforts to cut costs to right-size the enterprise and become more efficient with the actions that your company has taken—had to take—in recent years to remain viable in the paper industry.

When it comes to the Postal Service, and from your perspective as a Postal customer, can you talk with us a little bit about how far cuts can go before they begin to erode the quality of service and reliability?

Ms. COLLINS. The infrastructure of the Postal Service really is the foundation of the Postal Service. As we put products out and provide those to our customers, who then turn around and get those products working through the Postal system to deliver that communication to the end user, you cannot back away from service. If you back away from service, the foundation of the Postal Service, what more is there? That is what the Postal Service is about.

If people start questioning the predictability and if people start questioning the reliability of the Postal Service, you start losing those customers. And what I can tell you is that, from a manufacturing perspective, when you lose a customer, it is extremely difficult to get a customer back. So, predictability, stability, service, quality—whether you are making paper or you are delivering mail—it is about the level of service and the level of quality. Whatever you put out there—again, it is tough to get it back.

Senator CARPER. Thank you so much.

Senator Baldwin, we will ask you at the end of the hearing to adjourn us, and also there is a short script, as you know, to read. Do you have it?

Senator BALDWIN. I have just been handed that script. I am all ready. Thank you so much——

Senator CARPER. Thank you so much for doing this. And again, our thanks to each of you for not just——

Senator BALDWIN. Do I get the gavel while——

Senator CARPER. You do. You get it all. [Laughter.]

I will even pour your water.

But, again, to all of you, thank you so much for working with us and for providing, I think, very helpful and valuable testimony today. Thank you. God bless.

Senator BALDWIN. [Presiding.] And, I am going to be brief, too, because I, likewise, have to get to a 12:30 meeting, but thank you for all of the time that you have spent with us this morning.

I want to actually start where Senator Carper left off with you, Ms. Collins. You were just asked about predictability and stability, in terms of level of service and quality of service. You were just addressing that. Can you just add in the impact of price fluctuations on the industry, if you have anything further that you would want to add about that stability?

Ms. COLLINS. Again, as we consider which are the important parts of keeping the Postal Service viable and continuing to keep the mail volume up, one of the things that we have to be careful of—and Mr. Hutcheson referred to that—is the yo-yo effect—as you indicated, as well, Senator Baldwin—the yo-yo effect of rates.

So, if the exigent rate increase is taken away in April and the rates drop, and then we look at a bill that potentially raises the rates again, and then we look at the PRC in 2017 evaluating the rates one more time, I just have a lot of concern about the rates bouncing around. And, again, what does that do to the predictability of the Postal Service? If you are a mailer trying to decide what method of communication to use, predictability is one of the factors that you would look at to decide which method to use. So, I worry about dropping rates, then putting rates back in play again, and then having the PRC review the rates one more time.

Senator BALDWIN. Mr. Rolando, I would like to have you talk a little bit more about the proposal that you have worked on with the Postal Service that would require actuarially based payments and allow the Postal Service to conservatively invest a reasonable portion of the Retiree Health Benefit Fund. And, could you agree that Congress—would you agree that Congress should move on areas that we have reached some level of significant agreement on, such as requiring actuarially based payments?

Mr. ROLANDO. Yes. The points that the coalition put together—yes, I think that we should move forward on those. As you know, there have been a lot of issues discussed over the years in different sessions and none of those pieces of legislation went anywhere because of the objections by many different parties at many different levels. So, the idea of putting the coalition together was to find out what we could agree on and if the body of what we could agree on would be enough to stabilize the Postal Service and posture it for what it needs to do in the future. Those were the basic points of that, the Medicare integration and certainly the investment piece.

You cannot continue to provide, again, a low-interest loan to the government, earning 2 to 3 percent, when just the cost of health care is going up 5 to 7 percent. No matter what you have in there, you are going to deplete it by doing that. It just does not make good business sense.

Senator BALDWIN. President Rolando, I also wanted to hear some of your thoughts on service standard changes and consolidations. I am concerned about service. Our Nation's letter carriers work extremely hard to deliver mail to every community, every delivery point, and so thank you for your service and for that service.

As I mentioned during the first panel before the Committee, I heard a great deal of concern from my constituents when the Network Rationalization Plan was implemented. Can you discuss what letter carriers and other unions have experienced with respect to the recent consolidations and changes to service standards?

Mr. ROLANDO. Yes. I think that I can speak for probably the other unions in saying that we are all extremely concerned about the changes that came at the beginning of 2015. As you know, they were put in place with a plan to close more plants, because under the current standards, they could not do that. Fortunately, Postmaster General Brennan has stopped the closings, but the changes did go into effect.

We certainly favor restoring the old service standards. The reason that you do not see that, of course, in the consensus bill is because we could not come to an agreement for the core pieces of this bill. But, we are going to—we will continue to pursue, in other venues, restoration of the service standards. And of course, if the Committee wants to address that, I know that all of the stakeholders will get together and discuss with the Committee what could be done, if that becomes an issue.

We are willing, like I said before, to discuss any other issues. These are the ones that we did have the common ground on to move forward.

Senator BALDWIN. Great. Well, I want to thank the panel of witnesses for your time, your expertise, and your input. It is extremely valuable.

And with that, I have a text to read. The hearing record will remain open for 15 days, until February 5 at 5 p.m., for the submission of statements and questions for the record.

This hearing is adjourned. Thank you again.

Mr. HUTCHESON. Thank you.

Mr. ROLANDO. Thank you.

[Whereupon, at 12:27 p.m., the Committee was adjourned.]

APPENDIX

Opening Statement of Chairman Ron Johnson:
"Laying Out the Reality of the United States Postal Service"

Thursday, January 21, 2016

As submitted for the record:

Good morning and welcome.

Today's hearing is focused on understanding the financial realities facing the United States Postal Service. The first step in solving any problem is to come together and agree on the reality of the situation. Today's hearing is an important step forward in having an open and honest conversation on what the Postal Service needs from Congress.

The Postal Service announced a $5.5 billion loss for fiscal year 2015, its ninth consecutive multibillion-dollar loss. These financial losses come despite earning nearly $70 billion with three consecutive years of revenue growth. The Postal Service brings in more revenue than Lowe's, Disney, Coca Cola, Delta Airlines or McDonald's.

However, the Postal Service faces very unique challenges that other private businesses of its size do not face. Today's witnesses will testify about these challenges, including several that have been imposed on it by Congress, like rigorous prefunding of the retiree health benefits as required by the Postal Accountability and Enforcement Act of 2006. Under GAAP accounting principles, the Postal Service would normally account for retiree health benefits as a long-term liability, but because of congressional intervention, it shows up on the Postal Service's books as an immediate liability. The Postal Service is also unable to make basic business decisions, including product pricing to cover input costs and rightsizing its network to match demand. Congress has even prevented it from having a functioning Board of Governors, the functional equivalent of a company's board of directors.

We will also hear good news about recent changes in the postal business, including double digit increases in package delivery. While traditional first class and standard mail is continuing to decline, online retail has given new life to mail delivery. If Congress can untie the hands of the Postal Service, there is potential for the demand of the valuable service it provides to help the business thrive. The Postal Service and the private company FedEx deliver approximately the same number of packages each year, yet FedEx receives nearly double the revenue.

My goal for today's hearing is to focus the committee on the places where the Postal Service needs the most immediate help and where we can find agreement on solutions. I also wanted to share my appreciation for Ranking Member Carper's leadership on such an important issue. I thank the witnesses for their willingness to provide their knowledge and expertise on these important issues, and I look forward to their testimony.

Statement of Ranking Member Tom Carper:
"Laying Out the Reality of the United States Postal Service"

Thursday, January 21, 2016

As prepared for delivery:

Let me first thank Chairman Johnson for holding this very important hearing. To our witnesses, welcome. I'm pleased that you're here today to join us in discussing not just the harsh realities facing the United States Postal Service, but also the bright future Congress can help the Postal Service realize through legislative reform.

As all of us are aware, the Postal Service has been struggling with serious and longstanding financial challenges for some time now. One of my top goals since I joined this committee has been to address these challenges and help the Postal Service to find a way to survive and thrive in the 21st Century.

The Postal Service operates at the center of a $1.4 trillion mailing industry that employs 7.5 million people across our country. This industry provides 6 percent of the nation's jobs. It's on par when it comes to total jobs and revenue with the airline industry and the oil and gas industry.

And businesses both large and small depend on the Postal Service's one-of-a-kind 200-year-old distribution network – the only network that delivers to virtually every mailbox in America five or six days a week.

But as we sit here today, there are real questions about what the future holds for the Postal Service.

Despite having finished 2015 with an operating profit, the Postal Service continues to report billions of dollars in losses. On top of that, it has maxed out its $15 billion line of credit with Treasury. This has left postal management with no other choice but to default on another $5.7 billion health care payment last year, the fourth year in a row that the Postal Service has been unable to fulfill that statutory obligation. When the Postal Service closed its books on fiscal year 2015, it announced a $5.1 billion loss, its ninth consecutive multi-billion dollar loss.

Complicating matters, is the fact that the emergency rate surcharge that went into effect in 2014 to compensate the Postal Service for its losses during the recession is set to expire in late March or early April. By all accounts, the income being generated by this increase is now the only thing keeping the Postal Service's head above water. When the surcharge expires, rates for the Postal Service's core products will decline, denting the Postal Service's revenue and liquidity and erasing the small operating profits its shown recently.

But I think we can still be optimistic about the future of the Postal Service. I say that because, despite what the Postal Service has been through, we've seen significant growth in package delivery. The Postal Service's total volume for this line of business jumped more than 14 percent last year.

In addition, the steady decline of First Class Mail volume since 2006 is also beginning to level off, and by some accounts we may be starting to see new demand for this product that has always been the biggest money maker for the Postal Service. And this past holiday season was much stronger for the Postal Service than anticipated, with mail volume related to e-commerce reportedly exceeded expectations.

For the Postal Service to truly be successful in the Digital Age, however, Congress must enable it to take full advantage of the opportunities offered by the package boom and other recent successes. They can do it, but we need to help.

Nearly 10 years have passed since major postal reform legislation was last signed into law, although we've made several attempts at it in recent years without getting the ball into the end zone. It's time now for Congress to come off the bench and get in the game.

Absent legislative intervention, the Postal Service will continue twisting in the wind. It will remain unable to fully invest in its future, and its employees and customers will continue to be uncertain about what that future holds.

There are a handful of postal reform provisions we've debated on this committee for years now. Taken together, they would set the Postal Service and its leadership up to turn the agency's finances around and set it up to succeed in the years to come.

The most important of these provisions address health care costs at the Postal Service, and the fact that the agency is the single largest payer into Medicare yet can't get full value from the program. I've put forward legislation both last year with our former colleague Dr. Coburn and this year with Senators McCaskill, Moran, and Blunt that would allow the Postal Service to do what private business do when they coordinate their retiree health plans with Medicare. This has the potential to virtually eliminate the unfunded liability for retiree health benefits and save the Postal Service $32 billion over 10 years.

Our proposal would also give the Postal Service significant savings when it comes to its pension costs, which OPM now determines using inaccurate data that doesn't account for the make-up of the Postal Service's workforce, among other important factors. Making OPM use the right data would also reap more than $2.5 billion in savings in the next five years alone.

We also free the Postal Service to innovate and explore new business opportunities by removing dated restrictions in current law on the type of products and services they can offer. This part of our bill would let the Postal Service do some specific things, like join UPS, FedEx, and others in delivering beer, wine, and spirits. It would also push the Postal Service to test new innovations, much like it's used its existing authority to do things like Sunday package service and grocery delivery. Coupled with our proposal to make permanent the emergency rate increase currently set to expire, this part of our bill has the potential to bring in significant revenue in the coming years.

Finally, our bill also pushes the Postal Service to do what the last Postmaster General often told me was his top goal if we were able to get postal reform done – to put the "service" back in Postal Service.

Since 2002, the Postal Service has made great strides to be more efficient, cutting total work hours nearly 30 percent, yielding $17 billion in savings. We've also seen the number of mail processing facilities cut in half from more than 600 to around 300 today.

But the solution to the challenges the Postal Service faces today can't just be about more cuts. Cutting costs was certainly necessary, concerns have been raised that further cuts will only degrade service and end up chasing customers away. We may already be seeing service suffer due to the deep cuts that have been made in some areas. In order to thrive in the coming years, the Postal Service actually needs to invest in its delivery vehicles, its plants, and its post offices. It needs to harvest new technology that can improve service rather than making cuts that will erode it further.

That's why our bill would pause further service standards changes for 5 years and mail processing closings for 2 years. This pause will give the Postal Service and the Postal Regulatory Commission time to explore what the appropriate level of service should be, and hopefully return service to the level that was offered last year when service standards were set at the "modified 1-2-3-day delivery" standard I supported.

So in sum, I believe our bill represents real, lasting reform that can help the Postal Service be just as important for my sons' generation as it was for my generation and my parents' generation.

And it's a bill that enjoys wide support among the postal stakeholders whose often widely diverging priorities and goals have made postal reform so hard in recent years. That's because, after months of effort to find common ground, the Postal Service, its unions, and a large contingency of postal customers have finally succeeded in coming to an agreement on a number of key provisions that we feel need to be contained in any postal bill for the Postal Service to succeed. These key provisions are contained in our bill.

Working together, it's important that Congress provide some certainty to both postal employees and customers, and to ensure that taxpayers — along with all of the fiscal challenges we face as a country — are not saddled with shoring up a failing Postal Service. We can't afford to be here a year or more from now discussing how we can dig ourselves out of yet another postal crisis. I don't believe any of us want to do that, to kick the can down the road one more time.

As it turns out, if we're smart enough, and creative enough, and bold enough, we won't have to and can do what needs to be done to actually fix this problem.

Thank you again for holding this hearing, Mr. Chairman. I look forward to working this year to see postal reform legislation enacted into law.

UNITED STATES
POSTAL SERVICE

STATEMENT OF
MEGAN J. BRENNAN
POSTMASTER GENERAL AND CHIEF EXECUTIVE OFFICER
UNITED STATES POSTAL SERVICE
BEFORE THE
SENATE HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS COMMITTEE

JANUARY 21, 2016

Good Morning Mr. Chairman, Ranking Member Carper and Members of the Committee. Thank you, Chairman Johnson, for calling this hearing, "Laying Out the Reality of the United States Postal Service," to discuss the financial condition of the Postal Service. And thank you, Ranking Member Carper for your long-standing support and advocacy for reforming the Postal Service's business model.

The United States Postal Service provides the nation with a vital delivery platform that sustains and propels American commerce, serves every American business and residential address, and binds the nation together, as it has for more than 240 years.

We currently deliver to nearly 155 million delivery points. The 154 billion pieces of mail we deliver annually account for 47 percent of the world's mail, which we deliver more efficiently and at a lower cost than any comparable post. And we do so without the financial support of the American taxpayer; the Postal Service is a self-funding entity that derives its revenues entirely through the sale of postal products and services.

Even in an increasingly digital world, the Postal Service remains an essential part of the bedrock infrastructure of the economy. The physical delivery of mail and packages to America's homes and businesses is the core function of the Postal Service, and this fundamental need of the American people will exist for the foreseeable future.

Our customers place great faith in the ability of the Postal Service to deliver for them, both in the literal delivery of mail and packages, and in the larger sense as an organization that is adapting and changing to better meet America's evolving delivery needs.

The Postal Service is speeding the pace of innovation, improving our competitive posture by offering new products, and pursuing large-scale efforts to lower our cost base and stabilize our systemic financial imbalances. And we're doing so against a backdrop of great change in technology use and consumer habits, and of rapidly rising expectations for delivery services.

However, our ability to continually change and improve to meet the evolving needs of the American economy and society depends upon our ability to operate with a financially sustainable business model. My testimony today describes our current financial situation and argues for legislation that would provide the Postal Service with the financial stability to invest in our future and continue to be an engine of growth, to be a strong business partner, to compete for customers with compelling new services and offerings, and to meet the expectations of the American public.

The timing of this hearing is notable. We are now entering the 10th year since the enactment of the *Postal Accountability and Enhancement Act of 2006* (PAEA). At the time the PAEA was enacted, we had just finished a fiscal year in which we delivered 213 billion pieces of mail; last year, we delivered 154 billion pieces, a 27percent decline. Unfortunately, the PAEA did not establish a business model with sufficient flexibility to enable us to effectively respond to these unanticipated precipitous volume declines.

Rather, as a result of this law, the Postal Service is subject to statutory and regulatory constraints that make it impossible to maintain financial stability while achieving our primary mission of providing prompt, reliable and efficient postal services and meeting our other legal obligations. The PAEA imposed an inflexible price cap that has proven to be completely unsuitable in an environment characterized by declining mail volumes — particularly in First-Class Mail, which provides the greatest contribution to covering our institutional costs — including the costs associated with the ever-expanding number of U.S. delivery addresses.

In addition to having limited ability to generate revenues under the price cap, we have limited ability under the PAEA and other laws that place obligations on us to control our major cost drivers, such as our network costs and our health care benefits. The Postal Service is required to maintain a certain network in order to process and deliver the mail and to go to every address six days a week regardless of volume. However, less volume and limited pricing flexibility means that there is less revenue to pay for that network. In addition, the PAEA imposed a major burden on us through its accelerated schedule for prefunding our retiree health care benefits liability. While this schedule may have been considered manageable at the time the PAEA was enacted, volume trends since that time have upended that belief. Since our available borrowing authority has been exhausted, we have been forced to default on those payments over the past several years in order to meet our universal service obligation.

During the last decade, we have responded aggressively to the challenges that confronted us. For example, we have rationalized our operations in response to the sharp decline in mail volume, increased workforce flexibility, and established a more affordable wage system. These efforts have resulted in costs savings of approximately $15 billion annually. We are also proud of our achievements in significantly growing our package business, and implementing innovations that have enhanced the value of the mail to better serve our customers.

Despite these achievements, our efforts have not been enough — and cannot be enough— to restore the Postal Service to financial health, absent legislation. Our debt is at an unsustainable level and while we continue to pursue available management actions to reduce our costs even further, there are limited remaining initiatives that will result in substantial cost savings without threatening our ability to continue to provide prompt, reliable, and efficient postal services. The $5.1 billion net loss for 2015 represents the ninth consecutive annual net loss the Postal Service has incurred. We have reached our borrowing limit and have a cash reserve that is wholly inadequate for an organization of our size.

In fact, we have maintained adequate liquidity in order to continue achieving our primary mission of providing universal postal services only by defaulting on our legally mandated retiree health benefits (RHB) payments, and by deferring needed capital investments. While the fixed RHB payment schedule ends this fiscal year, we are then obligated to make substantial actuarially-based payments each year of roughly $4.8 billion. Furthermore, beginning next fiscal year we are also obligated to begin amortizing our unfunded liability in the Civil Service Retirement System (CSRS), which will require an annual payment of $1.5 billion, for a total of $6.3 billion. Therefore, while we benefit from the fact that the obligation to pay for the premiums for current annuitants will shift to the RHB fund next fiscal year, we will still be subject to very sizable prefunding payments going forward, on top of our other operating expenses and a need to begin increasing capital expenses on items such as new delivery vehicles.

Absent fundamental legislative reform, we face the prospect of having to continue to default on these prefunding payments in order to continue paying our employees and suppliers and to provide postal services to the American public. This increases the risk that taxpayers may ultimately be called on to fund these benefits. The only other potential path by which we could seek to gain an ability to make these payments would be through the Postal Regulatory Commission's (PRC) 10-year review of the market-dominant regulatory system, a process that will begin in December of this year. However, the outcome of that process is uncertain, and in any event we strongly prefer that Congress address our prefunding costs through narrow, sensible legislation so that we do not have to consider steep rate increases to cover those costs.

We recognize that meaningful postal reform will impact our many constituents in different ways. For that reason, we have been working over the last year with key stakeholders, including our labor unions and a cross-section of the mailing industry, to discuss the business model issues that confront us, and to identify potential key reforms about which there is broad consensus that would make the Postal Service sustainable. In formulating our proposal, we had numerous discussions with stakeholders to understand their interests and concerns and to explain ours. Based upon these discussions, we propose a set of focused provisions, which, if enacted into law by Congress, would make substantial progress towards restoring the Postal Service to financial health.

The provisions we are recommending, and which are described below, reflect the adoption of many private sector best practices while maintaining our public responsibilities. Our proposal would:

- Require Medicare integration for postal retiree health plans;
- Continue our exigent price increase for market-dominant products;
- Calculate all retirement benefit liabilities using postal-specific salary growth and demographic assumptions; and
- Provide some additional product flexibility.

This proposal, along with other management initiatives, will achieve approximately $27 billion in savings through 2020. (See the chart on page 15 for a detailed explanation.)

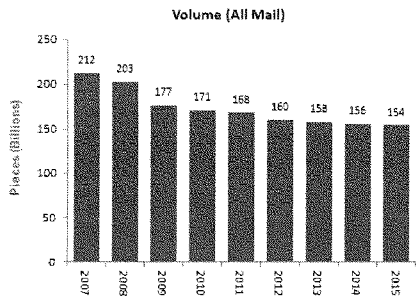
While enactment of our proposal is a critical step towards restoring the Postal Service to financial health, it is not a sufficient step by itself. We expect total mail volumes to continue to decline, particularly in First-Class Mail, due to the existence of electronic alternatives. The Postal Service will maintain a sharp focus on achieving operational savings where possible, consistent with our service obligations and the other constraints of law. Also of critical importance is the review of the current price cap, and its replacement with a regulatory structure that enables us to effectively respond to the challenges and opportunities presented by a dynamic marketplace.

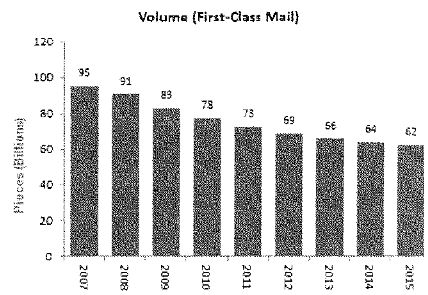
Overall, our financial situation is very serious but solvable: we can return to financial stability through the enactment of prudent legislative reform and a favorable resolution of the 10-year regulatory review. We will at the same time continue to pursue cost savings in all aspects of our operations, and growth where it is available, particularly in packages. These steps will allow appropriate investment in the future of the organization, so that we can continue to provide prompt, reliable and efficient delivery service to the American public.

The mailing industry continues to help power our nation's economy. The Postal Service plays an indispensable role as a driver of commerce and a provider of delivery services to all communities. The need to adopt these legislative reforms is simply too important to delay any further.

<u>POSTAL SERVICE FINANCIAL CONDITION</u>

In the past decade, due to digital diversion and the proliferation of Internet and mobile-based communications and exacerbated by the Great Recession, total mail volume has declined by approximately 27 percent and First-Class Mail, our most profitable product, has declined by 35 percent. The annual value of the revenue lost as a result of this volume decline is $21 billion per year. The decline in total mail volume, as well as the shift in the mail mix to a greater percentage of lower-margin products, has a pernicious impact on our financial stability. It reduces the amount of contribution available to pay for the significant percentage of costs that do not vary with volume, but are a result of the nationwide retail, processing, transportation, and delivery network that we are required to maintain in order to provide universal service.

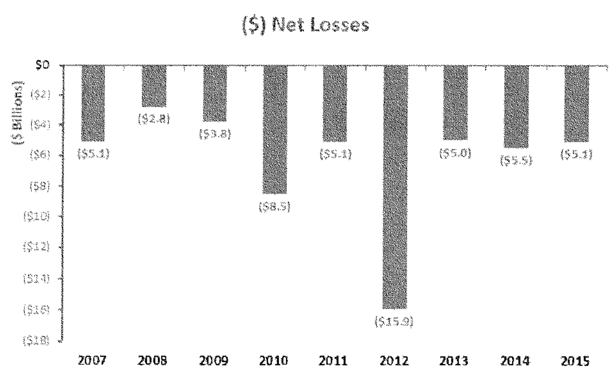




The declines in revenue are driven primarily by the lower First-Class Mail volume noted above. Although the significant growth in our package business has been encouraging, the reality is that we would need package volume to increase by 260 percent in order to make up for the impact of the volume losses of First-Class Mail.

For fiscal year 2015, the Postal Service incurred a net loss of $5.1 billion, and it has incurred cumulative net losses of $56.8 billion from 2007 to 2015. These financial losses are at unsustainable levels.

Nine Years of Net Losses Despite Innovation and Improved Efficiency



As a result of these losses, we do not have sufficient cash balances to meet all of our existing legal obligations or pay down our debt. We have been forced to default on our RHB prefunding retirement obligation since 2012 and we reached our $15 billion borrowing capacity under our statutory debt ceiling that same year. We would not have been able to pay our employees and suppliers, or to deliver the mail without these defaults, our deferred capital investments, and our aggressive management actions. Our cash balance remains insufficient to support an organization with approximately $74 billion in annual operating expenses, and with liabilities that exceed assets by $90 billion.

Total Liabilities, Including Retirement Obligations Exceed Assets by $90 Billion

As of September 30, 2015

CSRS Fund Assets	$179.2B	CSRS Actuarial Liability	$199.6B
FERS Fund Assets	$107.6B	FERS Actuarial Liability	$111.3B
RHB Fund Assets	$50.3B	Retiree Health Benefits Obligation	$93.8B
Total Retirement-Fund Assets	$337.1B	Total Retirement-Related Liabilities	$404.7B
		Workers' Compensation	$18.8B
		Debt	$15.0B
Unrestricted Cash	$6.6B	Accrued Compensation, benefits, and leave	$3.9B
Land, Buildings & Equipment, net	$15.7B	Deferred Revenue	$3.3B
Other Assets	$1.7B	Other	$5.3B
Total Assets	**$361.1B**	**Total Liabilities**	**$451.0B**

- This chart includes all assets and liabilities of pension and post-retirement health benefits obligations.
- Items highlighted in yellow are not shown on our balance sheet and the RHB obligations are valued under actuarial funding basis as of Sept. 30, 2015.

Furthermore, in order to continue meeting our statutory obligation to provide prompt, reliable and efficient postal services to the nation, our operations will require significant capital investment over the next few years. Investments are needed to sustain, modernize and improve our information technology infrastructure, and our processing and delivery infrastructure, including our aging fleet of vehicles. Over the past several years, we have deferred all but essential capital investments in order to maintain our liquidity; while this was a necessary short-term response to our financial situation, these deferrals can no longer be maintained.

Investments in our infrastructure are needed to meet our universal service obligation and to fully and efficiently capitalize on business opportunities in the growing package delivery market. Our delivery fleet includes approximately 140,000 vehicles that are at least 20 years old and are at or near the end of their useful lives. Repair and maintenance costs for these vehicles have risen significantly in recent years and this situation is unsustainable.

OPERATIONAL ACTIVITIES

We have responded aggressively to the loss of 58 billion pieces of mail (27 percent of total volume) from 2007 to 2015 by rationalizing our business to fit the current and projected mail and package volume. At the same time, our delivery points continued to increase each year, necessitating adjustments and flexibility in operations. Since the beginning of 2007, we have made tough, fiscally responsible decisions and managed operational costs within our control. These actions have included:

- Reducing our career employee complement by more than 200,000, without resorting to layoffs;
- Negotiating with our unions on wages, benefits and workforce flexibility;
- Reducing work hours by 331 million;
- Consolidating more than 20,000 delivery routes and 360 facilities;
- Modifying retail operation hours in approximately 13,000 Post Offices to better align with customer demand;
- Reducing the number of administrative areas from nine to seven and districts from 80 to 67, and;
- Significantly decreasing headquarters spending.

These actions have allowed us to reduce our annual cost base by almost $15 billion. However, it has not been enough to restore us to financial health.

PRODUCT ENHANCEMENTS

As a part of our efforts to adjust to the dynamic marketplace, we are changing and improving to better serve our customers through continued innovation and improved efficiency. We have also focused our efforts on developing new products and enhancing existing product offerings to meet the needs of an ever-evolving marketplace. We have concentrated on providing new services to enhance the value of mail to our customers, growing e-commerce and implementing marketing campaigns to grow our package business.

Our package volume has grown by over 1 billion packages in the last three years. In FY 2015, we delivered one-third of all domestic packages in the United States. To spur additional growth in our package business, we are partnering with a number of major U.S. retailers to develop customized delivery solutions to meet their particular business needs. Examples of the solutions we have developed include our Sunday, grocery, and same-day delivery initiatives, as well as our "ship from store" agreements that expedite the delivery of goods from businesses to consumers and improve convenience. The continued double-digit growth in package volume has been significantly enhanced by these efforts.

Continued innovation and growth in our package business is essential to our ability to provide universal postal service to the American people as First-Class Mail continues to decline. These products provide an essential — and growing — level of contribution to help us pay for our institutional costs, and thus help to sustain the network that benefits all mailers. However, the expected growth in package volumes and revenues are not enough (and will never be enough, no matter how much we grow our package business) to make up for the massive loss of mail volume and revenue that used to be available to pay for our network costs.

PROPOSAL

Stabilizing the Postal Service's financial condition will require significant management initiatives and a comprehensive approach for continued innovation and efficiency improvements. Moving forward, we will continue to implement operational initiatives designed to contain costs and strengthen our commitment to product innovation, customized offerings, and digital solutions. All of these actions will unfortunately not be enough to stave off future losses and stabilize our finances. Legislative reform is required now, and the proposal set forth below, along with other changes, such as a favorable outcome in the 10-year regulatory review, makes our financial situation eminently solvable.

Over the past year we have been working with key stakeholders, including our labor unions and a cross-section of the mailing industry, to try to identify key reforms that would return the Postal Service to financial health and also be acceptable to as many of those stakeholders as possible. The legislation we are seeking should include the following provisions:

- Requiring Medicare integration for postal retiree health plans;

- Continuing our exigent price increase for market-dominant products;
- Calculating all retirement benefit liabilities using postal-specific salary growth and demographic assumptions; and
- Providing some additional product flexibility.

With legislation enacted that includes these provisions, the Postal Service can achieve an estimated $27 billion in combined cost reductions and new revenue over the next five years. Together with other important initiatives, this would make us financially stable.

PENSIONS

Our proposal requires the Office of Personnel Management (OPM) to calculate Federal Employees' Retirement System (FERS) and CSRS liabilities using postal-specific salary growth and demographic assumptions, rather than government-wide assumptions. It establishes a process by which any FERS surplus would be returned to the Postal Service. The surplus would be returned immediately for use in paying down debt. Future surplus amounts returned would be used to first address any possible pension and RHB liabilities, and then to pay down existing debt.

It should be noted that the Postal Service's pension and retirement liabilities funding compares favorably to other entities in both the public and private sectors. In fact, the Postal Service's percentage for CSRS pension funding is more than four times the level of other civilian federal government entities and is higher than the average funding level for those few Fortune 1000 companies still offering traditional pension plans. In addition, the Postal Service's FERS pension funding is at nearly 97 percent, even when calculated using government-wide assumptions (which overstates our liability).

USPS Pension Funding Compares Favorably to Other Entities

% Funded as of September 30, 2015	Pension	
	CSRS	FERS
Percentage of USPS Actuarial Liability Funded	89.8%	96.7%
Percentage of Civilian Federal Government Funded (Excludes USPS)	19.4%[1]	92%[1]

	Pension
Other Entities:	
Percentage of U.S. Department of Defense Funded[2]	30.9%
Percentage of State Government Funded[3]	66.0%
Percentage of Fortune 1000 Companies Funded[3]	80.0%[4]

(1) Source: Civil Service Retirement & Disability Fund Annual Report, FY 2014
(2) Source: Financial Report of the United States Government, FY 2014. Note, Dept. of Defense pension funding percentage represents combination of CSRS and FERS plans.
(3) Source: USPS Office of Inspector General Report Number [illegible]
(4) Only [illegible] of Fortune 1000 companies offer a traditional pension plan to newly hired salaried workers

RETIREE HEALTH BENEFITS

Our significant financial losses are due in large part to the legally mandated RHB prefunding requirement. Such a requirement to prefund retiree health care obligations is not imposed on most other federal entities or private-sector businesses that offer retiree health benefits, let alone on an accelerated basis. The Postal Service's funded level for RHB far exceeds that of civilian federal government entities, state governments, and private sector companies that even offer retiree health benefits.

USPS Retirement Liabilities Funding Compares Favorably to Other Entities

% Funded as of September 30, 2015	Retiree Health Benefits
Percentage of USPS Actuarial Liability Funded	53.6%
Percentage of Civilian Federal Government Funded (Excludes USPS)	0%[1]
	Retiree Health Benefits
Other Entities:	
Percentage of U.S. Department of Defense Funded[1]	26.4%
Percentage of State Government Funded[2]	30.0%
Percentage of Fortune 1000 Companies Funded[2]	0% - 37.0%[3]

(1) Source: Financial Report of the United States Government, FY2014. Note: Dept. of Defense pension funding percentage represents combination of CSRS and FERS plans.
(2) Source: USPS Office of Inspector General Report Number FT-MA-12-002
(3) Eighty-seven percent of Fortune 1000 companies provide retiree health care benefits; however, only 38 percent prefund the expense. The median funding level ranges from 33 to 37 percent as reported in 2012 OIG Report FT-MA-12-002

More importantly, even after the statutorily mandated RHB payments end, RHB under the Federal Employees Health Benefits Program (FEHBP) is simply not affordable for the Postal Service and our ratepayers unless full integration with Medicare is required for all postal retirees. Our proposal requires OPM to create separately rated postal plans within the FEHBP, beginning with the 2017 contract year, which would be fully integrated with Medicare Parts A, B, and D. These plans would be offered by any existing FEHBP carrier that currently covers at least 1,500 postal employees and annuitants, and other carriers that desire to participate.

The proposal requires OPM to calculate the RHB actuarial liability on the basis of annuitant net claims costs, rather than premiums, in accordance with standard actuarial practice. It cancels the fixed prefunding schedule established in PAEA, and instead requires the Postal Service to make actuarially-based RHB prefunding payments beginning in FY 2017. The proposal further requires that a portion of the existing assets in the Postal Service Retiree Health Benefits Fund be invested in a manner designed to replicate the performance of the longest-term L Fund in the Thrift Savings Plan.

Opponents of this provision have argued this would simply shift cost from USPS to Medicare. While it is true that Medicare costs will increase by approximately $821 million per year, this provision is actually reversing the cost shifting that currently exists from Medicare to the FEHBP plans. The prior shift ultimately imposes additional costs on the Postal Service, on our ratepayers, and on our employees. Since 1983, the Postal Service and its employees have been the second largest contributor to Medicare, contributing over $29 billion during this period. At present, however, 9 percent of eligible annuitants and dependents do not participate in Medicare Part A and 27 percent do not participate in Part B. More properly assigning claims costs to Medicare, instead of FEHBP, creates savings for the Postal Service and participants, and effectively resolves the RHB funding issue. Requiring full participation in Medicare by eligible annuitants is a universal practice among nearly all private sector and state and local government employers who provide health benefits to retirees.

In addition, the overall impact to Medicare is relatively modest. To illustrate this point, total Medicare benefit payments to all recipients in FY 2016 are projected to be $684 billion, or $1.88 billion per day. The increased cost to the Medicare Trust Funds from the Medicare integration we are proposing represents less than half a day's claims under the Medicare program. The integration cost of $821 million in FY 2016 is just one-tenth of 1 percent (0.001) of the total annual Medicare payments.

The requirement for all retirees and survivors over age 65 to participate in Medicare Parts A and B, plus the additional savings resulting from the Employer Group Waiver Plan (EGWP) for prescription drugs would essentially eliminate 99 percent (or $43 billion) of the Postal Service's unfunded retiree health benefit liability and reduce annual expenses by $32 billion over the next 10 years (2016-2025).

MARKET-DOMINANT RATES

The continuation of the exigent price surcharge is critical to the Postal Service's financial health. When it expires, which is anticipated to take place in early April of this year, the prices of market-dominant products will decline, which will have an adverse impact on our future operating revenue and liquidity. Expiration of the surcharge would reduce our revenue and net income by approximately $2 billion per year going forward, which is an irrational outcome considering the Postal Service's financial condition.

The price cap that is currently imposed on market-dominant products and services is clearly not producing the desired financial results despite the best efforts of the Postal Service to reduce costs. In fact, the current price cap simply will not work since mail volumes have rapidly declined, while the costs necessary to maintain our network are largely fixed or are growing. Even the rapid growth experienced in the past few years in package volume is not enough to offset the decline in revenues from market-dominant products. The exigent surcharge has softened the financial blow that the Postal Service suffered as a result of the massive loss of mail volume, and is the principal reason we have achieved operating income over the last two fiscal years, (although we still suffered net losses in each of those years in excess of $5 billion). Absent legislation, the exigent surcharge is required to be reversed by an order of the PRC when we hit a revenue target that is likely to be reached in April.

Our proposal makes the 4.3 percent exigent increase, which is currently a surcharge on top of market-dominant base rates, a part of the rate base. The Postal Service would be prohibited from raising market-dominant rates until January 1, 2018, following the PRC's review of the market-dominant regulatory system, as required by PAEA. This review should begin upon enactment of legislation and be completed by March 31, 2017 to allow both the Postal Service and the industry time to prepare for a January 1, 2018 price change, if necessary.

PRODUCT FLEXIBILITY

Our proposal authorizes the Postal Service to provide non-postal services to state, local and tribal governments, as well as new, commercial non-postal services, so long as the PRC concludes that the provision of such services is consistent with a number of requirements. Specifically, any such non-postal service must be consistent with the public interest, must not create unfair competition with the private sector, must not unreasonably interfere with the value of postal services, must be undertaken in accordance with all federal laws and regulations applicable to the provision of such services, and must be reasonably expected to improve the net financial position of the Postal Service.

Our proposal also authorizes the mailing of beer, wine, and distilled spirits under specific conditions. The mailing must comply with all laws that govern the private shipments of alcoholic beverages at both the place of mailing and place of delivery, and that delivery can only be made to an adult 21 years of age who provides a signature and valid identification. The proposal clarifies that it does not preempt any state, local, or tribal law that prohibits or regulates the delivery, shipment, or sale of beer, wine, and distilled spirits, so long as that law does not discriminate against shipment by the Postal Service relative to private carriers.

FINANCIAL IMPACT

As we've said, there is a way forward. The chart below shows the value of each of the parts making up our proposal, with total savings of $27 billion over the next five years. Enacting these key concepts into law will put the Postal Service on a more stable financial footing, allowing for further innovation, investments, and growth for the Postal Service, and the mailing industry as a whole.

USPS LEGISLATIVE PROPOSAL

Provision	2016	2017	2018	2019	2020	Total 2016-2020
Medicare integration for postal retiree health plans	$0.0	$3.5	$3.4	$3.3	$3.3	$13.5
Exigent price increase for market dominant products (1)	$1.0	$1.7	$2.0	$2.0	$1.9	$8.6
Retirement benefit liability calculation using postal-specific assumptions	$0.5	$0.5	$0.5	$0.5	$0.5	$2.6
Limited additional product flexibility	$0.0	$0.0	$0.1	$0.1	$0.2	$0.4
Total Savings before Interest	$1.5	$5.7	$6.0	$5.9	$6.0	$25.0
Interest Savings from Lower Borrowing	$0.0	$0.2	$0.5	$0.7	$0.9	$2.2
Total Savings	$1.5	$5.8	$6.4	$6.6	$6.9	$27.2

(1) Unused CPI from FY2016 and FY2017 was not used in the calculation of the FY2018 price increase

GOVERNANCE

Our statute authorizes nine Governors, who along with the Postmaster General and the Deputy Postmaster General constitute the Board of Governors; four Governors are needed in order for the Board to have a quorum. Since December of 2014, we have lacked a quorum due to the Senate's failure to confirm any of the nominees for the Board put forward by the President. In fact, the last time the Senate confirmed a candidate to join the Board of Governors was 2010. Since last month, we have had only one Governor in office: Governor James H. Bilbray. The situation is untenable, and we urge the Senate to act on the pending nominees as soon as possible.

So far, we have been able to ensure operational continuity through the Temporary Emergency Committee of the Board (TEC), which the Board created just prior to losing a quorum. The TEC consists of the three members of the Board who remain in office. However, Congress recognized in creating the Board that it was important to have a diverse range of perspectives when setting policy for an organization as large and complex as the Postal Service; having only one Governor in office defeats this purpose. Furthermore, the TEC is not authorized to exercise the Board's full powers, but only those necessary for operational continuity, a limitation that could in the future inhibit the Postal Service from being able to implement sensible policy changes.

The lack of a quorum on the Board does not inhibit the ability of the Governors to exercise those powers reserved by the statute solely to the Governors, as distinguished from the full Board. Therefore, even with the loss of a quorum on the Board, the Governors in office have retained the ability to change prices and approve new products, as well as appoint or remove the Postmaster General and Deputy Postmaster General. However, Governor Bilbray's term expired this past December, and he is currently serving a holdover year. Therefore, if the Senate does not act, the Postal Service will have no Governors in December of this year, meaning those powers reserved to the Governors may not be able to be exercised. Considering the important powers exercised by the Governors and their centrality in ensuring that the Postal Service's governance structure conforms to constitutional requirement, the lack of Governors could substantially impair the ability of the Postal Service to function.

CONCLUSION

Mr. Chairman, the United States Postal Service delivers for the American public — both literally and figuratively. We serve every American business and residence. We do so reliably and affordably, and we strive continually to earn the trust of the American public by maintaining the privacy and security of the items we deliver. We enable America's commerce by meeting its marketing and communications needs, by delivering the physical content that powers e-commerce, and by serving as an indispensable business partner to America's entrepreneurs and business owners.

America deserves a financially stable Postal Service that can continue to play this vital role in our economy and society. In a dynamic and increasingly digital, mobile and device-driven world, the Postal Service has opportunities to enhance the way we enable commerce. However, we require the financial ability to invest in the Postal Service's future.

We have presented a path forward that depends upon the passage of a set of legislative provisions. If enacted, the Postal Service can meet all of our obligations and improve the way we serve the American public.

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

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Testimony of

Robert G. Taub

Acting Chairman

On behalf of the

Postal Regulatory Commission

Before the

U.S. Senate Committee on Homeland Security and Governmental Affairs

January 21, 2016

Introduction

Chairman Johnson, Ranking Member Carper, and members of the Committee on Homeland Security and Governmental Affairs, good morning. My name is Robert G. Taub. I am the Acting Chairman of the Postal Regulatory Commission (Commission). I am pleased to testify before you today.

Background

The Commission is an independent federal agency that is responsible for ensuring transparency and accountability of the U.S. Postal Service's operations and finances. Today, the Postal Service is a $69 billion operation with more than 600,000 employees. It is not quasi government, quasi private, or quasi anything – it is 100 percent part of the Federal Government, operating as an independent establishment in the Executive Branch. Yet the Postal Service receives no tax dollars for operating expenses and relies completely on the sale of postage, products, and services to fund its operations.

As a separate and independent federal regulatory agency, the Postal Regulatory Commission determines the legality of the Postal Service's prices and products, adjudicates complaints and fair competition issues, and oversees the Postal Service's delivery performance consistent with statutory requirements. The Commission is the regulator, not the operator of our nation's Postal Service. It is composed of five Commissioners, each appointed by the President and confirmed by the Senate. The Commission receives an annual appropriation from Congress out of the Postal Service Fund.

Why a regulator for another government agency? Unlike almost any other federal agency, the Postal Service operates in a commercial marketplace while also having a large contingent of captive customers given the Postal Service's market dominance for certain products and services. The public interest role of a regulator in this case is clear: a need to protect the captive customers and ensure fair competition.

The Commission carries out this work with a very small budget and staff. Its current year appropriation is $15.2 million to regulate the $69 billion Postal Service. The David and Goliath analogy is sometimes apt. Despite a steadily increasing workload, until this year, the Commission's annual appropriation had always been less than what it received in Fiscal Year (FY) 2008. FY 2008 was the last year that the Commission received its funds directly from the Postal Service rather than through the appropriations process. The Commission's budget in FY 2008 was $14.985 million for an authorized complement of 70 employees; 7 years later, the Commission's appropriation in FY 2015 was $14.7 million for an employee complement of 77. The majority of the Commission's FY 2015 budget was allocated to pay and benefits ($11.175 million) with the remainder allocated for operating expenses ($3.525 million). In order to accommodate the increasing cost of personnel benefits and operating expenses, the Commission has had to defer hiring and delay many critical Information Technology-related projects. This path is no longer sustainable for the Commission given existing government-wide information security requirements as well as an increasing regulatory workload.

PRC Focus on USPS Financing

Commission rules require the Postal Service to file several reports with the Commission regarding financial results on a monthly, quarterly, and annual basis. The Commission staff internally analyzes these reports. Prior to 2014, the Commission's *Annual Compliance Determination* (ACD) included a chapter on the overall financial health of the Postal Service. However, because the ACD is focused on rates and service performance, it did not include a detailed analysis of other financial data provided in the Postal Service's *Annual Compliance Report* as well as its Securities and Exchange Commission equivalent Form 10-K filing. In 2014, the Commission developed a separate *Financial Analysis* report to provide greater clarity and transparency of the Postal Service's financial data and trends.

This year, the Commission will prepare its third annual *Financial Analysis* report which not only reviews the overall financial position of the Postal Service, but also analyzes volumes, revenues, and costs of both Market Dominant and Competitive products. The report includes a chapter that analyzes the Postal Service's financial status in terms of profitability, solvency, activity, and financial stability using accounting ratios. Although we are in the process of analyzing the Postal Service's most recent annual financial results and preparing our *Financial Analysis* report for FY 2015, I would like to highlight our conclusions from the Commission's last *Financial Analysis* report and outline some preliminary observations based on the Commission's review of FY 2015 data.

Overview of USPS Finances: Liabilities Outstrip Assets Resulting in Low Liquidity

In FY 2015, the Postal Service had a total net loss of $5.1 billion, which is a $448 million improvement from FY 2014. However, this is the ninth consecutive net loss posted since FY 2007 and has increased the cumulative net deficit since FY 2007 to $56.8 billion. As noted in the FY 2014 *Financial Analysis* report, these continuing losses have significantly affected the financial position of the Postal Service by negatively impacting liquidity, requiring the Postal Service to use all of its $15 billion statutory borrowing capacity, and causing total net liabilities to far exceed total net assets.

Total revenue increased $1.1 billion in FY 2015 primarily due to an increase in Competitive product volumes and the Market Dominant exigent surcharge.[1] Total volume declined by almost 1 percent, or 1.4 billion pieces, with Market Dominant products accounting for all of the volume loss. Despite the loss of Market Dominant volume, total revenue for Market Dominant products was slightly higher than last year. The exigent surcharge added $2.1 billion in revenue, which was enough to offset the loss of revenue due to declining volumes. Competitive product volumes continued to increase significantly in FY 2015, growing 16.3 percent over last year. This increased volume added approximately $1.4 billion in revenue. Other non-mail related revenues, which include gains/losses on disposal of property and equipment, philately, and other non-mail related revenues, declined $0.3 billion.

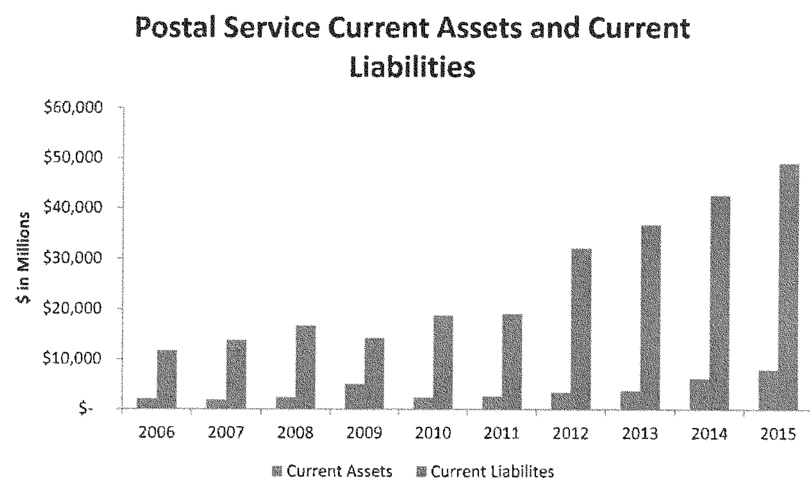
[1] This surcharge was permitted by the Commission after it found that the Postal Service had justified the recovery of additional contribution by showing a causal link between the extraordinary or exceptional circumstances of the Great Recession and mail volume losses.

Total expenses increased $0.6 billion in FY 2015. This overall increase reflected an increase of $1.5 billion in compensation and benefits costs and a decrease in workers' compensation liability of $0.8 billion. An increase in workhours (the first since FY 2005) and the number of career employees (the first since FY 1999) increased compensation expenses by $0.8 billion. Retirement expenses also increased due to an increase in the Federal Employee Retirement System (FERS) annuity rate from 11.9 percent of base pay to 13.2 percent of base pay and a supplemental payment to the FERS fund. Other benefits costs such as the current year premiums for retiree health benefits and the payment to the Department of Labor for workers' compensation costs also contributed to the increase in compensation and benefits. Further data on personnel related costs are detailed later in this testimony.

The $0.8 billion decrease in workers' compensation liability was due to actuarial changes in the development of the estimate and changes in the discount rate. Non-personnel expenses, including transportation, also declined in FY 2015.

In the face of financial losses, over the past 8 years, the Postal Service has reduced the size of its workforce by about 200,000 career employees, cut labor related costs, and increased its productivity. Today the Postal Service delivers roughly the same volume of mail that it delivered in 1987, but with almost 168,000 fewer total employees. Yet even with these sizeable reductions, the Postal Service does not have the cash to pay down its debt or fully invest much needed capital in its operations.

The significant gap between the Postal Service's net current assets and net current liabilities is of particular concern. As stated in the FY 2014 *Financial Analysis* report, the Commission determined that the current liquidity was insufficient to significantly improve operational efficiency in the form of capital investments and that the liquid, or current assets, consisting mostly of cash and cash equivalents, was insufficient to meet the payment of current liabilities.

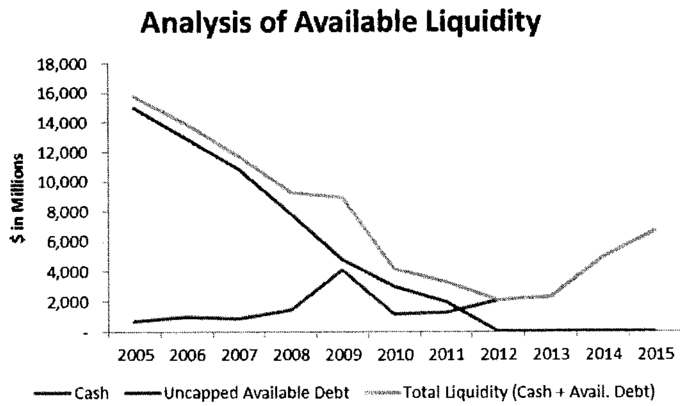


In FY 2015, total current liquid assets increased by $1.7 billion from FY 2014; however, the amount of current liabilities rose by $6.4 billion, worsening the overall financial situation. Most of the increase in the current liabilities is due to the fact that the Postal Service did not make the $5.7 billion statutorily required FY 2015 payment to the Postal Service Retiree Health Benefits Fund (PSRHBF). The total net current assets were $7.9 billion at the end of FY 2015, of which $6.6 billion was cash and cash equivalents. Net current liabilities at the end of this fiscal year were $48.9 billion, which included $28.1 billion in missed payments to the PSRHBF (the payments scheduled for

FY 2011 through FY 2015). Also included in net current liabilities is $10.1 billion of the total $15 billion owed to the Federal Financing Bank. Further data on the PSRHBF are detailed later in this testimony in the additional information on personnel related costs.

These low liquidity levels in recent years have impeded the Postal Service's ability to make capital investments in infrastructure and hindered the growth and productivity enhancements in key assets required for primary postal operations. As the Postal Service noted in the FY 2015 Form 10-K statement, it now operates an aging vehicle fleet, increasing the need, and consequently the cost, for maintenance and repair. Also unmet is the need to invest in sorting and handling equipment to fully capitalize on business opportunities in the growing package delivery markets.

According to the Postal Service's FY 2015 Form 10-K statement, "If our operations do not generate the liquidity we require, we may be forced to reduce, delay or cancel investments in technology, facilities, and/or transportation equipment, as we have done in the recent past.... Additionally, our aging facilities, equipment and transportation fleet could inhibit our ability to be competitive in the marketplace, deliver a high-quality service and meet the needs of the American public.... An aging or potentially obsolete infrastructure could result in loss of business and increased costs."



On an *operational* basis the Postal Service's net income (i.e., before including the statutory prefunding accruals to the PSRHBF and any non-cash adjustments to workers' compensation liability) is $1.2 billion. Most of this operational net income can be attributed to an increase in revenues from the exigent price surcharge on Market Dominant products and the continuing growth in Competitive products parcels. The exigent surcharge, effective for the full fiscal year, increased revenue by an estimated $2.1 billion, offsetting all of the revenue loss from the declining Market Dominant volume. The surcharge is expected to be removed in April.

The increase in operating net income enabled the Postal Service to improve its liquidity position. Compared to FY 2014, the Postal Service increased its cash position by $1.7 billion. This increase in cash enables the Postal Service to begin planning for replacement of its capital assets, primarily delivery vehicles and package sorting equipment. Yet, as noted, this increase is overshadowed by the increase in current liabilities, primarily due to the inability of the Postal Service to make the statutorily required pre-funding payments into the PSRHBF. Overall, according to the Postal Service, it has approximately 24 days of cash available to pay basic operating expenses. This consists only of available cash as the Postal Service has reached the statutory borrowing limit. The current level of Postal Service reported liquidity has improved since its low point in FY 2012, but total cash on hand plus total debt is only a third of what was available 10 years ago.

If a downturn in the economy or other circumstance should further stress the Postal Service's cash flow, it risks not being able to pay some of its bills and could, in a worst case scenario, run out of cash.

Analyzing Postal Service Financial Status: Profitability, Solvency, Activity, and Financial Stability

The Commission's *Financial Analysis* report uses "ratio analysis" to measure the profitability, solvency, and financial stability of the Postal Service. As detailed in the Commission's *Financial Analysis* reports, ratio analysis is used to conduct a quantitative analysis of information in a financial statement. Ratios are calculated from current fiscal year numbers and are then compared with previous years and historic averages to determine the Postal Service's financial performance.

The ratios explain the Postal Service's financial health and provide valuable insight into its past performance. The financial data used in the ratio analysis is derived from accounting information not adjusted for inflation, changing demographics, industry dynamics, or government regulations. Financial analysis used in the private sector may not be directly relevant to government agencies because revenue streams, equity structures, and management incentives differ. It is also difficult to determine a single measurement that signifies financial health for a government agency. Financial performance, although not a primary indicator of success, influences the fulfillment of missions and objectives for government agencies with a service-related mission, such as the Postal Service.

Some of the ratios calculated by the Commission for FY 2015 show a slight improvement compared to the previous year with the majority deviating greatly from the average of the last 10 years. The Commission's *Financial Analysis* report calculates "liquidity-related ratios" as well as "key ratios" related to sustainability.

Liquidity-related ratios are one of the most widespread indicators of an agency's solvency. Calculated using the Postal Service's financial results for FY 2015, they show an improvement over the prior year with values close to the historic 10-year average. The following table details the three liquidity-related ratios:

Ratio Analysis of Postal Service Financial Statements

Ratios	9/30/2015 Value	9/30/2014 Value	Change	Description of ratio	Postal Service Historic 10 Year Average Value
Current Ratio	0.16	0.15	0.02	A current ratio is calculated by dividing current assets by current liabilities. It indicates an entity's ability to meet short term debt obligations.	0.18
Quick Ratio	0.16	0.14	0.02	This quick ratio is calculated by dividing liquid assets (cash, cash equivalents and short term investments, current receivables) by current liabilities. It is a measure of an entity's ability to meet its short term obligations using its most liquid assets (near cash or quick assets).	0.17
Cash Ratio	0.14	0.12	0.02	Cash ratio is calculated by dividing absolute liquid assets (cash, cash equivalents and short-term investments) by current liabilities.	0.12

The improved liquidity-related ratios are largely a result of the increased cash on hand held by the Postal Service after exhausting its borrowing capacity. The Postal Service's working capital remains a negative value of $40.9 billion, deteriorating by $4.6 billion from the prior year. This means that the increase in current liabilities largely due to the missed retiree health benefit statutory prefunding payment of $5.7 billion significantly exceeded the growth in current assets, 87 percent of which is cash on hand.

The Commission's *Financial Analysis* report assesses three key ratios for Postal Service sustainability as detailed in the following table. Ratios for the current fiscal year as seen in the debt ratio and the current liability ratio have deteriorated compared to the prior year and the historic average for the past 10 years.

Ratio Analysis of Postal Service Financial Statements

Ratios	9/30/2015 Value	9/30/2014 Value	Change	Description of ratio	Postal Service Historic 10 Year Average Value
Debt ratio (debt to assets ratio)	3.10	2.97	0.12	A debt ratio is calculated by dividing total liabilities (i.e. long-term and short-term liabilities) by total assets. It shows how much the company relies on debt to finance assets (similar to debt-to-equity ratio).	1.86
Fixed assets to Net worth	-0.31	-0.36	0.05	This ratio indicates the extent to which the entity's cash is frozen in the form of fixed assets, such as property, plant, and equipment.	1.29
Current liability ratio	0.66	0.62	0.03	Current liability ratio is calculated by dividing current liabilities by total (i.e. current and noncurrent) liabilities.	0.51

The accruing nonpayment into the statutory retiree health benefit fund has skewed the Postal Service's current liabilities in relation to its assets. To reduce its debt ratio to historic averages, the Postal Service would have to significantly increase its current cash position or investments in capital assets and reduce its obligations to the PSRHBF.

The Postal Service's fixed assets to net worth ratio shows an insignificant improvement reflecting the slight increase in capital spending and the comparative $448 million decrease in net loss over the prior year. However, the value still remains at negative 0.31, a result of recurring net losses accumulated over the last 9 years. A negative fixed assets to net worth ratio indicates the erosion through depreciation of the entity's long term tangible business assets, a critical investment for a viable entity.

The current liability ratio reflects the Postal Service's share of short term liabilities to total liabilities at 66 percent, an increase of 3 percent from the start of FY 2014. The accrual of the unpaid statutory PSRHBF prefunding payments is included in current obligations, accounting for the increase in current liabilities. An increasing current liability ratio indicates increasing obligations due to be paid within the current year. Understanding the Postal Service's liabilities is critical, especially as the cash flows generated from operations render the Postal Service unable to meet its current obligations.

Evaluating Financial Strength: Altman Z-Score

The Commission's *Financial Analysis* report also uses a financial analysis evaluating an agency's financial strength, defined as the Altman Z-Score, to calculate the possibility of bankruptcy. The users, stakeholders, and the business environment vary between the Federal Government and the private sector. Stakeholders of private sector entities use financial analysis to make investment and credit decisions, and success is often measured by the company's stock valuation. In contrast, Federal agencies are mission-oriented and measure success through the provision of service. Furthermore, unlike private sector firms, Federal agencies do not have direct shareholders whose income and wealth is affected by management decisions.

Financial analysis can be useful in both the Federal Government and the private sector. It can be used as a strategic management tool that provides the public with a concise and systematic way to organize the data in financial statements (e.g., balance sheets, income statements, and statements of cash flows) into meaningful information. The information derived from these indicators would provide the data needed to evaluate an agency's financial condition.

Financial viability is affected by a combination of environmental, economic, and organizational factors, including the decisions and actions of management and the governing board. For example, the decline in volume of First-Class Mail, which has a high-contribution margin (the decline being a negative environmental trend), can lead to the erosion of a healthy cost coverage base. However, Postal Service management's response to this decline and constraints on management flexibility also affect financial condition.

As detailed in the Commission's *Financial Analysis* report, the Commission calculated the Altman Z-Score to predict the probability of the Postal Service running out of cash to pay its creditors. Financial analysis evaluates the financial strength of an agency through the use of a variety of metrics. In conjunction with financial ratios, these metrics are used to gauge an entity's long-term viability. However, sometimes the agency's ratios reflect conflicting views. To help eliminate confusion, New York University Professor Edward Altman developed the Z-Score in 1968 as a tool to explicitly address the likelihood that a company could go bankrupt.

A quantitative model designed to predict the financial distress of a business, the Altman Z-Score uses a blend of the traditional financial ratios and a statistical method known as multiple discriminant analysis. The formula has achieved general acceptance by management accountants and auditors.

The Commission calculates the Altman Z-Score in its *Financial Analysis* report to predict the probability of bankruptcy of an entity with the attributes of the Postal Service. The Commission uses a factor model for a private non-manufacturer to evaluate the Postal Service's financial stability as follows:

Altman Z-Score = T1+T2+T3+T4 as denoted in the tables below.

The four performance ratios in the calculations are combined into a single score by weighting. The coefficients are estimated from a set of entities that have previously declared bankruptcy. A matched sample of entities is collected and matched by industry and estimated assets.

The Commission calculates that the Postal Service's Altman Z-Score was negative 6.1 on September 30, 2015. That means that there is a high probability that the Postal Service will go into financial distress. More commonly, a lower Altman Z-Score reflects higher odds of bankruptcy. This 2015 Altman Z-Score of negative 6.1 for the Postal Service is a setback from the FY 2014 score of negative 5.7 (and from the FY 2013 score of negative 5.5), and it is a significant deterioration from the positive score

10 years ago for FY 2005 of 0.3. Despite the results obtained, it should be mentioned that the Altman Z-Score as a predictor of the entity's bankruptcy probability is only relative, the structure of the Postal Service's ratios may be atypical, and interpreting the significance of the Z-Score would require deeper analysis by Postal Service management.

Altman Z-Score, FY 2014

Ratio	Calculation	Ratio value on 9/30/2014	Weighting factor	Product (col. 3 * col. 4)
1	2	3	4	5
T1	Working Capital/Total Assets	(1.6)	1.2	(1.9)
T2	Retained Earnings/Total Assets	(2.0)	1.4	(2.8)
T3	Earnings/Total Assets	(0.2)	3.3	(0.7)
T4	Capital/Total Liabilities	(0.7)	0.6	(0.4)
Altman Z-score				(5.7)

Altman Z-Score, FY 2005

Ratio	Calculation	Ratio value on 9/30/2005	Weighting factor	Product (col. 3 * col. 4)
1	2	3	4	5
T1	Working Capital/Total Assets	(0.3)	1.2	(0.3)
T2	Retained Earnings/Total Assets	0.2	1.4	0.3
T3	Earnings/Total Assets	0.1	3.3	0.2
T4	Capital/Total Liabilities	0.3	0.6	0.2
Altman Z-score				0.3

Altman Z-Score, FY 2015

Ratio	Calculation	Ratio value on 9/30/2015	Weighting factor	Product (col. 3 * col. 4)
1	2	3	4	5
T1	Working Capital/Total Assets	(1.7)	1.2	(2.0)
T2	Retained Earnings/Total Assets	(2.1)	1.4	(2.9)
T3	Earnings/Total Assets	(0.2)	3.3	(0.7)
T4	Capital/Total Liabilities	(0.7)	0.6	(0.4)
Altman Z-score				(6.1)

As the Commission concluded in its most recent *Financial Analysis* report, the deterioration in the Postal Service's viability relates to the erosion of retained earnings caused by consecutive net losses, the statutory obligation to prefund PSRHBF benefits, and decreasing Retained Earnings/Total Asset ratio. A comparatively lower Working Capital/Total Assets ratio results from the continued lag in replacement of its almost fully depreciated existing assets. The significant drop in these two measures causes the negative fluctuation to the Postal Service Altman Z-Score when comparing FY 2015 with FY 2005.

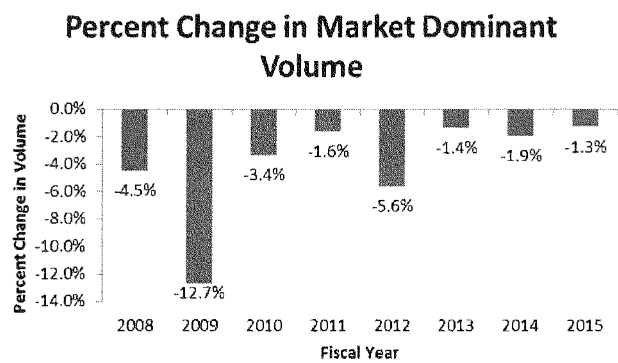
Total Mail Volume: Continuing Declines

Total mail volume in 2015 dropped to levels not seen in more than 27 years, and the Postal Service anticipates further reductions in total volumes for 2016. The decline in mail volume is the result of the economic recession that began in December 2007 along with the acceleration of a long-term trend of mail migrating to electronic media. According to the Postal Service, the volume lost to electronic alternatives is not expected to return because the movement constitutes a fundamental and permanent change in mail use by households and businesses.

Market Dominant Products: continuing declines, particularly in First-Class Mail

Total Market Dominant products volume declined by approximately 2 billion pieces, or 1.3 percent, in FY 2015. Over the last 8 years, Market Dominant products volume declined by approximately 60 billion pieces. Approximately 42 percent of the volume decline occurred in FY 2009 when Market Dominant volume declined 12.7 percent.

For specific products within the Market Dominant category, volume declines at different rates. In FY 2015, First-Class Mail volume declined by approximately 1.4 billion pieces, or 2.1 percent of total First-Class Mail and Standard Mail volume declined by 284 million pieces, or 0.4 percent of total Standard Mail. These classes constitute the bulk of the volume of Market Dominant products overall. In FY 2015, First-Class Mail and Standard Mail accounted for 93 percent of the total mail volume. The decline in First-Class Mail is the most troubling as First-Class Mail contributes the most to the overhead costs of the Postal Service.



Competitive Products: continuing increases but lower margin

Volumes and revenues for Competitive products, which are mainly parcels, increased approximately 16.3 percent and 9.4 percent, respectively, in FY 2015. While Competitive products volume and revenue has grown consistently in recent years, its volume only makes up 2.6 percent of the total mail volume of the Postal Service. In addition, the margin (i.e., the overall cost coverage) on Competitive products is lower than the margin for First-Class Mail. In other words, the Postal Service earns more money from First-Class Mail than it does from Standard Mail or Competitive Product parcels. Generally, it takes three pieces of Standard Mail to generate the equivalent profit as one First-Class Mail piece.

The continuous decline in First-Class Mail volume and revenue seriously jeopardizes the Postal Service's ability to cover its fixed overhead costs. As stated in the Postal Service's FY 2015 Form 10-K statement, "Although increased Shipping and Packages volume has offset some of these declines, [the Postal Service] must earn approximately $2.50 in Shipping and Package revenue to replace the contribution lost from each $1 of First-Class Mail revenue because the costs of transporting and delivering packages are significantly higher than letters. [The Postal Service's] challenge to contain costs is compounded by the continuing increase in the number of delivery points, which, when combined with the impact of the reduction in hard copy mail volume, has resulted in a drop in the average number of pieces delivered per delivery point per day from approximately 5.5 pieces in 2007 to 3.8 pieces in 2015, a reduction of approximately 31 percent."

Personnel Related Costs

In FY 2015, total personnel related expenses, including the payment to the PSRHBF and the non-cash adjustments to the workers' compensation, increased by $649 million or 0.9 percent from the prior year. The Postal Service continues to expense the amount payable to the PSRHBF, although it remains unable to make the actual payment into the fund. The last Postal Service payment to the PSRHBF occurred in 2010.

Beginning in 1989, the law requires the Postal Service to pay the government's share of the premium for its own annuitants, which, in FY 2015, amounted to $3.1 billion. In 2006, the Office of Personnel Management (OPM) estimated that the Postal Service needed to generate $75 billion to cover benefits for all its current and future retirees. The 2006 Postal Accountability and Enhancement Act (PAEA) established the PSRHBF to collect these payments from the Postal Service. Until 2006, the Postal Service had $0 (i.e., zero, nothing) set aside to pay for its future retiree health benefits. In addition to the initial amount transferred from the Civil Service Retirement and Disability Fund of $17 billion into the PSRHBF upon enactment, the Postal Service paid $20.9 billion during the first 5 years after enactment of the 2006 law to meet this overly ambitious statutory requirement to prefund much of its future retiree health benefits. Presently, even though the Postal Service has not made any of the required prefunding payments in the past 5 years, there is $50.3 billion in the PSRHBF and a current unfunded amount of $54.8 billion (this is the portion that remains unpaid by the Postal Service).

Under current law, in addition to the Postal Service paying the normal cost amounts for retiree health benefits each year, the unfunded amount of $54.8 billion will be amortized over 40 years beginning in FY 2017. Also, in FY 2017, the PSRHBF starts paying the current year health benefits premiums.

From an operations standpoint, personnel costs increased by $1.5 billion in FY 2015 – a majority of which comprises compensation and retirement benefits. Compensation increased by $818 million while retirement benefits increased by $722 million. Compensation expenses grew over the previous year mainly due to the growth in Shipping and Package volumes, where, because of the size and shape of pieces, handling requires more workhours. An increase in wage rates also contributed to the growth in compensation expense, albeit to a lesser extent than the growth in workhours. As noted previously, retirement benefits expenses grew due to an OPM mandated increase in the agency annuity contribution rate for the FERS. Additionally, OPM notified the Postal Service that the FERS annuity account is underfunded by $3.6 billion as of the end of FY 2014. Under current law, the unfunded liability is to be amortized over 30 years, and this annual payment is estimated by OPM to be $241 million. The Postal Service has expensed this supplemental pension charge, but noted in its annual Form 10-K statement that it is reviewing OPM's underlying calculation regarding the unfunded pension estimate and has not yet paid this expense pending its review.

Summary: Significant Financial Obstacles for the Future

In summary, the Postal Service still faces significant financial obstacles for the future. Increases in revenues and subsequent higher liquidity are almost entirely due to the temporary Market Dominant product exigent surcharge. The additional revenue from Competitive products is not sufficient to offset the future revenue loss resulting from the termination of the exigent surcharge. The Postal Service is expected to collect all of the allowable additional revenue, $4.6 billion, from the exigent surcharge by April 2016, when it would then be removed. At that point, in order to maintain the operating net income it is currently achieving, the Postal Service will have to make up the loss of that revenue, which is approximately $2.1 billion annually. With the growing liability of retiree health benefits, the inability to borrow for needed capital investments, and the continued loss of high margin First-Class Mail revenues, the important task of improving the financial condition of the Postal Service is daunting. As noted, its liabilities exceed its assets by almost $50 billion.

Impact of Legislative and Regulatory Requirements

The Committee's invitation letter requested that the Commission's testimony also address "the impact of legislative and regulatory burdens placed on the USPS, including the Universal Service Obligation (USO), rate caps and requirements, and limits to new business."

The 2006 law restricted the Postal Service from offering nonpostal products and services except for a small number that were grandfathered in pursuant to 39 U.S.C. § 404(e). As a result, the Postal Service is limited to only offering postal products as defined by law and the Commission is responsible for reviewing and approving the Postal Service's request to add any new products and market tests.

Since the passage of the new law in 2006, the Commission has exercised its additional regulatory responsibilities and has now close to a decade of experience in its enhanced role. As Congress determined then that it was appropriate for the Commission to provide oversight of the Postal Service when introducing new postal products, Congress could similarly rely on the Commission now, with its demonstrated experience, to balance the issues of fair competition if it decides to expand the Postal Service's authority to introduce nonpostal products.

However, Congress' consideration of whether to allow the Postal Service to provide nonpostal services is in many ways linked to another matter that the Committee asked that this testimony address – the USO. Indeed, as it deliberates on this important issue, Congress will need to balance the existing expectations of a wholly government run postal administration chartered to provide universal mail service to all Americans with potential new nonpostal activities. And it will need to carefully resolve the question of how they relate to the obligation of universal service.

How does the United States define universal mail service? In 2008, the Commission, pursuant to law, determined that the USO has seven attributes: geography, range of products, access to facilities, delivery frequency, prices/affordability, quality of service, and users' rights (or enforcement).

Other nations have imposed universal service requirements directly on their postal operator by statute, regulation, licensing, or contract. Countries like Australia, Canada, and Germany – just to name a few – have a detailed definition of universal postal service, with specific standards for delivery and retail access. Unlike other countries, the Commission concluded that the USO in the United States is largely undefined and instead is comprised of a broad set of policy statements with only a few legislative proscriptions. Aside from the annual appropriations mandate for the past 33 years to provide 6 days of delivery, Congress has rarely established rigid, numerical standards of minimally acceptable service for any of the attributes identified by the

Commission. Rather, through its history, the Postal Service has been expected to use its flexibility to meet the needs and expectations of the Nation while balancing the delivery of service against budgetary constraints.

The cost of providing universal service in the U.S. is estimated by the Commission to be more than $4 billion annually. Title 39 U.S.C. § 3651(b)(1) requires the Commission to estimate in its *Annual Report to the President and Congress* the costs incurred by the Postal Service in providing three types of public services or activities: postal services to areas of the Nation the Postal Service would not otherwise serve; free or reduced rates for postal services as required by Title 39; and other public services or activities the Postal Service would not otherwise provide but for legal requirements. In the *Annual Report* issued earlier this month, the Commission estimated that the total of these three categories is $4.13 billion. Relevant to the Committee's request that this testimony address the impact of legislative requirements on the Postal Service, in November 2015, the Commission issued an order after conducting a public inquiry that outlines its interpretation of the third category of public services or activities the Postal Service would not otherwise provide but for legal requirements. In future Annual Reports, the Commission will apply this interpretation if it determines that the costs of additional public services or activities should be included under this third type.

Aside from the financial pressure of generating sufficient funds to remain solvent, the Postal Service must also worry about how to fund this $4 billion in universal service obligations. This obligation is in addition to those monies required to keep the mail moving, undertake capital investments, and pay other multibillion dollar obligations such as retiree costs.

In balancing all of these interests when assessing the current state of the Postal Service, policymakers should look at the fundamental issue of the USO and decide exactly what we as a Nation need from the Postal Service and – most importantly – how those expectations are to be funded.

In the absence of a clear definition, particularly given the Postal Service's current financial challenges, each of us may have a differing view of what the Postal Service must provide in its services and operations to fulfill the USO, and since there is no specific agreed upon definition, all of our views will have different price tags. Senator Carper's bill requires an assessment of the USO like the one completed in 2008, and I concur that further exploration of this fundamental question is warranted. The Commission recommended in its 2008 report "that Congress consider and balance all the features of universal service as part of any review of changes necessary to preserve a financially viable Postal Service."

In 2007, a Federal Trade Commission (FTC) report mandated by the PAEA examined the impacts of the universal service obligation on the Postal Service's competitive products market. See: *Accounting for Laws That Apply Differently to the United States Postal Service and Its Private Competitors, Federal Trade Commission, December 2007.* The FTC determined, based on 2006 financial results, that the USO ultimately put the Postal Service at an overall disadvantage in the Competitive product market. According to the FTC, the Postal Service benefited from an implicit subsidy of between $39-$117 million per year associated with avoided Federal, state, and local legal requirements. However, the legal restraints imposed on it by Federal regulations cost the Postal Service an estimated $330-$782 million a year in reduced efficiency, according to the FTC.

Concluding Observations

Despite the bad financial news, there is good news, even if it is hard to see or seems overwhelmed by the financial position of the Postal Service. There is still strength in the system.

The Postal Service is the one government agency that touches every American on a daily basis; it is an organization that literally serves 150 million American households and businesses on a typical day. It facilitates trillions of dollars in commerce. According to the Envelope Manufacturing Association Foundation's Institute of Postal Studies, its 2015 Mailing Industry Job Study found that the Postal Service supports a $1.4 trillion mailing industry that employs 7.5 million people. The Postal Service is the key cog of a marketing and distribution system through which small and large businesses, nonprofit organizations, and consumers can transact business, advertise services, and distribute products. It is a significant driver of the Nation's economic engine and an essential piece of its infrastructure.

Throughout its 240-year history, the Postal Service has endured multiple economic recessions and a Great Depression. It has dealt with numerous disasters, which have interfered with mail delivery and strained the infrastructure. It has responded to these immense challenges by adapting, often despite predictions of failure or even its demise in the face of competition from new technologies.

With the inherent and underlying strength of the system, today's Postal Service can survive these challenges too. The fundamental problem as outlined in the Commission's testimony today is that the Postal Service cannot currently generate sufficient funds to cover its mandated expenses and also invest in critically deferred capital needs, such as new delivery vehicles and package sortation equipment. Despite the very serious and real financial problems, let's also keep in mind the good news – the strength in the system – and take some degree of hope knowing that this is the foundation that Congress and the Administration can build upon to find solutions. The strength in the system will be the engine that ensures the Postal Service will continue to meet its basic mission to "deliver."

The pressing question is "What needs to be done to improve the financial condition of the Postal Service?" The Commission has made recommendations on modifying the retiree health benefits funding and the computation of the liabilities for both retiree health benefits and pensions through separate studies on those topics and also in our "*Section 701*" report. Section 701 of Title 39 mandates that the Commission at least every 5 years, submit a report to the President and Congress evaluating the operation of the changes made by the PAEA, and to make recommendations for any legislation or other measures necessary to improve the effectiveness and efficiency of our Nation's postal laws. The Commission issued its first *Section 701* report in 2011, and we are starting work on a new assessment to be issued later this year. Appendix A to this testimony is the Executive Summary from that 2011 report and outlines the

Commission's previous recommendations on retiree health benefits funding as well as other concerns.

As noted in the Committee's invitation letter, by law, after December 20, 2016, the Commission will review the price cap system for regulating Market Dominant products to determine if the system is achieving its statutory objectives and if it is not, to "make such modification or adopt such alternative system" to achieve the objectives. There are 9 objectives listed in the law that the modern rate regulation system must be designed to achieve, as well as 14 factors that the Commission must take into account. While each of the nine objectives must be applied in conjunction with the others, I would observe that relevant to the focus of today's hearing on Postal Service finances, objective number five is "[t]o assure adequate revenues, including retained earnings, to maintain financial stability."

The PAEA requires that in its *Annual Report to the President and Congress*, the Commission must address "the extent to which regulations are achieving the objectives" for the setting of Market Dominant and Competitive product rates. In the *Annual Report* issued earlier this month, the Commission stated that in regard to the Market Dominant objectives, "[The law] establishes a tension between the restrictions of an inflation-based price cap on Market Dominant price increases and the objective that the Postal Service must be self-sufficient and maintain financial stability. Furthermore, though the PAEA provides incentives via the price cap to reduce costs and increase efficiency, it also imposes personnel-related expenses requiring the pre-funding of future healthcare costs for Postal Service retirees."

There are no easy answers. But answer we must. I've outlined above some work that the Commission has completed and will be undertaking in this regard. The Commission stands ready to assist in your search for answers on behalf of our Nation's postal system and the more than 320 million Americans who depend on it.

On behalf of all four Commissioners and the entire hard working agency staff, thank you for the opportunity to testify today. I am happy to answer any questions.

Appendix A: Excerpt from the Commission's 2011 "section 701" report (September 22, 2011)

CHAPTER I: EXECUTIVE SUMMARY

This marks the Postal Regulatory Commission's (Commission) first report under section 701 of the Postal Accountability and Enhancement Act (PAEA) of 2006. That section directs the Commission to submit a report to the President and Congress, at least every five years, regarding how well the PAEA is operating and to recommend measures to improve the effectiveness and efficiency of postal laws.

The Commission recognizes the difficult environment that the Postal Service faces in 2011 and how it is starkly different from the environment that existed in 2006. At the time of the passage of the PAEA, the Postal Service's volume was growing and it was earning revenues that exceeded costs. However, the postal sector and the financial condition of the Postal Service have dramatically changed since the passage of the PAEA.

This report does not propose sweeping structural changes to the Postal Service or its universal service obligation. Instead, in fulfillment of its responsibilities under PAEA section 701, the Commission makes recommendations for improvements to postal laws within the framework of the PAEA (701 Report). These recommendations will enhance the Postal Service's flexibility, and help it to meet the challenges of today's difficult financial environment.

The report focuses on three main areas that the Commission has been closely involved with in the implementation of the PAEA.

1) The report addresses the financial situation of the Postal Service with recommendations on retirement funding and discusses transparency issues with regard to Postal Service annual reporting, including Sarbanes-Oxley Act compliance.
2) The report discusses rate and service matters, including the price cap, market dominant classes of mail, nonpostal services, negotiated service agreements and special classifications, service performance measurement, and market tests.

3) The report addresses enhancements to improve the Commission's processes, including post office closing procedures and the advisory opinion process.

With respect to financial and transparency issues, the Commission makes the following key recommendation:

- The Commission recommends that Congress adjust the current Postal Service Retiree Health Benefit Fund (PSRHBF) payment schedule. To assist in determining how to make an appropriate adjustment, the Commission provides actuarially sound alternative payment options for Congress to consider in keeping with the spirit of the law while adjusting the scheduled annual prefunding payments in recognition of the current liquidity challenges facing the Postal Service. The Commission also recommends that Congress consider the PAEA section 802(c) report on the Postal Service's Civil Service Retirement System liability as a potential remedy for the PSRHBF issues.

With respect to rate and service matters, the Commission makes the following key recommendations:

- The Commission recommends that the PAEA be enhanced by explicitly allowing the Postal Service to add new market dominant classes of mail. This legislative enhancement will allow the Postal Service to adapt to the rapidly changing needs of mail users and the postal system.

- If Congress decides to allow the Postal Service to offer new nonpostal services, those services should have appropriate regulatory oversight and review. Proper regulatory review and oversight will ensure that the Postal Service offers profitable, new nonpostal services and does not disrupt the competitive marketplace.

- The Commission recommends that Congress consider amending the statute by raising the maximum revenue limitation on market tests of experimental products to encourage innovation on a larger scale.

- Congress should consider clarifying the law to ensure that consultations with the Commission are required for changes to service standards.

- While the Commission has not vetted this concept, Congress should consider providing an opportunity for the Postal Service to achieve increased pricing authority by increasing quality of service. This will provide the Postal Service with a financial incentive to improve service and increase revenues.

With respect to enhancements to improve the Commission's processes, the Commission makes the following key recommendations:

- The Commission recommends that Congress consider requiring the Postal Service to provide regular reports to the Commission on its retail network plans and activities. In recognition of the Postal Service's current plans to realign its retail network, regular reporting on the Postal Service's retail network's closure and consolidation efforts to Congress, the public, and the Commission will further the PAEA goals of transparency and accountability.

- The Commission recommends that the scope of appellate review from Postal Service determinations to close Postal Service operated retail facilities be clarified and adopt the plain meaning of post office to include all retail offices operated by the Postal Service.

- The Commission recommends that Congress consider adding statutory language that would allow the Postal Service to obtain expedited consideration for time sensitive requests for advisory opinions on proposals to change service on a nationwide or substantially nationwide basis. Additionally, Congress should consider adding language to 39 U.S.C. 3661 requiring the Postal Service to provide a written response to Commission advisory opinions and submit its response to Congress prior to implementing such changes in service.

United States Government Accountability Office

GAO

Testimony
Before the Committee on Homeland Security and Governmental Affairs, U.S. Senate

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U.S. POSTAL SERVICE

Financial Challenges Continue

Statement of Lori Rectanus, Director, Physical Infrastructure Issues

GAO-16-268T

GAO Highlights

Highlights of GAO-16-268T, a testimony before the Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

USPS is a critical part of the nation's communication and commerce, delivering 154 billion pieces of mail in fiscal year 2015 to 155 million delivery points. However, USPS's mission of providing prompt, reliable and efficient universal services to the public is at risk due to its poor financial condition. USPS's net loss was $5.1 billion in fiscal year 2015, which was its ninth consecutive year of net losses. At the end of fiscal year 2015, USPS had $125 billion in unfunded liabilities, mostly for retiree health and pensions, and debt—an amount equal to 182 percent of USPS's revenues.

In July 2009, GAO added USPS's financial condition to its list of high-risk areas needing attention by Congress and the executive branch. USPS's financial condition remains on GAO's high-risk list. In previous reports, GAO has included strategies and options for USPS to generate revenue, reduce costs, increase the efficiency of its delivery operations, and restructure the funding of USPS pension and retiree health benefits. GAO has also previously reported that Congress and USPS need to reach agreement on a comprehensive package of actions to improve USPS's financial viability.

This testimony discusses (1) factors affecting USPS's deteriorating financial condition, (2) USPS's ability to make required retiree health and pension payments, and (3) choices Congress faces to address USPS's financial challenges. This testimony is based primarily on GAO's work over the past 5 years that examined USPS's financial condition—including its liabilities—and updated USPS financial information for fiscal year 2015.

View GAO-16-268T. For more information, contact Lori Rectanus at (202) 512-2834 or rectanusl@gao.gov.

January 21, 2016

U.S. POSTAL SERVICE

Financial Challenges Continue

What GAO Found

The U.S. Postal Service's (USPS) financial condition continues to deteriorate as a result of trends including:

- *Declining mail volume*: First-Class Mail—USPS's most profitable product—continues to decline in volume as communications and payments migrate to electronic alternatives. USPS expects this decline to continue for the foreseeable future.
- *Growing expenses:* Key USPS expenses continue to grow, such as salary increases and work hours due in part to growth in shipping and packages, which are more labor-intensive. Compensation and benefits comprise close to 80 percent of USPS's expenses.

USPS's financial condition makes it unlikely it will be able to fully make its required retiree health and pension payments in the near future. In fiscal year 2015, USPS was required to make $12.6 billion in retiree health and pension payments, but it only made $6.7 billion in payments as it did not make a required retiree health payment of $5.7 billion. USPS's required payments will be restructured in fiscal year 2017, with estimated payments totaling $11.3 billion—$4.6 billion more than what USPS paid in fiscal year 2015. USPS's ability to make these required payments will be further challenged due to:

- *Expiration of a temporary rate surcharge:* This surcharge on most postal rates effective January 2014, which has generated $3.6 billion in additional annual revenues through September 2015, is expected to expire April 2016.
- *No new major cost savings initiatives are planned.*

Large unfunded liabilities for postal retiree health and pension benefits—which were $78.9 billion at the end of fiscal year 2015—may ultimately place taxpayers, USPS employees, retirees, and their beneficiaries, and USPS itself at risk. As we have previously reported, funded benefits protect the future viability of an enterprise such as USPS by not saddling it with bills later after employees have retired. Further, since USPS retirees participate in the same health and pension benefit programs as other federal retirees, if USPS ultimately does not adequately fund these benefits, and if Congress wants these benefits to be maintained at current levels, funding from the U.S. Treasury, and hence the taxpayer, would be needed to continue the benefit levels. Alternatively, unfunded benefits could lead to pressure for reductions in benefits or in pay.

Congress faces difficult choices and tradeoffs to address USPS's financial challenges. The status quo is not sustainable. Considerations for Congress include the (1) level of postal services provided to the public and the affordability of those services, (2) compensation and benefits for USPS employees and retirees in an environment of revenue pressures, and (3) tension between USPS's dual roles as an independent establishment of the executive branch required to provide universal delivery service and as a self-financing entity operating in a businesslike manner.

Chairman Johnson, Ranking Member Carper, and Members of the Committee:

I appreciate the opportunity to be here today to discuss the varied challenges facing the U.S. Postal Service (USPS) and options for the Congress to address USPS's financial challenges. USPS is a critical part of the nation's communication and commerce, delivering 154 billion pieces of mail in fiscal year 2015 to about 155 million delivery points, and with more than 620,000 employees. USPS, however, faces a serious financial situation and does not have sufficient revenues to cover its expenses, putting its mission of providing prompt, reliable, and efficient universal services to the public at risk.[1] USPS continues to incur deficits that are unsustainable. Moreover, at the end of fiscal year 2015, USPS had about $125 billion in unfunded liabilities and debt, most of which were for retiree health and pension benefits. USPS continued to have $15 billion in outstanding debt—the statutory limit. These unfunded liabilities and debt are a large and growing financial burden, increasing from 99 percent of USPS revenues in fiscal year 2007 to 182 percent of revenues in fiscal year 2015. Unfunded benefit liabilities are the estimated amount USPS has not sufficiently set aside to cover the benefits earned by its current and retired employees that are attributable to service already rendered. USPS also recorded a net loss of $5.1 billion in fiscal year 2015—its ninth consecutive year of net losses. In July 2009, we added USPS's financial condition to our list of high-risk areas needing attention by Congress and the executive branch; USPS's financial condition continues to deteriorate and remains on our high-risk list.[2] As our high-risk report stated, we have previously included strategies and options for USPS to generate revenue, reduce costs, increase the efficiency of its delivery operations, and restructure the funding of USPS pension and retiree health benefits. We maintain that Congress and USPS need to reach agreement on a comprehensive package of actions to improve USPS's financial viability.

This testimony discusses (1) factors affecting USPS's continuing deteriorating financial condition, (2) USPS's ability to make required retiree health and pension payments, and (3) choices Congress faces to address USPS's financial challenges. This testimony is based primarily

[1] 39 U.S.C. § 101(a).

[2] GAO, *High-Risk Services: An Update*, GAO-15-290 (Washington, D.C.: Feb. 2015).

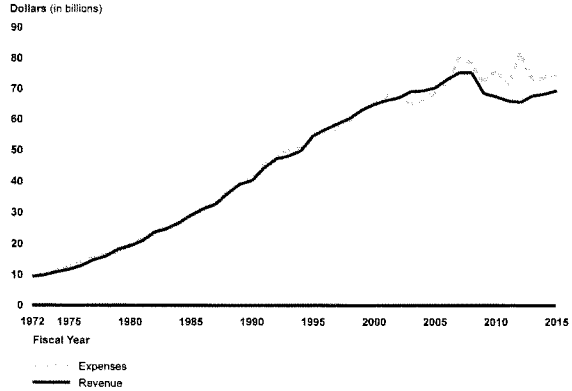
on reports and testimonies we issued in the past 5 years and that examined USPS's financial condition, including its liabilities.[3] The reports and testimonies cited in this statement contain detailed information on the methods used to conduct our work. For this testimony, we updated USPS financial information with results from fiscal year 2015, which ended September 30, 2015. We also used estimates, prepared by USPS and the Congressional Budget Office, of retiree health and pension payments that USPS would be legally required to make in fiscal year 2017. We found these estimates to be sufficiently reliable for providing a general description and estimate for the large, pending payments USPS faces. The work upon which this testimony is based was conducted 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Declining Mail Volume and Growing Expenses Contribute to USPS's Deteriorating Financial Condition

After about 30 years of relatively steady growth, USPS's expenses began consistently exceeding revenues in fiscal year 2007 (see fig. 1). As a result, USPS has lost a total of $56.8 billion since fiscal year 2007.

[3]GAO, *U.S. Postal Service: Action Needed to Address Unfunded Benefit Liabilities*, GAO-14-398T (Washington, D.C.: Mar. 13, 2014); *U.S. Postal Service: Health and Pension Benefits Proposals Involve Trade-offs*, GAO-13-872T (Washington, D.C.: Sept. 26, 2013); *U.S. Postal Service: Proposed Health Plan Could Improve Financial Condition, but Impact on Medicare and Other Issues Should be Weighed before Approval*, GAO-13-658 (Washington, D.C.: July 18, 2013); *U.S. Postal Service: Status, Financial Outlook, and Alternative Approaches to Fund Retiree Health Benefits*, GAO-13-112 (Washington, D.C.: Dec. 4, 2012); *Federal Employees' Compensation Act: Analysis of Proposed Program Changes*, GAO-13-108 (Washington, D.C.: Oct. 26, 2012); *U.S. Postal Service: Allocation of Responsibility for Pension Benefits between the Postal Service and the Federal Government*, GAO-12-146 (Washington, D.C.: Oct. 13, 2011); and *U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability*, GAO-10-455 (Washington, D.C.: Apr. 12, 2010).

Figure 1: USPS Revenue and Expenses, Fiscal Years 1972-2015



Source: U.S. Postal Service. | GAO-16-268T

The continued deterioration in USPS's financial condition is due primarily to two factors.

1. *Declining mail volumes:* USPS continues to face decreases in mail volume, its primary revenue source, as online communication and e-commerce expand. While remaining USPS's most profitable product, First-Class Mail volume in particular has significantly declined in recent years. For example, while total mail volume declined 27 percent from its peak in fiscal year 2006 (including a 1 percent decline in fiscal year 2015), First-Class Mail volume has declined to a greater extent—40 percent since its peak in fiscal year 2001 (with a 2 percent decline in fiscal year 2015).

   USPS reported that the most significant factor contributing to the decline in First-Class Mail volume is the continued migration toward electronic communication and transaction alternatives—a migration USPS expects to continue for the foreseeable future. USPS added that the decline in First-Class Mail was exacerbated by the Great Recession that the National Bureau of Economic Research reported as lasting from December 2007 to June 2009. In the long run, USPS faces the risk of increasing diversion of mail to electronic alternatives and the possibility of future economic downturns that could negatively affect mail volumes. USPS has reported that although increased shipping and package volume has offset some of the declines in mail volume, this volume has a smaller profit margin than First-Class Mail.[4] USPS will need to be efficient in its processing and delivery of packages to capitalize on growth in that market.

2. *Growing Expenses:* While mail volume has declined, USPS's operating expenses have been rising. USPS reported that its key operating expenses grew in fiscal year 2015—notably salary increases for unionized employees, as well as additional work hours, in part due to a 14.1 percent growth in shipping and packages, which are more labor intensive to process. Despite efficiency initiatives such as consolidation of 36 mail-processing facilities in 2015,[5] total employee work hours increased, and the size of USPS's career workforce increased slightly in fiscal year 2015—the first increase in the size of the career workforce since fiscal year 1999. Compensation and benefits comprise close to 80 percent of total USPS expenses. Thus, expenses will further grow if increases in salaries and work hours continue. According to USPS, increases in compensation and benefits costs (primarily from increased wages) will add $1.1 billion in additional costs in fiscal year 2016.

As previously discussed, USPS's unfunded liabilities and debt have become a large and growing financial burden, increasing from 99 percent of USPS revenues at the end of fiscal year 2007 to 182 percent of revenues at the end of fiscal year 2015 (see table 2 in app. I for more detail). At the end of fiscal year 2015, USPS's $125 billion in unfunded

[4]USPS said it must earn about $2.50 in Shipping and Packages revenue to replace the profitability lost from each $1 of First-Class Mail revenue because the costs of transporting and delivering packages are significantly higher than letters.

[5]Of the 36 mail-processing facilities consolidated in fiscal year 2015, USPS fully consolidated 15 of these facilities and partially consolidated 21 facilities.

liabilities and outstanding debt represented a $7.4 billion increase from the previous year.

In addition, reduced mail volumes and growing expenses have contributed to USPS's inability to fully meet its requirement to prefund retiree health benefits. The Postal Accountability and Enhancement Act (PAEA) established the Postal Service Retiree Health Benefits Fund and required USPS to begin prefunding health benefits for its current and future postal retirees, with annual payments of $5.4 billion to $5.8 billion from fiscal years 2007 through 2016, followed by actuarially determined prefunding payments beginning in 2017 and every year thereafter.[6] As of the end of fiscal year 2015, USPS's liability for retiree health benefits was about $105.2 billion and the Postal Service Retiree Health Benefits Fund balance was $50.3 billion, with a resulting unfunded liability of $54.8 billion. USPS has not made a prefunding payment since fiscal year 2011, with a total of $28.1 billion in missed payments. These missed payments represent about half of USPS's total losses since fiscal year 2007.[7] Even without the annual prefunding requirement, however, USPS would have still lost $10.8 billion during this time period. USPS has stated that it expects to miss its required prefunding payment of $5.8 billion due at the end of fiscal year 2016.

[6]Pub. L. 109-435, § 803, 120 Stat. 3198 (Dec. 20, 2006), codified at 5 U.S.C. § 8909a. Under the prefunding mechanism established by PAEA, as implemented by the Office of Personnel Management (OPM), USPS payments to OPM would be projected to fund the liability over a period in excess of 50 years, from fiscal years 2007 through 2056 and beyond (with rolling 15-year amortization periods after 2041). PAEA established "fixed" prepayment amounts—meaning that the amounts were set by statute and did not vary with actuarial measurements of the cost of the benefits—in the first 10 years, from fiscal years 2007 through 2016, with actuarially determined payments thereafter. However, the payments required by PAEA were significantly "frontloaded," with the fixed payment amounts in the first 10 years exceeding what actuarially determined amounts would have been using a 50-year amortization schedule. For more detail, see GAO-13-112.

[7]For financial reporting purposes, missed prefunding payments are treated as USPS expenses and reported as a liability on its balance sheet.

USPS Will Remain Unlikely to Fully Make Required Retiree Health and Pension Payments

USPS will remain unlikely to fully make its required retiree health and pension payments in the near future. Beginning in fiscal year 2017, USPS's payments will be restructured as it will no longer be required to make fixed prefunding payments, but will be required to start making annual payments based on actuarial determinations of the following component costs:

- a 40-year amortization schedule to address the unfunded liabilities for postal retiree health benefits,
- the "normal costs" of retiree health benefits for current employees,[8] and
- a 27-year amortization schedule to address the unfunded liabilities for postal pension benefits under the Civil Service Retirement System (CSRS).

These payments are in addition to annual payments USPS is already required to make to finance its pension benefits under the Federal Employees Retirement System (FERS), which consists of a 30-year amortization schedule to address any unfunded liabilities, and the normal costs of FERS benefits for current employees. USPS will find it very difficult to make all of these required payments given its financial condition and outlook. As table 1 below shows, in fiscal year 2017, USPS will be required to make an estimated total of $11.3 billion in payments for retiree health and pension benefits under CSRS and FERS—about $4.6 billion more than what USPS paid in fiscal year 2015 for these benefit programs.

[8]The "normal cost" is the annual expected growth in liability attributable to an additional year of employees' service.

Table 1: U.S. Postal Service (USPS) Payments for Retiree Health and Pensions, Fiscal Years 2015 and 2017 (Dollars in Billions)

USPS payment	Fiscal year 2015 - Required	Fiscal year 2015 - paid	Fiscal year 2017 - required (estimate)
Retiree health benefits			
Health premiums	$3.1	$3.1	Not applicable
Fixed prefunding	$5.7	$0	Not applicable
Normal cost	Not applicable	Not applicable	$2.5
Amortization	Not applicable	Not applicable	$3.5
Pension benefits			
Civil Service Retirement System (CSRS)			
Amortization	Not applicable	Not applicable	$1.6
Federal Employees Retirement System (FERS)			
Normal cost	$3.6	$3.6	$3.5
Amortization	$0.2	$0	$0.2
Total	**$12.6**	**$6.7**	**$11.3**

Source: The U.S. Postal Service (USPS) and the Congressional Budget Office (CBO). | GAO-16-268T

Note: USPS's required payments in fiscal year 2016 include a statutory required payment of $5.8 billion to prefund retiree health benefits. Other USPS required payments for fiscal year 2016 are expected to be similar to those required in fiscal year 2015 and are therefore not shown above. To develop USPS's required estimated payments that begin in fiscal year 2017, we used publicly reported data to the extent possible, which were drawn from a July 2014 CBO report that estimated USPS's required retiree health and CSRS payments under current law. The July 2014 report, however, did not include an estimate for USPS's fiscal year 2017 FERS payment. We subsequently requested and obtained this estimate from USPS. In addition, USPS has not made its fiscal year 2015 FERS amortization payment of $241 million and has a pending request that OPM reconsider this amount.

In addition to declining mail volumes and increased expenses, USPS's ability to make its required payments for these retirement programs will be further challenged due to:

- *Expiration of a temporary rate surcharge:* USPS reported that it generated $2.1 billion in additional revenue during fiscal year 2015 and $1.4 billion in additional revenue in fiscal year 2014 as a result of a 4.3 percent "exigent" surcharge[9] that began in January 2014. However, USPS expects this surcharge to be discontinued around April 2016, when the surcharge is expected to have contributed $4.6 billion in total additional revenue. USPS expects its additional revenue from the exigent surcharge to be about $1.1 billion in fiscal year 2016, with no additional revenue in fiscal year 2017, as the surcharge will have expired. USPS recently reported that the expiration of the exigent surcharge will have an adverse impact on its future operating revenue and liquidity, and that its actions to increase efficiency, reduce costs, and generate additional revenue may be insufficient to meet all of its financial obligations or to carry out its strategy.

- *No new major cost-savings initiatives planned.* USPS has no current plans to initiate new major initiatives to achieve cost savings in its operations.

USPS officials recently told us that it is not yet known whether USPS will have sufficient financial resources to make all or a portion of its legally-required payments for retiree health and pension benefits at the time that they become due. USPS further reported that without structural change to its business model, absent legislative change,[10] it expects continuing losses and liquidity challenges for the foreseeable future.

Large unfunded liabilities for postal retiree health and pension benefits—which were $78.9 billion at the end of fiscal year 2015—may ultimately place taxpayers, USPS employees, retirees and their beneficiaries, and USPS itself at risk. As we have previously reported, funded benefits protect the future viability of an enterprise such as USPS by not saddling it with bills later after employees have retired.[11] Further, since USPS

[9]In December 2013, the Postal Regulatory Commission (PRC) approved USPS's request for an "exigent surcharge" which allowed USPS to raise postal rates for most mail above the statutory price cap that is generally limited to the rate of inflation, except under extraordinary or exceptional circumstances that necessitate a larger rate increase. In July 2015, PRC ruled that USPS could continue the surcharge until it collects $4.6 billion in incremental revenue, which represents USPS's approximate loss due to the suppression of mail experienced during the Great Recession.

[10]For example, USPS has proposed requiring postal retirees to participate in Medicare when they become eligible. This proposal would reduce USPS's expenses—and unfunded liability—for retiree health benefits because Medicare would become the primary insurer for all postal retirees.

[11]GAO-13-112.

retirees participate in the same health and pension benefit programs as other federal retirees, if USPS ultimately does not adequately fund these benefits and if Congress wants these benefits to be maintained at current levels, funding from the U.S. Treasury, and hence the taxpayer, would be needed to continue the benefit levels. Alternatively, unfunded benefits could lead to pressure for reductions in benefits or in pay. Thus, the timely funding of benefits protects USPS employees, retirees, beneficiaries, taxpayers, and the USPS enterprise.

Congress Faces Difficult Choices to Address USPS's Financial Condition

USPS's financial situation leaves Congress with difficult choices and trade-offs to achieve the broad-based restructuring that will be necessary for USPS to become financially sustainable. USPS's ability to make its required retiree health and pension payments requires a decrease in expenses or increase in revenues, or both. As we have previously reported, USPS's actions alone under its existing authority will be insufficient to achieve sustainable financial viability; comprehensive legislation will be needed.[12] Congressional decisions about how to address the following issues will shape USPS's future role, services, operations, networks, and ability to adapt to changes in mail volume. In making these decisions, Congress could consider, among other things, the following factors.

- *The level of postal services and the affordability of those services:* USPS's growing financial difficulties combined with vast changes in how people communicate provide Congress with an opportunity to consider what postal services will be needed in the 21st century. Specifically, Congress could consider what postal services should be provided on a universal basis to meet customer needs and how these services should be provided. Congress also could consider trade-offs in reducing the level of postal services, such as providing USPS with the authority to reduce the frequency of letter mail delivery, to enable USPS to reduce its expenses. A key factor in any consideration to reduce postal services would include potential effects on postal customers, mail volumes, and employees. In particular, Congress could consider the quality of postal service—such as the frequency and speed of mail delivery and the accessibility and scope of retail postal services—in considering any service reduction. In January

[12]GAO-15-290.

2015, for example, USPS revised its standards for on-time mail delivery by increasing the number of days for some mail to be delivered and still be considered on time. However, under the revised delivery standards, the percentage of mail delivered on time declined for many types of mail, such as First-Class Mail and Periodicals. USPS attributed declines in delivery performance to operational changes it implemented in January 2015 coupled with adverse winter weather.

- *Compensation and benefits in an environment of revenue pressures:* Key compensation and benefits costs have increased and continue to increase for USPS employees, while demand for USPS's main revenue source, mail and First-Class Mail in particular, has declined and continues to decline. Further, the exigent rate increase mentioned above is expected to expire in April 2016. To put USPS's situation into context, many private sector companies (such as automobile companies, airlines, mail preparation and printing companies, and major newspapers) took far-reaching measures to cut costs (such as reducing or stabilizing workforce, salaries, and benefits) when the demand of their central product and services declined. However, although USPS also has taken a range of cost-cutting measures, USPS has stated that its strategies to increase efficiency and reduce costs by adjusting its network, infrastructure, and workforce and to retain and grow revenue are currently constrained by statutory, contractual, regulatory, and political restrictions. For example, USPS does not administer its employees' pension, health, and workers' compensation benefits programs, and postal rates are regulated by the Postal Regulatory Commission, with rate increases for most mail limited by an inflation-based price cap. Most USPS employees are covered by collective bargaining agreements with four major labor unions which have established salary increases, cost-of-living adjustments, and the share of health insurance premiums paid by employees and USPS. When USPS and its unions are unable to agree, the parties are required to enter into binding arbitration by a third-party panel. There is no statutory requirement for USPS's financial condition to be considered in arbitration. Considering USPS's poor and deteriorating financial condition and the competitive environment, we continue to believe—as we reported in 2010[13]—that Congress should consider revising the statutory framework for

[13]GAO-10-455.

collective bargaining to ensure that USPS's financial condition be considered in binding arbitration.

- *USPS's dual role of providing affordable universal service while remaining self-financing:* As an independent establishment of the executive branch, USPS has long been expected to provide affordable, quality, universal delivery service to all parts of the country while remaining self-financing. USPS and other stakeholders have considered a range of different business models to address USPS's financial difficulties. For example, USPS's 2002 Transformation Plan included a range of alternatives from a publicly-supported model to a business model with a corporate structure supported by shareholders. An alternative business model, if any, would need to address the level of any costs that would be transferred from USPS, which is financed by postal ratepayers, to the federal government, which is funded by taxpayers. In addition, if Congress requires eligible postal retirees to participate in Medicare, as USPS has previously proposed, it should consider the tradeoffs for the federal budget deficit and Medicare's financial condition, as well as the implications for affected employees.[14]

Finally, a fully functioning USPS Board of Governors is needed to support USPS's ability to carry out its critical responsibilities. USPS's 11-seat Board of Governors is required by law to have a quorum of six members in order to take certain actions. Because two Governors left the Board in December 2015 due to term limits, the Board currently consists of only one Governor (who will not be able to serve past December 2016), the Postmaster General, and the Deputy Postmaster General. Certain powers are reserved to the Governors. USPS has reported that although the inability of the Board to constitute a quorum does not inhibit or affect the authority of the Governors in office from exercising those powers, it is not apparent how those powers could be exercised if there were no Governors. According to USPS, the critical responsibilities reserved to the Governors are setting postal prices, approving new products, and appointing or removing the Postmaster General and the Deputy Postmaster General. USPS has stated that in the event no Governors are in place, these critical duties may not be able to be executed, potentially leaving USPS without the ability to adjust its prices as needed, introduce new products, or appoint or replace its two most senior executive officers.

[14]GAO-13-658.

In conclusion, USPS management, unions, the public, community leaders, and Members of Congress need to take a hard look at what level of postal services residents and businesses need and can afford. The status quo is not sustainable.

Chairman Johnson, Ranking Member Carper, and Members of the Committee, this concludes my prepared statement. I would be pleased to answer any questions that you may have at this time.

GAO Contact and Key Acknowledgments

For further information about this statement, please contact Lori Rectanus, Director, Physical Infrastructure Issues, at (202) 512-2834 or rectanusl@gao.gov. Contact points for our Congressional Relations and Public Affairs offices may be found on the last page of this statement. In addition to the contact named above, Frank Todisco, Chief Actuary, FSA, MAAA, EA, Applied Research and Methods; Teresa Anderson; Samer Abbas; Kenneth John; Faye Morrison; and Crystal Wesco made important contributions to this statement. Mr. Todisco meets the qualification standards of the American Academy of Actuaries to render the actuarial opinions contained in this testimony.

Appendix I: U.S. Postal Service (USPS) Financial Obligations and Related Information

Table 2: Selected USPS Liabilities and Outstanding Debt (Dollars in Billions)

	Selected USPS liabilities (Included on USPS balance sheet)			**Funded Status of Retiree Health and Pension Funds (Not fully included in USPS Balance Sheet)**			**Totals**			
Fiscal year	Outstanding debt	Workers' compensation liabilities	Other liabilities	Funded status for retiree health benefits (unfunded)	Funded status for CSRS (unfunded)	Funded status for FERS (unfunded)	**Total USPS balance sheet assets**	**Total USPS liabilities, debt, and unfunded obligations**	**Total USPS revenue**	Unfunded obligations, liabilities, and debt as percentage of revenue
2007	(4.2)	(7.7)	(12.7)	(55.0)	(3.1)	8.4	**25.8**	**(74.3)**	**75.0**	99%
2008	(7.2)	(8.0)	(12.5)	(53.5)	(9.0)	6.5	**26.0**	**(83.7)**	**75.0**	112%
2009	(10.2)	(10.1)	(13.2)	(52.0)	(7.3)	6.9	**28.1**	**(85.9)**	**68.1**	126%
2010	(12.0)	(12.6)	(13.6)	(48.6)	1.6	10.9	**24.3**	**(74.3)**	**67.1**	111%
2011	(13.0)	(15.1)	(14.2)	(46.2)	(17.8)	2.6	**23.4**	**(103.7)**	**65.7**	158%
2012	(15.0)	(17.6)	(13.7)	(47.9)	(18.8)	0.9	**22.6**	**(112.1)**	**65.2**	172%
2013	(15.0)	(17.2)	(12.5)	(48.3)	(17.8)	(0.1)	**21.6**	**(110.9)**	**67.3**	165%
2014	(15.0)	(18.4)	(12.5)	(48.9)	(19.4)	(3.6)	**23.0**	**(117.8)**	**67.9**	174%
2015	(15.0)	(18.8)	(12.5)	(54.8)	(20.4)	(3.7)	**24.0**	**(125.2)**	**69.0**	182%

Source: U.S. Postal Service (USPS) Form 10-K Statements. | GAO-16-268T

Note: This table provides data on selected USPS liabilities and outstanding debt at the end of each fiscal year as reported by USPS and the Office of Personnel Management (OPM). Key terms include the following:

Selected USPS liabilities include outstanding debt and workers' compensation liabilities, and other miscellaneous liabilities on USPS's balance sheet such as deferred revenue-prepaid postage, payables and accrued expenses, compensation and benefits liabilities (e.g., wages that have been earned but not yet paid as of the end of the fiscal year), and the value of employees' accumulated leave. Not included is the current liability for the statutory Postal Service Retiree Health Benefits Fund (PSRHBF) payments not yet paid by USPS, which is a component of the unfunded liability for retiree health benefits, and is also highlighted in Table 4 in the "Subtotal" line for the column labeled "Missed/future USPS prefunding payments."

Outstanding debt is total USPS short-term and long-term debt.

USPS liabilities for workers' compensation are the actuarial present value of future workers' compensation payments that USPS is estimated to have to make for injuries that have already occurred.

Unfunded actuarial liabilities for retiree health benefits are OPM estimates as of the end of each fiscal year. The unfunded liabilities are the excess of liabilities over funded assets. The liabilities represent the actuarial present value of the cost of the portion of future retiree health premiums for which USPS is responsible and that are attributable to past service; these liabilities reflect all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs for current workers. The portion ($28.1 billion) of the 2015 $54.8 billion unfunded liability that is attributable to the missed prefunding payments is reflected as such on USPS's balance sheet; the remainder ($26.7 billion) of the $54.8 billion unfunded liability is not on USPS's balance sheet.

Unfunded Civil Service Retirement System (CSRS) and Federal Employee Retirement System (FERS) actuarial liabilities are OPM estimates as of the end of each fiscal year. The unfunded liabilities are the excess of liabilities over funded assets. The liabilities represent the actuarial present value of the cost of future retiree pension benefits for which USPS is responsible and that are attributed to past service; these liabilities reflect all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs (in excess of worker contributions) for current workers.

Unfunded obligations, liabilities, and debt are the sum of the unfunded actuarial liabilities (obligations), USPS liabilities, and debt shown in this table.

Total USPS revenue consists of total USPS operating revenue plus interest and investment income for each fiscal year.

Total assets consist of current assets including cash and noncurrent assets largely comprising property and equipment measured at historic purchase value after depreciation. This does not include assets funding the retiree health and pension benefits.

Table 3: Funded Status of USPS Pension Obligations (Dollars in Billions)

	CSRS Funded Status			**FERS Funded Status**			**Total USPS Pension Funded Status**		
Fiscal year	CSRS assets	CSRS actuarial liabilities	Net CSRS funded Status (unfunded)	FERS assets	FERS actuarial liabilities	Net FERS funded status (unfunded)	Pension assets	Pension actuarial liabilities	**Total pension funded status (unfunded)**
2007	193.8	196.9	(3.1)	63.5	55.1	8.4	257.3	252.0	**5.3**
2008	195.1	204.1	(9.0)	69.3	62.8	6.5	264.4	266.9	**(2.5)**
2009	195.3	202.6	(7.3)	75.2	68.3	6.9	270.5	270.9	**(0.4)**
2010	194.6	193.0	1.6	80.8	69.9	10.9	275.4	262.9	**12.5**
2011	193.0	210.8	(17.8)	86.6	84.0	2.6	279.6	294.8	**(15.2)**
2012	190.7	209.5	(18.8)	91.7	90.8	0.9	282.4	300.3	**(17.9)**
2013	186.6	204.4	(17.8)	96.5	96.6	(0.1)	283.1	301.0	**(17.9)**
2014	182.1	201.5	(19.4)	100.9	104.5	(3.6)	283.0	306.0	**(23.0)**
Projected 2015	179.2	199.6	(20.4)	107.6	111.3	(3.7)	286.8	310.9	**(24.1)**

Source: U.S. Postal Service (USPS) Form 10-K Statements. | GAO-16-268T

Note: This table provides the Office of Personnel Management's (OPM) estimation of the funded status of the Civil Service Retirement System (CSRS) and Federal Employee Retirement System (FERS) programs for USPS, as of the end of each fiscal year. Data are actual amounts for fiscal years 2007-2014 and projected amounts for fiscal year 2015. Key terms include the following:

Assets include securities of the Civil Service Retirement and Disability Fund (CSRDF). Although CSRDF is a single fund and does not maintain separate accounts for individual agencies, Pub. L. 109-435 requires the asset disclosures shown in this table as if the funds were separate.

Actuarial Liabilities are actual amounts for fiscal years 2007-2014 and projected amounts for fiscal year 2015, as of the end of each fiscal year. These data are prepared by OPM and represent the actuarial present value of the cost of future retiree pension benefits for which USPS is responsible and that are attributed to past service; these liabilities reflect all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs for current workers.

Net funded status equals assets minus liabilities.

Table 4: USPS Retiree Health Benefits Funded Status (Dollars in Billions)

Fiscal year	Beginning of year assets	One-time transfer from CSRS pension fund	One-time transfer from USPS escrow	USPS prefunding payment	Interest earned	End of year assets	End of year actuarial liabilities	End of year net funded status (unfunded)	Missed/future USPS prefunding payments
2007	0.0	17.1	3.0	5.4	0.3	25.7			0.0
2008	25.7			5.6	1.3	32.6	86.1	(53.5)	0.0
2009	32.6			1.4	1.5	35.5	87.5	(52.0)	0.0
2010	35.5			5.5	1.5	42.5	91.1	(48.6)	0.0
2011	42.5			0.0	1.6	44.1	90.3	(46.2)	0.0
2012	44.1			0.0	1.6	45.7	93.6	(47.9)	11.1
2013	45.7			0.0	1.6	47.3	95.6	(48.3)	5.6
2014	47.3			0.0	1.5	48.9	97.7	(48.9)	5.7
2015	48.9			0.0	1.5	50.3	105.2	(54.8)	5.7
Subtotal				17.9	12.4				28.1
2016	NA			N/A	N/A	N/A	N/A	N/A	5.8
Total	**N/A**			**17.9**	**12.4**	**N/A**	**N/A**	**N/A**	**33.9**

Source: U.S. Postal Service (USPS) Form 10-K Statements. | GAO-16-268T

Note: This table provides the Office of Personnel Management's (OPM) estimation of the funded status of USPS obligations for retiree health benefits. Data for assets, liabilities, and net funded status are actual amounts for fiscal years 2007-2014 and projected amounts for fiscal year 2015. Key terms include the following:

Assets include securities of the PSRHBF, which is managed by OPM.

Actuarial Liabilities represent the actuarial present value of the cost of the portion of future retiree health premiums for which USPS is responsible and that are attributable to past service; these liabilities reflect all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs for current workers.

Net funded status equals assets minus liabilities.

One-Time Transfer from the Civil Service Retirement System (CSRS) Pension Fund: The Postal Accountability and Enhancement Act (PAEA - Pub. L. 109-435, enacted Dec. 20, 2006) established the PSRHBF and directed OPM to determine any USPS surplus for CSRS obligations as of Sept. 30, 2006, and to transfer this amount from the Civil Service Retirement and Disability Fund (CSRDF) into the PSRHBF by June 30, 2007.

One-Time Transfer from USPS Escrow Fund: PAEA required USPS to transfer the escrow funds resulting from the Postal Civil Service Retirement System Funding Reform Act of 2003 (Pub. L. 108-18), which reduced USPS's CSRS payments and required these reductions to be placed into escrow.

USPS prefunding payments are statutory payments established by PAEA that are due from USPS to the PSRHBF. Subsequent congressional action reduced the 2009 prefunding payment from $5.4 billion to $1.4 billion and delayed $5.5 billion from fiscal year 2011 to fiscal year 2012, resulting in a requirement to pay $11.1 billion in fiscal year 2012. See 5 U.S.C § 8909a(d)(3)(A).

Missed Prefunding Payments have not been made by USPS and remain as current liabilities on USPS's balance sheet. These amounts are reflected in this table through a lower asset total and higher net unfunded liability than would have occurred if the prefunding payments were made.

Future Prefunding Payments are statutory payments due by the end of each fiscal year. USPS has reported that it expects not to make these payments.

Table 5: Summary of USPS Pension and Retiree Health Benefit Funds (Dollars in Billions)

	Total USPS Pension Funded Status			USPS Retiree Health Benefits Fund Status			Total Pension & RHB Summary		
Fiscal year	Total pension assets	Total pension actuarial liabilities	Total pension funded status (unfunded)	End of year assets	End of year actuarial liabilities	End of year net funded status (unfunded)	Total assets	Total actuarial liabilities	Pension and retiree health benefit funded status
2007	**257.3**	**252.0**	**5.3**	25.7	80.8	(55.0)	**283.0**	**332.8**	**(49.7)**
2008	**264.4**	**266.9**	**(2.5)**	32.6	86.1	(53.5)	**297.0**	**353.0**	**(56.0)**
2009	**270.5**	**270.9**	**(0.4)**	35.5	87.5	(52.0)	**306.0**	**358.4**	**(52.4)**
2010	**275.4**	**262.9**	**12.5**	42.5	91.1	(48.6)	**317.9**	**354.0**	**(36.1)**
2011	**279.6**	**294.8**	**(15.2)**	44.1	90.3	(46.2)	**323.7**	**385.1**	**(61.4)**
2012	**282.4**	**300.3**	**(17.9)**	45.7	93.6	(47.9)	**328.1**	**393.9**	**(65.8)**
2013	**283.1**	**301.0**	**(17.9)**	47.3	95.6	(48.3)	**330.4**	**396.6**	**(66.2)**
2014	**283.0**	**306.0**	**(23.0)**	48.9	97.7	(48.9)	**331.9**	**403.7**	**(71.9)**
2015	**286.8**	**310.9**	**(24.1)**	50.3	105.2	(54.8)	**337.1**	**416.1**	**(78.9)**

Source: U.S. Postal Service (USPS) Form 10-K Statements. | GAO-16-268T

Note: This table provides the Office of Personnel Management's (OPM) estimation of the funded status of USPS obligations for pensions and retiree health benefits. Data for assets, liabilities, and net funded status are actual amounts for fiscal years 2007-2014 and projected amounts for fiscal year 2015. Key terms include the following:

Assets include securities of the Civil Service Retirement and Disability Fund (CSRDF) and the Postal Service Retiree Health Benefits Fund (PSRHBF). Although CSRDF is a single fund and does not maintain separate accounts for individual agencies, Pub. L. 109-435 requires the asset disclosures shown in this table as if the funds were separate.

Actuarial Liabilities are actual amounts for fiscal years 2007-2014 and projected amounts for fiscal year 2015, as of the end of each fiscal year. These data are prepared by OPM and represent the actuarial present value of the cost of future retiree pension and health benefits costs for which USPS is responsible and that are attributed to past service; these liabilities reflect all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs for current workers.

Net funded status equals assets minus liabilities.

Hearing before the Committee on Homeland Security and Governmental Affairs United States Senate

Oral Statement

Laying Out the Reality of the United States Postal Service

January 21, 2016

David C. Williams
Inspector General
United States Postal Service

Mr. Chairman, there are two sharply opposing views of the reality facing the Postal Service, and judgments are difficult to make when viewing ongoing financial data through the distorted lens of prefunding expenses.

The first view is that the financial situation is dire and that the Postal Service's mission is antiquated:

- The Postal Service is losing more than $5 billion every year and has exhausted its $15 billion borrowing limit.
- First-Class Mail volume, which has always supported the network, is in decline and will never return.
- The Postal Service owes nearly $100 billion in unfunded liabilities for retiree benefits and workers' compensation.

The second view is more elaborate:

- The Postal Service has weathered the storm of digital disruption with much opportunity on its horizon. Technological advances are paradoxically creating new societal needs that the Postal Service's extensive network is uniquely positioned to fulfill regarding 1) e-commerce, 2) e-government, and 3) coming smart infrastructure services. For example, the Postal Service 1) could provide physical transaction points for industries that have gone partially virtual and 2) offer neighborhood logistics support for emerging smart cities.

- Secondly, the Postal Service ended 2015 with more cash reserves than it has had for many years — $6.6 billion. It has set aside an unprecedented $337 billion and possesses significant real estate assets to meet future contingencies.
- The $15 billion Treasury debt is entirely due to required payments for distant and vacillating future retiree health obligations.

It is very difficult to decide what is actually needed to stabilize the infrastructure when prefunding activities are commingled with actual ongoing financial operating data. The arbitrary $5 billion prefunding payments show up as annual losses in financial statements even if no cash is spent. Most stakeholders are simply lost attempting to understand postal financial reports. The Postal Service either made a controllable profit of $1.2 billion last year or lost $5.1 billion. Since 2007, did the Postal Service make more than $1 billion or lose nearly $57 billion? Decisions are extremely difficult with this kind of seemingly conflicting data. And these numbers do not include the neglect of infrastructure investment or that some savings were achieved through service cuts.

The Postal Service had historically been required to break even, so there was no extra money when the sudden 2006 PAEA mandate of $5 billion annual prefunding payments went into effect. A CPI price cap and prohibitions against entering new business lines or closing certain facilities barred the Postal Service from attacking these problems using normal business strategies such as price increases, rightsizing, or product diversification that are available to the other world posts and private express carriers.

The Postal Service's survival is a tribute to the men and women working there, as well as, the American people who demand that we, like every other nation, have a Postal Service infrastructure to connect the world to their homes and workplaces.

Legislative efforts to provide relief for the Postal Service have failed for the last 6 years, but recent legislative proposals offer some needed solutions:

- Replacing the arbitrary retiree health prefunding schedule with actuarially based payments will make prefunding retiree health payments more affordable for the Postal Service and improve the transparency of financial reporting.
- Proposed Medicare changes for postal retirees will likely eliminate much of the remaining unfunded retiree health care liabilities.
- Another useful proposal is to permit the Postal Service to explore offering modernized services in response to changing citizen needs and to enable private sector strategies. Collaboration between the Postal Service and private sector partners has worked well — a good deal for citizens and a great deal for American businesses.
- Finally, a more flexible, responsive pricing regime is needed to help ensure the Postal Service's financial stability at a time of rapid change.

In recent years, stakeholders have been starved for clear information, causing confusion about the road ahead for the Postal Service. In this age of extraordinary threats and game-changing opportunities, other nations are not confused. Other world posts are racing to support innovators, citizens, and businesses. The United States cannot afford to stagnate in decisions regarding investments for its public infrastructures, if we hope to enable citizens and maintain our leading position among nations.

Statement by

James E. Millstein

Chief Executive Officer

Millstein & Co.

before the

Committee on Homeland Security and Governmental Affairs

United States Senate

January 21, 2016

Introduction

Chairman Johnson, Ranking Member Carper, members of the Committee, thank you for the opportunity to testify on the current status and possible restructuring alternatives for the United States Postal Service ("USPS" or the "Postal Service").

I have spent the entirety of my thirty-four year professional career – as a lawyer, banker and public servant – in the restructuring business. I have participated in the design and implementation of the restructuring of public companies as diverse as American Airlines and Charter Communications in the United States, Cadillac Fairview in Canada, EuroDisney and Marconi in Europe, and Daewoo Corporation in Korea. During the recent financial crisis, I served as the Chief Restructuring Officer of the US Department of the Treasury. In that role, my primary responsibility was the design and implementation of the restructuring of the Department's TARP investments in each of AIG and Ally Financial. Although there were many doubters at the time, in each of those cases, taxpayers not only recovered the substantial sums they invested to keep those companies from collapse, but also earned significant profits.

In addition, as some of you may know, my firm is currently working with the Commonwealth of Puerto Rico, assisting it in the development of both a fiscal adjustment plan to right size its budget and a debt restructuring plan to restructure its debt.

I am here today because the Postal Service is in trouble, requiring both an operational and financial restructuring to restore its ability to meet its obligations in the ordinary course of business and to deal with the challenges of a very rapidly changing market for its products and services. Since Benjamin Franklin served as the first Postmaster General in 1775, the Postal Service has played an essential role in U.S. commerce and communication, but today's Postal Service faces market, technological and regulatory challenges that Ben Franklin could not even have imagined. Some of these challenges require immediate fixes; others can be handled in more deliberate fashion – after further study and public debate. But no one should leave this hearing today thinking that immediate action can be deferred: the Postal Service is in imminent danger of running out of money as a result of an antiquated pricing structure that has left it without adequate revenues to cover its operating costs and a statutorily-imposed financial burden that it cannot possibly meet.

I. History of the USPS and the origin of the Mailbox Monopoly and the Universal Service Obligation

In 1970, Congress passed the Postal Reorganization Act, establishing the U.S. Postal Service as a self-supporting independent agency with an official "monopoly" on physical mail delivery. The USPS funds its operations through the sale of postage and postal products and services, with minimal appropriations from the U.S. Government.[1] The requirement to deliver all mail to and from the entire population of the U.S. and military personnel living abroad at uniform prices (rates are based solely on weight, not distance) is called the universal service obligation ("USO"). The USO covers all types of physical mail (from postcards to packages) but the Postal

[1] The U.S. Government appropriates approximately $90 million per year (~0.1% of the USPS's operating budget) to fund mailing service for blind citizens, as well as absentee ballots.

Service's ability to set prices so as to cover all of its costs of maintaining a nationwide delivery network has been severely constrained. The 2006 Postal Accountability and Enhancement Act ("PAEA") broke its mail products into two broad categories as to which two separate pricing regimes were imposed: Competitive Mail (e.g., Priority Mail, First-Class Package) and Market-Dominant Mail (e.g., First-Class Mail, Standard Mail). The 2006 Postal Accountability and Enhancement Act defines the two categories as follows:

> The market-dominant category of products shall consist of each product in the sale of which the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products. The competitive category of products shall consist of all other products.

While it may have been debatable whether the Postal Service had monopoly power in any of its product markets in 2006, the extent and diversity of products and services that compete with First Class and Standard Mail in 2016 put into serious question whether the Postal Service has any monopoly power at all. If it doesn't have any such power, then the entire premise of current regulation needs to be seriously rethought, as the regulatory constraints on its product pricing and operational flexibility may be slowly but surely choking the Postal Service to death. Therefore, a question for further but urgent study is whether the regulatory structure created under the PAEA has outgrown its utility and should be replaced with a more flexible system. Moreover, in an era of widely-available internet connectivity and nationwide mobile communications networks, just what sort of "universal service" should be required of a physical mail delivery service needs to be re-examined. That said, in the short term and while those important issues are being studied, it is equally clear that Congress must act to ensure that the USPS has enough liquidity and financial flexibility to manage its vast operations, invest in its businesses, and address the overhang of its legacy liabilities in a commercially reasonable manner.

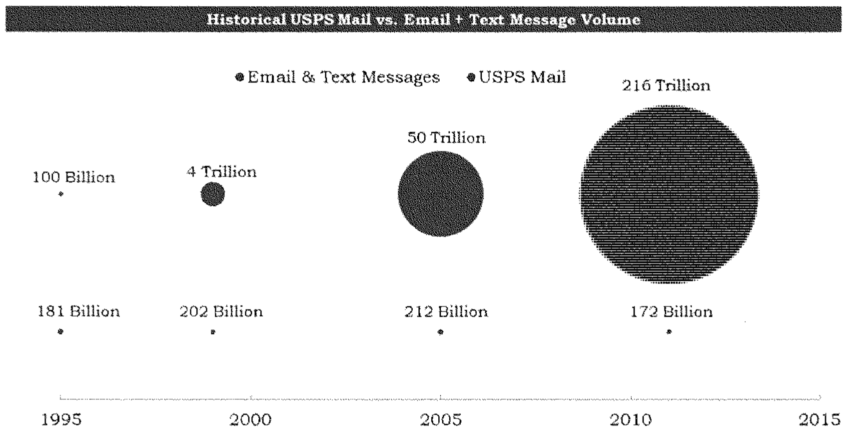
II. A New World

a. Digital Alternatives See Exponential Growth

Since its invention in 1978, e-mail has grown exponentially, while traditional mail volume has remained static. Advertisers are directing money away from direct mail advertising in favor of e-mail campaigns, residents are choosing to receive bills via e-mail, and businesses are communicating more each day via e-mail. According to a recent study, over 200 billion e-mails are exchanged every day, more than the total physical mail volume delivered in a year.[2] As the popularity of e-mails, texts, instant messages, and other digital forms of communication continues to grow, physical mail volumes have started to decline. In 1970, when Congress passed the Postal Reorganization Act, the USPS had a monopoly on the "mailbox," but with the advent of email and other messaging technologies, the mailbox outside our doors and in our apartment houses are no longer the only, let alone most used, mailboxes in our lives. As people

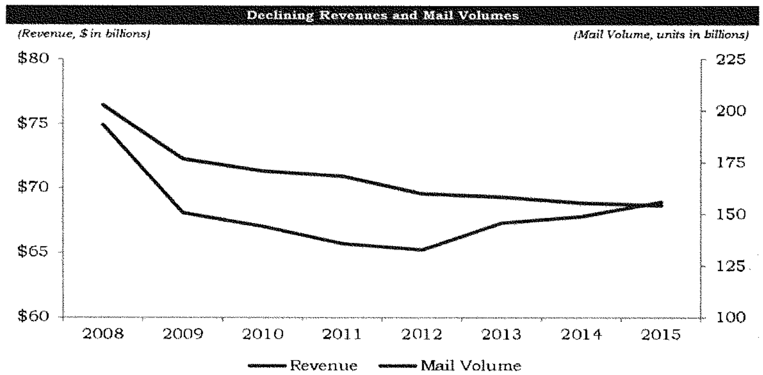
[2] Source: Email Statistics Report, 2014-2018, Radicati Group, Inc.

and businesses substitute alternative methods of electronic communication for physical mail delivery at an increasing rate, Congress really needs to re-evaluate whether the USPS continues to have a "monopoly" of any sort in any of its product markets, whether it really can raise prices at will without accelerating its volume losses, and if it cannot extract such "monopoly rents," whether the threat of "cross-subsidization" of its product offerings in markets where it already has well developed competition (i.e., the package business) is more imagined than real.



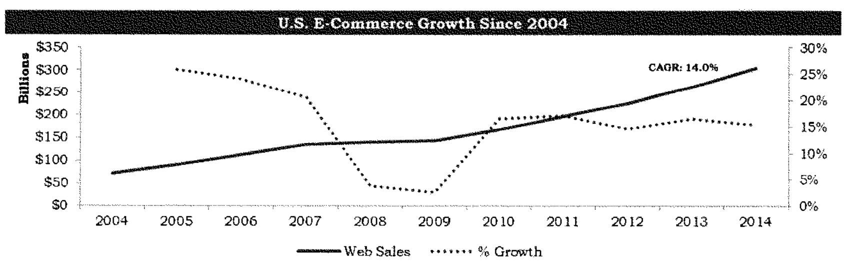
b. ***Decline in First Class and Standard Mail Volumes***

While the growth in digital substitutes is reshaping the definition of the "mailbox," physical mail volumes continue to decline, down 24% in total since 2008. Coupled with this overall decline in volumes, as a result of economic and population growth, the USPS has been forced to add several million delivery points since the Great Recession. As a result, the number of items delivered per point per day, a measure of network density, has decreased approximately 31% in total since 2007. Moreover, as businesses transition to more highly targeted electronic advertising channels, Standard Mail volumes have dropped. These trends have resulted in lower unit volumes across a larger operating footprint and have stressed the USPS business model to the point where significant change is required.



c. ***E-Commerce growth***

As more Americans are shopping online, the demand for fast, affordable, and reliable delivery options has become paramount to the future growth of the USPS. This paradigm has caused the USPS revenue mix to shift: as Market-Dominant Product volumes continue to decline, Competitive Products, notably the Shipping and Packages segment, have exhibited strong growth. Shipping and Packages revenue represented ~22% of total USPS revenue in FY 2015, up from ~14% in FY 2008. This growth has been fueled by online sales and the USPS competitive advantage (vis-a-vis UPS and FedEx) in being able to provide "last mile" service for e-commerce fulfillment.



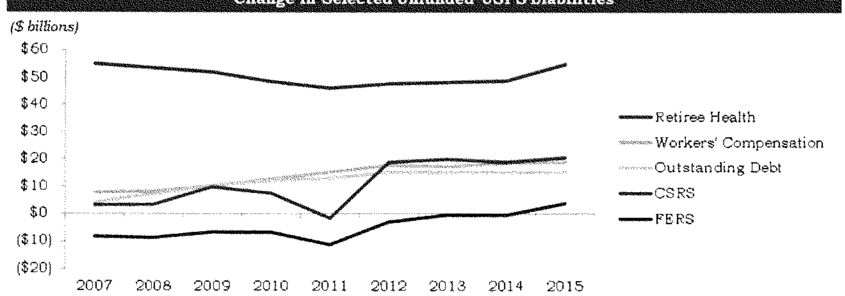
III. USPS challenges

a. Pension and OPEB costs

The 2006 Postal Accountability and Enhancement Act requires the USPS to pay into the Postal Service Retiree Health Benefits Fund ("PSRHBF"), which covers employee healthcare benefits. Congress created the retiree health benefits fund to supplement the Civil Service Retirement System ("CSRS") and the Federal Employee Retirement System ("FERS") – both of which are paid into by the USPS. Under the PAEA, the Postal Service was required to pre-fund 100% of its then estimated $50+ billion unfunded benefit liability (for benefits required to be paid over the next 75 years) in ten $5+ billion annual installments, rather than allowing the USPS to continue to fund retiree health benefits on a "pay as you go" basis, a basis followed by most private business and the Federal Government in the balance of its retiree health care plans. Under the PAEA, the USPS is the only government entity required to pre-fund its retirees' health benefits, a requirement that has (not surprisingly) placed tremendous pressure on the USPS's liquidity.

Of the ten annual $5 billion prefunding installments imposed on the USPS, the USPS made the first three such payments (2007 to 2010) and defaulted on each of its annual required pre-funding payments since 2011. The PAEA also requires the Office of Personnel Management ("OPM") to calculate the remaining unfunded liability in 2017 and develop an initial 40-year amortization payment schedule for its defeasance. Given the ongoing defaults, as of September 30, 2015, the PSRHBF is projected to be $54.9 billion under-funded based on an accumulated health benefit retirement obligation of $105.2 billion. Given its current liquidity profile, there is little chance that the USPS will make any of the remaining $5 billion installment payments required under PAEA.

Change in Selected Unfunded USPS Liabilities



b. Inability to set rates

In addition to imposing significant and unprecedented post-retirement health care benefit pre-funding requirements on the USPS, the PAEA increased government oversight of its pricing policies, on a product-by-product basis, based on a now clearly outdated view of the USPS's ability to extract "monopoly rents" from its first class and standard mail products to the disadvantage of its ratepayers and its competitors and potential competitors in the package space. So, rather than allow the USPS to vigorously compete on price with the market share leader in the package space, United Parcel Service, or the price leader in the overnight shipping space, FedEx, the PAEA places the USPS at significant competitive disadvantages against these now dominant players in the package space. The USPS must also receive congressional approval to make any structural changes to its operating model, changes that might allow it to become a more vigorous competitor to the dominant players in the package space and a more cost efficient operator in its so-called Market Dominant Products.

Despite the fact that the USPS is the only organization legally allowed to access American mailboxes, the cost to USPS of this "privilege," given the regulatory constraints placed on its ability to competitively price its products and optimize its operations, probably exceeds its benefits. Products governed by the regulatory pricing constraints account for ~76% of USPS revenue, making it difficult for the USPS to offset its cost increases with price increases. The Postal Service provides a public service, but the government assumption that the "mailbox monopoly" offsets the cost of the USO seriously limits the USPS ability to achieve and maintain a self-sustaining business plan.

In 1970, when the Postal Reorganization Act was enacted, and well before the explosion of alternative electronic communication media with which the first class letter now competes, Congress might have been justified in assuming that the USPS "mailbox monopoly" far offset the cost of the universal service obligations imposed on it. However, given the dramatic rise of alternative methods of electronic communications, I believe this is no longer the case. In their 2015 Annual Report to Congress, the Postal Regulatory Commission valued the benefit of the "mailbox monopoly"[3] at approximately $5.4 billion per year, versus the cost of USO of approximately $4.1 billion per year. While the PRC believes the value of the monopoly outweighs the cost of the USO, I believe that the value of its monopoly, if any, is eroding quickly with the result that any substantial increase in the prices for First Class or Standard Mail would be met with an immediate and accelerating decline in its volumes. Which is to say, because of the plethora of competing electronic communication and advertising media, the USPS no longer has pricing power in its so-called Market Dominant products. Therefore, the regulatory regime under which Market-Dominant product rates are governed needs to be completely rethought because without any ability to generate sufficient revenue to cover its costs, the universal service mandate imposes costs on the USPS that it is unable to recover. A business that cannot recover its costs is a business that will not be in business very long.

c. ***Service requirements***

The USO in the U.S. is defined as follows: "The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people."[4] While the U.S. interpretation

[3] Defined as the sum of the Postal Monopoly ($4.61 billion) and Mailbox Monopoly ($770 million).
[4] Defined in 39 U.S.C. 101(a).

of the USO (which requires uniform pricing regardless of distance) might be economically feasible with high mail volume and limited geographic scope, it is difficult to maintain with declining mail volumes in a geographically expansive country like the United States. It costs significantly less to send a letter across town than across country, but the universal service obligation does not recognize this distinction in terms of service requirements or price.

d. Liquidity constraints/debt limits

Given the operational and pricing inflexibility and the financial burdens placed upon it under the PAEA, the Postal Service has operated at a net loss for the past eight years and faces extremely tight liquidity. Although the USPS is regarded as a self-sustaining institution, Congress has permitted the USPS to borrow from the Federal Financing Bank, a division within the U.S. Treasury that provides loans to government entities at low rates. By law (39 U.S.C. 2005 (a)), the Postal Service's debt cannot exceed $15 billion, a threshold it reached in 2012. Having insufficient cash flow from operations to meet its health care prefunding obligations under PAEA, the USPS borrowed from Treasury to do so. Without access to incremental credit, the USPS then defaulted on its subsequent prefunding obligations, leaving it now with $15 billion of debt that is due to Treasury and $33 billion of prefunding obligations in default or soon to be in default.

IV. Path Forward

For all of the reasons stated above, the USPS faces significant challenges to its short and long-term viability and will require legislative reform and an operational transformation to survive in the new markets in which it now operates. Unfortunately, there is no "silver bullet" that will fix the USPS. I believe that a staged approach is the most reasonable path towards viability. There is an immediate need to stabilize the business and shore up its liquidity, and a long-term need to allow the USPS to become a sustainable business capable of meeting the challenges of the new marketplace in which it operates. Meeting each of these needs requires Congressional action.

a. Short Term Issues

i. Install Flexible Pricing Mechanism

Before PAEA was enacted in 2006, the USPS was entitled to charge rates for its services that would provide it with sufficient revenues to cover its projected costs. Under this system, the USPS generated healthy cash flow. The PAEA replaced the legacy pricing system with a pricing system that caps price increases at the rate of inflation (CPI-U) and increases government oversight in the rate-setting process.

The passage of the PAEA in 2006 was followed by the Great Recession, which had a significantly negative impact on the mailing industry, causing volumes to plummet from ~212 billion pieces in FY 2007 to ~160 billion pieces in FY 2012. This steep decline pressured the USPS liquidity profile, and caused the USPS to borrow more heavily from the Federal Financing Bank, up to the mandated $15 billion limit.

Prices for each class of Market-Dominant products are set so that the sale of each product will not only cover its attributable costs, but also contribute to the USPS institutional costs, which are highly inflexible and largely independent of mail volumes. As mail volumes decline and institutional costs rise, the USPS has been unable to adjust pricing fast enough to ensure that all of its costs are covered.

The negative impacts of the Great Recession had a lasting impact on the USPS. Section 39 U.S.C. § 3622(d)(1)(E) of the US Code allows the Postal Service to raise prices for its Market-Dominant products above the rate of inflation to recapture revenue lost "due to either extraordinary or exceptional circumstances" so long as recapturing such revenue is necessary to allow the Postal Service to provide needed services to the public[5]. In an order dated September 30, 2010, the Postal Regulatory Commission agreed that the Great Recession of 2009 was in fact an exigent circumstance, yet denied the USPS request for the exigent rate increase as the USPS did not sufficiently link its losses to the Recession. The USPS renewed its request in September of 2013 with econometric data supporting a reduction in ~190 billion mail pieces attributed to the Recession during the five-year period following the Recession, accounting for $25.7 billion in forgone contribution to its institutional costs.

On December 24, 2013, the PRC issued an order concluding that the Great Recession had only caused the USPS to lose 25.5 billion pieces of mail volume (vs. the ~190 billion cited by USPS) and that the USPS was entitled to collect up to $3.2 billion in additional revenue via an exigent rate increase of 4.3%. These numbers were determined using a methodology that the USPS has, and is currently, disputing.

The USPS filed an appeal requesting additional relief under the exigent rate increase and, on July 29, 2015, it was announced that the exigent rate could remain in place until USPS realized an additional $1.4 billion in revenue. The USPS continues to appeal the PRC's calculation of revenue lost attributable to the Great Recession but, absent a successful appeal, the exigent rate increase will expire in April 2016 and the price permitted to be charged for Market-Dominant products will decline causing a significant negative impact on USPS revenue and liquidity. Since enactment of the exigent rate increase in 2013, the USPS has generated positive cash flow from operations (before pre-funding charges) in amounts less than the exigent rate increase's revenue contribution (i.e. operating cash flow would have been negative absent the exigent rate increase).

The first order of business to fix the USPS should be to avoid the expiration of the existing exigent rate increase in April 2016 and making that rate increase permanent so as to allow the Postal Service's revenues to cover its operating costs. This initial reform should be followed by a repeal of the inflation-capped pricing mechanic in favor of a more flexible pricing system to ensure that the USPS can price its products so as to generate enough revenue to cover its costs.

[5] Source: http://www.savethepostoffice.com/sites/default/files/USPS%20Exigent%20Brief%201:4:16.pdf.

ii. Rationalize Employee Expenses and Legacy Liabilities

Second, to normalize the USPS's balance sheet, Congress must acknowledge that the pre-funding of the USPS retiree health care liability as mandated by PAEA imposed a financial burden on the Postal Service that it simply could not meet. As in the private sector and across the rest of the Federal Government, funding of these types of long term liabilities is typically done on a long term basis, rather than in a series of lump sums as was required by PAEA. The Postal Service's largest financial hurdles are its unfunded pension, post-retirement healthcare benefits, and workers compensation liabilities. A restructuring of these obligations needs to be implemented so as to restore the ability of the USPS to meet its obligations in the ordinary course of business and make investments in its business necessary to sustain it for the long term over which these liabilities need to be discharged.

First, Congress should permit the Postal Service to use actuarial assumptions for the calculation of its benefit funding and pre-funding obligations in a way consistent with the practices employed in the private sector.

Next, Congress should permit the USPS to fully integrate both current and future employee health care benefits with Medicare immediately. Integration would require that all Medicare eligible annuitants and dependent spouses enroll in Medicare Parts A and B, waiving late enrollment penalties for all such persons. The shift to Medicare would permit the USPS to cease prefunding payments under the PAEA. After integration with Medicare, the Office of Personnel Management would determine the amortization schedule and a calculation of the USPS's healthcare benefit liability using actual claims experience, a practice that is consistent with actuarial and accounting standards. Implementation of Medicare integration would provide the USPS relief from the prefunding payment obligation imposed on it under PAEA while ensuring that USPS's obligations to its current and future retirees are respected.

Since 1984, the Postal Service and its employees have contributed $29 billion to Medicare, making it one of the program's largest contributors. By switching to Medicare and away from the Federal Employee Health Benefits Program, the Postal Service could save approximately $34 billion over the next ten years.[6]

iii. Reschedule Balance Sheet Liabilities

If the USPS balance sheet were viewed through the same lens as a private sector company, it would undoubtedly be viewed as insolvent. Current liabilities of $49 billion (including pre-funding payments and short-term debt) are over 6.0x greater than current assets of $8 billion, and as a whole, the balance sheet indicates a $50 billion net worth deficiency (that is, its total liabilities exceed its total assets by $50 billion). This deficiency excludes the unfunded pension, and retiree health benefit liabilities that, when included, doubles the net deficiency to over $100 billion.

[6] Source: Executive Summary – USPS Legislative Proposal: Full Integration of USPS Health Care Benefits with Medicare

Medicare integration would eliminate the USPS's current liability for the prefunding of its long term health care obligations, and a restructuring of its loan from the US Treasury to extend its maturity and provide for an amortization schedule over a term of years would immediately restore balance between its short term assets and liabilities.

See Appendix 2: Illustrative Balance Sheet Restructuring for more details

b. <u>Long-Term Issues</u>

i. <u>Develop New Business Plan</u>

Once the USPS's short term finances are stabilized by the restructuring of its long term healthcare liability and its liability to the Federal Financing Bank, Congress must face the reality that the Universal Service Obligation imposes costs on the USPS that it cannot fully recover under the current regulation of its pricing and product offerings. In order to compete in the modern marketplace in which it operates, the USPS must be allowed to have pricing flexibility and to develop new lines of business to deal with the panoply of competitors it faces both in its so-called Market-Dominant Products and in its Competitive Products. Congress should require that the Postal Service perform a de novo review of its service offerings unbridled by its historical mandates and existing regulatory constraints to develop a business plan that allows it to generate sufficient cash flow over the long term to meet its Universal Service Obligation without the need for taxpayer subsidies. Developing such a business plan is an essential first step in executing the restructuring required to ensure its long-term viability.

The USPS may unlock value by conducting a review of its current network. A modernized business plan will create opportunities to rationalize its asset base and produce liquidity via sales of non-core assets. Aligning its network size and its service schedule to anticipate ongoing trends in its product volumes is an essential aspect of any successful restructuring.

The Postal Service should also look to optimize its existing national footprint and focus on profitable business lines to support its national network. The Shipping and Packages division has grown at an over 5% compounded annual growth rate since 2008 and will continue to grow as online retailers and other business shift towards an electronic marketplace and away from brick and mortar stores. If given the flexibility by Congress, the USPS could use its existing offices and open locations for package warehousing and late night pick-up. By holding packages, local branches would increase foot traffic and could open the possibility for new revenue generating services to be sold out of its post offices.

ii. **Explore Privatization Model**

In developing a long-term business plan, the USPS may consider privatization as a possible alternative. The privatization model has been successfully employed in many countries including Germany, Japan, and Italy.

A successful operational and financial restructuring could pave the way to a privatization transaction that could give the USPS access to public debt and equity markets, following the precedent set by Poste Italiane and Japan Post. As with those transactions, privatization would minimize the possibility of the need for any future subsidies from taxpayers and could provide the Federal Government with a significant dividend from the sale of the equity of the USPS in the public markets. Proceeds from an IPO could be used to fund (or repay the USG for funding) the significant restructuring costs that will be incurred in transforming the USPS into a viable, self-sustaining enterprise.

See Appendix 1: Privatization and the Universal Service Obligation for more details

V. **Conclusion**

The USPS is facing a myriad of challenges in declining volumes, increased competition, and looming legacy liabilities. Without the pricing and operational flexibility to adapt to the changing marketplace, the USPS has been set up to fail.

I am here today to stress that, absent swift and significant changes to the business and the statutory framework governing the USPS, the Postal Service will not be able to continue to operate as a self-sustaining government entity and will require on going assistance from the U.S. Government and further subsidies from taxpayers.

VI. Appendix 1: Privatization and the Universal Service Obligation

Japan maintains a universal service obligation through a flexible business model over a small geographic region. Japan Post, the designated USO provider, must collect mail from post boxes seven days a week and deliver it six days a week to the entire population without discrimination at the lowest possible rate. Furthermore, Japan Post's other services, such as banking and life insurance, cross-subsidize unprofitable routes required under the universal service obligation. Japan Post has the flexibility of delivery services through convenience stores, thereby enabling delivery 24 hours a day, seven days a week without significantly increasing operating costs. In November 2015, Japan Post Holdings, along with Japan Post Bank Co. and Japan Post Insurance Co, which represent the country's largest bank and insurance company respectively, raised over $11 billion in a public offering. Leveraging national infrastructure, international posts can offer banking and financial services at the minimal additional costs.

Similar to its Japanese counterpart, Poste Italiane, the national post of Italy also maintains a USO and has conducted an initial public offering in recent months. Poste Italiane must guarantee mail delivery to all addresses within Italy and mail collection no less than five times a week, while BancoPosta, its banking arm, cross-subsidizes this public service. BancoPosta's services include collection of public deposits, payment services, foreign currency trading, loans, investment, insurance, mutual funds, logistics, internet access, and mobile phone services. The cash bleeding mail business only accounts for 15% of total revenue, while insurance and financial businesses encompass the remaining 85%. In October 2015, the Poste Italiane SpA sold shares to the public, valuing the company at $10 billion. Poste Italiane, as well as Japan Post, highlight that countries can achieve an economically viable postal service with a robust universal service obligation when granted the necessary flexibility to succeed.

VII. Appendix 2: Illustrative Balance Sheet Restructuring

$ in Billions	Current Balance Sheet	Including Off-Balance Accounts	A	B	C
Assets					
Cash	$6.6	$6.6	$6.6	$6.6	$6.6
Other Current Assets	$1.3	$1.3	$1.3	$1.3	$1.3
Current Assets	**$7.9**	**$7.9**	**$7.9**	**$7.9**	**$7.9**
CSRS Fund Balance		$179.2	$179.2	$179.2	$179.2
FERS Fund Balance		$107.6	$107.6	$107.6	$107.6
RHB Fund Balance		$50.3	$50.3	$50.3	$50.3
Other Long-Term Assets	$16.1	$16.1	$16.1	$16.1	$16.1
Total Assets	**$24.0**	**$361.1**	**$361.1**	**$361.1**	**$361.1**
Liabilities					
Retiree Health Benefits	$28.1	$28.1			
Short-Term Financial Debt	$10.1	$10.1	$10.1	$10.1	
Other Current Liabilities	$10.7	$10.7	$10.7	$10.7	$10.7
Current Liabilities	**$48.9**	**$48.9**	**$20.8**	**$20.8**	**$10.7**
Long-Term Financial Debt	$4.9	$4.9	$4.9	$4.9	$15.0
CSRS Actuarial Liability		$199.6	$199.6	$199.6	$199.6
FERS Actuarial Liability		$111.3	$111.3	$111.3	$111.3
Retiree Health Obligations		$77.1	$105.2	$55.2	$55.2
Other Long-Term Liabilities	$20.6	$20.6	$20.6	$20.6	$20.6
Total Liabilities	**$74.4**	**$462.4**	**$462.4**	**$412.4**	**$412.4**
Net Deficiency	**($50.4)**	**($101.3)**	**($101.3)**	**($51.3)**	**($51.3)**
Amount Unfunded					
CSRS		(20.4)	(20.4)	(20.4)	(20.4)
FERS		(3.7)	(3.7)	(3.7)	(3.7)
Retiree Health Obligations		(54.9)	(54.9)	(4.9)	(4.9)
Current Ratio	0.2x	0.2x	0.4x	0.4x	0.7x
Assets-to-Liabilities	0.3x	0.8x	0.8x	0.9x	0.9x

Scenario A: RHB Amortization Schedule Extended (included in iPOST and USPS/Mailers/Unions agreement)
Scenario B: RHB Amortization Schedule Extended with Medicare Integration (included in iPOST and USPS/Mailers/Unions agreement)
Scenario C: RHB Amortization Schedule Extended with Medicare Integration and Current Debt Restructuring (see 4(a)(iii) of the testimony for more details on the Current Debt Restructuring)

UNITED STATES POSTAL SERVICE

Current Postal Service Balance Sheet

($ in billions)

Current USPS Balance Sheet

Assets		Liabilities		
Cash	$6.6	Retiree Health Benefits	$28.1	Unpaid PSRHBF Prefunding Requirements
Other Current Assets	1.3	Short-Term Financial Debt	10.1	
		Other Current Liabilities	10.7	
Current Assets	**$7.9**	**Current Liabilities**	**$48.9**	
Other Long-Term Assets	16.1	Long-Term Financial Debt	4.9	
		Other Long-Term Liabilities	20.6	
Total Assets	**$24.0**	**Total Liabilities**	**$74.4**	
		Net Deficiency	**($50.4)**	

Memo: Unfunded Amounts & Ratios	
Current Ratio[(1)]	*0.2x*
Assets-to-Liabilities	*0.3x*

(1) Calculated as current assets / current liabilities.

UNITED STATES POSTAL SERVICE®

Balance Sheet including Other Obligations

($ in billions)

Illustrative Balance Sheet

Assets		Liabilities	
Cash	$6.6	Retiree Health Benefits	$28.1
Other Current Assets	1.3	Short-Term Financial Debt	10.1
		Other Current Liabilities	10.7
Current Assets	**$7.9**	**Current Liabilities**	**$48.9**
CSRS Fund Balance	179.2	Long-Term Financial Debt	4.9
FERS Fund Balance	107.6	CSRS Actuarial Liability	199.6
RHB Fund Balance	50.3	FERS Actuarial Liability	111.3
Other Long-Term Assets	16.1	Retiree Health Obligations	77.1
		Other Long-Term Liabilities	20.6
Total Assets	**$361.1**	**Total Liabilities**	**$462.4**
		Net Deficiency	**($101.3)**

Off-Balance Sheet (CSRS Fund Balance, FERS Fund Balance, RHB Fund Balance)

Off-Balance Sheet (CSRS Actuarial Liability, FERS Actuarial Liability, Retiree Health Obligations)

Net deficiency increases by ~$50B including off-balance sheet obligations

Memo: Unfunded Amounts & Ratios	
CSRS	*(20.4)*
FERS	*(3.7)*
Retiree Health Obligations	*(54.9)*
Current Ratio[1]	*0.2x*
Assets-to-Liabilities	*0.8x*

(1) Calculated as current assets / current liabilities.

UNITED STATES POSTAL SERVICE

Scenario A: RHB Amortization Schedule Extended

($ in billions)

Illustrative Balance Sheet

Assets		Liabilities	
Cash	$6.6	Retiree Health Benefits[1]	-
Other Current Assets	1.3	Short-Term Financial Debt	10.1
		Other Current Liabilities	10.7
Current Assets	**$7.9**	**Current Liabilities**	**$20.8**
CSRS Fund Balance	179.2	Long-Term Financial Debt	4.9
FERS Fund Balance	107.6	CSRS Actuarial Liability	199.6
RHB Fund Balance	50.3	FERS Actuarial Liability	111.3
Other Long-Term Assets	16.1	Retiree Health Obligations[1]	105.2
		Other Long-Term Liabilities	20.6
Total Assets	**$361.1**	**Total Liabilities**	**$462.4**
		Net Deficiency	**($101.3)**

Unpaid prefunding payments forgiven and amortization schedule extended

Memo: Unfunded Amounts & Ratios	
CSRS	*(20.4)*
FERS	*(3.7)*
Retiree Health Obligations	*(54.9)*
Current Ratio[2]	*0.4x*
Assets-to-Liabilities	*0.8x*

(1) Retiree healthcare benefit prepayment amortization schedule extended – prepayment liability moved to long-term liability.
(2) Calculated as current assets / current liabilities.

UNITED STATES POSTAL SERVICE

Scenario B: Retiree Healthcare Obligations shifted to Medicare

($ in billions)

Illustrative Balance Sheet

Assets		Liabilities	
Cash	$6.6	Retiree Health Benefits[1]	-
Other Current Assets	1.3	Short-Term Financial Debt	10.1
		Other Current Liabilities	10.7
Current Assets	**$7.9**	**Current Liabilities**	**$20.8**
CSRS Fund Balance	179.2	Long-Term Financial Debt	4.9
FERS Fund Balance	107.6	CSRS Actuarial Liability	199.6
RHB Fund Balance	50.3	FERS Actuarial Liability	111.3
Other Long-Term Assets	16.1	Retiree Health Obligations[1]	55.2
		Other Long-Term Liabilities	20.6
Total Assets	**$361.1**	**Total Liabilities**	**$412.4**
		Net Deficiency	**($51.3)**

Medicare Integration reduces liability by $50B

Memo: Unfunded Amounts & Ratios	
CSRS	*(20.4)*
FERS	*(3.7)*
Retiree Health Obligations	*(4.9)*
Current Ratio[2]	*0.4x*
Assets-to-Liabilities	*0.9x*

(1) Eligible future and current retirees transitioned to Medicare – RHB obligation reduced $50 billion.
(2) Calculated as current assets / current liabilities.

UNITED STATES POSTAL SERVICE

Scenario C: Financial Debt Rescheduled, RHB Amort. Extended and Medicare Integration

($ in billions)

Illustrative Balance Sheet

Assets		Liabilities	
Cash	$6.6	Retiree Health Benefits[1]	-
Other Current Assets	1.3	Short-Term Financial Debt[2]	-
		Other Current Liabilities	10.7
Current Assets	**$7.9**	**Current Liabilities**	**$10.7**
CSRS Fund Balance	179.2	Long-Term Financial Debt[2]	15.0
FERS Fund Balance	107.6	CSRS Actuarial Liability	199.6
RHB Fund Balance	50.3	FERS Actuarial Liability	111.3
Other Long-Term Assets	16.1	Retiree Health Obligations[1]	55.2
		Other Long-Term Liabilities	20.6
Total Assets	**$361.1**	**Total Liabilities**	**$412.4**
		Net Deficiency	**($51.3)**

Short-Term Financial Debt Rescheduled

Memo: Unfunded Amounts & Ratios	
CSRS	*(20.4)*
FERS	*(3.7)*
Retiree Health Obligations	*(4.9)*
Current Ratio[3]	*0.7x*
Assets-to-Liabilities	*0.9x*

(1) Retiree healthcare benefit prepayment amortization schedule extended – prepayment liability moved to long-term liability and Medicare integration reduces obligation by $50 billion.
(2) Short-term financial debt rescheduled and moved to long-term liabilities.
(3) Calculated as current assets / current liabilities.

Testimony of

Fredric V. Rolando

President, National Association of Letter Carriers

to a hearing entitled "Laying Out the Reality of the United States Postal Service"

Senate Committee on Homeland Security and Governmental Affairs

January 21, 2016

I. Introduction

Thank you Chairman Johnson and Ranking Member Carper for the opportunity to participate in today's hearing. I am a letter carrier from Sarasota, Florida and have served as the President of the National Association of Letter Carriers (NALC) since 2009. NALC represents nearly 200,000 active Letter Carriers who work for the Postal Service across the United States. With more than 90% voluntary membership, our union is among the best organized open-shop unions in America. We also represent nearly 90,000 retired letter carriers who maintain their membership in NALC.

You have asked me to focus my testimony today on the impact of legislative and regulatory burdens placed on the USPS, including the mandate to prefund the Retiree Health Benefits Fund. Given that the mandate to prefund, which no other public or private enterprise faces, accounts for more than 86% of the Postal Service's reported losses in recent years – that is an appropriate place to focus.

However, in today's testimony, I will also address two other very significant burdens that prevent the Postal Service from setting its prices and investing its retirement trust funds sensibly and appropriately. And at the end of my testimony, I will speak in support of a set of reform measures that all four postal employee unions endorse along with a broad industry coalition, which includes the Postal Service and dozens of major companies and business mailers.

Before I address the legislative and regulatory burdens, I would like to briefly share our views on the over-arching theme of this hearing – the "reality of the Postal Service." This is important because that reality has changed dramatically – for the better – in recent years. It is not 2008-2009 anymore when the Great Recession and the mandate to pre-fund the retiree health fund sent mail volume plummeting, crushed the Postal Service's finances, and raised doubts in the minds of some about the long-term viability of the Postal Service. It led some doubters to propose radical service cuts and a general dismantling of one of America's oldest and most beloved institutions.

Although America's letter carriers and other postal employees never shared those doubts and urged Congress to resist counter-productive service cuts, we worked with the Postal Service to reorganize and adapt to changing postal needs of the country, both the decline in letter mail due to technological change and the boom in e-commerce that reflects the two sides of the internet coin. Over the past nine years, postal employees have made huge sacrifices to help the Postal Service to become more efficient and to "right-size" in response to the fall in mail volume. Postal employment has been slashed by more than 200,000 jobs since 2006. Meanwhile, postal productivity has increased dramatically and postal labor costs have been sharply reduced through very difficult rounds of collective bargaining.

Thanks to these efforts and to the recovery from the Great Recession, the Postal Service has been returned to operational profitability in recent years. The USPS earned operating profits of $1.4 billion in FY 2014 and $1.2 billion in FY 2015. Of course, these operating profits were totally wiped out by the $5.7 billion annual prefunding charges in the Postal Service's official results. But that should not obscure the underlying strengths of the Postal Service. As the economy has recovered, it has seen its package business grow by more than 10 percent annually and both its direct mail and catalogue products grow solidly even as the rate of decline in First Class Mail volume steadily moderated (from -8.8% in 2009 to -2.2% in 2015). Overall, mail volume declined by less than one percent in 2015 as total revenue increased by 1.6 percent to $68.9 billion.

Indeed, the Postal Service remains a vital component of this country's economic and communications infrastructure. In 2015, the Service delivered more than 150 billion pieces of mail and became an even bigger player in the booming e-commerce sector, now offering seven-day delivery. According to the Postal Service's annual study of mailing trends, a large majority of bills and statements received by households are still delivered by mail, and more than a third of them are still paid through the mail. Trillions of dollars move through the postal system every year. The Postal Service's $69 billion in revenue is only a small part of the $1.4 trillion of Gross Domestic Product accounted for by the U.S. mailing industry, which now employs 7.5 million Americans. The vitality of that huge industry depends on a healthy Postal Service.

So this is the reality we face: Although its finances remain fragile and technological challenges will persist long into the future, it should be clear that the Postal Service remains a vital part of the nation's infrastructure. We believe it can thrive in the 21st Century with the right public policies. We have done our part to preserve the Service, which enjoys an 83 percent approval rating with the American people according to a November Pew Research survey. Now we need Congress to do its part to strengthen it for the future.

II. Legislative and Regulatory Burdens

As I suggested above, there are three significant legislative/regulatory burdens placed on the Postal Service under current law that should be removed or reformed by this Congress.

The prefunding mandate

The most significant burden is the legislative mandate included in the Postal Accountability and Enhancement Act of 2006 (PAEA) that requires the Postal Service to massively prefund future retiree health premiums -- decades in advance. As the Chairman has noted, this turned a long term liability into a very expensive short-term liability. Congress adopted this mandate during the administration of George W. Bush in the most inflexible manner possible. It required the Postal Service to make 10 fixed payments of between $5.4 billion and $5.8 billion annually between 2007 and 2016 – and then to begin making actuarial-based pre-funding payments over 40 years, beginning in 2017. The actuarial-based payments are comprised of two parts: a normal cost payment to cover the future cost of retiree health accrued each fiscal year, and a payment calculated to amortize any remaining unfunded liability over the next 40 years. Unfortunately, in the absence of legislative change, the cost of pre-funding is actually expected to increase after 2016 as a result of these actuarial-based payments – beyond the unaffordable levels of recent years.

No other enterprise in America (public or private) faces a legal mandate to prefund future retiree health insurance benefits – though Congress does appropriate money to the Department of Defense (DOD) to partially pre-fund such benefits for DOD-related retirees. According to an annual survey of Fortune 1000 companies by Towers Watson, only 38 percent of such firms pre-fund retiree health at all, and 62 percent don't prefund at any level. (See Perspectives:

Accounting for Pensions and Other Post-Retirement Benefits, 2015.) Those companies that voluntarily pre-fund typically make contributions only when they are profitable.

The Postal Service pre-funding payments, which could not be suspended when the Great Recession hit, were so onerous that the Postal Service exhausted its $15 billion borrowing authority in order to make the payments. Since 2012, it has not been able to make the payments at all – though the expenses associated with the missed payments have continued to be recognized, driving the Postal Service deep into the red. All told, $49 billion of the Postal Service's reported losses of $56.8 billion since 2007 – 86.3 percent -- are due to the pre-funding mandate. See Attachment #1.

The damage this policy has inflicted goes far beyond the adverse financial effects. This policy has starved the Postal Service of needed investments, most notably the urgent need to replace its obsolete fleet of vehicles. The USPS now wastes hundreds of millions of dollars annually to maintain outdated vehicles and has great difficulty finding replacement parts. The policy has also caused the Postal Service to excessively down-size in ways that are short-sighted and counter-productive. For example, the Postal Service made it more difficult for Americans to access its services by: removing tens of thousands of mail collection boxes; slashing the operating hours of thousands of post offices; and reducing its service standards in order to dramatically downsize its network of mail processing plants. The quality of service has suffered – and we fear the Postal Service has driven significant business away as a result.

Over the years, we have suggested a number of legislative measures to address the crisis caused by the pre-funding mandate – for example, repealing the mandate, reducing the pre-funding target percentage to match private sector best practice (33%-50% prefunding) or adopting private sector pension valuation standards so that USPS pension surpluses could be transferred into the Retiree Health Fund. Those proposals failed to advance. Fortunately, this Committee reached bipartisan consensus on a concept to address the prefunding burden during the last Congress in S. 1486. Reforms to the Federal Employees Health Benefit Program (FEHBP) as it relates to postal employees and Medicare coverage would all but eliminate the unfunded liability for future retiree health. Maximizing enrollment in Medicare Parts A and B and giving FEHBP plans covering eligible postal retirees access to low-cost prescription drugs made available by the Medicare Part D law would increase total Medicare spending by less than two-tenths of one percent and virtually eliminate the Postal Service's unfunded liability – something no other public or private sector company has achieved. We urge this Committee to embrace this approach again this year. I will return to this idea in the final section of my testimony.

Restrictive investment policies for postal retirement funds

In general, the Postal Service has incredibly well funded retirement plans, although declining interest rates in recent years have inflated liabilities and created unfunded liabilities. At the end of 2014, the Postal Service's pension accounts (within the Civil Service Retirement System and the Federal Employees' retirement System) were 92.4 percent funded – well into the healthy "green zone" under the private sector Pension Protection Act, and much better than the 81.7 percent funded percentage for the 100 largest pension plans according to the 2015 Pension Funding Survey conducted by the Milliman Company. (The USPS funded percentage at the end of FY 2015 was 92.2 percent.) At the same time, while the median level of funding for retiree health benefits among Fortune 1000 companies is zero percent (0%), the Postal Retiree Health Benefit Fund is nearly 50 percent funded.

These strong funding positions are all the more remarkable given the restrictions placed on the investment of the Civil Service Retirement and Disability Fund (which holds the federal and postal accounts for both CSRS and FERS) and the Postal Service Retiree Health Benefits Fund

(PSRHBF). By law, the pension funds and the PSRHBF must be invested in low-yielding Treasury bonds. Together, the CSRS and FERS postal accounts and the PSRHBF hold nearly $340 billion in Treasury securities – making us, the Postal Service and its employees, the third largest creditor of the U.S. federal government just behind the governments of China and Japan. No private company in America would invest 100 percent of their pension and post-retirement health funds in such a conservative way, especially during a period when Treasuries are yielding 2-4% returns. When your investment time horizon stretches out over decades, best practice in the private sector is to invest in a well-diversified portfolio of private sector stocks, corporate bonds and real estate, as well as government bonds. Such a portfolio is provided by the Thrift Savings Plan's (TSP) Lifecylce 2040 Fund. If the Postal Service's FERS and CSRS accounts could have been invested the 2040 Fund between 2007 and 2014, their combined balance would be $32 billion greater today – enough to cover the total combined unfunded liability of $23 billion in 2014. Had the PSRHBF been invested in the TSP's 2040 Fund, it would have doubled its annual returns.

Given that the postal accounts in CSRS and FERS are commingled pensions, covering both federal and postal employees, it might be difficult to invest the postal accounts more sensibly. However, Congress should direct the Office of Personnel Management (OPM) to invest the Postal Service Retiree Health Benefits Fund the way a private sector company would invest such a fund – again, in a well-diversified portfolio of private sector stocks and bonds as well as government securities.

Although, such a mandate would represent a break with past policy, the retiree health fund is a stand-alone, one-agency trust fund in the U.S. government's accounts. Its assets are funded by postage rate-payers to cover the cost of future retiree health insurance premiums payable by the Postal Service. The cost of these premiums, like medical services in general, is expected to rise by 5.0-7.0 percent annually over the next several decades. It makes no financial sense to invest in assets that yield less than the trend rate of medical inflation. The PSRHBF investment policy in current law – which effectively mandates a low-cost loan from business mailers to the Federal government -- unnecessarily raises the cost of pre-funding and puts pressure on the Postal Service to raise postage rates or to cut services. There is a better way.

Congress could raise the long-term rate of return on the retiree health fund's assets, improve the overall finances of the federal government (OPM's balance sheet), reduce the burden of prefunding, relieve upward pressure on postage rates, and lessen the misguided impulse to cut services by changing the PSRHBF's investment policy. It could direct the OPM to invest PSRHBF assets in safe, low-cost index funds of the kind offered by the federal TSP. Alternatively, it might authorize the OPM to invest the Retiree Health Fund the same way the Tennessee Valley Authority (TVA), Amtrak and the Pension Benefit Guarantee Corporation (PBGC) invest the pension assets they hold.

There are two common objections to this investment proposal: (1) is the risk of loss associated with investments in private stocks and bonds; and (2) is the long-standing policy of the Treasury department against investing government trust funds (such as the Social Security Trust Fund) in private securities. Neither of these objections should hold in the case of the PSRHBF. I will address both.

First, given the long investment horizon of the PSRHBF and the relatively modest annual outlays from the fund ($3.0-$4.0 billion for the foreseeable future), the risk of a short-fall in a prudently invested PSRHBF is extremely small. In fact, the OPM projects future retiree health liabilities over a period of 90 years. So the Fund would have decades to make up for any sharp losses. Indeed, the experience of the L 2040 Fund since the 2008 financial crisis provides a real life test of this resiliency. The L 2040 Fund has more than bounced back from the 2008 stock market crash.

Second, although the Treasury has traditionally invested government trust funds only in government bonds, the PSRHBF is a different kind of trust fund and there are several government entities that regularly invest in private securities.

The PSRHF is different from most trust funds because it does not involve federal taxpayer dollars. The funds in the PSRHBF come from postage rate-payers. They are collected to cover the cost of services rendered. As with the assets of the TSP's index funds, the PSRHBF is dedicated to providing post-retirement benefits for federal employees – in this case, the employees of the Postal Service. Although it is the only trust fund dedicated to cover the retiree health benefits of a single agency's employees, there are other retirement funds controlled by primarily self-funded federal agencies that are allowed to invest in private sector securities. These include: the National Railroad Retirement Investment Trust (NRRIT), the PBGC, Amtrak and the TVA.

The ratepayer funds held by the postal retiree health fund should be invested the way these other agencies invest their funds. The OPM should hire well-qualified asset managers, chosen by trustees with fiduciary responsibilities to invest the fund wisely – maximizing returns while minimizing risk and investment fees.

To show you how beneficial this change in investment policy could be, last year we asked consultants at the Lazard Co. in New York to calculate what the funding balance of the

PSRHBF would be if the Fund been invested the way well-diversified public pension plans were between 2007 and 2014. Lazard's analysis found that the Retiree Health Fund's assets would have been between $3.5 billion and $9.7 billion greater if the Fund had followed the investment policies employed by organizations such as the PBGC, CALPERS or the National Railroad Retirement Investment Trust. See attachment #2.

While no pension fund achieves its long-term target rate of return every year and sometimes even loses money in market downturns, the Lazard analysis shows that the PSRHBF could be fully funded over the long run. If enacted in conjunction with the FEHBP/Medicare reforms proposed by S. 1486 and the iPost legislation, such an investment policy would more than fully fund future retiree health benefits. These policies would eliminate the need for any amortization payments and could justify the suspension of normal cost payments as well. Indeed, we do not believe the Postal Service should be required to maintain a funding balance of more than 100 percent over time and, if this investment proposal were adopted, we would urge the Senate to draft the law accordingly.

Properly investing the PSRHBF's assets will, over the long run, improve the balance sheet of the OPM and reduce the cost of pre-funding for the Postal Service. This will allow for affordable postage rates and better service to the America's mailers and citizens. If the purpose of the Fund is to protect taxpayers against the need to cover future health care costs for retired postal employees, the best way to reduce that need is invest the PSRHBF prudently and intelligently. In our view, investing the PSRHBF in low-yielding Treasury securities actually increases the risk of a taxpayer bailout in the future. Investing it in private sector securities would reduce that risk.

Pricing restrictions

The final legislative/regulatory burden we would like to address is the overly restrictive Consumer Price Index (CPI)-based price cap introduced by the PAEA to regulate postage rates charged for Market Dominant products (most letters, magazines and catalogues). One of the main goals of the PAEA was to simplify the rate-setting process, making it faster and less costly. A Senate bill passed in 2006 proposed to index all postage rates to inflation (CPI-All Items) and to allow for emergency rate increases in so-called "exigent" circumstances -- such as gas price spikes or severe recessions. The bill advanced in the House of Representatives called on experts at the PRC to create a new system of rate regulation based on best practice among regulators of other regulated industries, after conducting hearings to gather input from all the interested parties. As often happens in Congress, a little bit of both approaches was adopted in the PAEA – which called for the CPI index for 10 years and then authorizing the PRC to decide how to structure the rate-setting process after that. That is exactly what the PRC will do, beginning in December 2016.

The PAEA might have worked better but for two factors. First, the Postal Service decided not to exercise its option to hold one last old-fashioned rate case in 2007 to ensure rates covered all the relevant costs (including the massive cost of prefunding retiree health) before the new CPI price index was initiated. Facing a possible recession in 2007, the USPS did not want to raise postage rates by the extra 5% needed to build the cost of prefunding into the baseline rates before the index kicked in. It feared a rate shock would be especially damaging in the middle of a recession. That turned out to be a huge mistake--it should have done the rate case, and asked the PRC to delay implementing the results until after the recession.

Then the second factor kicked in: the economic slowdown of 2007 turned into a global financial crisis. The operating profits of 2007 and 2008 turned into deep losses of 2009-2012 as the Great Recession took hold, mail volume plummeted and the $5.5 billion annual prefunding payments kicked in. In response to the recession, the Postal Service sought and received a 4.3 percent exigent rate increase from the PRC. But USPS failed to convince regulators to make the increase permanent -- even though it was apparent to all that the Great Recession had permanently reduced the volume of First Class Mail as companies shifted to electronic billing to cut costs during the downturn. As it now stands, the 4.3 percent exigent increase will expire in March or April (unless the Congress acts to make it permanent beforehand). Such a rate decrease is likely to be short-lived – it would increase the chance of a major rate shock following the PRC review in 2017. We believe severe rate fluctuations would undermine the health of the Postal Service.

As this committee thinks about this issue, it should remember that the overall Consumer Price Index (All items) has no real meaning as it relates to the costs of the postal industry. It is simply the average change in prices for thousands of different goods and services bought by American consumers – it is a statistical artifact.

In 2006, we argued that a more appropriate index was the Consumer Price Index for Delivery Services (CPI-DS) – a sub-index within the CPI-All Items index that measures price trends for services provided by private delivery companies. That is, the prices charged consumers by companies like FedEx and UPS. As an indexing benchmark, the CPI-DS makes sense as it would hold the Postal Service to a rational private sector standard. And it captures the kinds of costs that affect delivery and postage prices – the cost of labor in our industry, the price of fuel, and inflation trends in a transportation/utility company. Another reasonable option would be the Producer Price Index for Delivery and Warehouse Industries. As you will note by reviewing Attachment #3 these more comparable indices have increased significantly more than the CPI since the PAEA was passed.

We believe that the PRC is the appropriate venue for deciding the future regulation of postage rates. In the meantime, we hope Congress will soon pass a bill that will make the exigent increase permanent and virtually eliminate the cost of prefunding in the coming months. But if it doesn't pass legislation, the 2016-17 PRC review of the rate-setting process will have to address both the burden of prefunding and the need to make the exigent increase permanent. That could lead to terrible rate shock that neither Congress nor the Postal Service's diverse group of stakeholders would welcome.

III. Key components to consensus legislation

Finally, I wish to urge this Committee to take immediate and urgent action to adopt legislation to stabilize the Postal Service. There is a remarkable degree of consensus across a broad range of stakeholders – including the unions, postal management and a representative sample of mailing industry companies – about the most important reform elements, which are outlined in Attachment #4. In short, we support:

- The use of postal-specific assumptions in valuations of the Postal Service's pension plans with any surpluses returned to the Postal Service over time;

- Reform of the Federal Employees Health Benefits Program as it relates to coverage of postal employees and postal annuitants to dramatically reduce the cost of retiree health benefits by integrating with Medicare (to which the Postal Service and its employees have paid $29 billion in payroll taxes), and direct the PSRHBF to be invested in index funds comprised of private sector stocks and bonds as well as government bonds;

- A freeze on postage rates until January 2018 while keeping the 4.3% exigent rate increase in effect until then (instead of letting it expire); and

- Allowing the Postal Service to deliver beer, wine and spirits and to provide non-postal products in limited circumstances.

The common characteristic of our elements or principles for reform is that they adopt standard practices used by large companies in the private sector. Most are drawn from ideas included in S. 1486 and maintained in Senator Carper's I-Post proposal. Senator Carper and former Senator Tom Coburn, with Senator Johnson's support, deserve much credit for their determined and patient work in helping to build this consensus.

Of course, our coalition could not agree on every issue – many of us support provisions about which there is not total consensus, and we know individual senators and groups of senators will want to address other issues. As a group, our coalition has agreed to work diligently to engage with this Committee on these issues as they arise and to work in good faith to reach a fair resolution. The four unions pledge to work as long as it takes to make this happen.

Thank you, Chairman Johnson, Ranking Member Carper and all the Members of the Committee for inviting me to testify on this crucially important matter.

ATTACHMENT #1: **USPS Finances under the Postal Accountability and Enhancement Act (2007-2015)**

				NON-OPERATING ITEMS				
Year	Revenue	Expenses	Net Income/ (Loss)	Retiree Health Benefits Pre-Funding	Workers' Comp Accounting Adjustments	Actuarial revaluation of retirement liability (FERS)	Total Non-Operating Items	Operating Profit/(Loss)
2007	$74.8	$79.9	($5.1)	($8.4)	$0.1	-	($8.3)	**$3.1**
2008	$74.9	$77.7	($2.8)	($5.6)	($0.2)	-	($5.8)	**$3.0**
2009	$68.1	$71.9	($3.8)	($1.4)	($1.1)	-	($2.5)	($1.3)
2010	$67.1	$75.6	($8.5)	($5.5)	($2.4)	-	($7.9)	($0.6)
2011	$65.7	$70.8	($5.1)	$0.0	($2.4)	-	($2.4)	($2.7)
2012	$65.2	$81.1	($15.9)	($11.1)	($2.4)	-	($13.5)	($2.5)
2013	$67.3	$72.3	($5.0)	($5.6)	$0.3	-	($5.3)	**$0.3**
2014	$67.8	$73.3	($5.5)	($5.7)	($1.2)	($0.0)	($6.9)	**$1.4**
2015	$68.9	$74.0	($5.1)	($5.7)	($0.3)	($0.2)	($6.2)	**$1.2**
TOTALS	**$619.9**	**$676.6**	($56.8)	($49.0)	($9.6)	($0.2)	($58.8)	**$2.0**
RHBPF PERCENTAGE OF NET LOSSES: 86.3%								

Source: USPS 10-K reports.

Notes: Operating result for 2013 revenue includes $1.316 billion of deferred revenue.

Operating Profit/(Loss) defined as: Net Income/(Loss) less Non-Operating Items including Retiree Health Benefits Prefunding, Workers' Comp Accounting Adjustments, and the Actuarial revaluation of the Postal Service's FERS liability.

ATTACHMENT #2

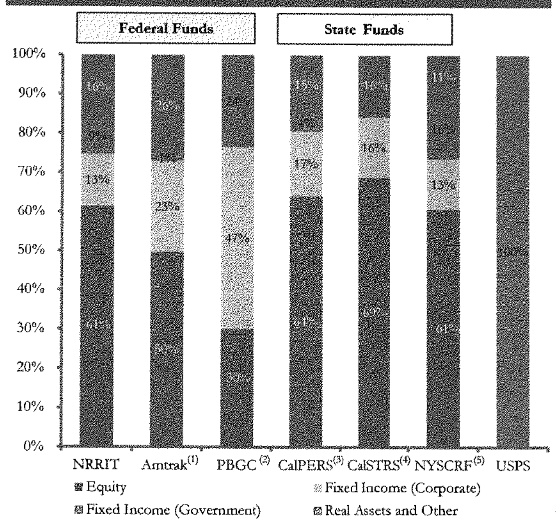
AUGUST 2015

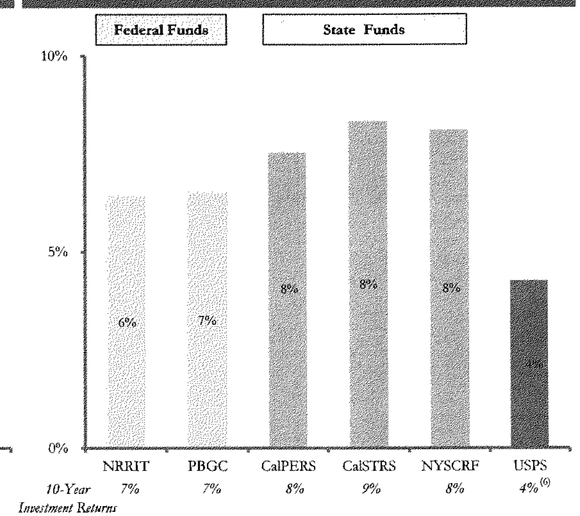
SELECTED FEDERAL AND STATE FUND ALLOCATIONS AND RETURNS

LAZARD

Most Recent Asset Allocation and Historical Returns of Various Funds

Major quasi-governmental pensions and other assets funds invest in diversified portfolios including corporate securities; average returns have exceeded that of the Postal Service Retiree Health Benefits Fund ("PSRHBF") since its inception in 2006





Source: Annual reports and press releases, US News Global Asset Fund Allocation Guidelines.

(1) Amtrak trust funds provide post-retirement benefits for non-unionized employees; total assets under management: $394m.

(2) PBGC (Pension Benefit Guaranty Corporation) guarantees pension benefits for American employees and retirees in ~24,000 plans; total assets under management: $81.5b.

(3) CalPERS (California Public Employees' Retirement System) is compromised of multiple-employer plans based in CA; total assets under management: $313.7b.

(4) CalSTRS (California State Teachers' Retirement System) provides pension benefits to California full-time and part-time public school teachers; total assets under management: $189.1b.

(5) NYSCRF (New York State Common Retirement Fund) provides benefits to 3,000 state and local government-participating employers; total assets under management: $181.3b.

(6) Figures for 2005-2006 reflect US Treasury returns.

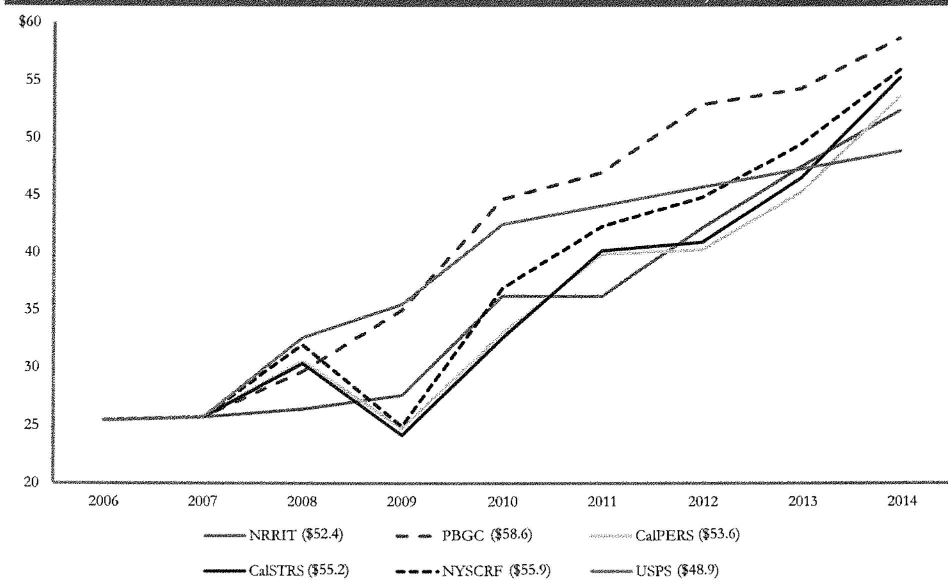
(7) USPS transferred $3.0 billion into the PSRHBF on April 6, 2007, $17.1 billion on June 29, 2007, and $5.4 billion on September 30, 2007.

PSRHBF Assets over Time

($ in billions)

PSRHBF asset balance was $48.9 billion as of September 2014. If the PSRHBF had been invested similarly to selected other quasi-governmental funds since its inception, the balance would be between $52 and $59 billion

ILLUSTRATIVE PSRHBF BALANCES ASSUMING DIVERSIFIED INVESTMENT MIX
(HYPOTHETICAL PSRHBF 2014 BALANCE IN PARENTHESES)



 Note: Assumes diversification in asset allocation begin September 30, 2007.

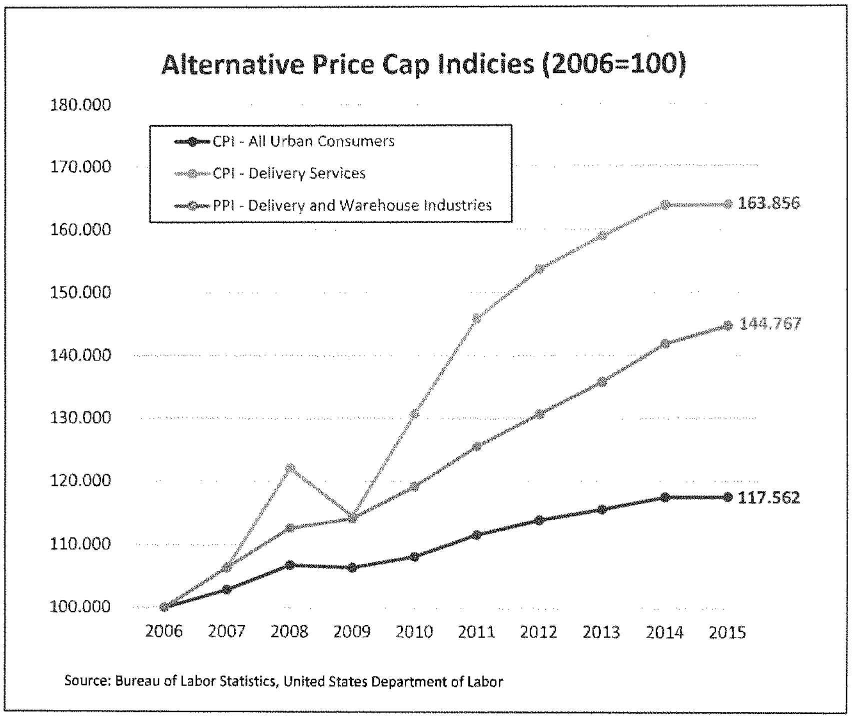
Appendix: Summary Metrics

($ in billions)

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	*8-Year Average*	*10-Year Average*
Illustrative PSRHBF Ending Balances Assuming Diversified Investment Mix (1)	**NRRIT**	-	-	$25.7	$26.4	$27.7	$36.2	$36.2	$42.1	$47.5	$52.4	-	-
	PBGC	-	-	25.7	29.7	35.0	44.7	47.0	52.9	54.3	58.6	-	-
	CalPERS	-	-	25.7	30.6	24.8	33.0	39.9	40.3	45.3	53.6	-	-
	CalSTRS	-	-	25.7	30.4	24.2	32.6	40.2	40.9	46.6	55.2	-	-
	NYSCRF	-	-	25.7	32.0	25.0	36.9	42.3	44.8	49.5	55.9	-	-
	USPS	-	25.5(2)	25.7	32.6	35.5	42.5	44.1	45.7	47.3	48.9	-	-
	USPS PSRHBF Contributions and Transfers	-	-	-	5.6	1.4	5.5	-	-	-	-	-	-
Annual Fund Returns	**NRRIT**	14%	10%	16%	(19%)	(1%)	11%	(0%)	16%	13%	10%	*6%*	*7%*
	PBGC	9%	4%	7%	(7%)	13%	12%	5%	13%	3%	8%	*7%*	*7%*
	CalPERS	12%	12%	19%	(3%)	(24%)	11%	21%	1%	13%	18%	*8%*	*8%*
	CalSTRS	11%	13%	21%	(4%)	(25%)	12%	23%	2%	14%	19%	*8%*	*9%*
	NYSCRF	9%	15%	13%	3%	(26%)	26%	15%	6%	10%	13%	*8%*	*8%*
	USPS(3)	6%	5%	5%	5%	5%	4%	4%	4%	4%	3%	*4%*	*4%*

Notes:
Assumes diversification in PSRHBF asset allocation began September 30, 2007.
All pension funds have varying fiscal year ends: March (NYSCRF), June (CalPERS, CalSTRS), and September (NRRIT, PBGC, USPS).
(1) Ending Balances are calculated by applying selected fund return % to PSRHBF Beginning Balance and adding PSRHBF Contributions & Transfers for said year.
(2) Illustrative 2006 Beginning Balance is actual 2007 PSRHBF Contributions & Transfers figure. USPS transferred $3.0 billion into the PSRHBF on April 6, 2007, $17.1 billion on June 29, 2007, and $5.4 billion on September 30, 2007.
(3) 2005-2006 figures reflect US Treasury Returns.

ATTACHMENT #3



Principles for Targeted Legislation to Stabilize Finances of the United States Postal Service

The U.S. Postal Service is a "basic and fundamental service provided to the people by the Government of the United States," tasked with providing prompt, reliable, and efficient universal postal services. Although the Postal Service has dramatically downsized and restructured its operations in response to the sharp decline in mail volume caused by the Great Recession and ongoing technological change, its ability under current law to perform its statutory mission is imperiled, and it has not been able to fulfill all of its statutory obligations..

While there is a broadly recognized need for the enactment of postal reform legislation to address the Postal Service's financial situation, no bill has attracted sufficient support to pass Congress. To move the process forward, over the past several months the Postal Service has met with mailers, employee organizations, and other stakeholders to discuss ideas for stabilizing the Postal Service's finances. These discussions were frank, wide-ranging, and often impassioned. From them a consensus emerged around a legislative proposal that focuses on a few central concepts which, it was agreed, would constitute substantial progress towards restoring the Postal Service to financial health if enacted into law by Congress.

The elements of this consensus approach, which are described below, broadly reflect the adoption of private sector best practice with respect to health insurance coverage and investment practices. Most of these elements are drawn from or inspired by bipartisan legislation developed by the Senate Homeland Security and Governmental Affairs Committee in recent years, including S. 2050 introduced by Senator Carper earlier this year. These are the core proposals that should be included in postal reform legislation.

Pensions

The proposal requires the Office of Personnel Management (OPM) to calculate the Postal Service's normal cost percentage and supplemental liability under the Federal Employees' Retirement System (FERS), and the supplemental liability under the Civil Service Retirement System (CSRS), using salary growth and demographic assumptions that are specific to the postal population, rather than by using Government-wide assumptions.

The proposal establishes a process by which any FERS surplus, calculated by OPM through postal-specific assumptions, would be returned to the Postal Service. A surplus calculated as of the end of FY2014 (the subject of OPM's most recent determination) would be returned to the Postal Service immediately for use in paying down debt. Future surpluses could also be returned: 2/3 of any surplus calculated for FY2015 would be returned immediately, and any surplus calculated for later years would be returned through annual installments designed to liquidate the surplus over 40 years. Surplus amounts returned in these years would be used to first address the Postal Service's pension and retiree health benefits (RHB) liabilities, and then to pay down debt.

The proposal lengthens the amortization periods regarding any FERS or CSRS unfunded liability, to better accord with the period for paying down any unfunded RHB liability.

Retiree Health Benefits

The proposal requires OPM to create separately rated postal plans within the Federal Employees Health Benefits Program (FEHBP) beginning with the 2017 contract year. These plans would be fully integrated with Medicare Parts A, B, and D, consistent with best practices in the private sector. These plans would be offered by any existing FEHBP carrier that currently covers at least 1,500 postal employees and annuitants, as well as other carriers that desire to participate. All postal employees and annuitants who elect coverage through FEHBP would enroll in one of these postal FEHBP plans, with some limited exceptions.

The proposal requires OPM to calculate the RHB actuarial liability on the basis of annuitant net claims costs, rather than annuitant premiums, in accordance with standard actuarial practice. The Postal Service Retiree Health Benefits Fund (PSRHBF) would be used to pay annuitant net claims costs, with any remaining amount necessary to cover the Government share of the annuitant premium being paid directly by the Postal Service.

The proposal cancels the fixed prefunding schedule established in the Postal Accountability and Enhancement Act of 2006, and instead requires the Postal Service to make actuarially-based RHB prefunding payments beginning in FY2016. Each year, the Postal Service would make a normal cost payment, except to the extent that such a payment would cause the RHB actuarial liability to be more than 100% funded. In addition, the Postal Service would be required to amortize any unfunded RHB liability, predicated on an 80% funding target.

The proposal requires that a portion of the existing assets in the PSRHBF be invested in a more productive manner. Instead of investing the funds only in Treasury securities, the Secretary of Treasury would be required to invest 50% of the funds in a manner designed to replicate the performance of the longest-term L Fund in the Thrift Savings Plan. In investing these funds, the Secretary would consult with a Postal Service Retiree Health Benefits Fund Investment Committee also consisting of the Chairman of the Postal Service Board of Governors, the Chairman of the Federal Retirement Thrift Investment Board, and two members appointed by the President to represent the interests of Postal Service employees and annuitants. Five years after enactment, the Investment Committee could increase the percentage of the RHB funds invested in this manner, with the percentage not exceeding 75%.

Market-Dominant Rates

The proposal makes the 4.3 percent exigent increase, which is currently a surcharge on top of the base rates, part of the rate base. The Postal Service would be prohibited from raising market-dominant rates until January 1, 2018, following completion of the Postal Regulatory Commission (PRC) review of the market-dominant regulatory system pursuant to section 3622(d)(3) of title 39, United States Code.

The proposal specifies the time period of the PRC review of the market-dominant regulatory system: the PRC must begin the review by July 1, 2016, and must complete its review by March 31, 2017, so that the Postal Service will have time to develop, provide notice of, and implement the next market-dominant rate increase by January 1, 2018. No other changes are made to the provisions of current law governing the PRC review; therefore, the PRC's substantive authority with respect to the review remains unchanged.

Nonpostal Services

The proposal authorizes the Postal Service to provide nonpostal services to State, local, and tribal governments.

The proposal also authorizes new, commercial nonpostal services, so long as the PRC concludes that the provision of such services is consistent with a number of requirements. Specifically, any such nonpostal service must (1) be consistent with the public interest and demonstrated likely public demand for the Postal Service to provide the service; (2) not create unfair competition with the private sector, (3) not unreasonably interfere with or detract from the value of postal services, (4) be undertaken in accordance with all Federal laws and regulations applicable to the provision of such services, and (5) be reasonably expected to improve the net financial position of the Postal Service. The PRC would review whether the service meets these requirements before the service could be implemented.

Delivery of Alcoholic Beverages

The proposal authorizes the mailing of beer, wine, and distilled spirits, under specified conditions. First, the mailing must accord with non-federal laws that govern the private shipments of alcoholic beverages at both the place of mailing and the place of delivery. Second, delivery can only be made to an adult 21 years of age who provides a signature and valid identification.

The proposal also clarifies that it does not preempt any State, local, or tribal law that prohibits or regulates the delivery, shipment, or sale of distilled spirits, wine, or beer, so long as that law does not discriminate against shipment and delivery by the Postal Service compared to privately carried shipments and delivery.

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List of Supporting Organizations

4Imprint Inc.
Amazon
American Greetings
American Postal Workers Union
Artists to Watch
Bluestem Brands
Colony Brands
Comcast
Cronin Cards
CVS Health
DaySpring Cards
DCG One

Deluxe Corporation
DHL e-Commerce
Diamond Envelope Company
Engineering Innovation, Inc.
Envelope Manufacturers Association
EPICOMM
Figi's Companies, Inc.
Fine Impressions
Fixture Resource Group
Greeting Card Association
Greg & Company
Hallmark Cards, Inc.
Harland Clarke
Harris Seeds, Garden Trends, Inc.
Information Packaging
Inland Envelope Company
Karen Embry Designs
Kenmore Envelope Company
Legacy Publishing
MAC Paper Converters, Inc.
Mason Companies, Inc.
National Association of Letter Carriers
National Newspaper Association
National Postal Mail Handlers Union
National Rural Letter Carriers Association
New Direction Partners
Newgistics
Newspaper Association of America
Ohio Envelope Manufacturing Company
Papercone
Parcel Partners
Parcel Shippers Association
Postmark Press
Pumpernickel Press
Response Envelope
Royal Envelope Company
Tension Envelope Company
The Occasions Group
Tri-State Envelope
Universal Presentation Concepts
Up With Paper
U-PIC Insurance Services
Valassis

United Envelope Company
Western States Envelope and Label Co.

Testimony of John (Chip) Hutcheson III

President, National Newspaper Association

Before the Senate Committee on Homeland Security and Governmental Affairs

January 21, 2016

Good morning. My name is Chip Hutcheson. I am the publisher of The Times-Leader, in Princeton, KY, a 5,400 circulation twice-weekly mailed newspaper serving Caldwell County in western Kentucky. I am also president of the 2,300-member National Newspaper Association (NNA), based in Springfield, IL, and Falls Church, VA. My biography is attached to this testimony.

Thank you, Mr. Chairman, Ranking member Carper and members of the committee for providing me the opportunity to testify today. NNA has the deepest respect for the expertise on this body—both for the senators and for your staffs who have labored long and hard to figure out where to find the alignment of interests in postal legislation. Even more importantly, this committee has demonstrated through its previous debates that its goal is to do what is right for America. That is why it is an honor to appear here now. I particularly want to thank Chairman Johnson who has met with our publishers for the past several years with great attentiveness and interest and Senator Carper, who worked closely with us during the 2006 postal reforms, and who has introduced the iPOST Act, S 2051, to get our discussion started.

NNA is in its 131st year serving community newspapers.

Our members are primarily weekly newspapers in small towns and rural America that rely heavily upon the mail to reach readers and to carry out their mission to fuel the American democracy with news and information and help drive economic activity in our markets.

Universal mail service has been a top priority for NNA since the 19th Century. Our leaders were involved in postal policy as far back as the Penrose-Overstreet Commission examination of mail classes in 1908, in the 1968-70 creation of the Postal Reorganization Act (PRA), the 2006 passage of the Postal Accountability and Enhancement Act (PAEA) and many, many policy discussions and decisions along the way. We believe mail service is a core responsibility of the federal government. The role of the mail as a part of our great country is enshrined in the US Constitution. Along with the First Amendment, the core obligation of mail service must be the underpinning of our quest to sustain universal service. We need reliable, affordable mail service so our readers can continue to be informed. Newspapers and the Postal Service are proud to share a common forebear: Benjamin Franklin, a postmaster/publisher, who set us on the road to becoming one nation.

I will address three major points today:

1. Community newspapers have already been harmed by slower mail.
2. Rural America needs the mail.
3. We need urgent action from this committee to avoid further harm. No legislation will be perfect, nor will any act we take this year forever repair the Postal Service. But the iPOST bill, S. 2051, with its mandate to integrate Medicare coverage for USPS retirees, provides a viable foundation for this committee to move forward quickly to do what must be done right now.

1. Community newspapers have already been harmed by slower mail.

Allow me to explain first why the US Postal Service is so critical to America's community newspapers.

We are newspapers on paper. Most of our member companies also operate websites. Quite a few now have mobile apps. But both the revenue stream and the readership are dependent upon the printed newspaper, which means we are also dependent upon the Postal Service.

The Pew Research Center just this month released new data showing that our experience is true across the nation. It examined three critical markets: Macon, Georgia; Sioux City, Iowa, and Denver, Colorado.

Here is that it learned:

- More than half of readers depend primarily upon the printed newspaper
- Among newspaper print subscribers and readers, the heaviest dependence comes from a particularly vulnerable part of our nation: people over 65, people who have not attended college and people with an annual income under $30,000. Without the newspaper, their engagement in the community would be tenuous.

Pew surveys are always enlightening, perhaps not as much for our community papers as for the larger city dailies. But the data make sense to us as well. We have about 289 daily newspaper members, so we certainly follow the data. Pew does not often recognize the importance of the community weeklies, nor of small towns. What is interesting about this 2016 study is that if print readership is critical for the larger dailies, it will be even more so for our weeklies.

Indeed, NNA's own surveys, most recently released in 2014 by the Center for Advanced Social Research at the University of Missouri, show that community newspapers are the lifeblood of small towns. We see regular and consistent readership of 65 percent or more in smaller communities. In small towns, 78 percent say they rely on the newspaper as their primary source for local news and information—indicating to us that when local news breaks, even our non-subscribers are picking up the paper at the newsstand or borrowing a copy from another reader.

Internet access remains a problem in these communities with more than 25 percent unable to enjoy broadband access at home. Only around 45 percent of residents are telling us they look at the newspaper website. But among those who do go to websites for news, it is the newspaper website that they are most likely to use and trust.

With print as the primary medium for a weekly newspaper, distribution becomes a critical problem.

Our typical member is a 3,000-5,000 circulation weekly. It is generally published between Wednesday and Friday each week, targeting in-home delivery before the weekend. Getting into the home before weekend shopping and social, civic or sports events begin is everything to us. It is critical to our advertisers who count on us to bring traffic to their stores. It is essential to our civic organizations and our churches who give us their press releases to attract people to their events and worship services. A late newspaper is a newspaper that has failed its community.

Our typical member brings its Periodicals mail to the local post office, already prepared in bundles sorted to the carrier's delivery sequence. Much of the mail remains in that local office. On-time mail delivery within that delivery office area is generally not a problem—although the closing of many post offices in small towns now has generated concerns that we did not have a decade ago.

Where we hit headwinds is when those newspapers have to leave the local office to enter the delivery network.

For most of our history, we had to worry only about our long-distance readers getting the paper within a reasonable time. For them, local shopping or attending a local church service is not usually an issue, but they are upset when their paper comes two or three weeks late or arrives in bundles of three or four issues because USPS mail processing has bundled them together. For most of my lifetime, we have had a problem reaching these readers.

What is new for us is the severe difficulty in reaching readers in the satellite towns around our central community. If we are publishing in towns with a lake or an ocean or river resort, we also have new problems getting to the city dwellers who come to our towns for holidays or to enjoy second homes or fishing cabins and the like.

For these readers—I will call them core-market readers—our mail has to leave the local post office and travel to a mail distribution center to be processed and sent on to the post office that serves these readers. The distribution centers are like an eddy of difficulty for us even when USPS operates at optimum levels. Our mail typically is manually sorted because USPS machines cannot handle our newsprint. It arrives in small-density batches, so it is easily put aside while larger mailings are processed. Despite our best efforts to have printers use the white flats tubs that all of you have in your own offices to receive and gather mail, many of our copies are still in mail sacks. The sacks are manually sorted, and it is easy to miss a copy or two in the bottom of a sack. Finally, because our mail is not sorted by machine, it does not produce what the Postal Service calls "visibility" by being scanned as it travels through the network. Our mail today is largely invisible in USPS systems. We have to count on best practices in the processing network as well as in the newspaper mail preparation to move our mail along in timely fashion.

The good news for us is that NNA works very closely with USPS to take advantage of these best practices. In fact, NNA is conducting a training program here in Washington on March 16 to help our printers understand what we need from them to prepare mail as efficiently as possible.

The bad news is that even if everything goes perfectly, the vanishing footprint of the mail processing plant in America's smaller cities means our mail has to move further and slower to see its first handling by USPS.

The Postal Service has closed more than half of its mail processing centers in the past eight years. The centers that were closest to most of small town America are now gone or have had key functions downsized and removed to larger cities.

Just in my home state of Kentucky, we have lost processing operations in Somerset, Bowling Green, Owensboro, Paducah, Elizabethtown, Campton, Ashland, Pikeville and London. Mail that was handled in the state is now going to Louisville, Nashville, Huntington WV, Evansville IN, or beyond.

Just getting to the processing center can add an additional day to delivery. But it can add more than that if mail arrives just a bit too late to get on a critical truck taking processed mail back to a town we are trying to reach. If something else also goes wrong—for example, handling our mail is deferred because the plant is now focused on the growing package business—the delays can multiply.

Speaking for the Times-Leader, I can tell you that complaints to our circulation department increase every time a mail processing plant downsizes or closes. I can also say that we experience a slow-down in our own first-class mail, which we depend upon because it has invoices and checks in it. And I am told by publishers across the country that even Priority Mail has become a problem, which many small town publishers use to deliver payroll to their own staffs in news bureaus outside their headquarters. One publisher friend in Blackshear, GA, knowing I was preparing for this hearing, told me on January 8 he had just received a Christmas card postmarked Dec. 21 in Fargo, ND. We were not surprised.

To validate my perceptions, I asked our members last week to update me on their experiences with newspaper delivery. Here is what our member survey told me:

- 92.5 percent have experienced problems reaching readers on time with their Periodicals newspaper;
- 40.3 percent report delivery problems with First-Class or Priority Mail;
- 49.2 percent attribute the problem to a closed or downsized plant; 44 percent say they don't know where the problem arose, but they have a problem0;
- 53 percent experienced a problem reaching core-market readers on time—either within their county or within the market but outside the county;
- 79 percent describe the Postal Service as critical to their survival.

I have provided more detailed breakouts of these responses as an appendix to my statement.

I want to give credit where it is due.

NNA does work extremely closely with the Postal Service and we have much respect for the dedication of its workforce and its senior management. We know they want to do the best job possible within the constraints they face.

Since the plant closings began, USPS has set up small transfer hubs in some of the closed location sites so we can hand off certain direct-to-post-office containers of mail that can be loaded on a truck on its way to area post offices serving the former plant's territory. These steps avoid going through the new, more distant plant. Our survey indicates about 22 percent of our members are using these hubs. Another 32 percent say they are not aware of hubs. This may be our own opportunity for education.

But hubs are just a patch— though an incredibly important one. They cannot take the place of an efficient, close-by plant. Also, often by the time they get set up and understood by the publishers or their printers, the damage to our businesses is already done.

The message here is clear: the mail processing network within the Postal Service is critical to us. The harder it is to reach, the slower our mail will be.

2. Rural America needs the mail.

Postal reform can be a thankless, daunting task. NNA appreciates the challenge before the committee, because we have been working with Congress on postal issues for my entire newspaper career. When asked why NNA persists in this quest, I paraphrase Woody Allen in that memorable movie, "Annie Hall when a psychiatrist asked why he put up with a troubled brother who thought he was a chicken: "Because we need the eggs.... That's how I feel about relationships. They're totally crazy, irrational, and absurd, but we keep going through it because we need the eggs."

Well, we keep going through it because we need the mail.

NNA newspaper towns are typically composed of 15,000 or fewer residents. Though many small-town residents now commute great distances to work, small-town businesses and farms still employ many of our residents. To preserve their jobs and our local commerce, as well as civic life, we need the mail.

NNA and other rural constituencies have previously testified about this critical sector of America, whence comes our food supply, a portion of the manufacturing sector and about a quarter of the population.

During our participation in public debate about the value of 6-day mail service, we heard several important voices on the central role of rural mail. For example, MedCo Health, now a part of Express Scripts, testified to the Postal Regulatory Commission:

> "..mail order provides convenient, cost-effective, and essential access to medications for Americans in rural and underserved communities with limited access to other resources, as well as those who are home-bound. These Americans may not have convenient access to a pharmacy, or to the full range of medications at a pharmacy – or, particularly with older patients -- may not have the mobility or means to access retail services. In these situations, Medco relies heavily on the USPS going that "extra mile" to deliver life-saving and life-enhancing medications. Remember that USPS competitors such as UPS and Fed-Ex in America's rural areas contract out to local USPS facilities for delivery. Thus, many consumers, particularly those in most need of the access, will suffer under

> this proposed delivery frequency reduction plan. Limiting access to critical, life-saving and life-enhancing medicines will disproportionally and negatively impact elderly, underserved, and rural-dwelling Americans." Revised Rebuttal Testimony of Thomas M. Moriarty on behalf of Medco Health, before the Postal Regulatory Commission, Docket N2010-1, August 3, 2010.

We were also reminded of the importance of mail service for another critical component of democracy: voting. Testifying for the National Grange, Edward Luttrell said:

> "There are more than 40,000 local governmental agencies in the United States, most of them operating in rural areas. Not just general municipal or tribal governments but special purpose governmental entities dot the political landscape in rural America. School districts, fire districts, water districts, conservation districts, agriculture districts, public utility districts, and public telephone districts are just some of the special purpose local governmental organizations that serve rural citizens. Each of these organizations rely on some form of public participation through voting, either to elect public officials to oversee provision of public services or through direct referendum to make critical decisions regarding the budgets and operations of these entities. Increasingly, all of these organizations rely on the US mail to conduct these votes.
>
> In addition, private, self-governing entities are proliferating in urban, suburban and rural communities. Rural communities have long relied on private, self-governing entities to provide basic services and commercial services, such as rural electric cooperatives, rural water cooperatives, rural telephone cooperatives, credit unions, and farm supply cooperatives. Outside of rural areas, private self-governing entities have proliferated among home owner and condominium associations as well. By law in most states, these entities must conduct their business utilizing postal voting." Testimony of Edward Luttell, president, National Grange of the Order of Patrons of Husbandry, before the Postal Regulatory Commission, Docket N2010-1, August 3, 2010.

Finally, many federal agencies and policy experts have expressed concern about lack of broadband Internet access in rural America. The most recent study by the Pew Research Center indicates that 33 percent of the population does not have broadband service. We know this problem is most pronounced in rural areas, but what I find interesting is that a portion of our American population seems to have bypassed broadband altogether and rely solely on their smart-phones. A third of the smart-phone users told Pew that they don't need broadband because they do everything they need to do on the phone. Yet Pew finds that 25-37 percent of their respondents say not having access to broadband creates problems with the job market: they cannot find job listings, or cannot fill out an application with the digital devices available to them. "Lack of Broadband Can Be A Key Obstacle," Pew Research Center, December 28, 2015; http://www.pewresearch.org/fact-tank/2015/12/28/lack-of-broadband-can-be-a-key-obstacle-especially-for-job-seekers/.

Pew's most recent survey about rural areas shows how much more pronounced the digital access issues are for us: only 62% have at-home broadband and 40% have smart-phones. "Home Broadband 2013," Pew Research Center. http://www.pewinternet.org/2013/08/26/home-broadband-2013/.

The disadvantage to rural areas in the great digital divide is not news. Lower population penetration makes the capital formation for broadband buildout particularly challenging. And rural populations tend to be slightly older people, who often have a lower comfort level with new technologies than the grandkids that they invite over whenever they cannot run their computers.

All of this makes the mail absolutely critical. In small-town America, we need it for medicines, to apply for jobs, to vote and to receive the newspaper.

We who live in this challenged environment intuitively realize our mail has slowed down in the past five years. But USPS on-time delivery statistics do not tell us how well or poorly our mail is doing.

Last year, the Government Accountability Office (GAO) issued a report on how much we know about rural mail service:

> USPS and PRC are not required to report—and do not report—delivery information for rural and non-rural areas, thus limiting effective oversight in these areas. USPS and PRC officials told us that they do not provide information or analysis to assess delivery performance specifically for rural areas because they are not legally required to do so. Without data on rural delivery performance, Congress cannot determine the extent delivery performance is timely in rural versus non-rural areas and neither USPS nor PRC can prove or disprove any perceptions that rural areas may be affected differently than non-rural areas." Actions Needed to Make Delivery Performance Information More

Complete, Useful, and Transparent," US Government Accountability Office, September, 2015.

NNA has been requesting these data from the Postal Service for several years and I am pleased to report that we now understand USPS and the Postal Regulatory Commission intend to report some data on rural mail measurement in the late spring. We are gratified that the two agencies have collaborated to produce rural measurement studies and we hope it will enlighten many in Congress on the importance of rural mail. I want to note that these studies will not provide information on newspaper on-time delivery because most of our products are not part of the automated mailstream that produces these data. But for the health and economic well-being of our communities that use other mail classes, I would like to compliment Postmaster General Megan Brennan for stepping up to do this study. We hope this committee will follow this progress closely.

Whatever the metrics available, however, they cannot alone produce more reliable, affordable mail. Only the efficient management of the postal system and the correct policies of the United States Congress can get us where we need to go. Rural America simply must be able to rely upon the mail.

3. We need urgent action from this committee and urge it to begin with S. 2051, the iPOST Act, which mandates the integration of Medicare benefits.

NNA has been involved in modern postal reform for the past 25 years. We thought the Postal Accountability Act (PAEA) was a positive step. But no one could have foreseen then that we were soon to plunge into the Great Recession, nor that digital disruption would affect the Postal Service as severely as it has.

PAEA set upon the Postal Service an obligation to pay more than $5 billion a year for 10 years to the Treasury to prefund retiree health benefits in an environment of shrinking mail volume. From the year that obligation set in, USPS has been struggling, and we who use the mail have been struggling along with it.

Because of its financial woes, USPS has slowed down the mail, and that has created the problems I am addressing in my testimony. The service cuts have trimmed the fat, a lot of the muscle and are now aiming for the aorta. We greatly fear the impact of the next round of mail processing plant closings, having seen how badly the previous rounds have damaged our businesses and communities. It is for that reason that, although not every provision in this bill is what we would have preferred, our membership believes it provides the vehicle this committee needs to move legislation NOW.

Here is the pain point for us.

This bill would permit USPS to keep the "exigency" money that it began to collect two years ago when it enacted a postage increase that was approximately triple the rate of inflation. Without legislation, USPS will lower postage rates and "roll back" the increase, under orders of the US Court of Appeals and the Postal Regulatory Commission.

Would our members like to have a postage reduction? Absolutely.

In many of our communities, businesses have not ridden the wave of economic recovery after 2009. Money is extremely tight. Community newspapers have experienced staff layoffs, furloughs, workforce cuts and other very painful retrenchments. Some postage money back into our pockets would be very welcome.

But we recognize that the exigency money was principally responsible for USPS's positive net earnings in 2015. Although its package business is growing, that business does not produce the positive contribution to the system that first-class mail once did. Because of costs growing faster than inflation, our own Periodicals mail class—which is supposed to operate at break-even—cannot produce a positive contribution and in fact struggles to get back to a point where we can cover our costs. Yet if there are service cuts and more of our mail goes away as a result, the problems of the Postal Service deepen and we are faced with spiraling reductions of service, greater financial losses to the economy and USPS, and an increasingly desperate situation where USPS is going to need a taxpayer bailout to cover the costs of existing obligations to its retired workforce.

Thus, our board of directors voted last fall to support legislation that permits the Postal Service to keep this $1 billion in its rate base, so long as further service cuts can be avoided. We do not wish to convey by our support that we think further exigency increases would be acceptable. This past increase was a painful one that hit our members just as they were finally beginning to climb out of the recession. I have no doubt that it has cost some of our journalists the opportunity to regain a job or get a raise. For many newspapers, postage is the second-largest expense after payroll.

So let me be clear: NNA's support for suspending the mandate to roll back postage rates in April is contingent upon the Postal Service's commitment to enact no further systematic service cuts and to live within its means without more exigency increases. To us, that translates into suspending further plant closings and continuing the Postmaster General's commendable efforts to trim costs without risking more mail volume loss through service cuts.

Our survey of members indicates that our members support the board's position. When we asked, "Which is the priority for your newspaper—lower the rates or maintain/improve service?" The response from 77% of them was: "Let USPS keep the money, but don't do such a big increase again. And definitely improve service." I can assure you, that was not an easy answer to give in our industry at this time.

That is why we urgently want to impress upon the committee that action must be taken NOW. We recognize that there is a cohort in our mailing world that would take the opposite view of ours—lower the rates and address service later. We appreciate their desire to regain lost expenses through the rollback. They may get their wish if Congress does not act before April. But for us, and for rural America, the service is imperative.

There are others on the panels testifying today who are far more expert than I on the fine points of Medicare integration, reforms of the retiree health benefit payments and other provisions that many in the mailing world, the postal unions and the Postmaster General agree on. But I can tell the committee that NNA's Postal Committee is fully aware that postage revenues are funding dual health benefits packages for a substantial number of postal retirees. In an environment where we struggle to provide health insurance for our own active workers, many of our publishers are perplexed that a Congress with a conservative majority believes this double-charge is fair. Certainly, we can understand that Uncle Sam would rather keep that money for an under-funded Medicare system. But it should not be the obligation of small businesses like ours to double-pay for the benefit. We think it is unfair to consider the integration of Medicare benefits as any sort of new burden on taxpayers. Rather, the taxpayers have benefitted for some years now by our extra postage obligations. It is time for Congress to end this unfair hit on small businesses.

Above all, urgency is necessary. It is clear to NNA that a sound piece of legislation can be written this year. If we delay further, and more service cuts occur, unpredictable consequences may snatch this opportunity from us and from the committee. The time is now, and this committee's record of expertise in crafting sound legislation dictates that the need for your leadership is critical and urgent.

In conclusion, Mr. Chairman, Ranking Member Carper, and members of the committee, we appreciate the opportunity to testify. We recognize that there are many versions of legislation that we could support, as well as some we would viscerally oppose, and that the important thing is to start with the measures that have the greatest support and work from there. We believe this committee has an excellent start and that substantial constituencies will support your efforts. The critical thing is to GET STARTED, and to move quickly before greater damage is done. NNA pledges its support for your efforts and looks forward to working with you.

American Forest & Paper Association

American Forest & Paper Association
Statement Submitted for the Record
Senate Committee on Homeland Security and Governmental Affairs Hearing- "Realities of the Postal Service"
January 21, 2016

Chairman Johnson, ranking member Carper, members of the committee, my name is Kathy Collins and I am the mill operations manager at Domtar's Rothschild paper mill in Wisconsin. I am responsible for directly managing the manufacture of approximately 136,000 tons per year of printing papers, much of which is delivered to our end-customers through the U.S. Postal Service.

Today, I am speaking on behalf of the American Forest & Paper Association (AF&PA), which is pleased to submit this written statement to the Senate Homeland Security and Governmental Affairs Committee on the business realities and future viability of the United States Postal Service.

As I am sure you are all well aware, the paper industry has a large stake in the future success of the United States Postal Service. Over one-third, or $6 billion of the communications papers manufactured by the industry are delivered through the postal system. In addition, the packaging sector of our industry is becoming an increasingly important part of the Postal Service growth strategy for package delivery service driven by the surge in e-commerce. We depend on the Postal Service as an essential component of our nation's economic engine which, according to the most recent Mailing Industry Jobs study, supports $1.4 trillion in mailing industry revenue and employs over 7.5 million people. The Postal Service is a uniquely American enterprise as it has the infrastructure to enable our customers, which include printers, direct mailers, publishers, ranging from multinational to mom and pop companies to connect and conduct business with every household in this country through printed communications.

The American Forest & Paper Association (AF&PA) serves to advance a sustainable U.S. pulp, paper, packaging, and wood products manufacturing industry through fact-based public policy and marketplace advocacy. AF&PA member companies make products essential for everyday life from renewable and recyclable resources and are committed to continuous improvement through the industry's sustainability initiative - *Better Practices, Better Planet 2020*. The forest products industry accounts for approximately 4.5 percent of the total U.S. manufacturing GDP, manufactures approximately $200 billion in products annually, and employs nearly 900,000 men and women. The industry meets a payroll of approximately $50 billion annually and is among the top 10 manufacturing sector employers in 47 states. We are an integral part of the fabric and economies of the communities in which we operate, many of which are in rural areas where similar job and economic opportunities do not exist.

The Postal Service is facing unprecedented challenges to adapt to the new market realities of communication and commerce. These challenges are all too familiar to Domtar and our industry, as we confront the same shifts in the way people communicate with one another and conduct business. Our industry recognizes that the highly mobile and internet-enabled economy has forever changed the landscape for paper use. Yet throughout the backdrop of recession, global competition, and the shifting consumer preferences of recent years, the paper and packaging industry remains a significant contributor to the economy and in many of our host communities - often rural and remote - pulp and paper facilities ARE the region's economic lifeline. These new market realities offer both challenges and opportunities for the paper industry and the same is true for the U.S. Postal Service.

In response to a changing market, the paper industry has adapted by realigning infrastructure, redirecting core competencies and seizing new growth opportunities through innovation. Industry companies have re-focused productivity and production to concentrate on the most efficient manufacturing processes. At the same time, worker productivity has increased. Between 2004 and 2014, the average output per man hour at U.S. pulp, paper and paperboard mills increased by nearly 13 percent.

In addition to these efforts, Domtar, like many companies in the industry, has repurposed facilities to enhance quality, improve efficiency and expand capabilities of manufacturing assets, enabling us to take advantage of opportunities to produce new and value-added products that serve adjacent markets. Such new product developments include flexible printed electronic circuits, embedded RFID components, as well as QR codes and augmented reality applications that link consumers from physical print to digital product experiences.

In May 2011 one of my Domtar colleagues appeared before a House subcommittee to detail some of the actions taken necessary to protect Domtar. My colleague talked about the painful, but needed actions taken to preserve our company. We challenged the Postal Service to right-size its organization and want to recognize the important initiatives undertaken by the USPS to meet the challenge.

Some companies, Domtar included, are seizing the growth opportunities in non-traditional papermaking markets by producing specialty pulps and highly engineered, fiber-based absorbent personal care products and wipes.

Through innovation, the industry is leveraging new applications for nano-materials and wood byproducts that make products like paint and plastic composites stronger and last longer. Forest biomass is quickly becoming an important feedstock for manufacturing green chemicals, a sustainable replacement for those currently made with fossil fuels. At the facility I manage we have an onsite partner that removes lignin from the pulping residuals we generate. At a Domtar facility in Quebec, Domtar has invested in a pilot plant that can produce nano-crystalline cellulose from cellulosic fiber (wood fiber) produced at Domtar mills. We are at the edge of beginning to understand the uses and applications for both lignin and nano-crystalline cellulose. In addition to Domtar's Rothschild mill, lignin separation takes place at a Domtar mill in North Carolina.

And throughout our adaptation to changing markets, meeting the needs of our customers remains at the forefront of our long-term strategy. An example of that industry commitment can be seen through the recently launched industry-wide collaboration "Paper and Packaging-How Life Unfolds ™" campaign launched last summer. Run by the Paper and Packaging Board , the program aims to remind the public of the importance paper and paper products play in the daily lives of each American, including those products shipped and received through the U.S. postal system. As important as it is to develop new revenue streams, it is equally important to keep loyal customers in our mature businesses and preserve the value represented in those segments - a lesson the Postal Service should take to heart as it seeks growth opportunities outside its core business.

In addition to the market realities facing the U.S. Postal Service, the declining financial condition of the agency is highly linked to statutory financial obligations and growth limitations imposed on it by Congress. With the $5.1 billion loss reported in fiscal 2015, the Postal Service has accumulated its ninth consecutive year in the red. According to the April 13, 2015 report of the U.S. Postal Service Office by the Inspector General, USPS losses are driven primarily by the requirement to prefund its retiree health benefits fund and its workers' compensation expenses, both of which are beyond the Postal Service's control.

Because of the many challenges the Postal Service is facing and the handcuffs Congress has placed on it, our industry has been an advocate of comprehensive postal reform legislation. Uncertainty regarding the reliability of the Postal Service and the cost to transact business through the mail, combined with stopgap measures by USPS to reduce costs have only added to doubts among mailers that threaten to further accelerate mail volume decline. And with current law constraining the Postal Service's ability to diversify, financial instability of the USPS can only be expected to continue.

To its credit, the Postal Service has been aggressive about cutting costs by consolidating mail processing facilities, changing Post Office window hours, eliminating delivery routes and reducing the size of its workforce. However, there is a limit to how much USPS can cut without degrading service. A look at current service standards performance, may suggest that the USPS has cut too deeply.

Given the realities of its financial obligations and the constraints imposed upon it, the Postal Service cannot succeed without the help of Congress to pass comprehensive postal reform legislation that not only alleviates unreasonable financial burdens, but preserves and attracts customers, as well as convinces former customers to return.

Domtar, and the larger paper industry, support legislative measures that will help the Postal Service achieve long-term viability by realigning its outdated cost structure, encouraging new revenue sources, and leveraging its unique infrastructure to meet the service needs of future customers.

We support postal reform that considers the following:

- Aligns labor costs, benefits, and future obligations with market competition. The handcuffs and unreasonable burdens of the current statutory requirements must be changed, as these obligations are the largest contributor to USPS financial losses.

- Postal facilities must adjust with the evolving realities of communications and business transactions, while ensuring the service needs of postal customers are met. Our neighbors to the north at Canada Post have made many successful changes that the USPS might also benefit from.

- Rate stability and predictability are bedrock requirements for business to stay with mail. Congress and USPS must recognize that raising prices while reducing service is not a successful strategy to address declining demand. Mail must be cost competitive for business to continue to use it. Future rate setting should include checks and balances that provide price predictability for mailers and cost-control incentives for USPS.

- Reliable service is essential if mail is to compete with other communication options. Prompt and timely delivery must be maintained for mail to deliver its key value proposition. Service standards changes should realistically weigh cost savings against customer expectations or mail will become increasingly less relevant.

- The Postal Service should leverage its unique infrastructure and have the flexibility to innovate and develop new revenue sources. There is value in increasing the revenue yield of traditional products and customers as well as diversifying into other business opportunities.

To those who may think that paper and physical mail is a thing of the past, I would like to remind you that many consumers, even digital natives, cannot conceive of a world without paper.

A recent study by consulting firm InfoTrends, in collaboration with the U.S. Postal Service Office of Inspector General clearly shows that consumers by an overwhelming 91 percent prefer to receive utility bills in the mail as a record-keeping tool and reminder to pay, even though they may prefer to pay their bill electronically.

Another joint study by the Office of Inspector General and the Fox Center for Neural Decision Making, comparing consumer responses to marketing material delivered in digital and paper formats, found that customers spent more time with an ad on paper, had a stronger emotional reaction to printed ads, and could more quickly and confidently remember the printed advertising source, with a stronger subconscious desire for the product or service that was promoted on paper.

Direct mail makes good business sense, as evidenced by research findings reported by the Direct Marketing Association where the response rate for direct mail catalogs was 35 times greater (4.26%) than that for e-mail, which had responses of 0.12%.

The paper industry agrees that a viable Postal Service is an important part of the American economy. Our members and our customers depend heavily on getting our products and messages delivered to the final destination in a secure, timely and cost effective manner. Congress needs to help by passing legislation addressing the fundamental issues that stand in the way of the Postal Service adapting to a changing world and doing so profitably. We specifically cite the pre-funding of retiree health care benefits and needed reform to Federal Employee Compensation Act relative to workers compensation claims as areas that need prompt attention.

We greatly appreciate the Chairman, the Ranking Member, and the Committee for making reform of the Postal Service a priority. Domtar and the whole of the paper industry look forward to working with members of this Committee as well as your counterparts in the House to enact comprehensive plans that will put USPS on a path to long-term sustainability.

ACI
The American Consumer Institute
Center for Citizen Research

Written Statement of the American Consumer Institute (ACI) to Consider as Part of the Record
For a Hearing on
"Laying Out the Reality of the United States Postal Service"
Submitted to the
U.S. Senate Committee on Homeland Security & Governmental Affairs

January 20, 2016

Dear Committee Members and Staff:

Thank you for this opportunity to submit comments regarding the Postal Service's deteriorating service quality and its weakened ability to adequately fulfill its primary responsibilities that are consistent with its original charter.

As millions of American consumers across country continue to depend on the US Postal Service's basic service to send and receive mail in a timely and affordable manner, it is greatly concerning to observe the agency's struggles to meet last year's lowered performance goals. New service standards mandated by the Postal Service at the start of 2015 indicated that mail would be expected to reach its recipients on an average of 2.1 days – up from the previous goal of 1.8 days. Despite these relaxed standards, the Postal Service, according to a recent Inspector General management alert, reported a 48 percent increase in delayed mail for the first six months of 2015.

The Postal Service's reduction of standards and inability to meet them is just one component of the agency's shifting philosophy to neglect its core obligations – letter mail delivery – in order to seek out and cross-subsidize new experimental products, including delivery of packages and groceries, as well as the provision of same day delivery services and potentially banking services.

Without an adequate financial justification for how these diversions are directly improving its core obligations, it is clear that the Postal Service must return its full attention to delivering letter mail in a timelier fashion and at a reasonable rate for consumers.

Thank you for considering these concerns of our organization and if you have any questions please feel free to reach me by email (steve@theamericanconsumer.org).

Sincerely,

Steve Pociask
President and CEO
American Consumer Institute
Center for Citizen Research
1701 Pennsylvania Ave., NW, Suite 300
Washington, DC 20006

Alliance of Nonprofit Mailers

January 28, 2016

The Honorable Ron Johnson
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate
328 Hart Senate Office Building
Washington, DC 20510
Fax: (202) 228-6965

Re: For the Record of the Hearing, Laying Out the Reality of the United States Postal Service, January 21, 2016

Dear Senator Johnson:

The Alliance of Nonprofit Mailers is writing to express our strong opposition to the "iPost" postal bill introduced by Senator Carper on September 17, 2015 and promoted at the Homeland Security and Governmental Affairs Committee hearing on January 21. The legislation, far from putting the Postal Service on the path to economic health, would be a big step backwards.

The most urgent need facing the Postal Service is to adjust its plant size, operations and costs to match its reduced mail volume of roughly 150 billion pieces so that it can continue to serve the remaining public demand for mail service. The iPost bill, however, would do virtually nothing to empower the Postal Service to rationalize its operations and control its costs. Indeed, it would create new barriers to these necessary reforms, and would force captive mailers to absorb the excess costs by legislating a permanent 4.3 percent rate surcharge on all market-dominant mail products.

The Alliance of Nonprofit Mailers is a coalition of nonprofit organizations that depend on market dominant mail products to raise funds, inform the public, and serve the organizations' beneficiaries. Much of the $350 billion that Americans donate to charities annually can be attributed to the mail. The mail sent by nonprofit organizations includes newsletters, magazines, solicitation letters, and the large volume of First Class Mail used by the public to send donations to the charities.

The nonprofit sector has not been immune to the pressures affecting many parts of the economy since the 2007-2009 recession. Nonprofits have been forced to rationalize their own operations in the face of dwindling budgets and increasing social needs. To saddle nonprofits with massive rate increases while preventing the Postal Service from rationalizing its own operations would jeopardize the ability of nonprofits to continue fulfilling needs that neither the government nor the for-profit sector can meet. Enactment of the iPost bill would shutter more nonprofit publications, reduce solicitation programs, and force nonprofits to shift resources to digital channels of lesser effectiveness.

We appreciate your leadership of the Senate Committee on Homeland Security and Governmental Affairs, especially with your business background and acumen. We hope that you will agree that limiting the Postal Service's flexibility to adjust to lower volumes, while surcharging the captive customers that currently support the business, will not lead to a healthy Postal Service.

Sincerely,

Stephen M. Kearney
Executive Director
Alliance of Nonprofit Mailers
1211 Connecticut Avenue, NW, Suite 610
Washington, DC 20036
Tel: (202) 462-5132
Fax: (202)462-0423
Email: steve@nonprofitmailers.org
Web: www.nonprofitmailers.org

cc: The Honorable Tom Carper
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate
513 Hart Senate Office Building
Washington, DC 20510
Fax: (202) 228-2190

cc: All Members
Committee on Homeland Security and Governmental Affairs
United States Senate

February 3, 2016
The Honorable Ron Johnson
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate
340 Dirksen Senate Office Building
Washington, DC 20510
Fax: (202) 224-9603
Re: For the Record of the Hearing, "Laying Out the Reality of the United States Postal Service", January 21, 2016

Dear Senator Johnson:

As representatives of a significant portion of the mailing industry, using all types and classes of mail and representing billions of mail pieces and billions of dollars in postal revenue, we write to express our strong opposition to the "iPost" postal bill introduced by Senator Carper on September 17, 2015 (S. 2051), and discussed at length during the HSGAC hearing on January 21, 2016. Contrary to any misimpression that a broad swath of the mailing industry is supportive of the rate-setting provisions contained in S. 2051, the undersigned organizations stand firmly in opposition to at least one substantive proposal put forth by the Postal Service during the hearing, and contained in S. 2051 – that the temporary "exigent" rates of postage now in effect be made part of permanent law. We also are dismayed by the apparent retreat by the Postal Service on cost-reduction programs, as mirrored in S. 2051, which would create barriers to cost control by imposing multi-year moratoriums on facility and post office consolidations and closures.

The Postal Service certainly faces fundamental problems as it attempts to cope with significant change in the nature and scope of its core business. But those problems will not be solved by imposing statutory rate increases and preventing cost-saving measures that have the potential to save the Postal Service billions of dollars per year. All of our organizations have also gone through financial difficulties and upheavals during recent years, and many of us have reorganized and downsized our internal operations multiple times since the 2008 recession. A solution to the Postal Service's financial challenges that forestalls network rationalizing cost-savings measures is not a long-lasting solution at all.

Our organizations remain committed to the Postal Service and its long-term viability. Mail continues to be the lifeblood of many businesses and nonprofits, and each of our organizations stands at the ready to work with Congress and the Postal Service to help solve the complex issues facing the organization today. We remain willing to support constructive measures that were touched on during the hearing that, if adopted, could enhance the Postal Service's financial stability going forward. These include Medicare integration and restructuring of the Postal Service's retiree health and pension benefit obligations, for which there is indeed consensus among the Postal Service, employee groups and the full mailing community. However, we cannot support non-consensus and unbalanced proposals – among them, the first Congressionally-mandated general increase in postal rates since 1968. By its very nature, an exigency rate is not a permanent rate. Both the independent Postal Regulatory Commission and the

U.S. Court of Appeals have affirmed this point. Temporary fixes should not be mistaken for long-term solutions at the expense of the large mailing industry.

We believe that there is time to step back and look in a balanced fashion at the Postal Service of the future. The Postal Service is coming off a record-breaking holiday season, with package volume up 18% from last year. 2016 is an election year, and the Postal Service has plans to handle $1 billion in political mail this year. The Postal Service had operating surpluses in both 2014 and 2015 and has plenty of cash on hand – $7.6 billion at the end of November. The end of the exigency surcharge in April will give an additional boost to mail volume in all classes. There is no need to rush into controversial postal legislation without a clearer picture of potential volume and revenue growth for the Postal Service in the years ahead. Further, existing law already provides for a review of Postal Service finances and the pricing system in 2017 – less than a year from now. No change in law is necessary to make that happen. With postal finances stabilizing and several bright areas for future growth, there is no need to fear that the 2017 review will lead to major rate shock for mailers.

While we recognize that the Postal Service is not out of the woods, a limited, one-sided legislative proposal is not the solution. It is clear that, despite statements or connotations that there is consensus on S. 2051, in fact we are far from consensus at the present time on any legislative path forward.

Respectfully,

Alliance of Nonprofit Mailers
Association for Postal Commerce
Continuity Shippers Association
Direct Marketing Association
Idealliance
MPA - The Association of Magazine Media
Major Mailers Association
Red Tag News Publications Association
Saturation Mailers Coalition
Active Interest Media, Inc.
American Heart Association
American Management Association
American Media Inc.
American Quarter Horse Association
Bonnier Corporation
Bloomberg Media Group
Condé Nast
Consumer Reports
Disabled American Veterans
Emmis Communications
ESPN The Magazine
Forbes Media, LLC

GrayHair Advisors
Guideposts
Hearst Magazines
Meredith Corporation
National Association of College and University Mail Services
National Catholic Development Conference
Our Sunday Visitor
Outdoor Sportsman Group
Quad/Graphics, Inc.
RR Donnelley
M. Shanken Communications, Inc.
The Economist Newspaper, NA, Inc.
Time Inc.
Trusted Media Brands

February 3, 2016

The Honorable Ron Johnson
Chairman
Senate Homeland Security and
Governmental Affairs Committee
340 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Johnson,

We the undersigned companies and associations are writing to you to register disagreement with the views expressed by a few others. Many of us belong to multiple associations representing every class of mail. While a few of those associations may have different views, we have agreed to support a proposal for stabilizing the finances of the Postal Service that includes, among other key provisions, making the current exigent surcharge permanent. We did not take this action lightly and without careful and thoughtful deliberation, but have concluded that the inclusion of this provision is a necessary component of a balanced and effective approach to restoring the financial solvency of the Postal Service.

To maintain postal services at the levels customers expect and deserve the Postal Service needs both to reduce costs and to maintain revenues. There is widespread agreement on pending proposals to adopt best private sector practices to reform postal service retiree benefit program funding. If enacted, these proposals will save billions annually and reduce Postal Service long-term liabilities by tens of billions on the date of enactment.

But that is not enough. Unfortunately, to stabilize its finances, the Postal Service must maintain revenues. It cannot afford a $2.1 billion per year price cut which some want. Rather than an unsustainable price cut, we propose a rate freeze.

Another association asserts that there is "NO consensus" within the mailing industry. It is correct that a potential rate cut can be irresistible to some. However, there is an unprecedented level of consensus among the broader postal stakeholder community. Fifty companies and associations including all the major postal employee organizations, mailer associations, and individual companies have endorsed a balanced approach to reform that would both cut costs and maintain revenues by freezing rates. The management of the Postal Service advises that this proposal represents an effective solution for financial stabilization. This level and diversity of support is unprecedented in the last decade and provides an opportunity for Congress to move forward with legislation consistent with this approach that, while not satisfying every individual, is broadly supported by all of the key segments of the postal stakeholder community- mailers, employees, and Postal Service management. We urge your committee to seize this opportunity.

We feel it critical to point out that the rate provisions in this compromise are not driven by a disregard for the importance of affordable rates, but by the sincere view that this approach provides the best chance of rate affordability over the long-term. This December, the Postal Regulatory Commission (PRC) will undertake a review of the entire rate setting system. Absent action from this Congress, they will face the task of revising a rate setting system in the face of not only huge balance sheet deficits from the current prefunding mandates, but also operational deficits and a projected cash flow crisis. It is worth emphasizing that the purpose of the review is to let the system better achieve the objectives of the statute, one of which is assurance of adequate revenues for the Postal Service.

Without the benefit of the restructuring of prefunding obligations, integration of Medicare, and opportunity for investment of Postal Service Retiree assets in higher yield private funds contained in our proposal, the PRC will have a huge financial gap to fill with few options other than substantial- and potentially devastating- rate increases for the Postal Service.

We have also been forced to acknowledge that no organization with oversight responsibility for the Postal Service has provided any analysis that suggests that Postal Service finances can be stabilized without the rate freeze that is proposed. A proposal that fails to put the Postal Service on a path to financial stability at the end of ten years would not solve the problem and only delay, not eliminate, action enabling higher rates necessarily ordered by the PRC.

We understand the complexity of the task before you but urge you to weigh not only the unprecedented level of support from the "mailer community" reflected by this letter, but also the broad support that exists from the other two key stakeholders in the debate, employee organizations and the Postal Service itself. This broad-based agreement is likely short-lived. Failure of Congress to act before the exigent surcharge expires in April will most certainly result in less consensus among stakeholders, not more. One thing is certain. Failure to address Postal Service financial stability by this Congress will have very negative impacts on all concerned. We are headed for a train wreck. We respectfully urge you to move forward with Committee consideration of legislation reflecting our proposal at the earliest possible date.

Sincerely,

Amazon
American Greetings
American Postal Workers Union
Artists to Watch
Colony Brands
DaySpring
DCG One
Deluxe Corporation
Diamond Envelope Corporation
Engineering Innovation, Inc.
Envelope Manufacturers Association
EPICOMM
Fixture Resource Group
Greeting Card Association
Hallmark Cards, Inc.
Information Packaging
Inland Envelope Company
Kenmore Envelope Company
Legacy Publishing
Mac Paper Converters, Inc.
National Association of Letter Carriers
National Newspaper Association
National Postal Mail Handlers Union
National Rural Letter Carriers Association
New Direction Partners
Newgistics
Newspaper Association of America
Ohio Envelope Manufacturing Company
Papercone

Parcel Partners
Parcel Shippers Association
Pumpernickel Press
Royal Envelope Company
Tension Envelope Company
TriState Envelope
U-PIC Insurance Services
Universal Presentation Concepts
Up With Paper
Western States Envelope & Label Co.

cc: Senate Committee on Homeland Security and Governmental Affairs

AMERICAN
QUARTER
HORSE
ASSOCIATION

February 3, 2016

The Honorable Ron Johnson
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate
340 Dirksen Senate Office Building
Washington, DC 20510
Fax: (202) 224-9603

Re: For the Record of the Hearing, "Laying Out the Reality of the United States Postal Service", January 21, 2016

Dear Senator Johnson:

The American Quarter Horse Association (AQHA), founded in 1940, is the largest equine breed registry in the world. Additionally, AQHA is the largest nonprofit mailer in Amarillo, TX, and we rely on the U.S. Postal Service to connect and communicate with our members and potential members about our benefits and services. We believe that a financially sound and affordable U.S. Postal Service is important to the viability of AQHA.

During the January 21st hearing, the Committee heard testimony stating that there was a consensus among the Postal Service, postal employees and mailers supporting S. 2051, "Improving Postal Operations, Service, and Transparency Act of 2015." That testimony was incorrect. AQHA opposes the bill as presently drafted since it focuses on increasing postal revenues by making permanent the 4.3 percent exigent postal rate.

As a customer of the US Postal Service that relies on mail to achieve the mission of our organization, we believe the iPost postal reform bill will fail to reform the USPS because it would drive volume away by making permanent the temporary exigent surcharge, and it would prevent further necessary right-sizing efforts by the Postal Service.

Sincerely,

Craig Huffhines

Craig Huffhines
AQHA Executive Vice President

Cc: Members of the Senate Homeland Security and Governmental Affairs Committee

P.O. Box 200, Amarillo, Texas 79168 • 1600 Quarter Horse Drive, Amarillo, Texas 79104 • 806-376-4811 • www.aqha.com

AMERICANS for TAX REFORM

Statement of

Grover G. Norquist
Americans for Tax Reform

Hearing before the Committee on
Homeland Security and Governmental Affairs
United States Senate

Laying Out the Reality of the United States Postal Service
January 21, 2016

Chairman Johnson, Ranking Member Carper, and Members of the Senate Homeland Security and Governmental Affairs Committee, thank you for the opportunity to submit written testimony on some of the financial issues facing the Postal Service and the need for reforms.

My name is Grover Norquist. I am the president of Americans for Tax Reform. Americans for Tax Reform advocates on behalf of taxpayers for a system in which taxes are simpler, flatter, more visible, and lower than they are today.

With regard to the Committee's examination and discussion of issues facing the United States Postal Service (USPS) today, ATR hopes to highlight some of the concerns we have over the financial problems facing the Postal Service. Namely: the repeated annual posting of financial losses by USPS; the Postal Service's potential expansion into services unrelated to the core mission of delivering mail; and recent developments in the Postal Service's efforts to spend billions on new fleet procurement.

It is ATR's hope that by highlighting these concerns today, we can contribute to the discussion of needed financial reforms and ensure that no scenario arises where American taxpayers are left shouldering the Postal Service's financial burden.

It is no secret the Postal Service has been under extreme financial pressure over the last decade, and the longer these problems are allowed to continue the worse they will likely become. For fiscal year 2015 USPS reported $5.1 billion in losses, marking the 9th consecutive year the Postal Service has endured such large losses.

While these losses are concerning, so are the recent suggestions that the Postal Service may consider expanding into non-core related services in an effort to increase revenue. In a white paper released last year by USPS, the possible expansion into the offering of financial services like check cashing and money orders was discussed.

It was also reported that the Postal Service has tested the possibility of grocery delivery in recent years as another possible source of revenue. Although there is an obvious need for revenue, the solution should not be to lead costly forays into areas outside of the agency's core mission. Instead, the focus should be on reforming and improving how the Postal Service operates the core services of mail delivery, in a manner that increases financial efficiency and service.

Lastly, the Postal Service's recent announcement of plans to replace its fleet of Grumman Long Life Vehicles with up to 180,000 "Next Generation Delivery Vehicles" at a cost of over $6 billion highlights the need for improved financial constraint and efficiency. Reports show that alternatives exist for updating the Postal Service's fleet that would not only save USPS billions but would ensure the agency is not committed to such costs for decades to come.

It is ATR's hope that today's Committee discussions and the testimony submitted will help to highlight some of the pressing financial issues that have plagued the Postal Service, in an effort to further inform and educate on the need for reforming and improving the U.S. Postal Service.

PostCom

Association for Postal Commerce

1800 Diagonal Rd. Ste. 320 • Alexandria, VA 22314-2862 • Ph: +1 703 524 0096 • Fax: +1 +1 703 997 2414 • Web: http://postcom.org

January 30, 2016

The Honorable Ron Johnson, Chairman
U.S. Senate Committee on Homeland Security & Governmental Affairs
340 Dirksen Senate Office Building
Washington, DC, 20510

Dear Chairman Johnson:

I write on behalf of the Association for Postal Commerce, a national association representing the many businesses who either use mail as a medium for business communication and commerce, or serve businesses seeking to use the mail for those purposes. Our association is the only organization that can truly can say our mission is to represent those businesses that use mail across all classes and services.
My purpose for contacting you is to ensure you know, that at least as far as our members are concerned, we are *not* part of any "consensus" that supports the iPost proposal advanced by Senator Carper and others. In fact, we believe there is NO consensus within what is commonly called "the mailing industry" for congressional passage of this measure, at least as it is currently written.

This is not to say there aren't elements of the proposal that merit consideration. There are. But the bill's proposal to make permanent the exigent increases that have been in effect to compensate the Postal Service for the revenue it lost as a result of the recent recession is unacceptable and unwarranted.
Here are some facts we'd like you to keep in mind as you consider what additional action, if any, your committee should undertake.

- The revenue the Postal Service "lost" was not due alone to an unforeseen recession. The number one event responsible for lost revenue is the digital transformation that has taken place in the way our nation today communicates and does business.

- The transformation from printed to electronic communication was not unforeseen. In fact, our association has been discussing, predicting, and reporting on this transition since 1993, shortly after we put into service our first computer Bulletin Board System.

- Despite these predictions, the Postal Service did nothing to prepare itself for how these changes would disrupt its routine way of carrying on its affairs. Indeed, it was our association who in 1998 brought to the Postal Service, at Postmaster General Henderson's request, a strategy to evolve postal services to accommodate to changing times. The Postal Service, however, never acted on these proposals.

- The reason the Postal Service exists is to serve the needs of its *customers* who use mail for personal and business needs.

- Postal customers provide virtually all of the revenue (in the form of postage and fees) that pays for the *entire* cost of operating our nation's universal mail delivery system.

- The jobs, salaries, and benefits enjoyed by the Postal Service (i.e., management and labor) are paid by the customers of the Postal Service. In fact, there would be *no* postal jobs, salaries, or benefits if it were not for the business postal customers bring to the Postal Service.

- The salaries and benefits provided to all postal employees are determined by actions taken by the employees themselves through collective bargaining and binding arbitration. Customers have no role or responsibility employee compensation decisions that may not be consistent with the Postal Service's actual fiscal needs.

- Customers don't dictate the terms under which mail must be prepared, presented, processed, delivered and paid, the Postal Service does. Customers are *required* to follow these postal directives.

- Customers are *not* responsible for the consequences that result when these terms and conditions result in unplanned increases in postal costs. The Postal Service is.

- A careful review of the Postal Service's most recent Annual Compliance Report (*http://www.prc.gov/docs/94/94403/FY.15.ACR.pdf*) will reveal that many of the requirements and directives that have been made by the Postal Service for the preparation, transportation, processing, and delivery of mail have not only failed to capture the cost savings these requirements and directives were supposed to create, but also have resulted in significant cost increases and lost efficiencies.

To put it succinctly, we often hear that "mailers should have some skin in the game" when it comes to postal reform legislation. I can assure you, it is the customers of the Postal Service who have *all* of the skin in the game. Quite frankly, we are out of skin, and would prefer that Congress not accede to the Postal Service's requests to now cut into our muscle and sinew.

In the most recent hearing you asked how bad are things? Consider this. In a recent article written by the president of the National Association of Letter Carriers and published by the Deseret News (*http://www.deseretnews.com/article/865627077/US-Postal-Service-still-profitable-effective-choice-for-delivery-services.html?pg=all*) Frederic Rolando said:

> "The Postal Service . . . had a $1.4 billion operating profit in fiscal year 2014. Already, 2015's black ink exceeds $1.4 billion. Meanwhile, cash on hand stands at $7 billion, the highest in years."

In sum, as long as the present exigency provision remains a part of any postal reform bill, we will oppose most vigorously its enactment.

Sincerely,

Gene A. Del Polito, Ph.D.
President and CEO
Association for Postal Commerce

The Honorable Ron Johnson
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate
340 Dirksen Senate Office Building
Washington, DC 20510
Fax: (202) 224-9603

Dear Senator Johnson:

As a customer of the U.S. Postal Service that relies on mail to achieve the mission of our organization, we oppose the iPost postal reform bill. The iPost bill would fail to reform the USPS because it would drive volume away by making permanent the temporary exigent surcharge, and it would prevent further necessary right-sizing efforts by the Postal Service.

Sincerely,
Tobias Dammert
Benedictine Mission House
1123 Road I PO Box 528, Schuyler, Nebraska

ConsumerReports

January 29, 2016

The Honorable Ron Johnson
Chairman, Committee on Homeland Security and Governmental Affairs
United States Senate
328 Hart Senate Office Building
Washington, DC 20510

Re: For the Record "Laying Out the Reality of the United States Postal Service" hearing, Jan. 21, 2016

Dear Senator Johnson:

Consumer Reports (CR), the leading product testing and reporting organization, strongly opposes the iPost bill that Senator Carper promoted at the Homeland Security and Governmental Affairs Committee hearing on January 21 (introduced on September 17, 2015). The iPost legislation does not put the Postal Service on the path to sustainable economic health, but hinders long-term financial stability. The iPost bill does not support Postal plans to rationalize operations and control costs, but creates a barrier to these reforms. The Postal Service needs to adjust its plant size, operations, and costs to match the current volume of roughly 150 billion pieces of mail in order to serve the public in an efficient way. Making the 4.3 percent exigent surcharge on all market-dominant mail products permanent only serves to harm, perhaps irreparably, the Postal Service's long-term and best customers.

Consumer Reports works for a fair, just, and safe marketplace for all consumers and to empower consumers to protect themselves. For 80 years CR has depended on affordable, reliable mail service to solicit subscribers and donors and to communicate with consumers. We mail *Consumer Reports* magazine and *Consumer Reports on Health* newsletter to millions of customers every month. CR weathered the recession by right-sizing our own budgets and operations. We are building for the future in an increasingly competitive digital marketplace. Mail remains a vital channel in our marketing mix, but we cannot absorb excess costs on mail products to maintain the present size and structure of the Postal Service.

We look to your leadership on the Senate Committee on Homeland Security and Governmental Affairs to finding ways in which the Postal Service can adjust to lower volumes, retain current customers, and explore new business opportunities.

Sincerely,

Meta Brophy

Meta Brophy
Director, Procurement Operations

CC: The Honorable Tom Carper, Ranking Member, Committee on Homeland Security and Governmental Affairs
Members of the Committee on Homeland Security and Governmental Affairs

101 Truman Avenue
Yonkers, New York 10703-1057
914 378-2000
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CUNA
Credit Union National Association

Jim Nussle
President & CEO

601 Pennsylvania Ave., NW
South Building, Suite 600
Washington D.C. 20004-2601

Phone: 202-508-6745
Fax: 202-638-7734
jnussle@cuna.coop

January 21, 2016

The Honorable Ron Johnson
Chairman
Committee on Homeland Security and
Governmental Affairs
United States Senate
Washington, DC 20510

The Honorable Tom Carper
Ranking Member
Committee on Homeland Security and
Governmental Affairs
United States Senate
Washington, DC 20510

Dear Chairman Johnson and Ranking Member Carper:

On behalf of the Credit Union National Association (CUNA), I am writing regarding tomorrow's hearing entitled, "Laying Out the Reality of the United States Postal Service." CUNA represents America's state and federally chartered credit unions and their more than 100 million members. We appreciate your consideration of our views and ask that you include this letter in the record of the hearing.

In 2014, the United States Postal Services (USPS) Office of Inspector General (OIG) released a white paper entitled, "Providing Non-Bank Financial Services for the Underserved," which suggests that the postal service is well positioned to provide certain financial services to Americans who are underserved or unserved by the mainstream financial services sector. We agree that more could be done to ensure that the nearly 70 million Americans that are presently underserved or unserved have access to safe and affordable financial services products, but we are skeptical that the USPS is the right way to reach them.

Instead, Congress should ensure that laws and regulations are not hindering consumer access to credit unions. Credit unions are well positioned to serve the underserved, and the existence of credit unions is one of the reasons that the number of unbanked Americans is not significantly higher. Established at the federal level in 1934, credit unions have a statutory mission to promote thrift and provide access to credit to their members, a mission that state chartered credit unions have been fulfilling since 1908. Today, there are approximately 6,000 credit unions in the United States. About a third of these credit unions are community chartered credit unions, which means that they can serve anyone who lives, works, worships or does business in the geographic area in which the credit union is located. A similar number of credit unions (and there is a bit of overlap in these groups) are designated low-income credit unions, meaning that the annual income of more than half of its membership is below the median income of the area. These credit unions are in every state, serving urban, suburban and rural areas.

Unfortunately, credit unions face several barriers that keep them from doing more to serve the underserved. The regulatory burden facing credit unions in the aftermath of the financial crisis has been severe. We have been calling it a crisis of creeping complexity but to many credit unions it feels more like an avalanche. Credit unions have been subject to more than 200 regulatory changes since 2008. Most of these have been in response to the financial crisis that credit unions neither created nor contributed to. Every dollar we spend complying with new regulations is a dollar that is not put to use in the service of credit union members. That is why we have been encouraging Congress and the regulators to look for ways to reduce credit union regulatory burden to free up resources to provide additional services to members.

The Honorable Ron Johnson
The Honorable Tom Carper
January 21, 2016
Page Two

In an effort to reduce credit union regulatory burden and expand consumer and small business access to credit unions, the National Credit Union Administration (NCUA) recently proposed a modernized field of membership regulation that should make it easier for credit unions to add communities and other groups to existing fields of membership, and these changes should result in increased availability of credit union services to underserved consumers. We strongly support the proposal and have been encouraging NCUA to finalize it.

Yet, there is more work that needs to be done from a statutory perspective to open the doors of credit unions even wider. We encourage Congress to look more broadly at credit union field of membership restrictions. When credit unions were first established in the United States, they used field of membership limits as a credit worthiness tool so that credit unions would lend to members they knew. Today there are many other ways to determine a borrower's credit worthiness. It is a very legitimate question to ask whether those restrictions on credit unions make sense in the 21st century financial services environment. Congress has allowed some credit unions to add underserved areas to their fields of membership - and many have. But the law is arcane and the implementing rules complicated. Congress should grant any federal credit union the power to add an underserved area to its field of membership.

Before there is any consideration of proposals to expand the mandate of the postal service to include provision of financial services, we strongly encourage Congress to explore how the Federal Credit Union Act and other banking laws constrain credit unions' ability to do more to serve the underserved, and work to expand consumer access to mainstream financial services through institutions established for that purpose.

On behalf of America's credit unions and their more than 100 million members, thank you for your consideration.

Sincerely,

Jim Nussle
President & CEO

Christopher Oswald
Vice President, Advocacy

February 1, 2016

The Honorable Ron Johnson
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate
Washington, DC 20510

Dear Senator Johnson:

The Direct Marketing Association (DMA) thanks you for scheduling on January 21, 2016 the hearing on "Laying Out the Reality of the United States Postal Service" which is of great interest to DMA and its members.

DMA, founded in 1917, is the largest trade association for direct marketers, both commercial and nonprofit, and their suppliers. The US Mail is an important communications channel for those members to connect with their current and potential customers and donors about their products, services and charitable activities. A financially viable and affordable Postal Service in the 21st Century is important for the viability of DMA members.

During the January 21st hearing, the Committee heard testimony stating that there was a consensus among the Postal Service, postal employees and mailers supporting S. 2051, "Improving Postal Operations, Service, and Transparency Act of 2015." That testimony was incorrect. Although DMA supports many provisions in S. 2051, it must regretfully oppose the bill as presently drafted since it focuses on increasing postal revenues and ignores reducing postal operating costs.

Specifically, section 301(a)(1) would make permanent the 4.3 percent exigent postage increases implemented to compensate the Postal Service for losses due to the Great Recession. The Postal Regulatory Commission has determined that when those losses are recouped—which likely will be mid-April of this year—the 4.3 percent exigent postage rates will sunset. By imposing permanency for these rates, the bill would require American citizens, nonprofit mailers and business mailers who use market dominant postal products (the products over which the Postal Service has either a statutory or constructive monopoly) to pay for the Great Recession forever. Those 4.3 percent rates will compound annually as well. Section 301 simply removes incentives for the Postal Service to reduce costs. It rewards the Service for sustaining losses during the recession. The Postal Service must streamline its costs and providing it with cash will not enhance cost cutting efforts. Moreover, sections 101 through 104 of the bill would provide significant savings to the Postal Service for health and pension benefits. Those savings will free up funds for postal operations further negating the need for permanent exigent rates.

As DMA has testified several times before this Committee, the Postal Service should be making huge strides to rightsize it operations in light of electronic communication channels. Unfortunately, S. 2051 not only removes incentives for rightsizing but also hampers those efforts. Sections 202 and 203 prohibit the Postal Service from rightsizing its mail processing, transportation networks for 2 years and its retail network for 5 years. This is not the time to restrict rightsizing. Delay hurts the underlying financial stability of the Postal Service. DMA encourages the Postal Service to rightsize and believes so should the Congress.

For these reasons, DMA opposes S. 2051 and hopes that inclusion of this letter in the record of the January 21st hearing shows that testimony proclaiming there is a consensus of mailers supporting S. 2051 is incorrect. We appreciate the opportunity to supplement the record of the hearing on "Laying Out the Reality of the United States Postal Service."

Sincerely,

cc: Members of the Senate Committee on Homeland Security and Governmental Affairs

EMA 2015 Mailing Industry Job Study
Testimony of Cheryl Chapman

Statement of
Cheryl Chapman, Product Manager
Bristols and Envelope Papers,
North American Papers
International Paper Company
and Chairman, EMA Foundation Board of Trustees
Before the Senate Homeland Security and Governmental Affairs Committee
United States Senate
January 21, 2016

Chairman Ron Johnson, Ranking Member Tom Carper, and Members of the Committee:

Good morning. I am Cheryl Chapman and I am the Product Manager for Bristols and Envelope Papers for International Paper's North American Papers business. I am based in Memphis, Tennessee.

International Paper is a global leader in packaging and paper with manufacturing operations in North America, Europe, Latin America, Russia, Asia and North Africa. Our businesses include industrial and consumer packaging and uncoated papers. We are proud to employ more than 32,000 people in the U.S. who make paper and packaging that families use every day. International Paper considers passage of Congressional postal reform a top priority because more than 20 percent of mail is created using our paper.

EMA was formed in 1933 as the Envelope Manufacturers Association and later changed its name and brand in 2013 to represent a broadened paper based communication industry association which it had become. The association represents envelope manufacturers, envelope printers and distributors, forms manufacturers and their suppliers across the U.S. Research and advocacy related to postal reform and paper use issues are part of EMA's mission. This is why the EMA Mailing Industry Jobs Study was first conducted in 2004, and the latest study was completed in the fall of 2015.

I jointly authored the 2015 Mailing Industry Job Study with Peter A. Johnson, PhD, of m-Lightenment Economic Impact Research. This testimony is a summary of this study.

I am delighted to have this opportunity to discuss the importance of the mailing industry and its impact on the U.S. economy. By shining a light on the vast impact of the mailing industry on U.S. employment and the overall economy, we hope to ensure that mailers are represented in the postal reform stakeholder process.

EMA 2015 Mailing Industry Job Study
Testimony of Cheryl Chapman

2015 U.S. MAILING INDUSTRY JOB STUDY

Executive Summary:

This study measures the economic scope and impact of the mailing industry on the United States economy. The study concludes that mail continues to provide a significant presence in the United States' economy today. Measuring employment and revenues, it shows that the mailing industry is of enormous importance. The mailing industry touches every private and public sector of the economy.

The jobs and revenue impact identified in this study exist today because mail has long been a highly efficient means for many individuals, private sector firms, governments and non-profit entities to communicate, advertise or distribute their products to customers. Moreover, it finds evidence suggesting it has become even more efficient since the previous study conducted in 2012.

Even as access to high-speed internet and mobile data expands, mail remains a critical part of the infrastructure for communications among consumers, businesses, and government at all levels. Far from eliminating the mail stream, these new technologies have even begun to generate new demand for certain elements of the mail stream, particularly packaging delivery.

The 2015 Mailing Industry Job Study's goals were to:

1) Identify the jobs and revenues that are associated with the mailing industry and
2) Allocate these jobs and revenues to states and congressional districts.

Our research methodology is essentially the same as used for prior studies of the mailing industry, while incorporating minor changes that reflect new data or new insights. Our calculations are quite conservative since many other industries' economic impact studies include induced jobs or secondary employment while this study does not. The economic data for 2015 Mailing Industry Job Study is developed from mostly full year 2014 sources. The sources include:

- Bureau of Labor Statistics' Occupational Employment Statistics Program
- USPS Annual Report
- Economic Census
- USPS Cost Segment and Components Report
- Bureau of Labor Statistics
- DMA "Power of Direct Marketing"
- U.S. Census Monthly Retail Trade Report and Annual E-commerce Report
- Dun & Bradstreet Market Analysis Profile Data

EMA 2015 Mailing Industry Job Study
Testimony of Cheryl Chapman

Key Findings of the Mailing Industry Job Study:

The U.S. mailing industry totals 7.5 million jobs or 6% of the nation's jobs. The USPS accounts for only 8% of these jobs. This means the vast majority (over 90%) of mailing industry jobs are found in the private sector.

The U.S. mailing industry is a significant contributor to the U.S. economic output at $1.4 Trillion in sales revenue. This accounts for 4.6% of U.S. Total Output of $31 Trillion which represents the total value of all U.S. sales.[1]

The mailing industry has grown revenues while reducing employment. Between our prior study in 2011 and 2014, total revenues increased by $100 Billion. During the same time, mailing industry firms trimmed their work force by 343,000 jobs.

Despite workforce reductions, the U.S. mailing industry continues to be a massive employer, with employment totals that compare favorably with other major U.S. industries. As seen in the table below, the mailing industry's total employment of 7.5 million jobs is comparable to the airline industry's 11.7 million jobs and the oil and natural gas industry's 9.3 million jobs.

Table 1 - Comparative 2014 Economic Impacts of Selected U.S. Industries

	Employees	**$ Revenue**
Mailing Industry	7.5 million	$1.4 Trillion
Airline Industry (1)	11.7 million	$1.5 Trillion
Oil and Natural Gas Industry (2)	9.3 million	$1.1 Trillion

Sources:

1. "Economic Impacts of Civil Aviation on the US Economy" FAA, 2014.

2. "The Annual Economic Benefits of Oil and Gas Exploration and Production" The Perryman Group, 2014

[1] Source: US Bureau of Economic Analysis. Industry Economic Accounts Data: Gross Output by Industry. Accessed November 16, 2015.

EMA 2015 Mailing Industry Job Study
Testimony of Cheryl Chapman

2014 vs. 2011 U.S. Mailing Industry Jobs: Decline and Growth:

The Mailing Industry Job Study shows that there was a decline in jobs in these key areas:

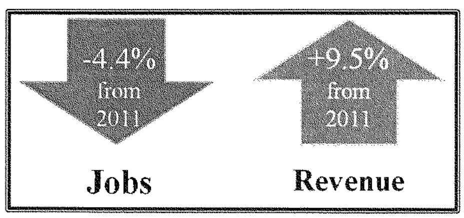
- Postal service - the number of *full time* employees with the USPS continues to decline
- Paper, printing and industry suppliers
- Mail management in all industries
- Jobs to produce traditional direct mail, catalogs, and magazines
- Jobs at brick and mortar retailers fulfilling sales through the mail stream

The Mailing Industry Job Study finds that there was a growth in jobs in these key areas:

- Private mail centers such as UPS and FedEx
- Electronic shopping and mail order houses

There has been a growth in sales and jobs due to products and services sold through e-commerce, primarily at major stand-alone websites like Amazon, which is taking business away from websites of traditional brick and mortar stores.

2014 VS. 2011 Mailing Industry Trends: Increasing Revenue vs. Declining Employment:



2014 vs. 2011 comparison shows a decline in jobs with a growth in revenue. The mailing industry provided: 7.5 million jobs in 2014 vs. 7.8 million jobs in 2011. As noted, this estimate is down 4.4% from 2011.

Despite losing 343,000 jobs, the mailing industry grew by over $100 Billion from 2011 to 2014, reaching $1.4 Trillion in sales revenue in 2014 vs. $1.3 Trillion in sales revenue in 2011.

EMA 2015 Mailing Industry Job Study
Testimony of Cheryl Chapman

What accounts for the fact that jobs are down, but revenues are up?

In essence, 2008 was a watershed year for the industry. A downturn in the business cycle combined with long-term shifts in communication preferences launched a decline in demand by mail users. This translated into reduced mail stream volumes.

For well over a decade now, consumers and businesses have been attracted to the immediacy and convenience of electronic channels. Only in 2007 did the ubiquity of electronic communications, combined with an economic downturn, have a significant negative impact on demand, as reflected in mail stream volumes. Looking only at the USPS mail volume data, we can see significant, on-going declines in the number of pieces mailed. This decline in volumes affected all sectors of the industry.

Jobs Down:

In response to declining customer demand, the mailing industry became more efficient including discarding or modernizing inefficient machinery (such as for making, converting or printing paper), paper machine and related business shut downs, as well as consolidating firms and factories to achieve greater economy of scale.

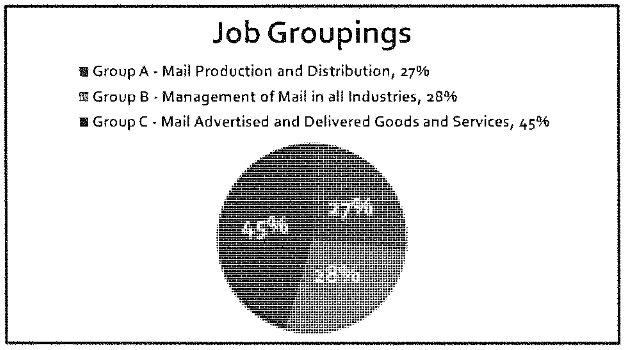
As a result, jobs relating to producing and delivering paper based communications demanded by the private sector have been declining steadily over the past decade. Since 2008, the postal service has cut its labor force substantially. Similar cuts were made elsewhere: in particular mail stream users seeking more efficiency and electronic communication needing fewer mail clerks for internal bill production and processing.

Revenue Up:

Since the worst of the recession in 2009, the U.S. overall economy has continued to improve. Strong growth has been seen in output with much slower growth in employment across most sectors of the economy since the recovery from the recession. The value of advertising generated revenues and parcel fulfillment within the mailstream due to ecommerce has recovered or increased. Ecommerce in particular is growing rapidly in economic significance, while being less labor intensive.

EMA 2015 Mailing Industry Job Study
Testimony of Cheryl Chapman

Mailing Industry Job Groupings Descriptions:



The Groupings include:

- Group A - Mail Production and Distribution
- Group B - Management of Mail in all Industries
- Group C - Mail Advertised and Delivered Goods and Services

Group A - Mail Production and Distribution consists of 27% of the jobs. This group includes public and private sector businesses that create mail, deliver mail and packages, and provide delivery services.

Group B - Management of Mail in all Industries consists of 28% of the jobs. The type of mail in this category is primarily First Class mail. This group includes mail jobs in businesses that send and receive mail and packages as part of their everyday business operations.

Group C - Mail Advertised and Delivered Goods and Services consists of 45% of the jobs. The type of mail in this category is primarily Standard mail. This group includes businesses that sell products using mail advertising or use the mailing industry to deliver their products. This segment includes economic activity from direct mail marketing, publishing, retailers, wholesalers and manufacturers that ship their products using the mailing industry. Of the latter group, this study includes sales of goods via the web.

EMA 2015 Mailing Industry Job Study
Testimony of Cheryl Chapman

Jobs Declined Across All Three Groupings:

All major job groupings had a reduction in jobs. Overall jobs decreased by 4.4% totaling about 343,094 jobs.

	# Jobs (2011)	# Jobs (2014)	% Change	Diff. # of Jobs
Group A - Mail Production and Distribution	2,013,070	2,009,877	-0.2%	-3,193
Group B - Management of Mail in all Industries	2,335,196	2,084,905	-11.9%	-256,936
Group C – Mail Advertised and Delivered Goods and Services	3,481,654	3,392,044	-2.6%	-89,610
GRAND TOTAL	7,829,920	7,486,826	-4.4%	-343,094

Group A - Mail Production & Distribution (27% of the jobs)

As mentioned, this group includes businesses that create mail, deliver mail and packages, and provide supporting services. The creation of mail includes suppliers of paper and envelopes, and the machinery used to print and assemble a mail piece.

The delivery of mail and packages includes: the Postal Service, United Parcel Service and FedEx, and other carriers. For the entire group, jobs dropped only 0.2% or 3,193 jobs.

Some of the major job losses included:

- Postal service with their downsizing efforts had a job loss of 4.8% (from 648,350 jobs in 2011 to 617,254 jobs in 2014).
- Paper, printing, printing industry suppliers, and direct mail converting and management had a job loss of 2.3% or 14,299 jobs.

Some of the job gains included the private sector delivery which gained over 40,000 jobs equating to an increase of 7.1%

EMA 2015 Mailing Industry Job Study
Testimony of Cheryl Chapman

Group B - Management of Mail in All Industries (28% of the jobs)

As previously stated, this group includes mailing industry jobs in businesses that send and receive mail and packages as part of their everyday business operations. This group is divided between larger businesses and self employed mail intensive jobs. This group includes the jobs associated with mail within every commercial business, non-profit, and government entity in the United States.

These businesses use mail as part of the transaction cycle that flows from customer acquisition through payment for the good or services. However, only jobs related to this group such as a mail clerk within a company or business were measured.

Overall, management of mail in all industries dropped 11.9% with a 256,936 job loss. This trend is expected to continue as businesses move to more email interaction as opposed to traditional mail.

Group C - Mail Advertised and Delivered Goods and Services (45% of the jobs)

As noted before, this group includes businesses that sell products using mail advertising or use the mailing industry to deliver their products. This group includes economic activity from direct mail marketing, publishing, retailers, wholesalers and manufacturers that ship their products using the mailing industry.

Delivered product sales are not only originating from printed catalogs, magazines, and direct mail but are now also originating through the internet (on-line sales). Of the latter group, this study includes sales of goods via the web. Overall, jobs from this group dropped 2.6% with a job loss of 89,610 jobs.

Sales Revenue Increased In Production, Distribution, Mail Advertised, and Delivered Goods & Services:

For sales revenue, the same groupings were used. Overall, from 2011 to 2014, sales revenue increased by 9.5% equaling $123.5 Billion.

It should be noted that there is no sales revenue generated from Group B and therefore, it is not included.

Groupings	Description	2011 Sales ($ Billions)	2014 Sales ($ Billions)	% Change	Sales ($ Billions)
Mail Production and Distribution (Group A)	Producing the Mail	$128.4	$135.4	5.5%	$7.1
	Delivering the Mail and Packages	$145.1	$158.8	9.5%	$13.8
Mail Advertised and Delivered Goods and Services (Group C)		$1,032.0	$1,134.6	9.9%	$102.6
Total		$1,305.4	$1,428.9	9.5%	$123.5

Group A - Mail Production & Distribution

For *Mail Production and Distribution*, group A, we saw a growth with:

- Producing the mail had a sales revenue gain of 5.5%
- Delivering the mail had a sales revenue gain of 9.5%

Overall, this group improved by 7.6% or $20.9 billion. Some of this gain may be attributed to improved economic performance relative to 2011, along with higher price of delivering packages.

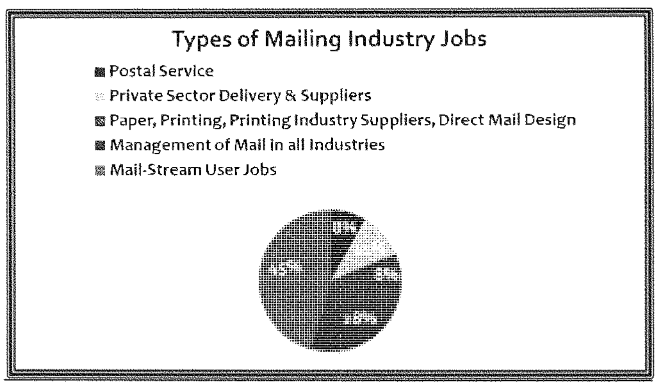
Group C - Mail Advertised and Delivered Goods and Services

Sales of *Mail Advertised and Delivered Goods and Services*, group C, had an overall sales revenue increase of 9.9% totally $102.6 billion. Internet shopping and mail-order grew 30% with total sales revenue generated of $66 billion.

EMA 2015 Mailing Industry Job Study
Testimony of Cheryl Chapman

Conclusion: Mail Policy Brings Wide Private Sector Benefits:

Policies that have a dramatic influence on the core of the mailing industry, such as the entities providing America's delivery infrastructure, with the USPS at the center of the core, directly impact significant numbers of workers and revenues. Taking only employment into consideration, we can see this clearly by comparing the share the jobs among the delivery component of the industry with that of the suppliers and users the delivery segment support:



As can be seen on the pie chart above, almost 73% of mailing industry jobs depends upon the delivery segment infrastructure of which the USPS is the center.

However, if we analyze further between the public and private sector components of the delivery network (i.e. separating the USPS from its private sector competitors), the dependence of the U.S. economy on the USPS becomes even clearer. Over 90%-- or more than 10 times as many--mailing industry jobs are found in the private sector compared to the USPS. This distribution of jobs impact clearly shows (as would a similar breakout of revenues) that the Postal Service's importance to the economy is substantially greater than one might assume if the Postal Service were examined in isolation.

The implication is that policies that affect the health of the USPS affect the health of the delivery segment, and the health of the delivery segment is critical to hundreds of billions of dollars of private sector revenues and millions of American jobs throughout the economy. In short, with more than ten-times as many jobs in the private sector as there are in the public sector, a viable postal service means an economically healthy America.

FINANCIAL SERVICES ROUNDTABLE

February 5, 2016

The Honorable Ron Johnson, Chairman
The Honorable Thomas R. Carper, Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate
Washington, DC 20510

Dear Chairman Johnson and Ranking Member Carper:

Thank you for holding a hearing on January 21, 2016 on the challenges faced by the United States Postal Service (USPS) and how we can work together to make sure that this institution, as old as the Republic, continues strongly well into the future. The member companies of the Financial Services Roundtable are deeply interested in this issue, as collectively they and their customers are among the largest users of First Class Mail services.

Whether it is a credit card bill, bank statement, insurance premium, IRA contribution or retirement account balance statement, financial services companies send mail to their customers every single day. And our customers respond, using the service to send checks and other communications to us. We need the Postal Service to work efficiently to keep the engine of our financial system running.

While many people cite the fact that many customers have moved away from communicating through the mail, the fact remains that millions of customers depend on the mail to do business. Even if we wanted to, we could never move to 100% electronic servicing. In short, we need a vibrant USPS.

But we all know that the USPS faces incredibly difficult challenges. Legacy cost structures and their unique public mandate makes it harder to bring their revenues in line with their expenses. Congress should be looking into this issue, and we are pleased that your Committee is willing to confront the big issues involved.

As prolific users of the mail, we ask that the Committee move forward with legislation focusing on the core issue: helping the USPS more efficiently deliver quality mail service across the country. The USPS needs to make structural changes that will help it get its books in order. We cannot simply look to cash infusions from time to time to help them over a particular hurdle. The problems that the USPS has are structural in nature, and cannot be solved on the revenue side alone. For example, several years ago the USPS was allowed to impose a special exigency surcharge on postal rates. This did nothing to address the underlying challenges the USPS faces. And in fact time and time again the USPS has tried to extend the surcharge. But "exigent" infusions do not get us to a better Postal Service. We believe the surcharge should expire as expected this year.

Reforming the USPS will require difficult decisions. FSR member companies have had to make many difficult changes over the years to align their businesses with the current environment. The USPS should be permitted to do the same. However, a company that is struggling to deliver its core functions should not be expanding into businesses in which it has no experience or to which it has natural affinity. The mission of the USPS is to deliver all kinds of communication to homes and businesses across the country. And to deliver the mail the USPS enjoys certain unique advantages in the marketplace. But the USPS should not be allowed to enter business lines that would not be profitable if it were not unfairly using those advantages. We have watched with concern as some have suggested that the USPS get into businesses completely unrelated to delivering the mail. We think this is folly. The USPS should focus on how best to restructure so that it can deliver its core product at the best possible price. It is crucial that any rates provision address the long-term goal of affordable, predictable rates.

Thank you again for your attention to this important issue. Without an effective United States Postal Service the wheels of commerce would grind to an almost immediate halt. It is in all of our best interests for the USPS to operate as effectively as possible. That is only going to happen if we focus our attention on solving the core issues the USPS faces.

Sincerely,

Francis Creighton

Francis Creighton
Executive Vice President of Government Affairs

Guideposts.

February 4, 2016

The Honorable Ron Johnson
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate
328 Hart Senate Office Building
Washington, DC 20510
Fax: (202) 228-6965

Re: For the Record of the Hearing, Laying Out the Reality of the United States Postal Service, from January 21, 2016

Dear Senator Johnson:

I am writing you today on behalf of Guideposts, to express our opposition to the "iPost" postal bill introduced by Senator Carper on September 17, 2015 and promoted at the Homeland Security and Governmental Affairs Committee hearing on January 21.

This legislation would be a step in the wrong direction for the United States Postal Service. The Postal Service should be looking to adjust its operations and costs to match the reduced mail volume of roughly 150 billion pieces.

The iPost bill would not empower the Postal Service to continue their network rationalization that is needed to reduce operations and control costs. Instead, it would create new constraints to these necessary reforms, and would force mailers to absorb the additional costs by making the 4.3 percent rate surcharge permanent.

Guideposts is a non-profit organization headquartered in Danbury, CT. We are dedicated to providing hope, encouragement and inspiration to millions of people. Through uplifting magazines, books, outreach programs and websites, Guideposts helps people deepen their faith and inspires them to reach their true potential.

The exigent rate case had a major impact on Guideposts as an organization. It caused us to look at different manners to reduce costs, including decreasing our acquisition mailings. If the exigent rate were to continue it would lead to even more drastic cuts.

We here at Guideposts understand and support the Postal Services plans to improve efficiency. We have supported proposed legislation in the past that we believe would have helped the Postal Service with long term stability.

We appreciate your leadership of the Senate Committee on Homeland Security and Governmental Affairs. We have faith that you will agree that limiting the Postal Services flexibility to rationalize its own network and making the exigent rate case permanent, will not create a more resourceful Postal Service.

Guideposts a Church Corporation | Suite 2AB | 39 Old Ridgebury Rd | Danbury CT 06810 | Tel. 203 749-0200 | www.guideposts.org

Guideposts.

Sincerely,

David O'Sullivan
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Guideposts
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cc: The Honorable Tom Carper
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate
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Washington, DC 20510
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cc: All Members
Committee on Homeland Security and Governmental Affairs
United States Senate

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January 19, 2016

The Honorable Ron Johnson
Chair
Homeland Security and Government Affairs Committee
U.S. Senate
Washington, DC 20510

Dear Senator Johnson:

The International Warehouse Logistics Association respectfully requests that the enclosed statement be made a part of the record for the Committee's January 21 hearing -- *"LAYING OUT THE REALITY OF THE UNITED STATES POSTAL SERVICE."*

If the Committee has any questions or desires additional information, please contact Patrick O'Connor at 202/223-6222.

Thank you for your consideration.

Sincerely

Steve DeHaan
President and CEO

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STATEMENT FOR THE RECORD

OF THE HEARING

"LAYING OUT THE REALITY OF THE UNITED STATES POSTAL SERVICE"

U.S. SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

JANUARY 21, 2016

Statement for the Record

The International Warehouse and Logistics Association (IWLA) represents warehouse-based third-party logistics providers (3PLs) operating distribution centers throughout the country. The 3PL typically handles hundreds of stock keeping units (SKUs) on behalf of numerous product owners. This involves the handling of thousands of pallets and millions of pounds of freight each year. The warehouse-based 3PLs have also become dynamic, integrated fulfillment centers to meet the unprecedented demands of e-commerce for speed, customization and convenience.

We understand the Postal Service's need to innovate and to generate new revenue sources. And, we share Congress' desire for a sustainable Postal Service that can adapt to and thrive in today's rapidly changing, technology-driven environment. Indeed, the e-commerce supply chain relies on the low cost and consistent availability of the Postal Service and we have every reason to support its success.

This is why IWLA continues to question Postal Service proposals to enter what it describes as "the micro-warehousing and logistics support services market." The Office of the Inspector General (OIG) for the USPS announced in March of 2014 that they were reviewing the concept of distribution centers that would let retailers and others use excess capacity in Postal facilities for product warehousing and fulfillment services. In November 2014, the USPS launched an operational test of "forward staging" of packages for one company near Chicago.

In January 2015, the OIG suggested that the Postal Service enter the "continuity shipping" market by offering "basic fulfillment services, while developing expertise in other eCommerce supply chain areas such as logistics, inventory management, product shipping, and traceability."[1] This recommendation does not address the Postal Service's legal authority to enter the warehousing/logistics market -- an issue that was thoroughly discussed less than a year before in a March 2014 OIG report, which concluded that the Postal Service requires additional authority from Congress.[2] Now, however, the OIG apparently has resolved their earlier legal misgivings by relabeling warehouse/logistics services as "mail services."

IWLA's concerns are two-fold: 1) For the Postal Service, innovation is most successful when the agency leverages its strengths and core competencies, while avoiding capital-intensive ventures that duplicate or reinvent existing competitive industries; and 2) Even if a Postal Service venture into the warehouse/logistics

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[1] Office of Inspector General, United States Postal Service, *Revenue Opportunities for Innovative Mail Services,* (Report Number FT-WP-15-002, dated January 20, 2015), page 2.

[2] Office of Inspector General, United States Postal Service, *Opportunities for the Postal Service - Micro-Warehousing and Other Logistics Support Services,* (Report Number MS-WP-14-003, dated March 13, 2014) page ii.

industry is not a profitable endeavor, the presence of this massive quasi-government agency with its huge resources would distort the competitive warehouse-based 3PL industry (consisting primarily of small and medium-size businesses). These concerns are discussed below.

The Postal Service Proposal

The Postal Service views micro-warehousing and related logistics services as an opportunity to generate additional revenue that will offset losses in its postal services. It believes that its "extensive processing, retail, and transportation network -- combined with its significant shipping capabilities -- could likely meet customers' demands for one-stop micro-warehousing and logistics solutions to support e-commerce. Foreign suppliers selling goods in the U.S. via e-commerce could be particularly well served by the Postal Service's entry into this market."[3] There are serious weaknesses in this proposal, including:

What is Micro-Warehousing? It talks about "micro-warehousing" without clearly defining who the target customer is, describing it only as a "service available to local businesses and others involved in e-commerce to expedite the movement of goods from businesses to consumers." Yet, its revenue projections seem to reflect a much greater involvement in 3PL warehousing.

Inaccurate Perceptions: The Postal Service proposal appears to base at least some of its conclusions on inaccurate perceptions of the industry and, in doing so, fails to capture the very dynamic and rapidly evolving nature of this industry. It also blurs the line between asset-based and non-asset-based 3PLs. It describes an asset-based logistics business model, yet justifies it based on characteristics of the non-asset-based 3PL. For example, it says the Postal Service's "reputation could be an advantage in the fragmented warehousing industry...." and "there may be low barriers to entry."[4] In reality, the barriers to entry for asset-based 3PLs are high, requiring significant up-front capital investments in designing physical warehouse space, obtaining automated equipment and advanced technological systems.

Similarly, the Postal Service bases its proposed plan on its perception that there are "gaps" in e-commerce fulfillment and end-to-end solutions, particularly for small businesses. The "gaps" are not identified yet they envision the Postal Service as filling these "gaps" through micro-warehousing and end-to-end logistics services.[5]

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[3] Office of Inspector General, United States Postal Service, *Opportunities for the Postal Service - Micro-Warehousing and Other Logistics Support Services*, (Report Number MS-WP-14-003, dated March 13, 2014) page i.

[4] Office of Inspector General, United States Postal Service, *Opportunities for the Postal Service - Micro-Warehousing and Other Logistics Support Services*, (Report Number MS-WP-14-003, dated March 13, 2014), page 2.

[5] Office of Inspector General, United States Postal Service, *The Postal Service Role In the Digital Age, Part 2: Expanding the Postal Platform* (Report Number RARC-WP-11-003, dated April 19, 2011) pages 18 and 30.

Whatever "gaps" may have existed in the early days of e-commerce have long since disappeared. Warehouse-based 3PLs serve customers ranging from the smallest online start-ups to the largest e-commerce businesses. The industry has invested heavily in sophisticated automation and technology to meet the unique needs of e-commerce supply chains with their unprecedented demand for speed, consumer customization and convenience provided in a cost-effective way. As a result, distribution warehouses have become dynamic, integrated and scalable product fulfillment centers well equipped to handle small and growing e-retail businesses.

Faulty Assumptions: Underlying the Postal Service proposal is the assumption that its experience in mail and small package delivery can easily translate into an effective warehousing and 3PL operation in the e-commerce environment. This belief is fostered by the fact that it has 280 million square feet of excess space at mail processing facilities and post offices. The Postal Service describes their vision for this venture: "Exporters, manufacturers or local merchants could lease warehouse space and distribute goods themselves or could choose to use warehousing logistics services, allowing the Postal Service to receive products, and inspect, palletize, store and maintain inventory."[6]

This statement reveals a startling misconception of what it means to be a warehouse-based logistics provider focusing on e-commerce. High-velocity e-commerce inventories are not "maintained," they must be actively managed, controlled and deployed to produce integrated and synchronized supply chain processes.

Modern warehousing (micro or otherwise) is not just about filling empty space with boxes, keeping track of them and then shipping them out to fill an order. The design and layout of warehouses and warehouse space are carefully configured to optimize the flow of inventory. As discussed above, e-commerce presents a wide range of challenges for a warehouse-based 3PL, including: consumer demand for personalization resulting in a proliferation of SKUs, the need for increased visibility, accuracy and efficiency and a seamless reverse logistics process to handle the large volume of returned merchandise. The Postal Service's skills and expertise in delivering letters and parcels does not automatically qualify it to take on this role with any degree of competence.

An earlier OIG report in June 2013 does acknowledge that "some aspects may require capital investment that is not currently available" and "some more complicated aspects may not be well-suited to [the Postal Service's] core organizational strengths" and the proposal "could divert management attention

[6] Office of Inspector General, United States Postal Service, *Opportunities for the Postal Service - Micro-Warehousing and Other Logistics Support Services*, (Report Number MS-WP-14-003, dated March 13, 2014), page 2.

from other pending activities."[7] Those doubts do not appear in more recent reports, however.

The Postal Service As A Competitor in the 3PL Market

While our industry is not afraid of competition, the Postal Service would not be just any competitor in the 3PL/warehousing space. The Postal Service is a huge organization with massive revenues. If it were a private company, it would be one of the largest in the U.S.

The Postal Service would enter this market with clear advantages derived from its unique status as a part of the U.S. government, including:

- **State and local taxes**: The Postal Service would not be subject to any of these taxes. For the warehouse-based 3PL, the array of state and local taxes is significant and includes real property taxes, personal property taxes, floor stocks tax, sales and use taxes, and income and franchise taxes. One recent study estimates that its tax-exempt status saved the Postal Service more than $1.5 Billion in FY 2014.[8]

- **State and local statutes and regulations governing operation of motor vehicles**: The Postal Service does not pay vehicle licensing and registration fees, road tolls or, in many locations, parking fines. In many states, it is exempt from state motor fuel taxes.

- **Lawsuits**: The Postal Service is not subject to lawsuits in the same way as private firms. Actions for the negligent or wrongful acts or omissions of its employees must be filed in federal court pursuant to the Federal Tort Claims Act, where there is no right to a jury trial, no punitive damages and attorneys' fees are limited. Other restrictions in the law also reduce its legal risks in tort cases compared to the risks of private sector companies. This reduced liability is of immeasurable value in a litigious society where litigation risks are a significant burden for private sector competitors.

- **Economies of Scope:** By utilizing its existing space and vehicles used in its postal-related operations, the Postal Service would benefit from economies of scope in competing with warehouse-based 3PLs. Its infrastructure and workforce are primarily paid for by revenues from its monopoly products and services.

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[7] Office of Inspector General, United States Postal Service, *The Global Logistics Revolution: A Pivotal Moment for the Postal Service*, (Report Number RARC-WP-13-010, dated June 3, 2013), page 13.

[8] Shapiro, Robert, "*How the U.S. Postal Service Uses Its Monopoly Revenues and Special Privileges to Subsidize Its Competitive Operations.*" (October 2015).
http://www.sonecon.com/docs/studies/Study_of_USPS_Subsidies_for_Its_Competitive_Operations-Robert_Shapiro-Sonecon-October_21_2015.pdf

- **Lack of Transparency:** Because this would be a competitive product, the Postal Service will keep cost methodology and other important accounting information confidential, leaving competitors and the public with little, if any, insight into how costs are tracked and attributed to this service.

- **Priority in Bankruptcy**: The Postal Service is able to claim the priority of the U.S. government with respect to the payment of debts in a customer's bankruptcy proceeding.

- **Preferential Access to Capital**: The Postal Service is able to borrow from the Federal Financing Bank at an interest rate that is significantly lower than even the most credit-worthy private sector business.

- **The Postal Service Brand**: In its proposal to provide end-to-end supply chain services to foreign suppliers to the U.S. market, the power of the Postal Service's brand (derived from its governmental status) provides a strong potential for preferential treatment by foreign customs and other foreign regulatory agencies.

These advantages amount to hidden and indirect subsidies that do not belong in a competitive marketplace, particularly a market where the majority of companies are small or medium-sized businesses.

And while we question the ultimate viability of the Postal Service's warehouse/logistics proposals, we are nevertheless concerned about the strong potential for unfair competition and distortions of the private sector warehouse-based 3PL marketplace.

Conclusion

Certainly the Postal Service has a role to play in the global logistics revolution. There are promising opportunities when it plays to its strengths, such as its unique first and last mile capabilities, which will continue to be of increasing value in an e-commerce environment. But it seems foolhardy to try to duplicate the complex logistics networks that have developed and continue to evolve innovatively and effectively in the private sector. The Postal Service does not have the flexibility, competencies or resources necessary to do this well. This proposal has the potential to be an unprecedented lose-lose: a government entity distorting a very competitive, efficient private sector market at the same time it detracts from its core government mission and drains already scarce resources. We welcome the opportunity to engage in an open and transparent discussion on how the USPS can play a more productive role in the ecommerce supply chain, as a partner with the private sector, in ways that will prove beneficial to all parties.

MPA THE ASSOCIATION OF MAGAZINE MEDIA

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February 5, 2016
The Honorable Ron Johnson
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate
340 Dirksen Senate Office Building
Washington, DC 20510
Fax: (202) 224-9603
Re: For the Record of the Hearing, "Laying Out the Reality of the United States Postal Service", January 21, 2016

Dear Senator Johnson:

MPA – The Association of Magazine Media ("MPA") appreciates the opportunity to submit this statement to supplement the record of your hearing, "Laying Out the Reality of the United States Postal Service." We write to express our strong opposition to the "Improving Postal Operations, Service, and Transparency Act of 2015" (iPOST) bill introduced by Senator Carper on September 17, 2015 (S. 2051), and discussed at length during the HSGAC hearing on January 21, 2016.

MPA stands firmly in opposition to S. 2051's proposal to make the temporary "exigent" rates of postage now in effect permanent. We also oppose barriers in S. 2051 to cost-control measures, including multi-year moratoria on plant and post office consolidations and closings. In addition to these comments, MPA is a signatory to the February 3, 2016 letter submitted for the hearing record by a coalition of mailing associations and mailers that collectively represent a large percentage of Postal Service mail volume. That letter echoes these sentiments.

As the national trade association for the consumer magazine industry, MPA represents approximately 175 domestic magazine media companies with more than 900 national publications that span an enormous range of genres across print and digital media. Our industry plays a prominent role in culture, society and the economy by fulfilling readers' desires for timely information and entertainment that appeal to a broad spectrum of personal interests. Our members connect more than 90% of all U.S. adults to the print and digital magazine titles they trust and value most.

The long-standing importance of magazines to the Postal Service is well-documented. While studies have shown that only 40% of Americans look forward to checking their mail each day, the mail they look forward to most are personal letters and cards, packages, and magazines. The Postal Service's importance to our industry as our trusted distribution partner is also well-documented. Our subscribers still love print and like to get their magazines at home – delivered to their mailboxes. This includes the so-called millennials. In fact, the percentage of Americans who read print magazines increases as the audience gets younger: 91% overall, 94% of Americans under 35 read print magazines, and for those under twenty-five, at 95%, the percentage is even higher.

Despite strong growth in our digital audiences, 90% of total magazine circulation in the U.S. is still accomplished via the U.S. mail. MPA's members are committed to the written word and the print medium, and intend to continue hard copy dissemination of their magazines and related mailings for a long time to come.

MPA Strongly Opposes iPOST's Proposal to Make the Temporary Exigent Rates Permanent.

Arguments in favor of making the exigency surcharge permanent are without merit. By its very nature an "exigency" rate is not a permanent rate. Both the independent Postal Regulatory Commission and the U.S. Court of Appeals have affirmed this point.

Nor are the Postal Service's finances as dire as is sometimes portrayed. While the Postal Service has reported large losses in the past few years, these losses are the result of USPS booking the cost of the PAEA's retiree health benefit prefunding payments that it did not make, that will be reduced significantly in 2017, and would be entirely unnecessary if the Postal Service's health benefit plan were properly integrated with Medicare.[1]

The Postal Service's actual operating income was over $1 billion in both FY 2014 and FY 2015 and the Postal Service is on track for another good operating year in FY 2016. The Postal Service's FY 2016 Integrated Financial Plan (IFP) projects revenue growth, a positive operating income, and a substantial ($6.6 billion) end-of-year cash balance in FY 2016 despite the scheduled early April rollback of the exigency surcharge. Furthermore, recent filings at the Postal Regulatory Commission (PRC) show that the Postal Service is outperforming its FY 2016 IFP projections.

- In just the first two months of FY 2016, USPS had already booked $800 million in operating income, up from the $700 million earned during the same period in FY 2015 and more than the planned $600 million for this period.
- November 2015 shipping and package volumes were up 18.2 percent from November 2014, well above the 5.7 percent growth projected in the IFP. Including both October and November, shipping and package volume was up 14.4% from FY 2015.

The 2016 elections also provide the Postal Service with a unique opportunity to increase revenue. Based upon its experience in 2012, the Postal Service has developed a plan to dramatically increase its revenue from political mail and has set a goal of generating $1 billion in political mail

[1] There is indeed a consensus among the Postal Service, employee groups, and the full mailing community that the Postal Service's health benefit plan should be integrated with Medicare.

revenue in 2016. The rollback of the exigency surcharge in April, which is reflected in our members' postal budgets, will also provide an additional boost to mail volume in all classes of mail.

Given these positive developments and the Postal Service's enhanced liquidity, there is no reason to short circuit existing processes for addressing rates for market-dominant products. The U.S. Court of Appeals once again is hearing the Postal Service's arguments regarding the duration of the exigency surcharge. While MPA strongly agrees with the PRC's recognition that an exigency, by its very nature, cannot extend forever, and will continue its vigorous defense of the PRC finding, the Court of Appeals is the appropriate venue for reviewing the Commission's decision.

Existing law also requires the PRC to review the current pricing system beginning this December – less than a year from now. In this review, the Commission will evaluate the Postal Service's finances and what changes to the pricing system, if any, are needed to ensure USPS' long-term viability. Other postal stakeholders have argued that making the exigent surcharge permanent is necessary to prevent the Commission from recommending substantial rate increases in its ten-year review. MPA disagrees. The Postal Service's recent financial performance has been strong. The key to continuing this success is for the Postal Service to adjust its operations and networks as needed to match future mail volume. We are confident that the PRC will find that the CPI price cap is appropriate and an incentive to the Postal Service to make these adjustments.

Especially with Respect to Flat-Shaped Mail, the Postal Service Continues to Need to Improve Its Efficiency and Reduce Its Costs.

MPA is concerned at the apparent retreat by the Postal Service from pursuing cost-cutting initiatives, as stated publicly recently and demonstrated through USPS's support of S. 2051. The Postal Service should be encouraged to undertake initiatives to improve efficiency. Private businesses, including magazine publishers, are striving to do just that every day, as part of the normal course of business. The Postal Service should be doing the same. Initiatives such as delivery mode conversion and network rationalization have the potential to save the Postal Service billions of dollars per year and are critical to the Postal Service's long-term financial viability.

We oppose provisions in S. 2051 that would establish statutory barriers to cost-reduction measures by USPS, including the moratoria on plant and post office consolidations and closings. Right-sizing is an essential characteristic of successful businesses, and magazine publishers review and reorganize operations on a constant basis. MPA recognizes that the Postal Service is not in the clear financially, but a one-sided legislative proposal that only looks at revenue and that limits the Postal Service's ability to reduce its costs by imposing multi-year moratoria is the wrong approach.

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While we must oppose iPOST, there are individual provisions of the bill that <u>are</u> supported by MPA, as well as by the Postal Service and its employee groups. Several cost-reduction measures that we support in S. 2051 include Sections 101 (Postal Specific Assumptions), 102 (Postal Service Health Benefit Program), 103 (Restructuring of Payments for Retiree Health Benefits), and 104 (Annual Federal

Employees Retirement System and Civil Service Retirement System Assessments). These are consensus proposals that will reduce postal costs.

We stand ready to work with the Committee to find other areas of agreement as we pursue our common goal of a sustainable path forward for the nation's postal system and all who rely on it.

Respectfully,

James Cregan
Executive Vice President, Government Affairs
MPA – The Association of Magazine Media

Rita Cohen
Senior Vice President, Legislative & Regulatory Policy
MPA – The Association of Magazine Media

National Association of
Letter Carriers
Fredric V. Rolando, President

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February 3, 2016

The Honorable Ron Johnson
Chairman
Senate Homeland Security and
Governmental Affairs Committee
342 Dirksen Senate Office Building
Washington, DC 20510

Dear Senator Johnson:

I write in response to a January 30th letter to you from Mr. Gene Del Polito, President and CEO of the Association of Postal Commerce (Postcom). The NALC truly values the companies that belong to Postcom and very much appreciates the business they generate for the Postal Service -- that business supports our jobs. And I personally respect Mr. Del Polito very much. However, we do not agree with his view that there is "NO consensus" within the mailing industry.

Del Polito would have been right if he said there is not "unanimity" within the industry. That is not surprising. And it should not be surprising that Postcom has not endorsed either the Carper bill or the consensus principles for reform that NALC and nearly 50 companies and organizations have endorsed. As membership organizations, trade associations cannot take positions on legislation when their membership is divided. However, that does not detract from the unprecedented level of consensus among the broad postal stakeholder community concerning the principles for reform that we support – and which are largely included in the Carper bill. Our coalition includes financial institutions, parcel shippers, advertisers, newspapers and prescription drug distributors, among others. Indeed, many companies that endorse our principles are members of Postcom and other mailing industry trade associations.

As far as we know, the most important sticking point for Postcom as an organization is the proposal to make permanent the 4.3% exigent increase now in effect – in return for the Postal Service foregoing the two CPI-based price increases that could otherwise be implemented between now and 2018, when the PRC is scheduled to complete its review of the rate-setting process for market-dominant goods. As you noted during the January 21st hearing, the current price cap has kept postage inflation far below the price hikes implemented by other national delivery companies in recent years. In this context, freezing rates at their current level is not only fair to all parties but also essential to stabilizing finances and service quality in the run up to the PRC review.

Given that you already know our views on this matter from my recent testimony before the HSGAC committee, I would not normally reply to Mr. Del Polito's letter. However, since his letter quotes a letter to the editor I submitted to a Nevada newspaper about the Postal Service's string of operating profits in recent years, I feel compelled to do so. Postcom would have you believe that the exigent increase is not necessary because of these operating profits. To the contrary, the Postal Service's operating profits were made possible in part because the exigent increase was in place.

We believe extending the exigent increase will avoid much larger price hikes in 2018 following the review – and allow the Postal Service to improve service before then. After a decade of brutal and relentless downsizing and cost-cutting, a more balanced approach to reform is needed. We urge your Committee to embrace the consensus reforms we have offered.

Sincerely,

Fredric V. Rolando
President

Statement of Louis M. Atkins,
President, National Association of Postal Supervisors

Before the Senate Committee on Homeland Security and Governmental Affairs

In Connection with Its Hearing
"Laying Out the Reality of the United States Postal Service"

January 21, 2016

Chairman Johnson, Ranking Member Carper and Members of the Committee:

The National Association of Postal Supervisors takes this opportunity to provide to the Senate Homeland Security and Governmental Affairs Committee our comments on the state of the Postal Service and the urgent need for postal reform. Our statement is informed by three fundamental views.

First, postal reform is not only politically possible, it is a virtual necessity.

Second, meaningful postal reform requires the preservation of prompt mail service to all Americans, the repeal of barriers that harm the Postal Service's financial health, and the infusion of innovation into our postal system.

Third, prodigious due diligence by Congress, governmental authorities and postal community stakeholders have already prepared the ground for substantial legislative reform. These efforts include small but important measures to improve the rights and privileges of managers and supervisors in the Postal Service.

Let me explain the reasoning underlying these views.

First, postal reform is not only politically possible, it is a virtual necessity.

As you know, unless Congress or the courts act within the next several months, the Postal Service will be required to lower its prices and forego nearly $1.2 billion in annual revenue. The "exigency" rate provisions of current law, which have permitted the Postal Service to add a 4.3 percent rate surcharge, will come to an end sometime this spring, probably in April. The surcharge has permitted the Postal Service to withstand the precipitous decline in volume experienced since the Great Recession by aligning the surcharge with the amount of anticipated revenue lost by the Postal Service.

The upcoming loss of the exigency surcharge, unless reversed by Congress or the courts, will renew significant cost pressures upon the Postal Service, forcing management to turn to further consolidations of mail processing plants and other measures for significant cost-savings. The resumption of the Phase II processing plant consolidations, suspended early last year, could erode delivery speed and service quality, just as they did after the last round of plant closures in 2014. Although USPS service measurements around the country have improved since that time, they have not returned to earlier levels before the 2014 closures began. This is especially true for rural areas, where 3-5 day delivery has suffered the most.

If the Postal Service is forced to undertake further consolidations, service will deteriorate further and customer confidence in the Postal Service brand will erode. Lack of confidence by mailers and the general public about the speed and timely delivery of First Class and Standard mail ultimately will spill over to other USPS products, including packages, with broader, negative impact.

For these reasons, we urge Congress to take seriously these pressing circumstances, balance the interests of competing stakeholders and assure the financial stability and continuity of postal operations by preserving service at the maximum service levels permitted by the current capacity of open processing and related facilities. We believe the "Improving Postal Operations, Service and Transparency Act," S. 2125, introduced by Sen. Tom Carper (D-DE) does a commendable job in balancing these considerations, along with the way it addresses other priorities referenced in our statement. We urge its mark-up in a prompt fashion.

Second, we believe that meaningful postal reform requires the preservation of prompt mail service to all Americans, the repeal of barriers that harm the Postal Service's financial health, and the infusion of innovation into our postal system.

Congress should repeal or substantially temper the retiree health benefit pre-funding mandate, which has been a major impediment to the Postal Service's ability to remain solvent. This mandate has accounted for most of the Postal Service's losses since 2007.

The $5.6 billion annual prefunding charge is the dead weight that continues to drown the Postal Service in red ink. For five years in a row, the Postal Service has been forced to default on the payment obligations, despite already depositing over $42 billion over the past eight years in the Postal Service Retiree Health Benefits Fund. Congress needs to address this unfair mandate, rather than allowing service cuts to degrade mail service to residents and businesses, especially in rural areas.

Congress also should authorize the investment of Postal Service Retiree Health Benefit Fund assets in index funds offered by the Thrift Savings Plan, modernizing how those funds are invested and bringing those investment practices in line with the private sector. Currently, the Postal Service Retiree Health Benefits

Fund (RHBF) is invested solely in low-yielding Treasury securities. But higher and relatively safe yields are obtained in the private sector in the management of comparable private retirement-related funds through the use of higher-earning index funds. Modernizing how the RHBF is invested would bring those investments in line with private sector business and investment practices, provide higher returns, and relieve the pre-funding burden through those higher returns, as well as reduce the federal deficit.

In addition, comprehensive postal reform should also devote attention to modernization and the assurance of robust innovation in the development and sale of new mail, package and digital products. Legislation should foster robust innovation, encouraging and permitting the Postal Service to take advantage of opportunities to enhance the value of the Postal Service's core mail products, as well as expanding its presence in the growing e-commerce parcel and digital service markets.

Digital services, including limited banking, that complement the Postal Service's core products and align with the postal mission should be encouraged and authorized, along with services that complement the strategic location of post offices as hubs for the sale of federal and state government services.

Third, prodigious due diligence by Congress, governmental authorities and postal community stakeholders have largely prepared the ground for substantial legislative reform. These efforts include modest, but important proposals to improve the rights and privileges of managers and supervisors in the Postal Service.

Nearly a decade has transpired since Congress last amended the nation's postal laws, with the enactment of the Postal Accountability and Enhancement Act of 2006. Since that time, the Postal Service has faced and withstood major financial challenges, the greatest of which were inflicted by the PAEA and its broad, prefunding mandate. It's abundantly clear that the Postal Service's financial posture has been weakened, and that its business model requires legislative attention. Countless House and Senate oversight hearings, Postal Regulatory Commission proceedings, and GAO and OIG advisory reports have documented the character of those challenges and identified responsible solutions. Many of the solutions have received bipartisan endorsement. But Congress has not acted. While Congress has fulfilled its responsibilities within the appropriations process over the past decade to assure the continuity of six-day delivery, it has not acted legislatively in the same comprehensive manner.

Nor have the Congress and the President acted to assure the continued vitality of the Postal Service Board of Governors through the nomination and confirmation process. The devolution of the 11-member Board to a panel today that consists of only one voting member, along with the Postmaster General and Deputy

Postmaster General, is a serious situation raising important questions about the institutional usefulness of the Board of Governors and its statutory role.

Finally, we respectfully urge Congress to include within postal reform legislation provisions that: (1) standardize MSPB appeal rights for all supervisory and managerial personnel; and (2) clarify that the Postal Service may not change pay and/or benefits of Executive and Administrative Schedule (EAS) employees outside the designated pay consultation period, unless the managers' organizations and the Postal Service mutually agree to such changes.

The need for standardized MSPB appeal rights is clear. Approximately 7,500 USPS mid-level management employees do not possess the right to appeal adverse personnel actions to the Merit Systems Protection Board, despite the intent of Congress to confer such rights to most USPS management personnel through legislation passed nearly thirty years ago in 1987. The lack of such rights for this group of postal managers is due to Federal appellate court and MSPB interpretations of the 1987 law that have narrowly limited the coverage of MSPB appeal rights. This has resulted in unfairness to USPS employees, created unnecessary litigation costs and, in some cases, prevented protection to the legitimate disclosure of fraud, waste and abuse. NAPS urges the inclusion in postal reform legislation of provisions amending 39 U.S.C. 1005 to extend MSPB appeal rights over adverse actions to any EAS employee in the Postal Service.

In addition, NAPS supports clarifying language that ensures that the Postal Service may not change pay and/or benefits of EAS employees outside the designated pay consultation period, unless the managers' organizations and the Postal Service mutually agree to such changes. Language addressing MSPB appeal rights and clarifying the restrictions on in-period changes was included in the Committee's approved version of S. 1486 during the 113th Congress, and we would be grateful for similar action by the Committee once again as it crafts new legislation.

In conclusion, thank you for the opportunity to provide these comments. NAPS looks forward to working with this Committee as it crafts legislation to ensure the continued viability of the United States Postal Service.

Statement of

Anthony Leonardi, President

National Association of Postmasters of the United States

Hearing

"Laying Out the Reality of the U.S. Postal Service"

Senate Committee on Homeland Security and Governmental Affairs

January 21, 2016

Chairman Johnson, Ranking Member Carper, committee members, once again, the National Association of Postmasters of the United States (NAPUS) appreciates the opportunity to share our views relating to current efforts to revitalize the United States Postal Service. This time, we will focus on legislation pending before the Senate Homeland Security and Governmental Affairs Committee. The bottom line for Postmasters and postal managers is that time is running out and meaningful postal relief is on the table. Moreover, the expiration of the exigent rate adjustment is only a couple of months away. For this reason, Postmasters urge the committee to *mark-up* S. 2051, *iPOST*, the bipartisan legislation to provide postal relief. NAPUS concedes that there are a few provisions that may need revision during committee consideration, but the only way to accomplish this is through the normal committee process. Consequently, we would appreciate the opportunity to work with the committee as it moves S. 2051 to the next step in the legislative process.

Pending before the committee is a bill that seeks to harmonize three fundamental principles of postal relief: ensuring postal viability, safeguarding universal service, and promoting innovation. As written in Ecclesiastes, "... there is nothing new under the sun." Much time and effort has been expended over the past few years on delving into the problems confronting the Postal Service. The well-reasoned justification for constructive postal legislation has been presented time and time again before this committee and at other forums by NAPUS and by other impacted parties, including postal-dependent communities. The effort exerted by members of this committee to ensure transparency, taking into account diverse and sometimes conflicting viewpoints, clarifies and legitimizes Senator Carper's work and the bill itself. It provides a context for postal consensus, which is important.

I think we all can agree about the insurmountable and unique burden imposed on the Postal Service to prefund its retiree health benefits has had an immeasurable impact on postal operations, finances and confidence. In addition, we can all agree that the method in which postal health and pension liabilities are calculated is inaccurate; the liability should reflect postal-specific demographics. To the extent retirement obligations have been overfunded, the surplus should be refunded to the Postal Service.

I think we can agree that it is crucial to highlight the hallmark of our universal postal system: the well-earned trust that the mailing public has in the institution, and its essential and historic accessibility in rural America. Finally, we can agree that the future of the Postal Service will rely on its capability to promote innovative products and services.

Last May, NAPUS was privileged to participate in the committee-sponsored roundtable on the importance of rural mail service. The Senate forum was conducted with the aim that the discussion would help shape the contour of postal legislation. The roundtable provided me the opportunity to outline Postmaster priorities, which are reflective of the three cornerstones of postal legislation: viability, accessibility, and innovation.

At that time, I raised concerns about the impact that reducing the hours of over 13,000 post offices – one-half of all post offices – had on rural postal accessibility. At the roundtable, I did not ask for the restoration of hours at already reduced post offices; rather, I requested a moratorium on further post office hour reductions and reclassifications that could lead to more reductions. NAPUS was and continues to be concerned about the effect that such reductions have had on rural mail service. Presently, the Postal Service does not measure retail customer service in rural areas; or are there any plans to create such a measurement. Hence, we have no idea how the reduction impacted rural customer experience.

In addition, we pointed out that the projected savings from hour reductions, particularly reductions to 6-hour post offices, were not being achieved or validated. A recent Postal Regulatory Commission ruling (RM2015-19) will require the Postal Service to more fully and transparently evaluate the costs associated with rural post offices. Finally, the hour reductions hamper post offices' ability to generate revenue in rural areas. Lessening operational hours precludes post offices from partnering with federal, state, and local governments and offering a portal of needed governmental services in rural areas, as well as impeding opportunities to expand the postal business model in small communities around this country.

In addition, the reductions have had a damaging impact on the level of accountability in many rural post offices, because Postmasters are not able to provide on-site management for reduced-hour post offices. Consequently, NAPUS requested that legislation give the Postal Service adequate time to take a deep breath before implementing any further reductions. We are pleased that Senator Heitkamp included in her legislation, S. 1742, *the Rural Postal Act of 2015*, a provision to implement a post office hours reduction moratorium. In addition, many of the service-oriented provisions of S. 1742 also are contained in S. 2051. This includes the temporary pause in further reducing post office hours.

Also common to both bills are provisions to clarify that the results of periodic managerial pay talks can be modified only by mutual consent or the conduct of the next statutorily prescribed pay talks. Another provision to calculate the managerial pay differential using pay and benefits is included in both bills. I would add that these compensation provisions were included in the Senate postal bill this committee favorably reported last Congress (S. 1486).

NAPUS also is attentive to the importance of integrating postal retiree Medicare benefits with the Federal Employees Health Benefits Program (FEHBP) through the establishment of a postal-only component within the FEHBP. As part of this integration, we fully support providing the Postal Service the Medicare Part D prescription drug subsidy.

One of the more vexing issues is revising the way in which postage may be adjusted for market-dominant products. The present consumer price index adjustment, with the exigent rate expiration, places a financial stranglehold on the Postal Service. It cripples the possibility of capital investment and product development. NAPUS believes the sun-setting exigent rate should be part of the postage baseline and a more appropriate index that replicates the CPI for Delivery Services is more than appropriate for adjusting postage in the future.

In conclusion, postal relief legislation is essential and, currently, S. 2051 provides an appropriate legislative vehicle to lead us down the pathway toward a viable, accessible and innovative Postal Service. The key component of the bill is addressing the agency's health care prefunding requirement. Ensuring rural postal access is integral to the integrity of the entire postal network. Before further consolidations and reductions, we need to better evaluate the impact of postal customers. And, finally, we need to leverage the postal network to sustain a universal postal system. NAPUS looks forward to working with the commitee as it pursues meaningful postal relief legislation.

Richard G. Thissen
National President

Jon Dowie
National Secretary/Treasurer

January 20, 2016

U.S. Senate Committee on Homeland Security and Governmental Affairs
340 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Johnson, Ranking Member Carper, and members of the Senate Committee on Homeland Security and Governmental Affairs:

As you discuss the state of the United States Postal Service (USPS) and potential legislative reforms affecting USPS at tomorrow's hearing, "Laying Out the Reality of the United States Postal Service," the National Active and Retired Federal Employees Association (NARFE) would like to share its views and concerns with you. NARFE, a nonpartisan, nonprofit association, was founded in 1921 with the mission of protecting the earned rights and benefits of America's current and retired federal workers. As the largest federal employee/retiree organization with more than 225,000 members, NARFE represents the interests of the five million federal annuitants and employees, and their spouses and survivors.

Approximately 25 percent of NARFE's membership comes from the USPS and its retirees, and postal reform remains at the forefront of our legislative agenda. Thank you for providing us an opportunity to share our views, and for holding this important hearing.

The Reality of USPS

The reality of the United States Postal Service is that it has been operating under the extraordinary, unnecessary and burdensome congressional mandate to fully prefund all of its future retirees' health care obligations within the unreasonably short time frame of 10 years (fiscal years 2007-2016).

The prefunding requirement is the unfortunate consequence of the quirks of congressional budget scoring. The annual prefunding payments by the USPS into the Retiree Health Benefits Fund, ranging from $5.4 to $5.8 billion, were mandated by the Postal Accountability and Enhancement Act of 2006. This scheme was designed to allow the USPS a refund for $27 billion in overpayments for its share of former veterans' retirement benefits without creating an on-budget cost for the bill. That is not a sound policy rationale. No other federal agency or private-sector company fully prefunds its retiree health benefits, let alone within such a time frame.

Without this obligation, the USPS would have made a profit during the last two fiscal years (2014 and 2015). Its controllable operating income was $1.357 billion in FY14 and

$1.188 billion in FY15.[1] Yet its FY15 books show a $5.06 billion net loss, primarily due to its $5.70 billion prefunding obligation.[2] But the USPS actually did not make its prefunding payments that year – it has not done so since 2010.

Even though the USPS has not made these payments, the liability remains current on its balance sheet. This liability is driving cost-cutting strategies at the Postal Service, and prohibits investments that could expand business and save money over the long term. It is a counterproductive congressional mandate that should be eliminated.

In major part due to the unnecessary prefunding burden, the USPS has engaged in cost-cutting strategies to try to balance its books. Since 2012, the USPS has reduced delivery standards, resulting in increased delivery times across the country, according to the Government Accountability Office (GAO-14-828R). Top-level USPS management continues to plan reductions in USPS infrastructure in line with the reduced delivery standards. Although plans to close 82 mail processing plants in 2015 were postponed, management plans to go forward with the closures in 2016, absent congressional action on the issue.

Legislative Action

Congress has an easy fix for the USPS' perceived financial crisis: Eliminate the prefunding requirement.

Congress also could make it easier for the USPS to increase revenue by raising postal rates. The 4.3 percent exigent rate increase instituted in January 2014, and in place throughout FY15, was instrumental in increasing USPS revenue. In FY15 alone, it increased revenue by $2.1 billion.[3] This rate increase may end this spring when the USPS' authority to maintain it will expire. The USPS could continue to increase revenue if that authority was extended.

Additionally, Congress could loosen its shackles on the USPS' ability to increase revenues in other ways. Notably, it could allow the USPS to ship alcohol. With the USPS prohibited from carrying alcohol, this revenue opportunity is left to its competitors, which have no such restrictions. Congress should examine closely its restrictions on the USPS'

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[1] 2015 United States Postal Service Annual Report and Comprehensive Statement, pp. 20-23, available at: http://about.usps.com/who-we-are/financials/annual-reports/fy2015.pdf (accessed January 19, 2015).

[2] Other items not under the control of USPS include non-cash expenses related to changes in the federal workers' compensation program, including fluctuations in expenses due to changes in discount rates, and the amortization of its portion of its portion of the Federal Employees Retirement System (FERS) using government-wide, rather than postal-specific, assumptions. These two items account for a loss of $809 million and $241 million, respectively.

[3] 2015 United States Postal Service Annual Report and Comprehensive Statement, p. 22, available at: http://about.usps.com/who-we-are/financials/annual-reports/fy2015.pdf (accessed January 19, 2015).

ability to increase revenues by eliminating or lessening the limitations it currently imposes on USPS activities.

Unfortunately, Congress has failed to do any of these things. Instead, Congress and this committee have focused on comprehensive reform bills that could do more harm than good, and that have still failed to gain the bipartisan, bicameral support necessary to become law.

S. 2051, the Improving Postal Operations, Services and Transparency (iPost) Act

The latest iteration of comprehensive reform legislation is Sen. Carper's Improving Postal Operations, Services and Transparency (iPost) Act, S. 2051, which was introduced last year. While Sen. Carper should be commended for his tireless efforts to build bipartisan, bicameral support for a reform bill that improves USPS operations while honoring its commitments, this bill still falls short.

NARFE has two major objections to this bill. First, it requires postal retirees to enroll in Medicare as a condition of continued receipt of retiree health insurance benefits. Second, the bill makes draconian reductions in compensation benefits for injured federal workers across the federal government. That provision has no place in a postal reform bill.

However, the bill is a significant improvement over Sen. Carper's legislation from the 113th Congress, S. 1486, as it applies the workers' compensation changes prospectively only, and does not allow collective bargaining over the retirement benefits of new postal employees.

Mandatory Medicare Enrollment for Postal Retirees

Section 102 of S. 2051 would require postal retirees to enroll in Medicare Part B in order to continue receiving their current health insurance coverage through the Federal Employees Health Benefits Program (FEHBP). This provision would increase total health insurance premiums paid by postal retirees, who would have to pay both full Medicare Part B premiums and FEHBP premiums.

Postal retirees earned their health benefits throughout long careers of service. They should not be required to pay for additional health insurance coverage as a condition of continuing to receive those benefits.

Recognizing that the mandatory Medicare enrollment represents a significant cost savings for USPS, it is the position of NARFE that the bill could be amended to allow postal retirees to retain Medicare coverage as an *option*, while still reducing USPS health care liabilities substantially in the future. Simply, the bill could require automatic enrollment in Medicare for Medicare-eligible retirees and family members currently covered by the FEHBP (and waive any late enrollment penalties), but allow them to opt out of this additional coverage. The notification of enrollment in

Medicare, along with notice that they may opt out, should include educational materials detailing the benefits of enrollment. Under this proposal, it is likely that a high percentage of postal retirees not currently enrolled in Medicare would not opt out, thus providing savings to the USPS and retaining choice for the retirees.

However, if the provision requiring Medicare enrollment as a condition of continued receipt of retiree health benefits must remain in the bill, those required to enroll should be enrolled automatically. Otherwise, some individuals unaware of the new requirement or those who simply fail to take the necessary action may lose all health insurance coverage as a result. This could have catastrophic health and financial consequences for those retirees or their survivors.

Arbitrary Reductions in Federal Employees' Compensation Act (FECA) Benefits

Sections 502 and 503 of S. 2051 would unfairly and arbitrarily reduce workers' compensation benefits for federal and postal employees disabled by job-related injuries or illnesses. Specifically, they would reduce the basic injured federal workers' compensation benefit by 25-33 percent for workers at retirement age and eliminate the supplemental benefit for injured workers with children or other dependents. These controversial provisions, which affect the entire federal workforce, have no place in a postal reform bill.

FECA's basic compensation benefit ought to make employees whole financially, maintaining their compensation at the level it would have been had their public service not been cut short by an unforeseen job-related injury or workplace-induced illness. This includes compensation during working-age and retirement benefits in retirement-age years.

Unfortunately, S. 2051's provision (s. 502) to reduce benefits at retirement age fails to make employees whole financially, and the justification for the proposal – that current benefits are excessive – simply is not supported by the evidence.

According to the Government Accountability Office (GAO), the proposed reduction would leave disabled federal workers worse off in terms of retirement-age benefits than they would have been had they been able to continue working.[4] GAO concluded that the median FECA benefit package would be 22-35 percent *less* than the median Federal Employees Retirement System (FERS) retirement package, had the disabled worker not been injured on the job and been able to complete the same 30-year career as their uninjured coworkers.

Even if providing a different retirement-age benefit made sense on a theoretical level, an arbitrary benefit reduction to 50 percent of pre-injury pay does not adequately account for the lost retirement income and savings that FECA recipients would have earned absent their on-the-job injury. Notably, these individuals: lose the ability to increase their

[4] U.S. Government Accountability Office, *Federal Employees' Compensation Act, Analysis of Proposed Program Changes*. (GAO-13-108), available at http://www.gao.gov/assets/650/649716.pdf.

salaries through raises and promotions; have a reduced ability to save because they are not able to contribute to the Thrift Savings Plan (TSP) during the period of their disability (or receive matching contributions); and would have a reduced Social Security benefit because employees covered by Social Security are unable to earn quarterly credits to increase average monthly earnings while receiving FECA benefits. Thus, it was no surprise that GAO's analysis found that, under current law, for an individual with a 30-year career, the median FECA benefit is "on par or 10 percent less than the median FERS retirement benefit package, depending on TSP contributions."

NARFE also opposes the provision (s. 503) to eliminate augmented compensation for FECA beneficiaries with dependents. According to GAO, this change would cause workers without dependents to achieve a higher replacement rate of pre-injury income than workers with dependents. This is due to the effect of lower marginal tax rates on the pre-injury, after-tax income of FECA recipients. While section 503 intends to improve equity between those with and without dependents, in practice, it would do the opposite.

As you consider taking up this bill in committee, we hope you keep in mind the many individuals who may be affected by these proposals: medical professionals combating disease; postal workers with legs or backs crushed by cars or heavy machinery; firefighters taming wild fires; federal law enforcement seeking to put dangerous criminals behind bars and the prison guards who are tasked with keeping them there; and employees who volunteer to go overseas in hostile territories or even combat zones.

Additional Legislative Proposals

Rural Postal Act of 2015

NARFE supports S. 1742, the Rural Postal Act of 2015, introduced by Sen. Heitkamp. This bill would maintain service standards, including six-day delivery and rural delivery, preventing the USPS from entering a downward spiral of decreasing volume and revenue.

Six-Day Delivery

NARFE supports maintaining six days of mail delivery throughout the United States. This modest delivery standard, or a more demanding one, has existed since at least 1888. Therefore, NARFE supports H. Res. 12, in support of six-day delivery, and continuing to mandate six-day delivery through the appropriations process, as in S. 1742.

To-the-door Delivery

NARFE supports maintaining curbside and to-the-door delivery, opposing a transition to cluster box delivery. This is of particular concern to NARFE members, as most of them are retired and some may not have the ability to walk several blocks to retrieve their mail – and they shouldn't have to. Therefore, NARFE supports H. Res. 28 and S. 1742, in support of to-the-door delivery.

Maintaining Service Standards

NARFE supports efforts to preserve high service and delivery standards. Lowering the quality of service is not the way to improve the USPS business model. Therefore, NARFE supports H. Res. 54, in support of restoring service standards, and H.R. 784 and S. 1742, requiring the USPS to maintain service standards.

Conclusion

The management and employees of the United States Postal Service are doing a remarkable job providing a vital service to the American public, and they are doing it without taxpayer funds, and operating at a profit. Yet their efforts are hindered by the unreasonable congressional mandate to prefund future retiree health benefits obligations decades into the future.

There are simple legislative solutions to the challenges facing the USPS. NARFE urges you, the members of this Committee, and your fellow members of Congress, to adopt them.

Thank you for considering NARFE's views. If you have any questions or comments regarding this request, please contact NARFE Legislative Director Jessica Klement at 703-838-7760 or jklement@narfe.org.

Sincerely,

Richard Thissen

Richard Thissen
National President

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February 8, 2016

The Honorable Ron Johnson
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate
340 Dirksen Senate Office Building
Washington, DC 20510
Fax: (202) 224-9603
Re: For the Record of the Hearing, "Laying Out the Reality of the United States Postal Service", January 21, 2016

Dear Senator Johnson:

As an association that represents over 300 hundred religious charities in the United States, who use the United States Postal Service as their primary means of promoting their mission and communicating with their donors, I am writing you about our strong opposition to the "iPost" postal bill introduced by Senator Carper on September 17, 2015 (S. 2051), and further discussed during the HSGAC hearing on January 21, 2016. Our members mail millions of piece of mail annually and represent a significant part of the charitable nonprofit mailing community. We do not agree that many in the mailing industry are supportive of the rate-setting provisions contained in S. 2051. We oppose the substantive proposal put forth by the Postal Service during the hearing, and contained in S. 2051 – that the temporary "exigent" rates of postage now in effect be made part of permanent law. We are very disappointed and discouraged by what seems to be a retreat by the Postal Service on cost-reduction programs, as mirrored in S. 2051. We believe that imposing moratoriums on facility and post office consolidations are serious barriers to the Postal Service finding ways to control USPS costs.

We realize these are challenging time for The Postal Service as it seeks to be an efficient and effective system. But those problems will not be solved by imposing statutory rate increases and preventing cost-saving measures that have the potential to save the Postal Service billions of dollars per year. All of our members have also gone through financial difficulties and upheavals during recent years. All of them have been forced to reorganize and downsize in order to cut costs and still have enough money to fulfill our missions. We do not believe the provisions in this bill offer long-term solutions or will, in the end, give the Postal Service the long-term viability it will need.

Our members consider the Postal Service partners in advancing their missions to provide educational, healthcare and social services to all in need. We want the Postal Service to become stronger and remain a viable option for us.

We remain willing to support constructive measures which include Medicare integration and restructuring of the Postal Service's retiree health and pension benefit obligations and, for which there is indeed consensus among the Postal Service, employee groups and the full mailing community. We cannot support non-consensus and unbalanced proposals, such as the first Congressionally-mandated general increase in postal rates since 1968. Both the independent Postal Regulatory Commission and the U.S. Court of Appeals have affirmed that an exigency rate, by its nature, is not a permanent rate. Temporary fixes should not be mistaken for long-term solutions at the expense of the charitable fundraising community that depends so much on the Postal Service.

We believe that this is the time to look more carefully at the Postal Service of the future. The Postal Service had a record-breaking holiday season, with package volume up 18% from last year. 2016 is an election year, and the Postal Service has plans to handle $1 billion in political mail this year. The Postal Service had operating surpluses in both 2014 and 2015 and has plenty of cash on hand – $7.6 billion at the end of November. The end of the exigency surcharge in April will give an additional boost to mail volume in all classes. We strongly recommend caution rather than rushing into postal legislation without a clearer picture of potential volume and revenue growth for the Postal Service in the years ahead. The current law already provides for a review of Postal Service finances and the pricing system in 2017. We do not need new legislation to make that happen. With postal finances stabilizing and several bright areas for future growth, we believe that the 2017 review will not lead to major rate increases for the mailing community.

We acknowledge that the Postal Service has some financial challenges, but we believe this legislative proposal is not the solution. From our perspective, we do not believe that there is consensus on S. 2051. In fact, we believe we are not near consensus at this time on any legislative path forward.

For our members, who serve those most vulnerable in our society, we believe S. 2051 will make it more difficult for us to seek and receive support for our missions.

Respectfully,

Sr. Georgette Lehmuth, OSF

Sr. Georgette Lehmuth, OSF
President and CEO
National Catholic Development Conference

National Committee to Preserve
Social Security & Medicare™
Trusted • Independent • Effective

February 4, 2016

The Honorable Ron Johnson
The Honorable Thomas R. Carper
Committee on Homeland Security and Governmental Affairs
United States Senate
340 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Johnson and Ranking Member Carper,

I am writing to respond to Postmaster General Megan Brennan's January 21 testimony to the committee regarding the mailing industry's position on S. 2051, the Improving Postal Operations, Services and Transparency Act of 2015 (iPOST). I request that this letter be included in the committee's January 21 hearing record.

Postmaster General Brennan testified that "[W]e have been working over the last year with key stakeholders, including our labor unions and a cross-section of the mailing industry, to discuss the business model issues that confront us, and to identify potential key reforms about which there is broad consensus that would make the Postal Service sustainable." Some media that covered the hearing were left with the impression that the "mailing industry" supports S. 2051.

As a nonprofit advocacy organization, the primary mission of the National Committee to Preserve Social Security and Medicare is to protect, preserve, promote, and ensure the financial security, health, and the well being of current and future generations of maturing Americans. Our principal means of communicating with our millions of members is through the U.S. Postal Service (USPS). Postal rate increases drain the finite resources we need to run an effective advocacy program on behalf of older Americans.

For that reason, the National Committee opposes a provision in S. 2051 that would make the temporary exigent rate surcharge, scheduled to end in April, permanent. I urge you to remove this objectionable provision from the bill.

Sincerely,

Max Richtman

Max Richtman
President and CEO

10 G Street, NE, Suite 600 • Washington, DC 20002-4215 • 202-216-0420 • www.ncpssm.org

Statement of Pete Sepp, President, National Taxpayers Union
"Laying Out the Reality of the United States Postal Service"
January 21, 2016

In response to the USPS's financial report released in November for fiscal year 2015, Pete Sepp made the following statement,

"Concerns from everyday Americans about USPS's future ability to deliver letters are justified by the Service's latest numbers.

By finishing $5.1 billion in the red for the just-concluded fiscal year, USPS has totaled $36.6 billion in losses since 2011.

Furthermore, from most reasonable perspectives of the Postal Service's accounting, the agency has spent years racking up higher costs compared to the revenues it has been able to generate. Even within the balance of "controllable" revenues and expenses, which excludes its legal requirement to prefund retiree health benefits, USPS has lost $3 billion over the same five-year period.

Here's another chilling perspective: the loss figures are actually worse than they appear because of the $4.6 billion "exigent surcharge" USPS has been allowed to take until next April. Once that runs out, something will have to give: another form of price hikes, bigger shortfalls, service adjustments, or most troubling of all, pleas for assistance from the federal government.

Finally, the reliability of the USPS for timely delivery continues to falter. In the first half of the year, late mail increased by 48 percent, putting into question the quality of service for people and businesses across the country.

Most customers as well as financial analysts would agree: continuing to pursue price hikes amid declining service is a bad business model that would likely end in bankruptcy. But in the case of USPS, and its historical ties to government, taxpayers need to be worried that they will be left holding the bag instead.

To repair its declining fiscal situation, USPS must institute and act upon accounting practices that are more honest and transparent. This means analyzing each product on a standalone basis and focusing primarily on its core products that are their most financially stable. Over the long term, to avoid a taxpayer bailout of USPS and allow the service to continue performing essential functions, Congress needs to clarify its mission, remove unfair regulatory advantages over private industry, stop bad business practices like underwriting foreign shipping, and permit more flexibility in personnel and facilities management.

Defenders of the status quo claim that reforms like these are not necessary; lawmakers just need to relax requirements that USPS prefund retiree health benefits. But based on all of the cold hard facts in the service's financial statements and delivery performance reports, doing away with prefunding is not some panacea. In fact, prefunding is a vital taxpayer protection that provides an early warning of major future liabilities. The entire federal government should be doing it, as well as entities like USPS that enjoy preferential treatment from Washington. For instance, even though it is a federal agency that gets appropriations, the Department of Defense faces a partial prefunding requirement of its own.

Pick any phrase – reality check, wake-up call, or moment of clarity – if the latest USPS financial report prompts policymakers to act, so much the better."


The Postal Service says:
THIS IS OUR SEASON...
The USPS brags about its holiday package deliveries, but the agency is still mismanaged in so many ways.
...OUR SEASON for delayed mail delivery...
Late mail rose 48% (494 million pieces) in the first half of 2015 compared to last year.[1]
...OUR SEASON for subsidizing foreign business...
Shipping a 4lb package 7,000 miles from Shanghai to the U.S. costs 94 cents, while the sending the same package domestically costs an American business $11.30.[2]
...OUR SEASON for mismanaging the books...
Lax monitoring of foreign packages through U.S. Customs and Boarder Protection leads to more than $1 billion a year in unpaid duties and fees.[3]
...OUR SEASON for losing billions of dollars...
The USPS lost $5.1 billion in fiscal year 2015, once again demonstrating poor financial management.[4]
SOURCES
This is Congress' season to bring better management and accountability to the U.S. Postal Service!
NTU
National Taxpayers Union

Quad Graphics

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February 5, 2016

The Honorable Ron Johnson, Chairman
Committee on Homeland Security and Governmental Affairs
U.S. Senate
Washington D.C. 20510

Dear Chairman Johnson:

Thank you for holding the recent hearing, entitled, "*Laying out the realities of the United States Postal Service*". Quad/Graphics would like to commend you and the entire Committee on Homeland Security and Governmental Affairs for the interest in ensuring that the United States Postal Service returns to a sustainable business model for the long-term.

As you know, Quad/Graphics is now the second largest commercial printing company in the United States, employing over 20,000 employees across 65 facilities in 28 states, including over 7,600 employees in the State of Wisconsin. We are part of an overall mailing industry that employs over 7.5 million workers and accounts for over $1.4 trillion in economic activity nationwide. This supply chain is particularly important to the State of Wisconsin as it not only includes the printers in the state but also the timber producers, paper manufacturers and chemical companies that supply those papermakers as Erco-Worldwide. This supply chain provides over 185,000 family supporting jobs throughout Wisconsin - jobs that are dependent on the Postal Service being sustainable long-term without adding cost burdens onto the postal customers - customers who are facing their own significant market challenges - and the Mailing Service Providers (like Quad/Graphics) who produce and distribute printed product through the USPS.

As we have discussed previously, postage is a significant cost driver for all publishers, marketers and all mailers throughout the country. For our customers, postage now makes up over 50 percent of the total cost of the piece of printed material. Postage continues to increase each year at the rate of the Consumer Price Index (CPI). In comparison, each successive contract renewal throughout the printing industry tends to drive the price lower and lower. The realities of the current marketplace dictates that all printers are compelled to find internal cost reductions to offset the pricing pressures of postage. Additionally, the USPS has shifted cost to Mailing Service Providers through regulation and pricing changes. The reality of the marketplace on printing prices is that contracts are renewed at rates that are lower than the CPI and in many instances are lower than under the previous print contract. In order to truly become sustainable for the long-term the United States Postal Service (USPS) must refocus their efforts on cost reductions just as Quad/Graphics does each and every day. As an example, when Quad/Graphics reported our 2015 third quarter results we had to face the hard reality that our costs were out of line with the realities of our industry marketplace. In response to these financial results, Quad/Graphics did not go back to our customers and attempt to increase our rates for printing their products. Rather than harming our customers and driving volume away from Quad, we took decisive action and announced a $100 million internal cost reductions and as part of that effort announced the closure of four plants throughout the country. These efforts are not pleasant and we fully appreciate the impact these decisions have on all our employees and the disruption that will occur. Contrast that with the response by the USPS, which has been to head directly to the Postal Regulatory Commission to ask for a rate increase to counter the effects of the recession which will result in even greater cost reductions by the mailing industry in order to maintain the volume for the USPS. Those cost reductions will continue to result in the loss of jobs throughout our industry and throughout the country. It is vitally important that the USPS and Congress remain focused on finding the cost reductions within the Postal Service and align their costs to the realities their customers face. Unfortunately, just as it is with Quad/Graphics and all printers, publishers and paper manufactures the focus on cost reductions is the new normal and significant postage increases will only serve to exacerbate the need to cut costs.

As you and many members of the expressed on numerous occasions, the mailing industry depends on having predictable rates. We fully agree, and the recent legislative proposals would only serve to disrupt that predictability. While we may not have agreed with the decision to provide a rate increase through exigency, what is important is that the order made this increase temporary and the courts have confirmed the appropriateness of the temporary status of the exigency surcharge. Our customers have established their budgets and business plans relying on the current state of the law. Moving the goalpost on them now will have an even greater impact as they will not have the necessary time to adjust that plan to account for what effectively will be a rate case compared to what current law would allow.

It is important to understand that while Congressional action is vital to the success of the Postal Service it is not necessary for Congress to be in the business of micromanaging the postal rates. Congressional action to enact commonsense reforms for the Postal Service in the areas of healthcare, pensions, financial investments, labor and new product development is required. However, the rates portion of this sustainability effort is the only issue that does not need congressional action. As part of the current law under PAEA, Congress established a process for setting postal rates that customers would be able to depend upon and plan around. That same law established a process for the Postal Regulatory Commission to review the rate structure after 10 years. The PRC is scheduled to begin that review later this year and therefore, Congress need not disrupt this process before it even begins. The Postal Regulatory Commission is the appropriate venue for this discussion. It is well thought out and enables all parties to be represented and have their voices heard. This rate review would be aided by Congress passing the aforementioned reforms. The PRC will make a better decision on rates if they have the benefit of knowing which reforms have Congressional support and can then base a rate structure on the actual costs of the USPS. This rate review is where the mailing industry will participate in the sustainability effort going forward and we are comfortable with this process and our ability to ensure that the interests of the mailing industry are well represented.

Quad/Graphics is encouraged by the interest and perseverance that you and the other members of the committee have shown on this vitally important issue that is facing the country. We look forward to continuing to work with you on common sense reforms that will enable the mailing industry to prosper and in return ensure that the USPS remains viable and eliminate any risk to the taxpayers moving forward.

Sincerely,

Patrick Henderson
Director of Government Affairs
Quad/Graphics, Inc.

Cc: Senator Tom Carper, Ranking Member
Member of the Senate Homeland Security and Governmental Affairs Committee

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Free Markets. Real Solutions.
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Jan. 20, 2016

To: Senate Homeland Security and Governmental Affairs Committee

From: Kevin R. Kosar, Director of Governance Studies, R Street Institute

Re: Written testimony concerning the Postal Service's existential problem for hearing, "Laying Out the Reality of the United States Postal Service," Jan. 21, 2016

My name is Kevin R. Kosar, and I am director of the Governance Project at the R Street Institute, a think tank here in Washington. Some of you may recognize my name, as I spent 11 years at the Congressional Research Service, where I was the lead analyst on postal issues. I thank the committee for convening this hearing.

The U.S. Postal Service has an existential problem. For five years, the agency has flirted with insolvency. It has $15 billion of debt, its statutory maximum. The USPS reports in its most recent annual financial statement:

> "Although our cash balances have increased, they remain insufficient to support an organization with approximately $74 billion in annual operating expenses. Our business continues to face challenges due to the ongoing migration of mail to electronic alternatives, and we are legally limited in how we can price our products and streamline our legacy business model...Furthermore, given our inability to raise cash through the issuance of additional debt, our current level of available liquidity may be insufficient to support our operations in the event of another significant downturn in the U.S. economy."

To conserve cash, the agency has put off many capital investments. The service's 140,000-vehicle fleet is more than two decades old and needs to be replaced. The Postal Service has not made any payments into its Retiree Health Benefits Fund since 2008, meaning its $50 billion in unfunded health-care obligations are not getting any smaller. The agency has tried to shave overhead costs by not replacing hundreds of thousands of retiring employees, and closing post offices or reducing their operating hours. (Most post offices lose money.) The agency also wants to close many more of its mail-sorting plants. If Congress allowed it, the Postal Service would end Saturday mail delivery (except for parcels).

How the agency will escape its debt and return to financial sustainability is anything but certain. However, the service's existential crisis goes deeper than finances. Its very *raison d'etre* has disintegrated. The act that birthed the modern, reorganized USPS declares:

> "The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people."

That was drafted in 1970. Back then, long-distance telephone calls were fantastically expensive for most consumers and facsimiles were few. Pop songs of the time – like Rod Stewart's 1972 hit, "You Wear It Well" – spoke of lovers writing precious letters to one another. When letter carriers went on strike in 1970, President Richard Nixon took to television to announce that he would contend with the threat. National Guardsmen were sent in to replace the wildcatters. Mail was king and the Postal Service could expect to reap profits as a communications monopolist.

Those days are long, long gone. Mail no longer "binds the nation…through correspondence." Mail today is not a communications medium; it is a medium for business marketing. At most, 5 percent of all mail sent constitutes letters and postcards from one person to another. More than half of all sent mail is advertising. Person-to-person correspondence has gone electronic. I can email my sister in Ohio, text my nephew in New Jersey, Facebook message my friend in Russia and video chat with my mother for little to no cost. The public mostly gets its news online and over the airwaves. Magazines are a mere 3.5 percent of what USPS delivers.

So, the question to ponder is: why do we need a Postal Service? It is a question worthy of congressional deliberation.

To be clear, the Postal Service cannot be abolished; at least, not immediately. Many institutions' operations remain tied to it. Local governments send jury summons, vehicle registration renewals and other important documents by mail. Voting by mail is widespread in the United States, and Colorado, Oregon and Washington hold all their elections by mail.

U.S. package delivery also is deeply dependent upon the Postal Service. FedEx and UPS have postal carriers deliver many small packages to sparsely populated rural areas. (It makes no financial sense for them to do it themselves and USPS carriers are on the route anyway.) The Postal Service also is tasked by executive order to deliver medicines in the event of a terrorist biohazard attack.

Many of the legislative reforms proposed in recent years dodge the USPS' existential question and instead take for granted that the government should lug paper mail all over America's 3.8

million square miles. This makes finding any significant reform that suits the two biggest interest groups (USPS unions and high-volume mailers) very difficult. It goes without saying that members of Congress from low-population and far-flung states tend to be averse to reforms that reduce the highly subsidized service their constituents receive.

The distributive nature of postal politics thus discourages Congress from facing the fact that Americans need the USPS less and less; what needs they do sill have are evolving. Unfortunately, postal politics also tend to produce fanciful "magic money" solutions, like postal banking and entering USPS into new lines of business. "If only the USPS could sell ___________(fill in the blank), then its deficits would go away," is the thinking.

But facts are facts and no amount of wishful thinking will make mail volume grow and postal revenues soar. Eventually, a day of reckoning must come. A government operation that goes bankrupt is unlikely to be bailed out by a public that sees it as a pointless, environmentally harmful anachronism. This is all the more reason to enact sensible postal reform sooner rather than later. Such reforms should permit the agency to adjust its operations to the declining demand for its services, and keep it focused on its last-mile, mail-delivery duties.

Thank you for your time and consideration on this important matter.

The Honorable Ron Johnson
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate
340 Dirksen Senate Office Building
Washington, DC 20510
Fax: (202) 224-9603

Dear Senator Johnson:

As a customer of the U.S. Postal Service that relies on mail to achieve the mission of our organization, we oppose the iPost postal reform bill. The iPost bill would fail to reform the USPS because it would drive volume away by making permanent the temporary exigent surcharge, and it would prevent further necessary right-sizing efforts by the Postal Service.

Sincerely,
Charles Shelby
DePaul University
Chicago, Illinois

February 01, 2016

The Honorable Ron Johnson

Chairman

Committee on Homeland Security and Governmental Affairs

328 Hart Senate Office Building

Washington, DC 20510

Fax: **202.228.6965**

RE: Hearing Comment ~ Laying Out The Reality of The United States Postal Service, January 21, 2016.

Dear Senator Johnson,

I am writing to convey concern and opposition to the postal bill "iPost" introduced by Senator Carper on September 17, 2015. This bill was profiled in the Homeland Security and Governmental Affairs Committee hearing on January 21, 2016. The concerns with the bill are many, chief among them is the predictability of service-based pricing fairness.

The current operating costs associated with USPS processing plant locations, staffing and future capitalization far exceed the need of the present mail volume. In fact, the downward trend of the mail volume is a model forecast by USPS and mailing-industry economists alike. The financial overburden to the USPS is being erroneously presented as unavoidable. It is not. The construct of future financial loss is dragging an "exigent" surcharge of 4.3% from the promised remission back to the industry into a permanent surcharge on USPS market-dominant mail. This renege on public assurance and promise promotes uncertainty in the market. At minimum, this proposal is counter-productive to mailing industry volume support or even growth.

My firm represents mailing clients deeply concerned about the budget reductions they have made in response to increasing USPS requirements to meet the existing overhead. Clients are not mailing as frequently or in the historical volume after their internal budget reductions have been made. The "iPost" bill continues the uncertainty associated with current postal economics. The USPS should be allowed to downsize facilities and personnel, continuously, to control not only costs but to keep the logistics of customer utilization an equitable and foreseeable transaction. iPost does not support either of these contentions.

I ask for your consideration to place the iPost bill on hold without it ever leaving the Committee. Modification of the current bill structure would not produce progress, but would be a step backwards in keeping a vibrant mailing industry.

Sincerely,

Steve W. Smith
Base 60 Consulting
PO Box 194
West Newbury, MA 01985-0294

Cc: The Honorable Tom Carper
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate
513 Senate Office Building
Washington, DC 20510
Fax: 202.228.2190

Cc: All Members
Committee on Homeland Security and Governmental Affairs
United States Senate

Time Inc.

Joseph A. Ripp
Chairman and Chief Executive Officer

225 Liberty Street
6th Floor
New York, NY 10281

joe.ripp@timeinc.com
P212-522-2700

February 3, 2016

The Honorable Ron Johnson
Chairman - Committee on Homeland Security and Governmental Affairs
United States Senate
340 Dirksen Senate Office Building
Washington, DC 20510

Dear Senator Johnson:

Time Inc. mailed over 750 million magazines and spent over $270 million in postage across all mail classes in 2015. As a significant customer of the United States Postal Service, Time Inc. has a vested interest in postal legislation.

During the January 21, 2016 HSGAC hearing on "Laying Out the Reality of the United States Postal Service", testimony was given that inferred consensus support by the mailing industry for the S.2051 postal reform bill introduced by Senator Carper on September 17, 2015. Although S.2051 contains several constructive provisions, there are two provisions that Time Inc. cannot support and cause us to oppose the bill as currently written. Specifically, Time Inc. is opposed to the rate clause in S.2051 which would make the current, temporary exigent surcharge a permanent addition to postage rates. Time Inc. also opposes the multi-year moratoriums on processing facility and post office consolidations and closures stipulated in S.2051. As mail volumes continue to decline, the Postal Service must not be hand-cuffed in rightsizing its network. Legislation that imposes a statutory rate increase on customers while preventing the advancement of structural cost reductions is not a lasting financial solution for the Postal Service.

A viable Postal Service is critical to the distribution of Time Inc. magazines. We have a long history of working with the Postal Service to maximize mail efficiency and we are committed to continuing those efforts. Time Inc. is also committed to working with our industry associations, the Postal Service and Congress to advance meaningful postal reform. Unfortunately, S.2051 does not represent the balanced approach that is needed to ensure the long term viability of the Postal Service.

Thank you for the opportunity to add Time Inc.'s voice to the record of the HSGAC hearing on "Laying Out the Reality of the United States Postal Service".

Sincerely,

Joseph A. Ripp

cc: Laura Kilbride

TAXPAYERS PROTECTION ALLIANCE

U.S. Senate Committee on Homeland Security and Governmental Affairs
340 Dirksen Senate Office Building
Washington, DC, 20510

January 21, 2016

Dear distinguished members and staff of the Senate Committee on Homeland Security and Governmental Affairs:

Thank you for this opportunity to submit comments to the Committee regarding the hearing, "Laying Out the Reality of the United States Postal Service," on January 21st.

As a network of advocates for taxpayers across the country, the Taxpayers Protection Alliance (TPA) encourages you to closely consider the growing concerns related to the U.S. Postal Service's (USPS) declining performance of its core mission of mail delivery products.

In a recent performance report, the USPS suffered drastic increases in delayed mail in the amount of 494 million pieces in the first six months of 2015. This is a nearly 50 percent rise in delayed mail compared to the same period of 2014. The decline in service quality for mail is further discouraging in light of the reduction in mail service standards in 2015 as the agency has now been aiming to deliver mail to recipients in an average of 2.1 days instead of 1.8 days.

Such a significant decline in performance for the Postal Service's core responsibility highlights further concerns about the agency's ill-advised exploration of expanded package delivery services and other experimental services. These diversions from their mission lack data related to their costs of service and lack proven analysis of how they will help to repair the Postal Service's deteriorating financial position.

I appreciate your consideration of this matter and if you have any questions related to our comments please feel free to contact me using the information below.

Regards,

David Williams
President
Email: davidwilliams@protectingtaxpayers.org

Senate Homeland Security and Government Affairs Committee
Post-Hearing Questions for the Record
Submitted to Megan Brennan

"Laying Out the Reality of the United States Postal Service"
January 21, 2016

From Senator Ron Johnson

1. Postal Service expenses increased over a billion dollars last year despite a decrease in mail volume. What are you doing to make sure that the Postal Service continues to manage costs? What specific plans exist to cut costs in the next 5 and 10 years? How much cost savings will the Postal Service realize with these plans?

Answer:

Controllable expenses increased by approximately $1.3 billion in FY 2015 compared to 2014. This was nearly entirely due to a $1.3 billion increase in compensation and benefits. Of this, $0.9 billion was due to the growth in work hours, largely driven by the 14.1% increase in the more labor-intensive Shipping and Packages volume. The remaining $0.4 billion was driven by the OPM-mandated increase to our Federal Employee Retirement System (FERS) contribution from 11.9% to 13.2%. Upward pressure on wages and benefits was partially offset by significant savings resulting from negotiated changes in the composition of our workforce. These negotiated changes include the use of more lower-cost non-career workers and the introduction of a less expensive tier of our career workforce.

The table below shows the major components of our controllable expenses (dollars in billions):

Controllable expenses	FY15	FY14	Variance
Compensation and benefits	47.3	46.0	1.3
Retiree health benefits	3.1	3.0	0.1
Workers' compensation	1.5	1.4	0.1
Transportation	6.6	6.6	(0.0)
Other operating expenses	9.2	9.4	(0.2)
Total controllable expenses	**67.6**	**66.3**	**1.3**

The Great Recession and electronic diversion caused massive declines in mail volume, and, in particular, First-Class Mail volume. This resulted in excess capacity. Recognizing this, we began streamlining our operations in 2013 to reduce costs and strengthen our finances. We are continuing to align operations with the changing mail mix, and are making additional operational improvements. These improvements include reductions in the number of mail processing facilities, realignment of retail office hours to match demand, consolidations of delivery routes, voluntary delivery mode conversions, reductions in the number of delivery

facilities, and other efficiency improvements. These actions are expected to save approximately $5 billion in expenses over the next 5 years.

2. Inspectors General play a vital role in helping agencies to reduce costs and eliminate waste. The Postal Service Inspector General frequently makes cost-savings and waste reductions recommendations to Postal Service management, many of which are still outstanding. What specific recommendations has Postal Service management addressed in the past year? What specific recommendations does Postal Service management plan on addressing this year? How do you plan on working with the Inspector General to help reduce costs and eliminate waste at the Postal Service?

Answer:

We have a dedicated group that continually works with the Postal Service Inspector General (IG) on implementing recommendations to reduce waste and cut costs. In calendar year 2015, we closed 269 recommendations, of which 114 were non-significant and 155 were significant.

There are currently 331 open recommendations, and management intends to close 305 of them in calendar year 2016. The remaining 26 recommendations are planned to be closed in calendar year 2017 or later.

By way of example, some of the IG recommendations that the Postal Service addressed in 2014 and 2015 that resulted in significant cost savings are:

a. **Continuing to pursue short-term annual vehicle acquisitions, and to formalize the long-term strategy for replacing the delivery fleet that includes developing requirements, specifications, and green technology features for the Next Generation Delivery Vehicles. Management agreed and has implemented these recommendations. (2014)**

b. **Requiring six identified Tier 1 Network Distribution Centers to conduct an assessment of driver workload and staffing and make appropriate adjustments to work hours. Management agreed and required the Centers to perform this assessment. (2015)**

c. **Improving monitoring and oversight of vehicle maintenance facility repair operations to ensure work orders are reviewed and timely corrected. Management agreed, and guidance was issued to the vehicle maintenance facility managers describing operations procedures to follow within their daily process to ensure work orders are reviewed and closed in a timely manner. (2015)**

d. **A cost-benefit analysis of the New Jersey Network Distribution Center and Consolidation and Deconsolidation Facility to determine if rail is more cost-effective than highway contact routes. USPS had done a similar study in 2012, and determined that only one lane was service-responsive for rail, but determined that implementation of a full cost-benefit analysis was not feasible at this time. (2015)**

In addition, some of the IG recommendations that the Postal Service plans to implement this year which are anticipated to result in cost savings are:

a. **Increasing efficiency by eliminating 119,572 work hours to produce an annual cost avoidance of over $4.3 million by:**

   - **Properly adjusting staffing and scheduling within the parcel sorter machine and sack sorter machine operations (completed)**
   - **Installing a singulate, scan and induction unit on the parcel sorter machines (scheduled for July 2016)**
   - **Repairing the Power Industrial Vehicle Management System (underway)**
   - **Assigning specific dock doors through the Yard Management System to reduce unnecessary movement of mail for incoming and outgoing trips. (under review)**

b. **Identifying any improper damage claim payments already made and initiating recovery of those payments where practical. Management is in the process of reviewing claims to determine if there are circumstances that warrant payment recovery.**

c. **Developing a strategy to fully automate the rural timekeeping process. Management agreed and will work with the Controller to explore, evaluate and implement automated solutions that are cost-effective. USPS will continue to move forward with the Rural Work Hour Tracker application. The project is due to be completed in 2016.**

d. **Reviewing the Crestwood, IL customer surveys for consistency with other surveys and applicable policy and to take actions deemed appropriate. Management agreed to review the survey policy and update related guidance. A Management Instruction reflecting the updated policy is due to be released in 2016.**

3. In your testimony, you mention a proposed set of reforms that you are supporting along with postal labor unions and certain stakeholders in the mailing industry. Are any cost-savings initiatives, reforms specifically designed to reduce Postal Service operating costs, included in this package? What cost-savings provisions could be added to this agreement to help the Postal Service continue to align operating costs with declining mail volume?

   Answer:

   The Postal Service does not need legislation to pursue the cost savings initiatives that are part of our financial plan. That plan includes $5 billion in cost reductions, as discussed in the response to question number 1, above. The Postal Service has a continual focus on controlling costs, as demonstrated by the fact that as we have reduced our ongoing cost base by approximately $15 billion since 2006.

4. In your testimony you address the need for capital investments, including updating the delivery fleet. With the current financial situation of the Postal Service, apart from Congressional action, how will the Postal Service pay for the modernization of the delivery fleet and other capital investments while still meeting operational costs and making payments for employee and retiree benefits?

   Answer:

   The Postal Service is required to maintain a certain network in order to process and deliver the mail and to go to every address in the United States six days a week, regardless of volume. In order to continue meeting our statutory obligation to provide prompt, reliable and efficient postal services to the nation, our operations will require significant capital investment over the next few years.

   Capital investments are simply essential to ensuring the continued provision of postal services which meet the needs of the United States. The Postal Regulatory Commission (PRC) has noted that capital outlays must be increased in order for the Postal Service to continue to meet its service obligations. Indeed, the PRC approved the exigent surcharge, in part, to enhance the Postal Service's "ability to make the investments necessary to maintain universal service and continue the development of the Nation's needed level of postal services."

   In order to fulfill our fundamental mandate, the Postal Service must begin making significant capital expenditures for new delivery vehicles, facilities maintenance, and mail-sorting equipment. As the PRC has noted, the consequences of continued low levels of liquidity and capital investment impact 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 its universal service obligation. Similarly, if important pieces of machinery cannot be repaired and replaced, service performance and the Nation's ready access to postal services will be substantially impacted. The PRC notes how "limited capital investment...has hindered growth and productivity enhancements in key infrastructure assets required for primary postal operations."[1] Similarly, the General Accountability Office (GAO) has recognized the importance of increased capital spending to the Postal Service's achievement of its mission to provide prompt and reliable postal services.[2]

   Ultimately, the Board of Governors will decide how the Postal Service will fund the capital investments that are necessary to insure that we can fulfill our fundamental obligations. However, absent fundamental legislative reform, we face the prospect of having to continue to default on some of our obligations in order to make the critical capital investments that are required to ensure that postal services can be provided to the American public. In the past, the Board of Governors has decided to

[1] PRC, Financial Analysis of the United States Postal Service Financial Results and 10-K Statement: Fiscal Year 2014, p. 23 (2014)

[2] GAO, U.S. Postal Service: Actions Needed to Strengthen the Capital Investment Process, GAO-14-155, p. 2 (2014)

prioritize payments to our employees and our suppliers and to default on prefunding payments to the federal government.

From Senator John McCain

1. Last year, the Postal Service suspended the proposed consolidation of 82 postal processing and distribution centers. Can you please give the Committee an update on the consolidation plans this year?

   Answer:

   In May 2015, the Postal Service announced that it was deferring remaining consolidation activities until service performance is stabilized. The Postal Service prior to the deferment announcement consolidated 144 facilities during Phase 1 and 17 of the Phase 2 facilities. The deferment announcement impacted 65 of the 82 total consolidations planned for Phase 2. Those activities remain in a deferred status at this time, pending substantial service improvement. Prior to resumption of those activities, the Postal Service will provide advance notification to its stakeholders.

2. The October 2014 (NO-MA-15-001), the Inspector General Report cited concerns surrounding the analysis with Phase 2 of the Network Rationalization Initiative. Specifically, the IG report stated "management did not complete the service standard impacts worksheet in 91 of the 95 AMP feasibility studies. The other four feasibility studies did not include updated service standard changes in the service standard impacts worksheet."

   - Has the Postal Services completed the service standard worksheets and updated the analysis for the Phase 2 Consolidation?

     Answer:

     The Postal Service completed the service standard worksheets referenced by the IG report. These were completed in January 2015.

   - If yes, what was the conclusion pertaining the consolidation of the Tucson P&DC? Please provide a detailed explanation.

     Answer:

     The analysis performed compared the pre-AMP study standards against the full-up standards following the changes implemented in January 2015. For Tucson, the results are displayed in the table below:

	Tucson AZ Service Pair Changes					
	First-Class	Priority	Periodicals	Standard	Package Services	Total
Upgrade	6	237	554	668	44	1,509
Downgrade	225	218	625	118	82	1,268
Net Change	(219)	19	(71)	550	(38)	241

- Taking into account the current Service Standards, can the Postal Service confirm that there will not be delays in mail delivery due to the consolidation of the Tucson P&DC?

  <u>Answer:</u>

  Cancellation and outgoing mail volume activities had been consolidated as part of the Phase 1 activities. The destinating operations and a retail operation still remain at Tucson. The Postal Service endeavors to minimize the impact of consolidations on the service provided. We work in advance with the mailing industry to ensure they are aware of when, where, and how any change might impact them and we work with them to resolve issues. Locally, we develop detailed transition plans to shift operations on specific dates and ensure that staff and equipment will be in place to handle the move, and we try to minimize any impacts to our employees. Finally, we monitor the conditions at the sites through various reporting systems to track progress and provide assistance to avoid service problems.

3. Would moving to 5-day mail delivery still allow the Postal Service to provide universal service?

   <u>Answer:</u>

   Yes. The universal service obligation is ultimately defined by the United States Congress, and can essentially be summarized as those basic and fundamental services which Congress wants its Postal Service to provide to the people of the United States. While Congress currently requires that the Postal Service provide 6-day mail delivery through an annual appropriations rider, delivering mail 5 days a week is not in any other way inconsistent with the Postal Service's universal service obligations as set forth in title 39 of the United States Code. Therefore, if Congress eliminated the appropriations rider, and the Postal Service thereafter decided that delivering the mail 5 days a week was necessary, the Postal Service would still be compliant with its universal service obligations.

   How much savings would be realized if the Postal Service moved to 5-day mail delivery?

   <u>Answer:</u>

   The Postal Service prepared an exhaustive cost analysis on 5-day delivery in 2010 and presented it to the Postal Regulatory Commission for review in Docket No.

N2010-1. This report required nearly a year of detailed analysis. At that time, the Postal Service estimated that the elimination of Saturday delivery to street addresses would generate $3.1 billion in annual net savings. In early 2013, we decided to amend the 5-day scenario to include package delivery on Saturdays. We estimated this would reduce net savings to approximately $1.9 billion. The 2010 study has not been updated.

In the years since 2010, there have been significant changes in postal operations and cost structure. These include consolidations of mail processing operations, changes to retail service hours, consolidations of carrier routes and delivery units and the addition of new classes of employees created through new collective bargaining agreements. Each of these changes reduces our overall expenses. Offsetting those favorable trends, the continuing growth in parcel volume will require the preservation of Saturday package delivery to street addresses, even if other mail delivery were curtailed. Based on these changing market conditions, the savings will be less than previously projected.

# # #

Post-Hearing Questions for the Record
Submitted to Hon. Robert G. Taub
From Senator Ron Johnson

"Laying Out the Reality of the United States Postal Service"
January 21, 2016

1. Without legislation, the Postal Service is projected to return to operating at a net loss starting in the current fiscal year. How could this decrease in financial stability impact the PRC's decision making in creating a new rate system?

After December 20, 2016, the Commission must review the price cap system for regulating Market Dominant products to determine if the system is achieving its statutory objectives, and if it is not, to "make such modification or adopt such alternative system" to achieve the objectives. There are 9 objectives listed in the law that the modern rate regulation system must be designed to achieve as well as 14 factors that the Commission must take into account. While each of the nine objectives must be applied in conjunction with the others, directly relevant to this question is objective number five: "To assure adequate revenues, including retained earnings, to maintain financial stability." Reviewing this objective could include studying the impacts of the Postal Service's operating status and its financial ability to continue operations. Until this mandated proceeding is concluded, however, it would be premature for the Commission to predict what would be the outcome of the review.

2. In his testimony, Mr. Millstein suggests that the Postal Service may not have a true mail monopoly because of digital communications. The PRC is responsible for determining what products are considered "Market Dominant," meaning the Postal Service may set the price above what customers would otherwise pay in a competitive market.

   - Should First-Class Mail still be considered market dominant given the migration to digital alternatives? If it is not yet at this point, when would First-Class Mail no longer be considered market dominant?

The Commission may transfer products between the Market Dominant and Competitive categories of mail upon request of the Postal Service, users of the mails, or upon its own initiative. The Commission determines whether products are Market Dominant or Competitive in accordance with the following three statutory criteria detailed in Section 3642 of Title 39:

> "(1) The market-dominant category of products shall consist of each product in the sale of which the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products. The competitive category of products shall consist of all other products.
>
> (2) Exclusion of products covered by postal monopoly.—A product covered by the postal monopoly shall not be subject to transfer under this section from the market-dominant category of mail. For purposes of the preceding sentence, the term "product covered by

the postal monopoly" means any product the conveyance or transmission of which is reserved to the United States under section 1696 of title 18, subject to the same exception as set forth in the last sentence of section 409(e)(1).

(3) Additional considerations.---In making any decision under this section, due regard shall be given to ---

(A) the availability and nature of enterprises in the private sector engaged in the delivery of the product involved;

(B) the views of those who use the product involved on the appropriateness of the proposed action; and

(C) the likely impact of the proposed action on small business concerns (within the meaning of section 3641 (h))."

Any mailable matter (with minor exceptions) may be mailed using First-Class Mail. The vast majority of First-Class Mail is subject to the postal monopoly, *i.e.* Private Express Statutes, and thus is ineligible to transfer from Market Dominant to Competitive pursuant to statutory criteria number 2 as reprinted above.

For portions of First-Class Mail not subject to the postal monopoly, the answer hinges on market power as defined in the statute pursuant to statutory criteria number 1 as reprinted above ("raise prices significantly...without risk of losing a significant level of business to other firms offering similar products"). To date, the Commission has transferred the commercial portions of First Class Mail Parcels (Docket MC2011-22) from the Market Dominant to Competitive category under the statutory framework above. The Commission also has considered, but not approved, requests to transfer round-trip DVDs (MC2013-57/CP2013-57), and First-Class Mail "retail" Parcels and First-Class Mail Keys and Identification Devices (MC2015-7) from the Market Dominant to the Competitive category.

The Commission considers relevant to analyzing market power the sensitivity of a product's volume to price change using price elasticities. An elasticity greater than 1 indicates an elastic product, where a change in price causes a proportionally larger change in volume (and suggests a more competitive market). An elasticity of less than 1 indicates an inelastic product, where a change in price causes a proportionally smaller change in volume (and suggests a less competitive market). The price elasticity estimate for First-Class Mail is well below 1, which means the Postal Service would not lose significant volume when it increases prices, which suggests market power.

The relationship between First-Class Mail and electronic alternatives appears to be a disruptive one, but not one that is based on price. The Postal Service has faced previous disruptions to First-Class Mail, such as telephone and fax machines, that similarly appear to be a function of factors other than price. Because the statute sets forth a definition of market power that turns on a price relationship, rather than a substitution effect for reasons other than price, the Commission is unable to presently conclude, based on the information it currently possesses, that remaining portions of First-Class Mail should become Competitive because of electronic substitution. In Order No. 2306, the Commission found that the Postal Service failed to demonstrate that the availability of electronic alternatives to DVDs sent by

First-Class Mail prevented the Postal Service from exercising market power over that physical DVD mail. *See* Order No. 2306 at 3. (Docket MC2013-57/CP2013-57)

- Are there classes or products currently considered market dominant which could be considered competitive products based on digital alternatives?

As with First-Class Mail, the Commission has seen no evidence that classes and products currently considered Market Dominant should be considered Competitive based on digital alternatives. However, as noted above, at any time the Postal Service or users of the mails may request that the Commission consider transferring products between the Market Dominant and Competitive categories.

3. As someone with a long tenure working with the Postal Service and as someone who was involved in writing previous postal reform legislation, what immediate concerns do you believe Congress should consider when enacting postal reform legislation? In your opinion what areas of reform do you believe would be best handled by the Postal Service, the PRC, or the Postal Service IG, and not included as part of legislation?

The most immediate concern for the Postal Service is its continued financial viability. The current liquidity, which is current assets minus current liabilities, is insufficient to significantly improve operational efficiency in the form of capital investments. In FY 2015, the total net current assets were $7.9 billion and the net current liabilities were $48.9 billion which included $28.1 billion in missed payments to the Retiree Health Benefits Fund (RHBF) and $10.1 billion of the total $15 billion owed to the Federal Financing Bank.

These low liquidity levels have impeded the Postal Service's ability to make sufficient capital investments in infrastructure and hinder the growth and productivity enhancements in key assets required for primary postal operations. The Postal Service has an aging vehicle fleet, increasing the need and consequently the cost for maintenance and repair. It also needs to invest in additional sorting and handling equipment to fully capitalize on business opportunities in the growing package delivery markets.

The Postal Service has not been able to reinvest in its business through capital expenditures because it has no working capital. If the low liquidity levels continue, the Postal Service may have to delay or cancel investments in technology, facilities, and transportation equipment, which could result in loss of business and increased costs.

This need for capital investment should be considered when enacting postal reform legislation.

The low liquidity is the result of years of net losses. The Postal Service has a cumulative net loss since FY 2007 of $57.8 billion. During that same time period, the Postal Service has accrued $49 billion in RHBF payments. The Postal Service has paid $20.8 billion into the RHBF which had a balance of $50.3 billion at the end of FY 2015. This was 48 percent of the estimated accumulated health benefit retirement obligation of $105.2 billion. Although the payment into the fund is to be recalculated at the end of FY 2016, **postal reform legislation should take into consideration how much continued prefunding is necessary and what amount the Postal Service can be reasonably expected to pay each year towards that goal. As part of this consideration, fully integrating healthcare benefits and Medicare for current and future retirees should be explored.**

The Postal Service also incurs a large workers' compensation expense. Since FY 2007 it has accumulated $10 billion in non-cash adjustments to fund future workers' compensation obligations. This is in addition to the workers' compensation expense it incurs for Postal Service employees currently receiving workers' compensation. That expense, which was $1.76 billion in FY 2015, has increased 66 percent over the last two years.

Payment into the RHBF and the non-cash adjustments to workers' compensation are expenses the Postal Service cannot control directly. They are often referred to as Non-Operating Expenses (NOE). However, even without these expenses the Postal Service would still be facing financial pressures. A quick review of the Postal Service's revenue and cost data illustrates the extent of the problem. From FY 2008 to FY 2013, Postal Service revenue per piece has been sufficient to cover cost per piece only once, in FY 2013. In FY 2014 and FY 2015 the exigent surcharge provided enough additional unit revenue to cover cost per piece, however, that surcharge is due to expire this April. In this context, the Postal Service must continue to fully utilize its pricing flexibility under current law, and by doing so it may increase revenue per piece. The Postal Service has been taking steps to reduce costs and some of those efforts have been paying off. Finally, while offering no immediate relief, the Commission will be performing a detailed review of the current rate and classification regulations in FY 2017.

Another issue identified by mailers is concern about declining service performance. However, this issue does not necessarily require legislation itself. The Commission reviews service performance each year during the Annual Compliance Determination and makes recommendations for improvement. The Postal Service has focused attention and resources on increasing service performance. There are currently two ongoing dockets before the Commission that focus on service performance (Dockets PI 2016-1 and PI 2015-1)

Finally, in considering postal reform legislation, Congress should consider the role of the Postal Service in today's society and more carefully and clearly define the Universal Service Obligation (USO). In its 2008 *Report on Universal Postal Service and the Postal Monopoly* the Commission recommended "that Congress consider and balance all the features of universal service as part of any review of changes necessary to preserve a financially viable Postal Service." This attention to more closely defining what the Postal Service is *required to provide under law* is essential prior to determining the appropriate costs required to support those obligations. The Commission currently estimates the cost of providing universal service in the U.S. to be more than $4 billion annually. Aside from the financial pressure of generating sufficient funds to remain solvent, the Postal Service must also worry about how to fund this $4 billion in universal service obligations. This obligation is in addition to those monies required to keep the mail moving, undertake capital investments, and pay other multibillion dollar obligations such as retiree costs.

In balancing all of these interests when assessing the current state of the Postal Service, policymakers should look at the fundamental issue of the USO and decide exactly what we as a Nation need from the Postal Service and – most importantly – how those expectations are to be funded. In the absence of a clear definition, particularly given the Postal Service's current financial challenges, each of us may have a differing view of what the Postal Service must provide in its services and operations to fulfill the USO, and since there is no specific agreed upon definition, all of our views will have different price tags for the

Postal Service to fulfill. Given its severe financial problems, the Postal Service needs clarity on this fundamental question.

Depending on how postal reform is eventually structured, there would be sufficient activities required for the Postal Service, its Office of Inspector General, and the Commission to remain focused on within existing law.

GAO
Accountability * Integrity * Reliability
United States Government Accountability Office
Washington, DC 20548

March 4, 2016

The Honorable Ron Johnson
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate

Subject: *Responses to Questions for the Record;* Committee on Homeland Security and Governmental Affairs, January 21, 2016, Hearing on *"Laying out the Reality of the United States Postal Service."*

Dear Mr. Chairman:

This letter responds to your February 8, 2016, request that we address questions submitted for the record related to the January 21, 2016, hearing entitled *Laying out the Reality of the United States Postal Service.* Our answers to these questions are enclosed and are based on our previous work, updates to that work, and our knowledge of the areas addressed. If you have any questions or would like to discuss our responses, please contact Lori Rectanus at rectanusl@gao.gov or call (202) 512-2834.

Sincerely yours,

Lori Rectanus

Lori Rectanus,
Director
Physical Infrastructure Issues

Enclosure

Post-Hearing Questions for the Record
Submitted to Lori Rectanus
From Senator Ron Johnson

"Laying Out the Reality of the United States Postal Service"
January 21, 2016

1. What legislative changes can Congress consider to enable the Postal Service to better align its revenues with costs, particularly in regard to compensation and benefits?

We have previously recommended that a comprehensive package of actions is needed to better enable the U.S. Postal Service (USPS) to align its revenues with costs. USPS continues to incur unsustainable deficits and has reached its $15 billion borrowing limit. In considering legislative changes to enable USPS to better align its revenues and costs, there are a variety of areas Congress could consider:

- *Levels of compensation and benefits.* One of the most difficult challenges USPS faces in aligning revenues with costs is managing workforce costs, which comprise close to 80 percent of USPS's expenses. USPS is legally required to have a policy of maintaining compensation and benefits comparable to the private sector.[1] As we noted in our testimony, many private sector companies (such as automobile companies, airlines, mail preparation and printing companies, and major newspapers) have taken far-reaching measures to cut costs (such as reducing or stabilizing workforce, salaries, and benefits) when the demand of their central product and services declined.
    - If Congress wanted to align USPS's revenues and costs by controlling the growth of compensation and benefits costs, it could consider amending the comparability standard from USPS's authorizing legislation. If Congress did not want to change this statutory provision, however, it might consider enhancing the role of USPS's financial position in arbitration. Currently, about 91 percent of USPS's career employees are covered by collective bargaining agreements. These agreements include provisions providing for general wage increases plus cost of living adjustments. In particular, the application of the comparability standard to postal employees—that is, whether a compensation premium exists between postal employees and private-sector employees who do comparable work—has been a source of disagreement between management and postal unions in negotiations and binding arbitration. Currently, however, if the collective bargaining process reaches binding arbitration, there is no statutory requirement for USPS's financial condition to be considered. The time has come to reexamine this structure for collective bargaining—which was developed over 40 years ago. Since that time, the competitive environment has changed dramatically and rising personnel costs are contributing to large continuing losses. Considering USPS's poor and deteriorating financial condition and the competitive environment, we continue to believe—as we reported in 2010[2]—that Congress should consider revising the statutory framework for collective bargaining to ensure that USPS's financial condition be considered in binding arbitration.

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[1] 39 U.S.C. § 1003.

[2] GAO, *U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability,* GAO-10-455 (Washington, D.C.: Apr. 12, 2010).

- *Frequency of mail delivery service.* The current legislative requirement that USPS deliver mail 6 days a week presents significant financial and operational challenges in light of the declining mail volume and demand. If Congress wanted to help USPS align costs with revenues, it could consider removing the requirement for 6-day delivery, as part of a range of options, to help address USPS's financial viability. The extent to which USPS will be able to achieve cost savings, however, depends on how well and how quickly USPS could realign its workforce and delivery operations. As we reported in 2011,[3] reducing the frequency of delivery involves several factors that need to be considered. While reducing delivery frequency may improve USPS's financial condition by reducing costs, increasing efficiency, and better aligning its delivery operations with reduced mail volumes, it would also reduce service; put some mail volumes and revenues at risk; eliminate USPS jobs; and, by itself, be insufficient to solve USPS's financial challenges. USPS's role in providing universal postal services can affect all American households and businesses, so fundamental changes involve key public policy decisions for Congress.

- *Opportunities to generate revenue.* We reported in 2013 that according to USPS officials, USPS lacked the statutory authority to pursue additional revenue generating opportunities in three areas—nonpostal services; shipments of beer, wine, and spirits; and cooperation with state and local governments.[4] USPS officials interviewed for our review told us that possible new governmental services could include financial and identity authentication services. According to USPS, opportunities in these three areas could provide significant value to customers, improve USPS's financial position, and take full advantage of its resources and competencies. USPS emphasized, however, that additional innovations in these areas will not be sufficient to solve USPS's dire financial situation. Results would also be constrained by the economic climate and by competition with existing providers of nonpostal services and private delivery companies that ship beer, wine, and spirits.

- *Price cap for market-dominant products.* As we have previously reported,[5] USPS's rate-setting ability is limited by the Postal Accountability and Enhancement Act (PAEA), which generally limited rate increases by an inflation-based price cap on USPS's market-dominant products, such as First-Class Mail and Standard Mail, which produce the vast majority of its revenue. If Congress wanted to give USPS greater flexibility to generate revenue in this regard, it could consider changing or removing the price cap for market-dominant products. While this could address short-term needs for revenue, it may remove a key incentive for USPS to minimize its costs, as well as increase the risk of diverting even more mail volume and revenue to electronic alternatives. Looking forward, PRC is required by law to review the price cap system for regulating market-dominant products after December 20, 2016, to determine if the system is achieving its statutory objectives and, if it is not, to modify it or adopt and alternative system to achieve the objectives.

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[3]GAO, *U.S. Postal Service: Ending Saturday Delivery Would Reduce Costs, but Comprehensive Restructuring Is Also Needed*, GAO-11-270 (Washington, D.C.: March 29, 2011).

[4]GAO, *U.S. Postal Service: Overview of Initiatives to Increase Revenue and Introduce Nonpostal Services and Experimental Postal Products*, GAO-13-216 (Washington, D.C.: Jan. 15, 2013).

[5]GAO-10-455.

2. What are some actions USPS can take within its existing legislative authority to improve its financial situation?

We have reported that USPS's actions alone under its existing authority will be insufficient to achieve sustainable financial viability and that comprehensive legislation is urgently needed. Nonetheless, USPS has identified initiatives and strategies it can take within its existing legislative authority to improve its financial condition including:

- *Workforce savings.* USPS has the ability to seek opportunities to further increase career employee attrition in conjunction with action to increase efficiency, as well as to seek increased use of non-career employees. In recent years, when USPS took actions to cut costs, including downsizing its workforce and restructuring its processing and retail networks, USPS has offered targeted separation incentives to employees who agreed to retire or resign within a specified time period. According to USPS, these separation incentives encouraged attrition and helped reduce its career complement to reduce costs. In addition, through its collective bargaining agreements, USPS increased its level of non-career employees—who have lower wages and benefits than career employees. USPS can continue to seek to expand options to increase the use of non-career employees, as it did recently in reaching a new collective bargaining agreement with the National Rural Letter Carriers' Association.

- *Network right-sizing.* Given the decline in mail volume, which is expected to continue for the foreseeable future, USPS needs flexibility to right-size its networks while maintaining high-quality delivery service. When we added USPS's financial condition to our high-risk list in 2009, we testified that Congress and stakeholders need to recognize that major restructuring is urgently needed for USPS to be financially viable. Since then, USPS has taken action within its legislative authority to right-size its networks, such as consolidating 141 mail processing facilities in 2012 and 2013, consolidating an additional 36 mail processing facilities in 2015,[6] and reducing the retail hours of many post offices. USPS, however, has faced resistance from a wide range of stakeholders concerned about mail delivery service, jobs, and affected communities, among other things. Moving forward, as USPS expects a significant decline in mail volume to continue for the foreseeable future, it will need to further right-size its processing, transportation, and retail networks over time to avoid building up costly excess capacity.[7]

- *Delivery conversions from door to less costly modes.* USPS has taken some actions to enhance delivery efficiency, such as specifying that new addresses generally must receive delivery service using less costly delivery modes of delivery[8], (e.g., centralized delivery) and conducting communication and outreach efforts to encourage customers to voluntarily convert their delivery modes. However, voluntary conversion efforts to date have achieved very modest results. For example, in fiscal year 2015, USPS reported converting 122,025 delivery points—86,268 residential and 35,757 business—out of

[6]Of the 36 mail-processing facilities consolidated in fiscal year 2015, USPS fully consolidated 15 of these facilities and partially consolidated 21 facilities.

[7]USPS's actions will continue to be limited by legal constraints in some respects. For example, USPS is not allowed to close a small post office solely for operating at a deficit. 39 U.S.C. § 101(b).

[8] The primary modes of mail delivery are defined by the type and location of mail receptacles and include door delivery to door slots and receptacles near the door, curbline delivery to mailboxes at the curb, and centralized delivery to cluster box units, Neighborhood Delivery and Collection Box Units, and other centrally located mail receptacles such as apartment house mailboxes.

more than 135.5 million delivery points on delivery routes, which translates into a conversion rate of about 0.1 percent.[9] As we reported in 2014,[10] while USPS has the flexibility to revise its regulations and require changes from more costly to less costly modes of delivery, it has not done so for a variety of reasons—such as customer resistance, concerns about personal safety and mail security, and operational reasons—and there is some evidence that such a change would face resistance from customers, employees, postal labor organizations, and mailing-industry stakeholders. Additionally, while there would be savings, the level of savings that would be realized is unclear. Specifically, USPS said mandating conversion of about one-third of door delivery to other less costly modes, such as delivery to a curbside or centralized mailbox, had the potential to generate $2 billion in annual savings, but we raised questions about the validity of that estimate.[11]

- *Negotiated service agreements, sales, and promotions.* We reported in 2013 that USPS developed numerous negotiated service agreements (NSA), sales, and promotions since the enactment of PAEA in 2006, which represented a small but growing portion of USPS total revenue.[12] NSAs, sales, and promotions are generally designed to encourage additional mail volume and revenue through temporary discounts on specific mail products. For example, USPS has offered promotions to incentivize some mailers to invest in technology that may increase the value of some mail over the long-term. Our 2013 report added that opportunities for increasing revenue from NSAs, sales, and promotions are primarily with competitive NSAs,[13] though challenges may limit revenue, and it will likely not offset declines from other products. Continued growth in e-commerce is creating opportunities to generate additional revenue through competitive NSAs. Opportunities to generate additional revenue through market dominant NSAs have been limited by the decline in demand for those products. Also, it is difficult for USPS to determine whether any volume and revenue increases directly result from market dominant NSAs because it is difficult to accurately estimate mailers' future mail volume. In addition, USPS and some mailers we spoke with noted that the process for developing both market-dominant and competitive NSAs can be burdensome, hindering the development of new agreements.

3. Are postal pension benefits federally guaranteed?

Pensions for retirees from USPS, like pensions for retirees from other federal entities, are not insured by the Pension Benefit Guaranty Corporation. Federal pensions under both the Civil Service Retirement System (CSRS) and the defined benefit portion of the Federal Employees Retirement System (FERS) are funded through the Civil Service Retirement and Disability Fund (CSRDF), which is a combined fund from which benefits for both Postal and non-Postal CSRS and FERS annuitants are paid. Contributions to the CSRDF are made by

[9]USPS also reported 19.4 million P.O. Box delivery points in fiscal year 2015.

[10]GAO, *U.S. Postal Service: Delivery Mode Conversions Could Yield Large Savings, but More Current Data Are Needed*, GAO-14-444 (Washington, D.C.: May 12, 2014).

[11]GAO-14-444. We noted that USPS's $2 billion annual savings estimate had limitations, in part because it relied on data from a 1994 USPS study.

[12]GAO, *U.S. Postal Service: Opportunities to Increase Revenue Exist with Competitive Products; Reviewing Long-Term Results Could Better Inform Promotions Decisions,* GAO-13-578 (Washington, D.C.: June 25, 2013).

[13]PAEA established two categories of products: "market dominant," where USPS has a monopoly, and "competitive," which includes all other products, such as shipping services

the Postal Service, by other federal agencies, and by the Treasury in accordance with statutory funding provisions and actuarial calculations performed by the Office of Personnel Management (OPM). While the CSRDF is one fund covering CSRS and FERS and Postal and non-Postal workers, annuitants, and beneficiaries, plan assets and liabilities for CSRS and FERS are accounted for separately, and for each of these plan assets and liabilities for the Postal Service are accounted for separately as well. According to a 2011 OPM Inspector General report[14] that addressed shifting costs from USPS ratepayers to taxpayers, the Postal Reorganization Act of 1970 established that USPS's obligations are not guaranteed by the federal government except to the extent that USPS requests that the Secretary of the Treasury pledge the full faith and credit of the United States and the Secretary decides that it is in the public interest to do so. If USPS is not able to provide sufficient funding to cover its pension liabilities and a postal retiree brings suit against USPS or the federal government for these benefits, it is not clear, however, whether or not a court would determine that these liabilities are backed by the full faith and credit of the U.S. government. If Congress would like to provide explicit clarity in this regard, it may wish to do so through legislation.

4. Are postal health benefits for current and future retirees federally guaranteed?

The Postal Service's share of health benefit premiums for its retirees and beneficiaries, unlike the federal government's share of health benefit premiums for retirees and beneficiaries from other federal entities, will be paid from the OPM-managed Postal Service Retiree Health Benefits Fund (PSHRBF) starting in fiscal year 2017. USPS is required to make annual prefunding payments to the PSRHBF, although it has failed to make its statutorily required payments for the past five years. Under current law, if the PSHRBF were to be depleted, USPS would be responsible for continuing the payments of its share of health benefit premiums for its retirees and beneficiaries. Similar to the issues regarding pensions, the 2011 OPM Inspector General report[15] that addressed shifting costs from USPS ratepayers to taxpayers, reported that the Postal Reorganization Act of 1970 established that USPS's obligations are not guaranteed by the federal government except to the extent that USPS requests that the Secretary of the Treasury pledge the full faith and credit of the United States and the Secretary decides that it is in the public interest to do so. As with USPS pensions, if USPS is not able to provide sufficient funding to cover its retiree health benefit liabilities and a postal retiree brought suit against USPS or the federal government, it is not clear whether or not a court would determine that these liabilities are backed by the full faith and credit of the U.S. government. If Congress would like to provide explicit clarity in this regard, it may wish to do so through legislation. In addition, the Postal Service has proposed that a portion of the existing assets in the PSRHBF be invested in a manner designed to replicate the performance of the longest-term "lifecycle" fund in the federal Thrift Savings Plan (TSP). Lifecycle funds use professionally determined investment mixes meant to meet investment objectives based on various time horizons. These funds, however, introduce an element of risk through exposure to private-sector stocks and bonds. For example, as of January 2016, the longest-term TSP lifecycle fund had an asset allocation of 84.5 percent in the stock market. Since such investments may increase the risk of the emergence of an unfunded liability that the Postal Service is unable to fund, Congress may want to consider this proposal in conjunction with the question of whether these benefits should be federally guaranteed.

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[14]OPM Office of Inspector General, *A Study of the Risks and Consequences of the USPS OIG's Proposals to Change USPS's Funding of Retiree Benefits* (Washington, D.C.: February 28, 2011).

[15]OPM Office of Inspector General, *A Study of the Risks and Consequences of the USPS OIG's Proposals to Change USPS's Funding of Retiree Benefits* (Washington, D.C.: February 28, 2011).

5. In your submitted testimony, you state that if legislation requires Postal Service retirees to participate in Medicare, Congress should consider the impact on the federal budget and financial condition of Medicare.

- **What are some potential implications for requiring postal retirees to participate in Medicare when they become eligible?**

With regard to the implications for Postal retirees, the effects will depend on how the new plan is designed. If the services covered and the level of coverage (including prescription drug coverage) is the same, most current retirees are not likely to be significantly affected by requiring participation in Medicare. In 2014, USPS testified that, 90 percent of postal retirees were enrolled in Medicare coverage of inpatient services (Part A) and 76 percent were enrolled in Medicare coverage of outpatient services (Part B). For retirees enrolled in Medicare and the Federal Employees Health Benefits Program (FEHBP), including postal retirees, Medicare is the primary insurer, and the FEHBP plans generally cover any expenses that Medicare does not cover. If FEHBP plans are redesigned to specifically cover services supplementing Medicare coverage, then Postal retirees enrolled in Medicare may be able to pay lower premiums for this supplemental coverage than their current FEHBP.

For those Postal retirees who are eligible for but not enrolled in Medicare Part B, they would be subject to additional premium costs and may need to change providers if required to enroll in Medicare. In particular, beneficiaries must pay a premium for Part B coverage, which generally was $104.90 per month in 2016.[16] In addition, those retirees who were eligible for Part B coverage but chose not to enroll could face a penalty for late enrollment, unless such penalty was waived.[17] Further, to receive full coverage of care, these Medicare-eligible postal retirees who are not currently enrolled in Medicare Part B may need to select new providers if their current providers are not participating in Medicare.

If a new Postal health plan not only required Medicare participation but also included changes in the services covered or the level of coverage provided, Postal retirees could also face changes in benefits, cost sharing, and FEHB premiums. GAO has not reviewed the details of any proposed plan changes and therefore cannot comment on the extent to which such differences are likely to occur.

- **What are some financial considerations related to a Medicare integration plan for postal annuitants compared to having the federal government pay for these obligations, if USPS is unable to do so?**

One way to address this question would be to compare financial considerations under two different potential courses of action that could be considered: (1) Congress provides funding to eliminate the Postal Service's existing unfunded liability for retiree health benefits, with no changes to the existing benefit provisions (so without Medicare integration), versus (2) Congress adopts the Postal Service's proposal to require integration of its retiree medical benefits with Medicare. Note that Option (1) would not change the cost structure of the Postal Service's retiree health obligations; rather, it would provide federal funding to help pay for that cost structure. In contrast, Option (2) would reduce the cost structure of the

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[16]For most people, Medicare Part A is premium-free unless the beneficiary or spouse has worked fewer than 40 quarters in his or her lifetime.

[17]Medicare beneficiaries generally would be billed an extra 10 percent of their monthly premium for each full 12-month period that they were eligible for Part B coverage but did not sign up for it.

Postal Service's retiree health obligations, mainly through greater integration with Medicare. GAO does not take a position on either of these potential actions, which are policy issues for Congress. Also, these two options are not the only policy options Congress might consider to address the Postal Service's unfunded liability for retiree health benefits.

Option (1), providing funding to eliminate the existing unfunded liability:

As of September 30, 2015, the Postal Service's unfunded liability for retiree health benefits was $55 billion, based on an actuarial liability of $105 billion and assets in PSRHBF of $50 billion. Therefore, $55 billion would be the most recent estimate of the cost to taxpayers. Note, however, that the cost to taxpayers of this course of action could increase the longer such action is delayed, because the size of the unfunded liability could grow with the Postal Service's continued failure to make prefunding payments. In addition, the size of the unfunded liability would likely change if it were re-measured using assumptions consistent with those used for measuring the Postal Service's actuarial liabilities for pension benefits and if assumptions specific to the Postal Service population were adopted; however, whether this would result in a material change in the measurement of the unfunded liability is unknown, as it would depend on the full set of assumptions used by OPM, in consultation with recommendations made by their independent Board of Actuaries.

One risk associated with this course of action is the possibility of a new large and growing unfunded liability developing in the future. Even if Congress were to direct the Treasury to transfer funds to eliminate the existing unfunded liability, the Postal Service would still need to make ongoing, actuarially determined prefunding payments to keep up with the future costs attributed to ongoing employee service (the "normal cost") and to amortize the impacts of future demographic and economic experience, conditions, and outlook differing from what was assumed. Accordingly, Congress could consider including certain additional terms or conditions to any funding by Treasury of the existing unfunded liability, such as:

- stricter controls going forward for the Postal Service to make required actuarially determined prefunding payments;
- maintaining the current-law funding target of 100 percent of the liability;
- maintaining the current safe asset allocation for the PSRHBF to avoid the risk of a new unfunded liability developing because of investment losses, including the risk that such investment losses could occur at the same time that economic conditions negatively impact the Postal Service's revenue and its ability to make up such investment losses.

Option (2), integration with Medicare:

We use "integration with Medicare" as a shorthand expression to refer to the Postal Service's proposal to establish its own plans within FEHBP, require postal annuitants to enroll in Medicare Parts A and B, and establish an Employer Group Waiver Plan (EGWP) for prescription drugs. This proposal would have two impacts on the size of the Postal Service's retiree health obligations: it would reduce the size of the existing unfunded liability, and it would reduce the size of the normal cost in every future year. As such, whereas Option (1) (funding the existing unfunded liability) would have a one-time impact on the size of the Postal Service's liability, Option (2) (Medicare integration) would have both a one-time and an ongoing annual impact, making the overall ultimate cost to taxpayers more difficult to estimate. The cost to taxpayers and Medicare ratepayers (in some combination) could be estimated as the reduction in unfunded liability, plus the reduction in the present value of future normal cost, less estimated savings from manufacturers' rebates from the EGWP prescription drug program. However, incorporating Medicare integration into OPM's current valuation model of Postal retiree healthcare liabilities would be a complex undertaking. In addition, since Medicare integration would be a cost change affecting future hires, not just current employees and retirees, an estimate of the full cost impact would require, among other things, assumptions as to the future size of the Postal Service's workforce. Any such estimate would be subject to significant uncertainty. However, while a precise estimate of the full cost impact of Option (2) would be difficult, a more feasible goal could be to determine which of Options (1) and (2) would have the bigger cost impact, on an approximate basis. Since OPM annually calculates the Postal Service's unfunded liability and normal cost for retiree health benefits, and has the requisite expertise, databases, and software, OPM may be best positioned to perform the modeling to make such as assessment.

- **The Postal Service and its employees have contributed $29 billion to Medicare since 1984. What data are available on the total amount that Medicare has paid in benefits for Postal Service annuitants?**

Answering this question would involve analyzing data that is over three decades old, and may still require making significant assumptions to fill in gaps in the data. In particular, CMS data does not indicate whether or not Medicare beneficiaries are Postal annuitants. Thus, identifying how much Medicare has paid for Postal Service annuitants would likely require linking with other data from OPM or the Postal Service identifying postal annuitants, and the feasibility and reliability of this linkage would need to be further explored. If such linkage and calculation is not feasible, OPM data might be an alternative starting point. OPM has historical claims data for participants in FEHBP, including any portion of claims costs paid by Medicare. However, this claims data does not distinguish between Postal and non-Postal participants. OPM may be able to obtain some data on Postal versus non-Postal claims rates from one of the large carriers in the FEHBP, such as Blue Cross Blue Shield, but such data would be for just a portion of the FEHBP population and likely for a limited number of years, so that OPM would need to make significant assumptions to extrapolate from this data for the full range of years and the full range of FEHBP carriers. Alternatively, OPM may be able to make an estimate using average (i.e., not just for the Postal annuitant population) Medicare benefit amounts, but with appropriate caveats. In either case, an estimate of the total amount paid by Medicare for Postal Service annuitants' claims would come with significant uncertainty.

In addition, please note that we have not evaluated accuracy of the Postal Service's $29 billion estimate of the amount that it and its employees have contributed to Medicare since 1984. OPM has data that may allow them to make a rough assessment of this estimate.

Post-Hearing Questions for the Record
Submitted to Hon. David C. Williams
From Senator Ron Johnson

"Laying Out the Reality of the United States Postal Service"

January 21, 2016

1. Your office makes frequent recommendations to Postal Service Management on opportunities to cut costs and reduce waste or fraud. What cost savings or waste and fraud reduction recommendations have your office made to the Postal Service that are still outstanding? How much money could the Postal Service save annually by implementing these recommendations?

   Response

   As of February 29, 2016, there were 41 outstanding recommendations that we have made to the Postal Service. The annual savings for these 41 recommendations is $2.7 billion.

See the attached document for details regarding these 41 recommendations

Post-Hearing Questions for the Record
Submitted to the Honorable David Williams
From Senator John McCain

"Laying Out the Reality of the United States Postal Service"

January 21, 2016

1. In your October 2014 Report (NO-MA-15-001), your office cited the Postal Service for failing to conduct a revised analysis of delivery impact at the Postal Processing and Distribution Centers. Can you please tell us what follow up USPS has provided to address the concerns raised in the October 2014 report? What can Postal Service do to communicate with the public that a complete and thorough analysis of the Phase 2 Consolidation has been conducted?

Response
In *Management Alert – Lack of Service Standard Change Information in Area Mail Processing Feasibility Studies* (Report Number NO-MA-15-001, dated October 6, 2014), we reported the Postal Service had not analyzed the impact or informed stakeholders of planned service standard changes related to Phase 2 Area Mail Processing (AMP) consolidations. We recommended the vice president, Network Operations, complete the service standard impacts worksheet in the AMP feasibility studies for Phase 2 consolidations, and evaluate the impacts that revised standards will have on each affected community before implementing the consolidations.

Postal Service management responded that ordinarily such information is included in the individual AMP feasibility studies. However, because service standards were in the process of being changed, estimates of the impacts of planned service standard changes could not be determined at the time the feasibility studies were completed. Therefore, management included language in each feasibility study stating estimates of the impacts would be publicly available in the future. Management stated that on January 5, 2015, the service standards would be revised and agreed to compute the service standard impacts using the those standards as the starting point prior to beginning the Phase 2 AMP consolidations on January 10, 2015.

In January 2015, the Postal Service publically posted a summary of service standard impacts for all Phase 2 AMP consolidations (http://about.usps.com/news/service-alerts/NRC/2015/NR-Service-Standard-Impacts-2015-0115.pdf) and the individual service standard impact worksheets for each Phase 2 feasibility study (http://about.usps.com/streamlining-operations/area-mail-processing.htm). Based on those actions, we closed the recommendation on March 11, 2015.

Rec Number	Report Number	Report Title	Recommendation	Date Recommended	Annual Monetary Impact
1	NL-AR-10-009	*Management of Mail Transport Equipment - National Analysis*	Further develop, update and reinforce national Mail Transport Equipment policies and procedures contained in the Postal Operations Manual and the Postal Handbook PO-502, Container Methods, which address Mail Transport Equipment inventory and accountability controls, including validating customer Mail Transport Equipment needs as well as tracking and reconciling Mail Transport Equipment loaned to mailers and other external customers.	9/29/2010	$ 14,529,044
3	FF-AR-11-015	*Business Mail Acceptance Centralization Process*	Manage business mail entry workhour usage to achieve 93 percent efficiency and develop tools to monitor performance.	9/23/2011	$ 57,994,824
1	NO-AR-12-005	*Efficiency Review of the Cleveland, OH Processing and Distribution Center Audit*	Reduce workhours by 352,388 to produce a cost avoidance of $22.7 million over the following 2 years, or through consolidations, increase mail volume by 377 million, or a combination of workhours reductions and mail volume increases that will achieve the median productivity level of 1,069 pieces per hour.	6/5/2012	$ 11,373,873
1	NO-AR-12-007	*Efficiency Review of the Los Angeles Network Distribution Center*	Reduce workhours by 200,019 to produce an annual cost avoidance of about $6.5 million, or increase volume by 39 million pieces, or combine workhour reductions and mail volume increases that will achieve the above-average median productivity level of 117 pieces per hour.	8/3/2012	$ 6,518,440
1	NL-AR-12-010	*First-Class Mail on Air Transportation — Assignment by Weight*	Modify the assignment process to assign First-Class Mail to air transportation considering weight where feasible, with heavier mail being assigned to FedEx and lighter mail being assigned to the United Parcel Service and commercial passenger air carriers, while considering contractor service performance and future air transportation contract requirements.	9/28/2012	$ 10,722,824
1	SM-MA-13-004	*Hybrid Mail Efforts*	Develop a business strategy to increase hybrid mail revenue for small- and medium-sized businesses if profitable and feasible (including transactional mail) and overcome privacy concerns.	2/12/2013	$ 3,936,626
2	NO-MA-13-005	*Supervisor Workhours and Span of Control*	Fill vacant supervisor positions up to the appropriate span of control level and reduce supervisor replacement workhours accordingly.	4/4/2013	$ 11,955,046
1	HR-MA-13-004	*Revenue Generation Patents*	Work closely with subject matter experts to review patents with revenue generation potential and draft claims as appropriate.	9/26/2013	$ 183,382,092
2	MS-AR-13-012	*Electronic Parcel Payment Systems Internal Control Requirements*	Develop interim controls, such as establishing roles and responsibilities in the identification of shortpaid mailpieces, providing enhanced scanners to clerks and carriers, judgmentally sampling PC Postage parcels at sorting facilities and delivery units, and increasing the accuracy of scales on mail processing equipment, to improve detection of shortpaid parcels until automated controls are in place.	9/27/2013	$ 32,802,447
4	IT-AR-14-002	*Controls Over the Premium Forwarding Service Point of Service Retail System*	Incorporate into the Point-of-Service Retail System or its successor the capability to tie all Premium Forwarding Service extensions and receipted refunds to the original sales transaction to ensure retail associates only disburse refunds for actual customer purchases, retail associates refund according to the original payment method, and the system eliminates risks for unintentional and intentional keying input errors.	12/2/2013	$ 164,888
1	DR-AR-14-001	*Rural Delivery Operations - Mail Count and Timekeeping Processes*	Develop a strategy to fully automated the rural timekeeping process	12/13/2013	$ 9,382,698
3	NO-AR-14-001	*Internal Controls and Transportation Associated With the Springfield, MA Mail Transport Equipment Service Center*	Ensure area and plant management monitor compliance with the established policies and procedures for mail transport equipment return handling procedures at processing facilities, for dispatch and proper use of over-the-road containers and proper storage, handling, and maintenance of shoring straps.	12/20/2013	$ 952,435
4	DR-AR-14-003	*Address Management System Information*	Establish and sustain a follow-up process to correct address errors using the Address Quality Improvement Process reports and complete necessary street reviews.	2/28/2014	$ 7,558,475
1	NO-AR-14-008	*Highway Contract Routes – Miles per Gallon Assessment*	Ensure that the best value determination process in Highway Contract Route negotiations includes use of industry miles per gallon averages for the proposed equipment or properly justifies and documents why lower than industry average MPG amounts are used.	5/27/2014	$ 48,315,472

Rec Number	Report Number	Report Title	Recommendation	Date Recommended	Annual Monetary Impact
3	NO-AR-14-008	*Highway Contract Routes – Miles per Gallon Assessment*	Develop a comprehensive and cost-effective strategy, in coordination with highway contract route suppliers, for using advanced fuel efficient technology in vehicles and equipment and periodically review that strategy, as necessary, to account for continuous, evolving changes in technology.	5/27/2014	$ 46,743,558
1	HR-AR-14-002	*Recycling Opportunities in the San Francisco District*	Implement backhauling procedures at all designated hubs in the San Francisco District.	6/13/2014	$ 712,979
2	HR-AR-14-002	*Recycling Opportunities in the San Francisco District*	Establish procedures to require the environmental compliance/sustainability specialist to provide additional recycling guidance to the district manager and personnel involved with recycling.	6/13/2014	$ 542,135
1	NO-MA-14-004	*Missing Leased Trailers in the Northeast Area*	Implement its plans to consolidate leased trailer information into a central database to clearly document receipt of the leased trailer assets and to improve tracking and tracing of leased trailer inventory.	8/25/2014	$ 287,374
1	SM-MA-14-006	*Highway Contract Route Electronic Payment Process*	Revise and implement a plan to integrate Highway Contract Route (HCR) tracking and payment technology to verify HCR services were rendered prior to payment.	9/30/2014	$ 2,137,395,266
1	DR-AR-15-001	*Contract Postal Units*	Conduct annual evaluations of contract postal units to ensure they are cost effective.	11/13/2014	$ 1,082,720
2	DR-AR-15-001	*Contract Postal Units*	Convert firm-fixed-price contracts for contract postal units, where cost effective, to performance-based contracts to optimize revenue performance.	11/13/2014	$ 620,842
3	NO-AR-15-002	*Internal Controls and Transportation Associated With the Atlanta, GA, Mail Transport Equipment Service Center*	Ensure management monitors compliance with established mail transport equipment policies and procedures to minimize risk of accidents and injuries to personnel handling this equipment and ensure proper dispatching and use of over-the-road containers.	12/12/2014	$ 848,032
1	NO-AR-15-003	*Efficiency Review of the Chicago, IL, Network Distribution Center – Operations and Transportation*	Increase efficiency by eliminating 119,572 workhours to produce an annual cost avoidance of over $4.3 million by: (1) Properly adjusting staffing and scheduling within the parcel sorter machine and sack sorter machine operations. (2) Installing a singulate, scan, and induction unit on the parcel sorter machines.	1/22/2015	$ 4,310,791
1	MS-MA-15-004	*Sales Staffing*	Enhance the Sales force by developing a formal, proactive strategy to effectively fill vacancies and methodologies grounded in data analytics to determine optimal Sales staff size, deployment, and compensation structure.	2/25/2015	$ 56,527,225
3	NO-AR-15-005	*Internal Controls and Transportation Associated with the Dallas, TX, Mail Transport Equipment Service Center*	Ensure management monitors compliance with established mail transport equipment policies and procedures to reduce costs and minimize risk of accidents and injuries to personnel handling this equipment.	5/22/2015	$ 838,276
1	DR-AR-15-007	*City Delivery Office Efficiency – Greater Boston District*	Eliminate 265,462 workhours at delivery units.	5/28/2015	$ 12,349,295
2	IT-AR-15-006	*Software Development Processes*	Implement guidance and training to Business Owners for the customer testing process and ensure that testing teams are following requirements in Handbook AS-805, Information Security.	7/13/2015	$ 4,500,000
2	NO-AR-15-009	*Use of Leased Fleet Trailers - Northeast Area*	Assess leased trailer needs and routinely identify and return any unneeded leased trailers to suppliers.	8/5/2015	$ 3,011,544
4	NO-MA-15-005	*Leased Trailer Damage Payments*	Identify any improper damage claim payments already made and initiate recovery of those payments where practical.	9/1/2015	$ 496,273
1	NO-MA-15-005	*Leased Trailer Damage Payments*	Review and update damage claims policy and procedures.	9/1/2015	$ 1,014,085
2	NO-MA-15-005	*Leased Trailer Damage Payments*	Ensure all policies and procedures for damage claims are being enforced before payments are issued.	9/1/2015	$ 1,014,085
2	MI-AR-15-007	*Passive Adaptive Scanning System (PASS) Functionality and Savings*	Establish a program, in coordination with Supply Management to secure, repurpose or dispose of the printers, handheld scanners, weight scales, and weight sets for calibration currently not being used with the Passive Adaptive Scanning System units to safeguard the investment of more than $2.8 million.	9/1/2015	$ 3,143,418
1	DR-AR-15-011	*Review of City Carrier Office Efficiency - San Francisco District*	Eliminate 158,847 workhours at delivery units	9/15/2015	$ 7,100,427

The monetary impact for this report was not attributable to one specific recommendation; therefore, we allocated the impact evenly to each recommendation

Rec Number	Report Number	Report Title	Recommendation	Date Recommended	Annual Monetary Impact
1	IT-AR-15-009	*Microsoft Office 365 Software Contract and Compliance Review*	Require the cloud service provider to move all Microsoft Office 365 software – Christobal and Eagle information into a private cloud and become Federal Risk and Authorization Management Program-certified for Microsoft Office 365 – Christobal.	9/18/2015	$ 7,347,706
2	IT-AR-15-009	*Microsoft Office 365 Software Contract and Compliance Review*	Complete the Certification and Accreditation process for the Microsoft Office 365 software – Christobal and Eagle and obtain the physical location of Postal Service information associated with these applications.	9/18/2015	$ 7,347,706
2	NO-AR-15-010	*Use of Leased Trailers – Western Area*	Assess leased trailer needs and return any underused or unneeded leased trailers to suppliers.	9/28/2015	$ 264,219
2	NO-AR-16-002	*Highway Contract Routes - Extra Trips - San Francisco District*	Train employees to properly complete extra trip authorization forms and monitor compliance.	10/6/2015	$ 287,436
1	NO-AR-16-004	*Mail Transport Equipment Service Centers – Nationwide Assessment*	Reinforce and monitor the standard operating procedure requirements for facilities to properly prepare and thoroughly inspect mail transport equipment for any mail before dispatching it to the Mail Transport Equipment Service Centers or mailer.	11/19/2015	$ 2,422,251
1	MI-AR-16-002	*Capital Projects Return on Investment*	Update Postal Service Handbook F-66, General Investment Policies and Procedures, to require Program managers to update cash flows and report on any significant operating changes that will impact the capital investment's return on investment; and Perform interim cost studies on all capital investments approved by the Investment Review Committee	12/23/2015	$ 28,946,157
1	DR-AR-16-002	*Review of City Carrier Office Efficiency - Colorado/Wyoming District*	Eliminate 179,619 workhours at delivery units.	1/20/2016	$ 9,180,500
1	MI-AR-16-004	*Delivery Schemeless Sortation Deployment and Utilization*	Establish national and site-specific utilization plans and goals for all deployed Delivery Schemeless Sortation units that maximize use of the units.	2/26/2016	$ 5,791,740
				Total	**$ 2,743,715,221**

The monetary impact for this report was not attributable to one specific recommendation; therefore, we allocated the impact evenly to each recommendation