ACCOMPLISHING POSTAL REFORM IN THE 115TH CONGRESS – H.R. 756, THE POSTAL SERVICE REFORM ACT OF 2017

HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM HOUSE OF REPRESENTATIVES

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C O N T E N T S

ACCOMPLISHING POSTAL REFORM IN THE 115TH CONGRESS – H.R. 756, THE POSTAL SERVICE REFORM ACT OF 2017

Tuesday, February 7, 2017

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, D.C.

The committee met, pursuant to call, at 10:02 a.m., in Room 2157, Rayburn House Office Building, Hon. Jason Chaffetz [chairman of the committee] presiding.

Present: Representatives Chaffetz, Issa, Jordan, Amash, Gosar, Farenthold, Massie, Meadows, DeSantis, Ross, Walker, Blum, Hice, Grothman, Palmer, Comer, Mitchell, Cummings, Maloney, Norton, Clay, Lynch, Connolly, Kelly, Lawrence, Krishnamoorthi, and Raskin.

Chairman CHAFFETZ. The Committee on Oversight and Government Reform will come to order. And without objection, the chair is authorized to declare a recess at any time.

Thank you all for being here for an important topic that the committee has some keen interest and jurisdiction in dealing with the postal reform that this Congress really needs to address.

I want to thank Chairman Issa, the chairman previous to my becoming the chairman, who really I think laid a foundation, did a great deal of work on this topic and issue. So I thank the chairman for all the progress that was made at that time, and hopefully, I think we have built on that.

We are faced, though, with 10 consecutive years of financial losses at the Postal Service, totaling some $62 billion. And the United States Postal Service isn't at a crossroad, it is at the crossroads. It is up to this Congress to address the challenges facing the Postal Service, its customers, the businesses that rely on it, and the taxpayers who will bear the burden if we fail to act.

What I think I want the public to understand is that, by and large, there is no appropriation that Congress makes to the Postal Service. The Postal Service has to offer products and generate revenue in order to sustain itself. But there are some things that Congress can do to put it on a more even playing field to make the system more fair as it moves forward.

And there are some reform efforts, things that may seem small to the outside, small on the surface, but they can make literally billions of dollars of difference in the financial equation for the Postal Service, and I would argue that as a tool of the economy, it is vital for us to have a good, strong, vibrant Postal Service. It happens to actually be one of the few things that is actually in the Constitution that we are supposed to be working on. So there are a lot of good things that we can do, but it really starts with the members in this room.

Let's understand that the difficulties facing the Postal Service are significant. Since 2006, the annual volume of mail delivered by the Postal Service has declined by roughly 30 percent. While some of these losses are offset by unprecedented growth in package delivery, the new revenue is not enough. The Postal Service faces some $119 billion in unfunded liabilities, including $52 billion in liabilities just for retiree health care.

Taxpayers will be left holding the bag for these liabilities if we fail to act. We don't want to be in a situation where there has to be a bailout. We are trying to avoid a bailout. I want people and members to understand that a failure to act will lead us down that path.

To its credit, the Postal Service has not sat by idly. Recognizing the challenges, the Postal Service embarked on aggressive cost-cutting measures during the last decade. The agency reduced its career employee headcount since 2006 by roughly 200,000 people. These are people, real people with families and incomes. But that is a dramatic change. I wish others in the Federal Government had maybe acted as responsibly as the Postal Service has because they were able to do it without resorting to layoffs.

Unfortunately, despite these efforts, the Postal Service cannot fully address its challenges without legislative reform, and for that reason, the last Congress we worked very closely with Ranking Member Cummings. And I want to really thank him. I also want to thank Congressman Meadows, who is the chairman of our subcommittee who oversees this. He has poured untold number of hours and passion into this and expertise trying to find a reasonable solution.

Also heavily engaged, Representative Connolly, Representative Lynch trying to come together and craft a comprehensive, bipartisan reform proposal. And that is what I think is also imperative. If we are actually going to get to the finish line and get a bill on the President's desk, I would like to see that as a bipartisan reform proposal that we can all get behind and champion. I didn't get everything I wanted. Congressman Cummings didn't get everything he wanted. But that is the nature of coming up with a compromise without compromising your principles, but coming up with a compromise that we can all live with that puts the Postal Service on the financial trajectory that it needs to be.

Last July, I was proud to see our committee favorably report the bill by a voice vote. Unfortunately, it didn't make it across the finish line before the end of the Congress, but we did make a lot of progress, particularly with getting the CBO, the Congressional Budget Office, to come in and score the bill.

Building on our legislation from last Congress, last week we introduced H.R. 756, the Postal Service Reform Act of 2017. Our bipartisan group of original cosponsors grew by one with the addition of Congressman Dennis Ross. He was not on the committee in the last Congress, but he was on the committee before that and spent a lot of time working on the postal issues, and we appreciate his expertise.

We are also benefitted by the expertise of Brenda Lawrence. I want to thank her for her passion and commitment on this. She knows it firsthand, and she is a valuable voice in this legislation moving forward.

In an era of partisan politics, this legislation represents a significant bipartisan compromise. The bill gives Postal Service the freedom it needs to successfully meet the business realities the agency faces. To do this, the bill allows the Postal Service to fully integrate its healthcare plans with Medicare. With such integration, the Postal Service can virtually wipe out its $52 billion retiree healthcare unfunded liability.

Further, the bill achieves real savings by moving to more efficient mail delivery, saving the Postal Service more than $200 a year for each address that can be converted from the door-to-door delivery to centralized delivery. The bill also helps the agency more accurately evaluate its cost structure and reforms key governance matters. Our witness panel today represents a cross section of the mailing industry stakeholders. I want to thank them personally. I also want to thank a lot of people that are in the audience today and others who we have spent considerable time with trying to come up with a reasonable bipartisan solution that puts the financial trajectory of the Postal Service in the right direction.

It is a tool of the economy. It is something that affects every single American, and we need to get it right.

Chairman CHAFFETZ. With that, I will now recognize the ranking member, Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman, and I do thank you for convening today's hearing to examine how we can accomplish the postal reform in this new Congress.

Mr. Chairman, after years of work, we came very close, as you said, to enacting legislation reforming the Postal Service during the last Congress. But we simply just ran out of time. Mr. Chairman, you made a very strong commitment at the end of last year, end of the term. You said this would be one of the first orders of business. And I want to take this moment to thank you for keeping your promise. This is very, very important.

And the other thing I thank you for, Mr. Chairman, is so often what happens is that when a lot of work has been done in one term, it is just tossed away and then you have to start all over again. But I thank you for picking up where we left off and making the bill a better bill and working with all of these people in this audience and the members on our committee who I will mention in a few minutes. But again, I want to thank you for that commitment and carrying through with it.

And so I am proud of how much progress we made during the last Congress. After more than a year of negotiations, the chairman and I, together with Subcommittee Chairman Meadows and Subcommittee Ranking Member Connolly and Representative Lynch and Representative Ross and Representative Lawrence, we were able to introduce a bipartisan postal reform bill. Our bill reflected close work with the many stakeholders concerned about postal reform, including most of the witnesses we will hear from today. And I want to again thank you all of you.

One of the things that we found out with regard to the postal system is that we have a lot of stakeholders. And all of those stakeholders were willing to compromise, to work hard, to give their input, and we could not have done this without you.

We were able to pass this bill out of committee. We ran into delays waiting for a cost estimate from the Congressional Budget Office. We found ourselves working through the 11th hour negotiating with the Homeland Security and Governmental Affairs Committee in the Senate. I want to thank Chairman Chaffetz and my colleagues for their commitment in advancing this effort today.

We have already introduced a bill this Congress that is substantially similar to the bill we wrote last Congress. I look forward to considering that bill in this committee and eventually in the full House as soon as possible.

The urgency of enacting comprehensive postal reform has only increased. The Postal Service faces deepening financial challenges and eventually will run out of cash without legislative relief. The total volume of mail handled by the Postal Service has fallen by more than 25 percent since 2006 and continued declines are expected.

The cost of the Postal Service's operations have also risen in part because the Postal Service is required to provide universal delivery service to every address in the United States. Every year, about 900,000 new addresses are created in this country, and the network of postal facilities, letter carriers, and workers must expand to deliver to every new address, 900,000. That is a lot.

The Postal Service is burdened by a 2006 statutory requirement by Congress to fully prefund its liabilities for retiree healthcare costs, a requirement that no other Federal agency or private sector company faces. These liabilities, combined with the Postal Service's unfunded pension liabilities, currently total about $125 billion, which is almost double its annual revenues.

Even as its fixed costs continue to grow, the exigent rate increase that had been approved to enable the Postal Service to recoup some of the losses incurred because of the 2008 recessions permanent impact on mail volume expired. Since 2006, the Postal Service has implemented significant cost-saving measures, including reducing positions and work hours and consolidating facilities and delivery routes.

I want to thank the Postmaster General for her efforts, but I also want to take a moment to thank the unions for bending over backwards and trying to work with the Postal Service in coming up with practical solutions so that on one hand you protected your employees to make sure that they had security and benefits that they were promised but at the same time did everything in your power to make sure we had a viable Postal Service. And from the depths of my heart I thank all of you.

Altogether, these actions have saved the agency some $14 billion per year. However, there are numerous legal restrictions that limit the Postal Service's ability to cut costs or introduce new products to counteract its deteriorating financial condition.

As the chairman said, none of us got everything we wanted in this bill. One of the things that I have worked for for many years is trying to open up the doors for the Postal Service to do other things and to generate new types of income. The things that I really wanted in the bill are not there, but, on the other hand, I didn't want to see us throw away this golden opportunity that we have. And perhaps we can work that out some other time. But again, none of us got what we want. I know that people who are sitting in the audience who are saying, boy, I wish I had that and I wish I had this. Just wish we get the bill through, please.

Taking all these requirements and trends together, the Postal Service reported a net loss of $5.3 billion for fiscal year 2016, which represents the 10th consecutive year of net losses.

We have repeatedly discussed the deteriorating financial condition at the Postal Service in this committee, but the situation has now worsened by unprecedented lack of any Senate-confirmed members on the Postal Service's Board of Governors. Because many key management decisions are reserved by statute to the Senate-confirmed board members, there are many actions such as establishing rates, class, and fees for products that the Postal Service simply cannot take now.

The need for postal reform is as urgent as it ever was. Fortunately, we also may be closer than ever to enacting reform. We must press ahead, all of us. We must continue to work together—Congress, the Postal Service, and the stakeholders—to achieve what has been out of reach for so many years.

Only we can ensure that this 240-year-old institution, an institution that connects every family, every business, every community in this nation will continue to be there to serve all Americans.

So I want to thank our witnesses for being here today once again to discuss what we must do to place the Postal Service on a viable, sustainable path for the future.

And, Mr. Chairman, with unanimous consent I would like to give Gerry Connolly—I understand that the chairman will be introducing our subcommittee ranking and chairman, but I just want to say before you do that, I want to thank you, Mr. Meadows, and I want to thank you, Mr. Connolly, for working so hard to make this happen. Thank you, Mr. Chairman.

Chairman CHAFFETZ. I thank you.

As the gentleman indicated, I would like to recognize Mr. Meadows and Mr. Connolly to give brief statements as well.

Mr. Meadows, is recognized.

Mr. MEADOWS. Thank you, Mr. Chairman. I will be very brief. I want to thank you for, as the ranking member talked about, following up on your commitment to finish the work.

We talked about the 11th hour. Actually, I think it was the 11–1/2 hour or the 11th—I got more phone calls from Senator Carper before the first of the year than I think my wife would normally endure. And so that being said, we are picking up where we left off hopefully to get it across the finish line in a way that probably makes everybody both happy and sad at the same time, and that is the only way you get a good bipartisan compromise is to make sure that there is something for everyone to complain about and for everybody to brag about.

And that being said, I think it is incredibly important to recognize that if we do not act, this is really going to affect jobs. When you look at the backbone of the Postal Service, it is not just for those postal employees but it is for the 7.5 million jobs that it represents either directly or indirectly throughout our economy. And failure to act would also mean that it would require a bailout on behalf of the American taxpayer, something that I am acutely sensitive to and want to avoid if we can to the tune of some $119 billion minimum. According to my calculations, it could be upwards of $150–175 billion in terms of a bailout if we don't act.

And so, Mr. Chairman, I just want to applaud you and this committee and the staff for their hours of working very diligently to not only reintroduce this bill but hopefully have some additional comments from the expert witnesses here today, and I look forward to their testimony.

And with that, I will yield back.

Chairman CHAFFETZ. I thank the gentleman for the balance of the time.

We would like to recognize Mr. Connolly of Virginia.

Chairman CHAFFETZ. I thank the gentleman.

Mr. CONNOLLY. Thank you, Mr. Chairman.

And first, let me ask unanimous consent that testimony provided by the National Active Retired Federal Employees Association, NARFE, opposing our bill be entered into the record.

Chairman CHAFFETZ. Without objection, so ordered.

Mr. CONNOLLY. I thank the chair.

And I want to commend Chairman Chaffetz and Ranking Member Cummings for their leadership in holding together this coalition, not easy. And it is a bipartisan coalition that helped write this bill. And especially Chairman Chaffetz could have yielded to the temptation, in light of the circumstances of 2017, to start all over again. And he didn't do that. We worked together. We held it together. And I want to thank all the stakeholders represented in this room and those not in this room for understanding we can't let perfect be the enemy of the good.

The Postal Service as we know it is insolvent. This bill is intended to put it back on the road to solvency. This bill is intended to correct big mistakes that were made, maybe with the best of intentions, back in 2006 in the lame duck that was called reform but added, you know, an untenable burden to the Postal Service.

And we have worked hard at the staff level and with stakeholders and among ourselves as Members to come up with a bipartisan bill. It incorporates a number of principles we have been fighting about. I have spent nine years of my life on postal reform. When I ran for this office, postal reform was not one of my platform provisions, but it became one because of the urgency of the issue.

And we may have opportunities to perfect it as we go along. Until a bill is passed and sent to the President for signature, it is always a work in progress. And so there may be opportunities to try to perfect things, but the coalition we have got is both strong and fragile. And there are a lot of moving pieces, and sometimes, you know, changing one affects all of it.

And so I commend the chairman and the ranking member and my colleagues—Mr. Lynch, Mr. Meadows especially, and of course Ms. Lawrence, who brings so much expertise and experience to this subject—for making this happen. It is not always that we are able to come together on a bipartisan basis on a major piece of reform legislation. It is exactly the kind of work this committee ought to be doing, and we are doing it.

And, again, I really thank Mr. Chaffetz for his leadership and his patience, and I thank my colleagues—Mr. Meadows, Mr. Lynch, and of course the ranking members Mr. Cummings—especially for their hard work on this very important endeavor.

I yield back.

Chairman CHAFFETZ. The gentleman yields back. Thank you both very much.

I would ask unanimous consent to enter the following letters of support into the record: a letter from the United Postmasters and Managers of America; the Coalition for 21st Century Postal Service; a letter from the American Catalog Mailers Association; a letter of support from Harland Clarke Holdings; and a letter from the National Association of Postal Supervisors all in support. Without objection, so ordered.

Chairman CHAFFETZ. We will hold the record open for five legislative days for any member who would like to submit a written statement. And I would also add QFRs or questions for the record, we will allow five legislative days for that. And then if we have any of those, we will be submitting to those that serve on this panel. We would expect and hope a very timely response to any inquiries that might come that way as well.

We will now recognize the panel of witnesses. We are pleased and honored to welcome the Honorable Megan Brennan, the Postmaster General of the United States Postal Service. We have the Honorable Robert Taub, chairman of the Postal Regulatory Commission. We have Ms. Lori Rectanus, director of Physical Infrastructure Issues at the United States Government Accountability Office. Mr. Arthur Sackler is manager for the Coalition for a 21st Century Postal Service, and Mr. Fredric Rolando, president of the National Association of Letter Carriers.

We welcome you all. We thank you for being here. As you know, I think you have all testified before us previously, but pursuant to committee rules, all members are to be sworn before they testify, so if you will please rise and raise your right hand.

[Witnesses sworn.]

Chairman CHAFFETZ. Thank you. Let the record reflect that all witnesses answered in the affirmative.

We still start with the Postmaster. As you know, we would appreciate it if you could limit your verbal comments to roughly five minutes. We will be able to give you a little latitude, but your entire written statement will obviously be made a part of the complete record.

You are going to need to pull those microphones up close and tight to your mouth so we get a good—it is broadcast, and we need to make sure we get a good audio out of this as well.

The Postmaster General, you are now recognized for five minutes.

WITNESS STATEMENTS

STATEMENT OF MEGAN J. BRENNAN

Ms. BRENNAN. Thank you. Good morning, Mr. Chairman, Ranking Member Cummings, and members of the committee. Thank you, Chairman Chaffetz, for calling this hearing. I'm proud to be here today on behalf of the 640,000 dedicated men and women of the United States Postal Service.

The Postal Service provides the Nation with a vital delivery platform that enables American commerce, serves every American business and home, and binds the Nation together, as it has for more than 240 years.

The Postal Service is self-funded. We pay for our operations through the sale of postal products and services and do not receive tax revenues to support our business. Over the past decade, total mail volume declined by 28 percent. First class mail, which makes the greatest contribution to covering the cost of our networks, declined by 36 percent. In response, we have streamlined our operations, restructured our networks, reduced the size of our workforce, and improved productivity. As a result of these efforts, we've achieved annual cost savings of approximately $14 billion.

We also successfully stabilized marketing mail revenues and grew our package business, which together drive e-commerce growth. However, given the constraints imposed by law, all of those actions cannot offset the negative impacts caused by the consistent decline in the use of first class mail.

The Postal Service is required to maintain an extensive network necessary to fulfill our universal service obligation to deliver the mail to every address six days a week, regardless of volume. The cost of the network continues to grow as approximately one million new delivery points are added each year. However, less volume, limited pricing flexibility, and increasing costs means that there is less revenue to pay for our growing delivery network and to fund other legally mandated costs.

Since 2012, the Postal Service has been forced to default on $33.9 billion in mandated payments for retiree health benefits. Without these defaults, the deferral of critical capital investments and aggressive management actions, we would not have been able to pay our employees and suppliers or deliver the mail.

Despite our achievements in growing revenue and improving operational efficiency, we cannot overcome systemic financial imbalances caused by business model constraints. Without legislative and regulatory reform, our net losses will continue and our financial position will worsen, threatening our ability to meet America's evolving mailing and shipping needs.

Mr. Chairman, we believe there is broad support for the core provisions of the bill you have introduced. By enacting this urgently needed legislation, which includes those provisions, the Postal Service can achieve an estimated $26 billion in combined cost reductions and new revenue over five years. Enactment of these provisions, favorable resolution of the Postal Regulatory Commission's pricing review system, and continued aggressive management actions will return the Postal Service to financial stability.

Medicare integration is the cornerstone of your bill. The civilian Federal Government is not required to prefund retiree health benefits, but that obligation is imposed on the Postal Service. We are merely asking to be treated like any business that offers health benefits to its retirees and has to fund them.

Full integration with Medicare is a universally accepted best practice in private sector. Requiring full Medicare integration for Postal Service retirees would essentially eliminate our unfunded liability for retiree health benefits. It is simply a matter of fairness to enable the Postal Service and our employees to fully utilize the benefits for which we have paid.

We also strongly endorse the provision of the bill that would restore half of the exigent rate increase as a permanent part of our rate base. That provision will help us pay for the infrastructure necessary to fulfill our universal service obligation.

Mr. Chairman, our financial challenges are serious but solvable. We appreciate your continued support and your focus on bipartisan postal reform in the 115th Congress. H.R. 756 is fiscally responsible and enables the Postal Service to invest in the future and to continue to provide affordable, reliable, and secure delivery service to every business and home in America.

Mr. Chairman, Ranking Member Cummings, I look forward to working with you in this committee and our stakeholders 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 very much.

[Prepared statement of Ms. Brennan follows:]

UNITED STATES
POSTAL SERVICE

STATEMENT OF
POSTMASTER GENERAL AND CHIEF EXECUTIVE OFFICER
MEGAN J. BRENNAN
before the
House Oversight and Government Reform Committee Hearing
"Accomplishing Postal Reform in the 115th Congress –
H.R. 756, the Postal Service Reform Act of 2017"
UNITED STATES HOUSE OF REPRESENTATIVES
Tuesday, February 7, 2017

Good Morning Mr. Chairman, Ranking Member Cummings and Members of the Committee.

I am pleased to represent the 640,000 hard-working and dedicated men and women of the United States Postal Service. These men and women play an integral role in every region, community and neighborhood of our nation, every day.

Thank you, Chairman Chaffetz, Ranking Member Cummings and Members of the Committee, for calling this hearing, to discuss the need for timely and comprehensive postal reform legislation. By law, the United States Postal Service operates as a basic and fundamental service provided to the people by the Government of the United States. We provide the nation with a vital delivery platform that enables American commerce, serves every American business and residential address, and binds the nation together, as it has for more than 240 years.

WHO WE ARE

We currently deliver to more than 156 million delivery points. The 154 billion pieces of mail we deliver annually account for 47 percent of the world's mail, which we deliver at levels of efficiency and affordability equal to or exceeding any comparable post. The Postal Service is a self-funding entity. We pay for our operations entirely through the sale of postal products and services and do not receive tax revenue to support our business.

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 continuing to implement initiatives intended 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.

During the last decade, we have responded aggressively to the challenges that confronted us. For example, in response to the sharp decline in mail volume, we right-sized our operations, increased workforce flexibility, and established a more affordable, two-tiered wage system. These efforts have resulted in cost savings of approximately $14 billion annually. We also are proud of our achievements in growing our package business, and implementing innovations that have enhanced the value of the mail to better serve our customers.

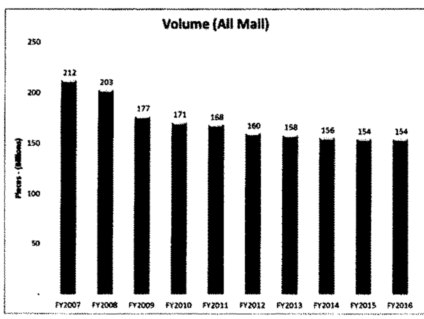
Despite these achievements, our efforts have not been enough — and cannot be enough — to restore the Postal Service to financial health, absent legislative and regulatory reform. Our debt is at an unsustainable level and while we continue to pursue available management actions to reduce our costs even further, there are limited remaining initiatives within our control that will result in substantial cost savings without threatening our ability to continue to provide prompt, reliable, and efficient postal services. The $5.6 billion net loss for 2016 represented the 10th 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 and insufficient to meet our future financial obligations.

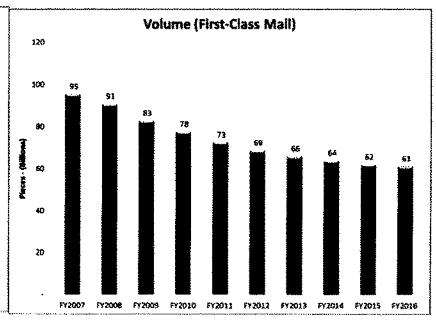
Our ability to continually change and improve to meet the changing needs of the American economy and society depends upon our ability to operate with a financially sustainable business model. My testimony today describes our current financial situation and demonstrates the urgent need for the legislation introduced (H.R. 756) 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 11th 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 fiscal year 2006, in which we delivered 213 billion pieces of mail; last year, we delivered 154 billion pieces — a 28 percent decline. Unfortunately, the PAEA did not establish a business model with sufficient flexibility to enable us to effectively respond to this precipitous volume decline.

POSTAL SERVICE FINANCIAL CONDITION

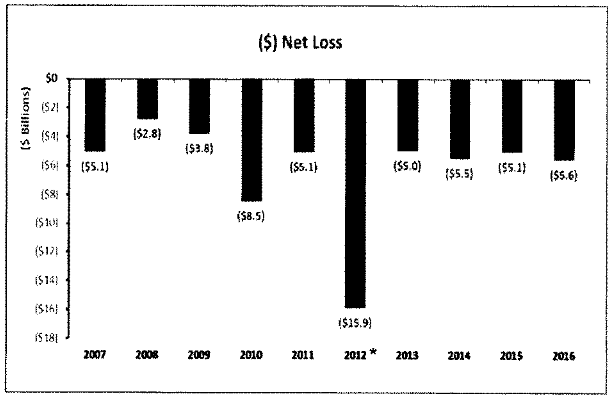
Our business was severely impacted by the Great Recession. First-Class Mail — our most profitable product — declined by 36 percent since 2007 and is expected to continue to decline as a result of divergence to digital communications and the increase in online transactions. Marketing Mail likewise saw a significant volume drop due to a significant reduction in advertising spending caused by the recession. This decline in volume has eroded our financial stability, and reduced our revenue available to help pay for the nationwide retail, processing, transportation and delivery network that we are required to maintain in order to provide universal service.





The consequence of this loss of mail volume, along with continued growth in the required delivery points, and unaffordable, legally-mandated payments, has been 10 consecutive years of net losses. In 2012, the Postal Service reached the $15 billion statutory borrowing ceiling and has been forced to default on $33.9 billion in mandated payments for Retiree Health Benefits (RHB). Without these defaults, the deferral of critical capital investments, and aggressive management actions, we would not have been able to pay our employees, our suppliers, or deliver the mail.

Ten Years of Net Losses Despite Innovation and Improved Efficiency



*Note: The 2012 loss was due to legislative deferral of the 2011 $5.5 billion payment for RHB, which made the total payment due for RHB $11.1 billion in 2012.

MANAGEMENT ACTIONS

In response to the dramatic changes in our business environment, we acted to right-size our network and infrastructure within the constraints of our existing business model and current legal obligations. We pursued an aggressive agenda of cost cutting, efficiency improvements, and innovation that resulted in approximately $14 billion in annual savings. We achieved these annual savings by consolidating processing plants and delivery units; modifying retail hours at more than 13,000 Post Offices; reducing the total workforce size by more than 150,000 through attrition; negotiating collective bargaining contracts to control costs and increase workforce flexibility; and through reductions in administrative overhead.

COST CONTROL MEASURES: 9/30/2006 - 9/30/2016

		Count		% Change
Infrastructure	Consolidated Mail Processing Facilities	360	↓	54%
	Delivery Route Consolidations	20,000	↓	9%
	Post Offices with Reduced Retail Hours	13,000	↓	36%
Workforce	Work Hours (annual ongoing)	301M	↓	21%
	Career Employees	187,000	↓	27%
	Non-Career Employees	31,000	↑	31%
	Total Employees	156,000	↓	22%
	Administrative Positions	25,000	↓	33%
Administration	Number of Administrative Areas	9 to 7	↓	22%
	Number of Districts	80 to 67	↓	16%

The Postal Service continues to control costs and meet current and future customer needs and market trends. Leveraging available data and enhanced technology, we are improving our diagnostics and reporting tools. Recent targeted capital investment has allowed the organization to process mail and increasing package volume more efficiently.

INNOVATION

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 continue to focus on anticipating customer needs and enhancing the value of mail while remaining proactive, flexible and responsive to the marketplace. Focused innovation, such as the integration of marketing mail and digital advertising, is key to sustaining mail volume into the future.

We also continue to innovate by spurring 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 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. These efforts have significantly enhanced the continued double-digit growth in package volume.

Continued innovation in our package business is essential to our ability to meet our universal service obligation 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.

RECENT FINANCIAL PICTURE

As a result of these innovation and cost reduction initiatives, in the last three years, we grew our package business and stabilized our marketing mail volume — which together with the temporary exigent price increase resulted in increased revenue and generated $3.2 billion of controllable income.

(in billions)	2016	2015	2014
Total Revenue:	$ 70.4	$ 68.9	$ 67.8
Controllable Expenses:	69.8	67.7	66.5
Controllable Income:	**0.6**	**1.2**	**1.4**
Non-Controllable Expenses:			
PSRHBF prefunding expense	5.8	5.7	5.7
Change in workers' compensation liability	1.2	0.3	1.2
FERS Amortization	0.2	0.2	0.0
Total Non-Controllable expenses:	**7.3**	**6.2**	**6.9**
Change in accounting estimate	(1.1)		
Net Loss	**(5.6)**	**(5.0)**	**(5.5)**

Controllable income is a non-Generally Accepted Accounting Principles (GAAP) measure that excludes the mandated lump-sum RHB prefunding, and non-cash actuarial adjustments to our workers' compensation and Federal Employees Retirement System (FERS) liabilities over which management has little or no control. Controllable income is more reflective of operating performance than net income, due to the outsized effects of these mandated and uncontrollable expenses. Although our progress in achieving three consecutive years of controllable income has demonstrated the effectiveness of our innovation, marketing and cost-management strategies, when non-controllable expenses are considered, our net losses over the last three years have averaged over $5 billion, driven primarily by our continuing obligation to fund retiree health benefits, which accounted for our entire loss over the last 3 years.

As a result of these net losses, we do not have sufficient cash to meet all of our existing legal obligations, pay down our debt, and maintain a sufficient level of liquidity to ensure continuity of postal operations and meet our universal service obligation. Our cash balance remains insufficient to support an organization with more than $70 billion in annual expenses, and with liabilities that exceed assets by $96 billion, when all post-retirement obligations are included.

Total Liabilities, Including Retirement Obligations, Exceed Assets by $96 Billion

As of Sept. 30, 2016

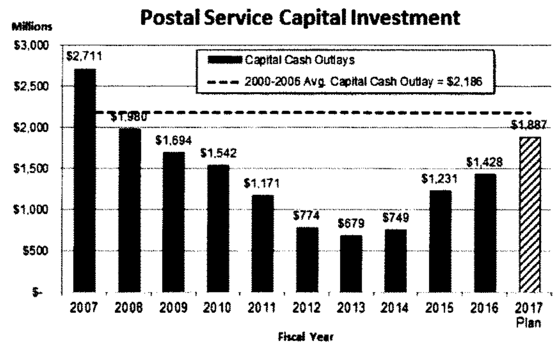
CSRS Fund Balance	$174.4B	CSRS Actuarial Liability	$191.9B
FERS Fund Balance	$112.1B	FERS Actuarial Liability	$115.9B
RHB Fund Balance	$51.9B	Retiree Health Benefits Obligation	$104.0B
Total Retirement-Fund Assets	$338.4B	Total Retirement-Related Liabilities	$411.8B
		Workers' Compensation	$20.0B
		Debt	$15.0B
Unrestricted Cash	$8.1B	Accrued Compensation, benefits, and leave	$4.6B
Land, Buildings & Equipment, net	$15.3B	Deferred Revenue	$2.3B
Other Assets	$1.8B	Other	$5.4B
Total Assets	**$363.6B**	**Total Liabilities**	**$459.1B**

- 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, 2016.

CAPITAL INVESTMENT

In response to the grave financial crisis brought on by the Great Recession and continued electronic diversion of mail, we dramatically slowed our capital-investment activity. This 6-year period of reduced capital investment was a short-term countermeasure to a financially challenging operating environment during which we were at the statutory borrowing limit and had insufficient cash reserves. During this period, capital investments were restricted to those necessary to ensure the health and safety of employees and customers, and those that produced a significant and rapid return on investment.

In 2015 and 2016, the Board of Governors decided it was necessary to increase capital investments to address deferred initiatives and provide critical new equipment and systems required to ensure our continued ability to provide universal service and improve our financial results. These investments include replacing aged administrative, delivery and service vehicle fleets; repairing facilities; sustaining, enhancing or developing new IT systems; ensuring IT and physical security; and procuring, upgrading and maintaining mail and package processing equipment. As the chart below illustrates, we continue to be very judicious in our capital investments, as 2017 projected outlays remain below 2007 levels.



BUSINESS MODEL CHALLENGE

The PAEA did not establish a business model with sufficient flexibility to enable us to effectively respond to ongoing volume declines.

Some of our most significant costs are fixed by law and are outside management's control. Further, our ability to earn revenue to pay for those costs is constrained by law. This fundamental imbalance is the root of our financial instability, and is primarily influenced by three key factors:

- **Universal Service Obligation**: We are required to maintain an expansive retail, transportation, processing, and delivery network, so that we can serve every address six days a week. The cost of the network continues to grow as the country adds approximately 1 million delivery addresses each year. Additionally, total mail volume has declined from 213 billion pieces in 2006 to 154 billion pieces last fiscal year, and projections are that mail volume will continue to decline. Simply put, we deliver less mail to more addresses every year.
- **Legally mandated costs**: The Postal Service is also legally required to participate in U.S. government pension, health, and benefits programs. By law, we have been required to fund RHB using an onerous and unaffordable accelerated prefunding payment schedule, which is unique to the Postal Service. Beginning in 2017, this is replaced by an equally unaffordable system of funding retiree health benefits normal costs and paying down the unfunded liability of the retiree health benefits fund.

- **Price cap**: We operate under a fixed statutory price cap that applies to the mail products that generate 74 percent of total revenue. Reduced mail volume and the constraints of our statutory price cap means there is less revenue to pay for our required and increasingly expensive network and other costs imposed upon us by law.

UNIVERSAL SERVICE OBLIGATION

The Postal Reorganization Act of 1970 and other provisions of Title 39, United States Code, set the parameters for the Postal Service's universal service obligation (USO). The dimensions of the USO can be summarized as follows:

- **Product scope**: Pertains to all postal services, which must be designed to meet public needs.
- **Universality**: The public must have "ready access to essential postal services," to the extent "consistent with reasonable economies." Postal services must be provided "throughout the United States" to, "as nearly as practicable, the entire population of the United States," explicitly highlighting the need to service "rural areas." And the Postal Service may not unduly or unreasonably discriminate among mailers.
- **Service**: According to riders that Congress has consistently inserted into annual appropriations bills, the Postal Service must deliver mail six days per week to most addresses, regardless of whether it makes economic sense to do so. In addition, the Postal Service must prioritize "prompt" and "expeditious" mail delivery. The Postal Service must design its service standards so as to "reasonably assure Postal Service customers delivery reliability, speed and frequency consistent with reasonable rates and best business practices."
- **Price**: Certain rates must be uniform across the nation. Some mailers are statutorily entitled to discounted or free rates.
- **Accountability**: The Postal Regulatory Commission (PRC) is authorized to adjudicate disputes about undue or unreasonable pricing discrimination, improper closing or consolidation of Post Offices, as well as review the Postal Service's service standards regulations, and certain other matters that bear on the USO. The Postal Service must measure and report publicly about its service performance, which the Commission reviews as part of its annual compliance determination.

Most of these universal service parameters are broad and allow for some discretion on the part of the Postal Service to adjust operations to changing conditions. However, the Postal Service's discretion is checked by statutory restrictions, the prospects of legal disputes before the PRC or in labor arbitration, oversight by members of Congress, and, the prospect that service reductions could lead to decreased demand from the consuming public.

While some private delivery companies provide competing service with respect to some USPS products, they do not operate under a USO. The USO legally binds us to provide prompt and reliable service to the entire nation at affordable (and in some cases uniform) prices, regardless of cost. In recognition of the burdens imposed by the USO, Congress has historically sought to sustain the USO by guaranteeing the Postal Service certain revenue. The Private Express Statutes require all letters less than 12.5 ounces carried over post routes to be sent through the Postal Service, with various exceptions. Another statute requires all mailable matter placed into mailboxes to bear postage; that statute not only protects postal revenue, but also ensures the privacy, security and efficiency of the mail.

LEGALLY MANDATED COSTS

We are required to participate in U.S. government pension and health benefits programs for employees and retirees, including the Federal Employees Health Benefit (FEHB) program, the Civil Service Retirement System (CSRS), the Federal Employees Retirement System (FERS) and the Federal Employees' Compensation Act for workers' compensation (FECA). The PAEA imposed a requirement on the Postal Service to prefund the Postal Service Retiree Health Benefits Fund (PSRHBF) in 2006, on an accelerated basis for 10 years, and on an actuarial basis thereafter.

As noted above, the fixed RHB payment schedule ended last year, and has been replaced with a requirement to make RHB normal cost payments and to begin paying down our unfunded RHB liability. In addition, beginning this fiscal year (FY 2017) we are also obligated to begin amortizing our unfunded liability in CSRS. These obligations are in addition to another sizable existing payment — normal cost payments under FERS and amortization payments on an unfunded FERS liability (we contend that FERS is not underfunded if our liability was more appropriately calculated using postal-specific economic and demographic assumptions, and have therefore requested that the Office of Personnel Management (OPM) reconsider this amortization amount). The table below highlights the average required annual retirement-related payments over the last five years, as well as the average projected annual payments for the next five years.

Retirement & RHB Expenses and Payments		
(Billions)	Average 2012-2016	Average 2017-2021
Pension Costs	$3.4	$5.2
Retiree Health Benefits Costs	9.8	5.9
Total Obligations	**$13.1**	**$11.1**
RHB Defaults *	**-5.8**	
Total Payment	**$7.3**	

* Excludes $5.5B originally due in 2011 rescheduled to 2012.

Therefore, we remain subject to very sizable retirement-related payments going forward, on top of our operating expenses and needed increase for critical capital expenditures on items such as information technology infrastructure, processing and delivery infrastructure, and new delivery vehicles.

Absent fundamental legislative and regulatory reform, we continue to face the prospect of defaulting on future retirement-related 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. For instance, a failure to make the actuarially-based RHB payments that begin this year would reduce and eventually exhaust the balance in the PSRHBF.

Therefore, it is clear that continuing to default on our retirement-related funding obligations is not a feasible strategy. Rather, we need a statutory and regulatory structure that allows us to take steps to raise revenue and cut costs in a rational, business-like manner, so that we can fulfill our responsibility of providing universal service in a self-sufficient manner while also covering our post-retirement benefits obligations. This requires two steps: the enactment by Congress of appropriate postal reform legislation, and a favorable outcome of the 10-year pricing system review by the PRC.

PRICE CAP

The fixed statutory price cap is now under review by the PRC, as required by law. This review of the current pricing system is of critical importance. Through this review, the PRC will assess whether the existing system governing market-dominant products is achieving the objectives set forth by Congress. The objectives include requirements that the regulatory system enable the

Postal Service to be financially stable and have adequate resources to ensure the continuation of high-quality service. This is consistent with the long-standing policy that the Postal Service provides universal service and meets our other statutory obligations in a self-sufficient and business-like manner. Our ability to fulfill these objectives is hamstrung by the inflexible price cap imposed by the PAEA over products that produce 74 percent of our revenue.

The current price cap limits price increases simply on the basis of household inflation (as measured by the Consumer Price Index), without regard to our specific circumstances, including mail volume trends that have declined precipitously in the last decade and that will continue to decline, and our unaffordable but legally mandated cost structure. That unaffordable cost structure is driven by our obligation to provide universal service and to maintain the network and infrastructure necessary to fulfill that role, as well as by employee benefit and other costs imposed upon us by law.

The PRC began its review proceeding in December 2016 to potentially replace the current system with a suitable regulatory structure. We are preparing our initial comments to the PRC, which will elaborate further on our view that the PRC cannot rationally conclude that the current system is achieving its objectives. We will therefore urge the PRC to replace the current system with a regulatory structure that enables us to effectively respond to the challenges and opportunities presented by a dynamic marketplace.

The current price cap has clearly failed to achieve the objectives. Despite the fact that we have achieved significant cost savings, the restrictions on our business model and the limitations imposed by the cap have contributed to our financially unsustainable position, characterized by chronic net losses, high debt, and a liquidity position that is inadequate, and that would have been catastrophic had we not defaulted on statutorily mandated payments and deferred critical capital investments.

Replacement of the current price cap with an appropriate regulatory structure is ultimately necessary because the current system is unworkable in today's environment. Congressional action on legislative reform would minimize the size of the price increases needed to cover our costs.

LEGISLATION

Last week, the House Committee on Oversight and Government Reform introduced postal reform legislation containing provisions that we believe have the capability to achieve broad support among stakeholders, including postal management, many in the mailing industry and the postal unions. These provisions reflect the adoption of private sector best practices, consistent with our responsibilities to the public. They include:

- Requiring full Medicare integration for parts A, B, and D for postal retiree health plans.
- Restoring half our exigent price increase for Market-Dominant products.
- Calculating all retirement benefit liabilities using postal-specific salary growth and demographic assumptions.
- Providing some additional product flexibility.

Enactment of these provisions would resolve several significant long-term financial burdens on the organization with potential to generate total savings of $26 billion over five years. Combined with a favorable outcome of the 10-year pricing review by the PRC and continued aggressive management actions, these provisions would restore our financial stability, ensure our ability to meet our universal service obligations, and allow for further innovation, investment, and growth for the Postal Service, and the mailing industry as a whole.

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 those private sector companies that offer retiree health benefits at all.

USPS Retirement Health Benefit Funding Compares Favorably to Other Entities

	Retiree Health Benefits
Percentage of Civilian Federal Government Funded (excl. USPS)	0%(1)
Percentage of Fortune 1000 Companies Funded(3)	0% - 37.0%(4)
Percentage of U.S. Department of Defense Funded(2)	26.7%
Percentage of State Governments Funded(3)	30.0%
Percentage of USPS Actuarial Liability Funded at 9/30/2016	49.9%

(1) Source: Civil Service Retirement & Disability Fund Annual Report, FY 2015
(2) Source: Financial Report of the United States Government, FY 2016
(3) Source: USPS Office of Inspector General Report Number FT-MA-12-002
(4) Eighty-seven percent of Fortune 1000 companies provide retiree health care benefits; however, only 38% prefund the expense. The median funding level ranged from 23% to 37% as reported in 2012 OIG Report FT-MA-12-002

While the statutory accelerated RHB prefunding payments expired Sept. 30, 2016, the current actuarial payments are equally unaffordable because FEHBP benefits are not integrated with Medicare for all postal retirees. Virtually all self-funded private and public-sector organizations that provide retiree health benefits require Medicare integration. The Postal Service and our employees and annuitants pay into Medicare at the same rates as these entities, and should be entitled to the same Medicare benefits. The proposed bill requires OPM to create separately rated postal plans within the FEHBP, beginning with the 2018 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.

Each year, the Postal Service would make a normal cost payment into the RHB fund, except to the extent that such a payment would cause the RHB actuarial liability to be more than 100 percent funded.

Opponents of this provision have argued that it would simply shift cost from the Postal Service to Medicare. While it is true that Medicare costs will increase by approximately one-tenth of 1 percent per year, this provision is actually reversing the cost shifting that currently exists from Medicare to the FEHBP plans, which is presently imposing additional unwarranted 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 more than $30 billion during this period. At present, however, 8 percent of annuitants and dependents do not participate in Medicare Part A and 26 percent do not participate in Part B. Appropriately 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. The Postal Service is simply asking to be treated like any other entity that is required to pay into Medicare and self-fund the benefits they offer to their retirees.

The integration cost of $821 million in FY 2016 would have been just one-tenth of 1 percent (0.1%) 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 Part D savings resulting from establishing an Employer Group Waiver Plan (EGWP) to take advantage of subsidies available for prescription drug benefits within each FEHB plan — would essentially eliminate the Postal Service's unfunded retiree health benefit liability and reduce expenses by $16.8 billion over 5 years (2018-2022).

MARKET-DOMINANT RATES

The partial restoration of the exigent price surcharge is critical to the Postal Service's financial health. The PRC-ordered rollback of the surcharge occurred April 10, 2016, and reduced our revenue and net income by approximately $1 billion last year and $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 enabling the Postal Service to achieve financial stability despite our best efforts to reduce costs. In fact, the current price cap simply will not work since mail volumes have rapidly declined, while many of the costs necessary to meet our universal service obligation are largely fixed and growing. The growth experienced in the past few years in package revenue is not enough to offset the decline in revenue from market-dominant products. The exigent surcharge, combined with aggressive management actions, 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 achieved controllable income over the last three fiscal years (although we still suffered net losses in each of those years in excess of $5 billion).

The proposed bill reinstates half of the 4.3 percent exigent increase (2.15 percent) and makes it a part of the rate base. Taking this step now would constitute an important interim measure to enhance the Postal Service's financial position as the PRC considers reforming the pricing system in the 10-year pricing system review; other countries have also allowed similar safeguard measures as part of broader regulatory reform. In addition, the PRC would be required to complete all aspects of its review by May 1, 2018, so as to provide all stakeholders with greater certainty and timeliness than the open-ended timeframe under the PAEA.

PENSIONS

The proposed bill requires the OPM to calculate 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.

The Postal Service's retirement plans are already significantly better funded than those of most other entities in both the public and private sectors. In fact, the Postal Service's percentage for CSRS pension funding is more than five 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 overstate our liability).

USPS Pension Funding Compares Favorably to Other Entities

	Pension	
	CSRS	FERS
Percentage of USPS Actuarial Liability Funded at 9/30/2016	90.9%	96.7%
Percentage of Civilian Federal Government Funded (excl. USPS)	17.6%[1]	90.0%[1]
	Pension	
Other Entities:		
Percentage of U.S. Department of Defense Funded[2]	39.6%	
Percentage of State Governments Funded[3]	66.0%	
Percentage of Fortune 1000 Companies Funded[3]	80.0%[4]	

(1) Source: Civil Service Retirement & Disability Fund Annual Report, FY 2015
(2) Source: Financial Report of the United States Government, FY 2016. Note, Dept. of Defense pension funding percentage represents a combination of CSRS and FERS plans
(3) Source: USPS Office of Inspector General Report Number FT-MA-12-002
(4) Only 11% of Fortune 1000 companies offer a traditional pension plan to newly hired salaried workers
(5) Eighty-seven percent of Fortune 1000 companies provide retiree health care benefits; however, only 38% prefund the expense. The median funding level ranged from 23% to 37% as reported in 2012 OIG Report FT-MA-12-002

PRODUCT FLEXIBILITY

The proposed bill authorizes the Postal Service to provide non-postal services to state, local and tribal governments; 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.

FINANCIAL IMPACT

As we've said, there is a way forward. The chart below shows the value of each of the parts making up the proposed bill, with total savings of $26 billion over five years. Enacting these key concepts into law would 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 POTENTIAL SAVINGS
With Legislated Medicare Integration Parts A, B and D

$ in billions

	Provision	2018	2019	2020	2021	2022	Total 2018-2022
A	Medicare integration for postal retiree health plans (including savings from lower RHB liability)	4.1	3.3	3.2	3.2	3.0	**$16.8**
B	Exigent Surcharge at 2.15% (October 1, 2017)	0.8	0.8	0.8	0.9	0.9	**$4.2**
C	Retirement liability calculation using postal-specific assumptions	0.7	0.8	0.8	0.9	0.9	**$4.2**
D	Non-postal services and centralization of delivery	0.1	0.0	0.1	0.2	0.3	**$0.65**
E	**Total Savings from Bill Provisions**	**$5.7**	**$4.9**	**$5.0**	**$5.1**	**$5.1**	**$25.8**
F	Interest savings from lower borrowing	0.3	0.2	0.5	0.8	0.9	**$2.8**
G	**Total Savings**	**$6.0**	**$6.2**	**$5.5**	**$5.9**	**$6.0**	**$28.6**

Note: Totals may not add up due to rounding.

Overall, our financial situation is very serious but solvable; we can return to financial stability through the enactment of prudent legislative reform that this Committee has introduced and a favorable resolution of the PRC's 10-year pricing system review. At the same time, we will continue to pursue cost savings in all aspects of our operations and revenue growth. 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 — and we fulfill this role by leveraging one of the nation's oldest and most effective partnerships with the private sector. More than 18,500 small businesses help us serve the American public through mail processing, transportation and retail operations contracts. More than 14,000 postal transportation supplier contracts account for approximately $7 billion in annual spend. And we provide access to our products and services in more than 72,000 commercial locations through partnerships with retailers of all sizes.

The need to adopt the proposed legislative reform provisions discussed above is simply too important to delay. Indeed, Congressional action on legislative reform is more important than ever considering the onset of the PRC's 10-year pricing system review. Ultimately, postal law requires the Postal Service to provide universal postal services, and to meet our other statutory obligations, in a self-sufficient manner, without becoming a burden on the taxpayer.

GOVERNANCE

We appreciate that the bill recognizes the importance of independent governance for the Postal Service. As an independent establishment within the Executive Branch, the Postal Service's powers are directed by a Board of Governors, who serve as the equivalent of the outside directors on a private sector board of directors.

The Postal Service is currently operating without any Governors. The final outside Governor vacated his seat in December 2016, after serving a 1-year hold-over term past the expiration of his original term. The Senate has not confirmed a single Governor nominee since 2010.

The Governors select the Postmaster General and the Deputy Postmaster General and provide strategic oversight by approving overall expenditures (including our capital investment plan), reviewing practices, conducting long-range planning, and setting price and product policy, in accordance with postal statutes. These are essential oversight and decision-making functions that are best performed as the result of informed discussions among well-qualified Governors with diverse perspectives who can represent the public interest. The presence of the Governors, and their ultimate control and authority over the Postal Service, also ensures that the Postal Service's governance structure adheres to constitutional requirements.

The Postal Service continues day-to-day operations and will do so for the immediate future, but our long-term success would be significantly enhanced in all respects with a fully constituted Board of Governors. The absence of Governors also raises significant legal questions that could materially impede the Postal Service's continued ability to operate, and heightens the need to shore up our financial condition through legislation until Governors can be nominated and confirmed.

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.

There is a path forward that depends upon the passage of provisions in H.R. 756, combined with a favorable outcome of the PRC's 10-year pricing system review. Once enacted, and together with aggressive management actions, the Postal Service can meet all of our obligations and continue to improve the way we serve the American public.

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

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Chairman CHAFFETZ. Thank you.

Chairman Taub, you are now recognized for five minutes.

STATEMENT OF ROBERT G. TAUB

Mr. TAUB. Chairman Chaffetz, Ranking Member Cummings, members of the committee, good morning. I'll hit a few key points from the Commission's very detailed written testimony.

Not much has changed from my last appearance here about nine months ago. In summary, the Postal Service still faces significant financial obstacles for the future. With its 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 remains daunting. Its total liabilities exceed its total assets by $56 billion.

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 such as new delivery vehicles and package sorting equipment.

The pressing question is what needs to be done to improve the financial condition of the Postal Service? Pursuant to statute, the Commission recently submitted a report evaluating the operations of current postal law to the President and Congress. This report provided a variety of recommendations for legislation, which are attached to my written statement. Significantly, the Commission determined that the most important recommendations it could make related directly to improving the Postal Service's financial condition.

I commend this committee's bipartisan leadership for coming together just last week, as you did last Congress, to introduce legislation to address these challenges. H.R. 756 is specifically designed to put the Postal Service on sound financial footing.

Your invitation noted a focus today also on the significance and potential implications of the Commission's ongoing review of the rate system. By law, after December 20, 2016, the Commission must review the decade-old price-cap system for regulating market-dominant products to determine if the system is achieving its statutory objectives, and if it is not, to, quote, "make such modification or adopt such alternative system," end quote, to achieve the objectives. There are nine objectives listed in the law that must be achieved, as well as 14 factors that the Commission must take into account.

When I testified to the committee nine months ago, I stated that the Commission had already begun marshalling its limited resources to structure the review and schedule a process that would allow full and open opportunities for public participation while at the same time providing certainty and being decisive in the task. I also committed that the Commission would provide notice to the public of its plans for the review well in advance of commencing it.

We delivered on those commitments. On September 1 during a public meeting, I first announced commission plans for the review, that it would begin in December, that the comment deadline would extend to very early spring, and by early autumn the Commission would issue an order that would include its findings and, if necessary, proposed rulemaking information for any changes to the system.

Indeed, on December 20 at 8:00 a.m. sharp we commenced our review. The Commission has designed a process that seeks targeted input from the public but also deliberately moves forward with the aim of completing its findings and beginning any needed rulemaking by early autumn of this year.

The Commission is mindful that your bipartisan postal reform bill would mandate a process whereby final rules on any modifications or changes to the system must be implemented by very early 2018. We are working hard to meet that goal.

Thank you, Mr. Chairman and Ranking Member Cummings, for convening this hearing to shine a spotlight on this critical part of our nation's infrastructure. I know you both deeply appreciate the importance of these issues. There are no easy answers but answer we must. The Commission stands ready to help in your search for solutions. On behalf of all four commissioners and the entire hardworking agency staff, thank you for the opportunity to testify today.

[Prepared statement of Mr. Taub follows:]

Testimony of

Robert G. Taub

Chairman

On behalf of the

Postal Regulatory Commission

Before the

U.S. House Oversight & Government Reform Committee

February 7, 2017

Introduction

Chairman Chaffetz, Ranking Member Cummings, and members of the Committee on Oversight and Government Reform, good morning. My name is Robert G. Taub. I am the 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 $71 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 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. Its mission is to ensure transparency and accountability of the Postal Service and foster a vital and efficient universal mail system. The Commission is the regulator, not the operator, of our nation's Postal Service – we do not manage the Postal Service, we regulate it. The Commission 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 Postal Service is provided a statutory monopoly over mailboxes and the delivery of letters. 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 $71 billion Postal Service. The David and Goliath analogy is sometimes apt. Despite a steadily increasing and complex 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; 8 years later, the Commission's appropriation in FY 2016 was $15.2 million for an employee complement of 77. The FY 2016 appropriation of $15.2 million depicts the first marginal increase in 8 years above the FY 2008 level. The majority of the Commission's FY 2016 budget was allocated to pay and benefits ($10.7 million) with the remainder allocated for operating expenses ($4.5 million). This marginal increase in funding has allowed the Commission to begin filling deferred vacancies and funding previously deferred IT Infrastructure and cybersecurity initiatives. The Commission has also prioritized its limited resources to ensure we have the necessary funding for completion of the 10 year rate review study.

Commission Focus on Postal Service 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 publish its fourth 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. I would like to highlight our preliminary observations and conclusions that will be reported in the Commission's FY 2016 *Financial Analysis* report.

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

In FY 2016, the Postal Service had a total net loss of $5.6 billion, which is a $531 million deterioration from FY 2015. This decade of consecutive net losses posted since FY 2007 has increased the cumulative net deficit since FY 2007 to $62.3 billion. 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.

In FY 2016, total revenue increased by $2.6 billion. Market Dominant revenue decreased by $0.7 billion while Competitive products revenue increased by $2.1 billion. A change in accounting estimate related to Forever Stamps resulted in an additional $1.1 billion in revenue.[1] Competitive product volumes continued to increase significantly in FY 2016, growing 14 percent over last year. This higher volume coupled with a Competitive product price increase (effective January 17, 2016) contributed to the increase in total revenue. Total Market Dominant revenue declined 1.5 percent from the prior year. CPI based price increases were not enough to offset declining volumes and the expiration of the exigent surcharge.[2] The exigent surcharge generated $1.1 billion in revenue in the first 6 months of the fiscal year before its expiration in April.

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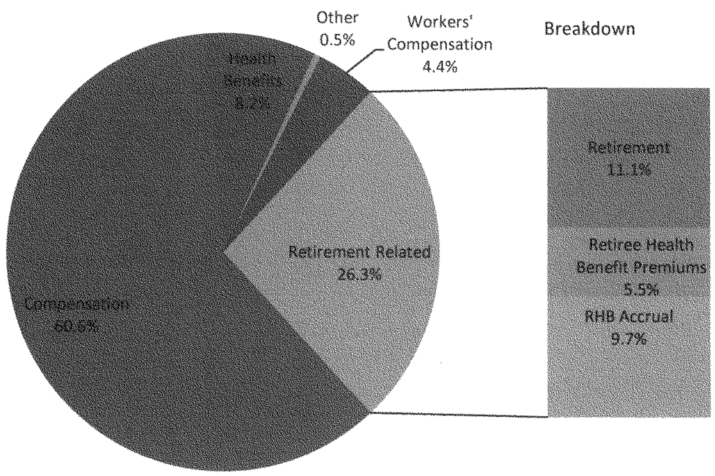
[1] Deferred revenue was increased to record omitted revenue from a recalculation of Forever Stamp usage included in Postage in the Hands of the Public (PIHOP) during the past years.

[2] 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 4.2 percent or $3.1 billion in FY 2016. This increase is largely a result of higher overall compensation and benefits costs of $1.5 billion and an increase in workers' compensation expense of $0.9 billion. Compensation and benefits costs as a percent of total expenses remained the same as in the prior year at 78.6 percent. Compensation accounts for the largest portion of personnel expenses, representing 60.6 percent of total personnel costs. Retirement benefits are the next largest component of total personnel expenses at over 26.3 percent. Retirement benefits are comprised of statutory payments to the Postal Service Retiree Health Benefits Fund (PSRHBF), retiree health benefits premiums, employer contributions to the Federal Employee Retirement System (FERS) and the Civil Service Retirement System (CSRS) pensions and Social Security. The current premiums for annuitant health benefits along with the statutory prefunding PSRHBF payments account for 15.2 percent of total retirement related expenses.

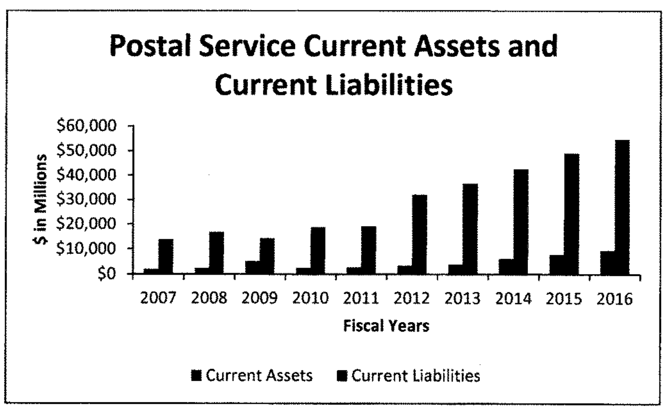
Percentage Breakdown of Total Personnel Expenses, FY 2016



An increase in workhours (the second consecutive increase since FY 2005) and the number of career employees (the second consecutive increase since FY 1999) increased compensation expenses by $0.7 billion. Retirement expenses also increased due to an increase in the FERS annuity rate from 13.2 percent of base pay to 13.7 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. The $0.9 billion increase in workers' compensation expense was due to actuarial changes in the development of the estimate and changes in the discount rate. Non-personnel expenses, including transportation, increased in FY 2016. Further data on personnel related costs are detailed later in this testimony.

In the face of financial losses, over the past decade, the Postal Service has reduced the size of its workforce by about 175,000 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 160,000 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.

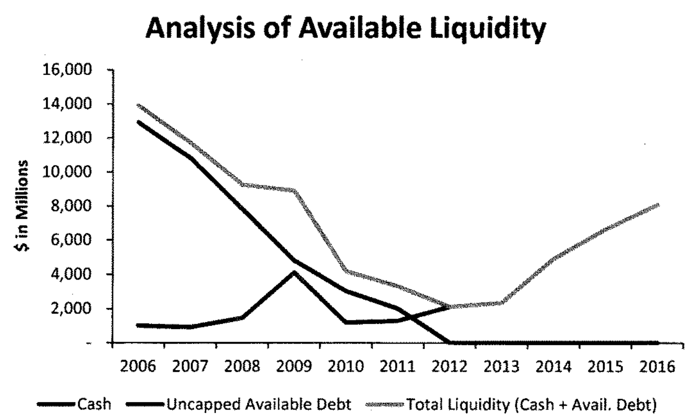
The significant gap between the Postal Service's net current assets and net current liabilities is of particular concern. The Commission finds that despite an improvement in liquidity during FY 2016, current assets, consisting mostly of cash and cash equivalents, continue to be insufficient to meet the payment of current liabilities.



In FY 2016, total current liquid assets increased by $1.5 billion from FY 2015; however, the amount of current liabilities rose by $5.7 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 $5.8 billion final statutory payment required in FY 2016 to the Postal Service Retiree Health Benefits Fund (PSRHBF). The total net current assets were $9.5 billion at the end of FY 2016, of which $8.3 billion was cash and cash equivalents. Net current liabilities at the end of this fiscal year were $54.6 billion, which included $33.9 billion in missed payments to the PSRHBF (the payments scheduled for FY 2011 through FY 2016). 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 2016 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 2016 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, any non-cash adjustments to workers' compensation liability, supplemental contribution to FERS Annuity and the adjustment for postage related to Forever Stamps for prior year usage) is $610 million. Most of this operational net income can be attributed to an increase in revenues from the Market Dominant and Competitive products rate increases, the exigent price surcharge on Market Dominant products, and the continuing growth in Competitive products parcels. The exigent surcharge, effective for the first 6 months of the fiscal year, increased revenue by an estimated $1.1 billion. The temporary surcharge was removed on April 10, 2016.

The increase in operating net income enabled the Postal Service to improve its liquidity position. Compared to FY 2015, the Postal Service increased its cash position by $1.4 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 30 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 almost half 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 2016 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 2016, 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	9/30/2016 Value	9/30/2015 Value	Change	Description of Ratio	Postal Service Historic 10 Year Average Value
Current Ratio	0.17	0.16	0.01	A current ratio is calculated by dividing current assets by current liabilities. It indicates an entity's ability to meet short term debt obligations.	0.16
Quick Ratio	0.17	0.16	0.01	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).	0.15
Cash Ratio	0.15	0.14	0.01	Cash ratio is calculated by dividing absolute liquid assets (cash, cash equivalents and short-term investments) by current liabilities.	0.11

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 $45.1 billion, deteriorating by $4.1 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 $5.8 billion significantly exceeded the growth in current assets, 92 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	9/30/2016 Value	9/30/2015 Value	Change	Description of Ratio	Postal Service Historic 10 Year Average Value
Debt Ratio (debt to assets ratio)	3.22	3.10	0.12	This 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.	1.88
Fixed Assets to Net Worth Ratio	(0.27)	(0.31)	0.04	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.	0.21
Current Liability Ratio	0.67	0.66	0.02	This ratio is calculated by dividing current liabilities by total (i.e. current and noncurrent) liabilities.	0.55

The accruing nonpayment into the statutory retiree health benefit fund and the long-term workers' compensation obligations have artificially 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. However, the value still remains at negative 0.27, a result of recurring net losses accumulated over the last decade. 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 67 percent, increasing a percentage point from the start of FY 2015. 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 its 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 6.4 on September 30, 2016. 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 2016 Altman Z-Score of negative 6.4 for the Postal Service is a setback from the FY 2015 score of negative 6.1 (and from the FY 2014 score of negative 5.7), and it is a significant deterioration from the positive score 10 years ago for FY 2006 of 0.2. 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 2006

Ratio	Calculation	Ratio Value on 9/30/2006	Weighting Factor	Product (col. 3 * col. 4)
1	2	3	4	5
T1	Working Capital/Total Assets	(0.3)	1.2	(0.4)
T2	Retained Earnings/Total Assets	0.2	1.4	0.3
T3	Earnings/Total Assets	0.0	3.3	0.1
T4	Capital/Total Liabilities	0.3	0.6	0.2
Altman Z-Score				0.2

Altman Z-Score, FY 2016

Ratio	Calculation	Ratio Value on 9/30/2016	Weighting Factor	Product (col. 3 * col. 4)
1	2	3	4	5
T1	Working Capital/Total Assets	(1.8)	1.2	(2.1)
T2	Retained Earnings/Total Assets	(2.2)	1.4	(3.1)
T3	Earnings/Total Assets	(0.2)	3.3	(0.7)
T4	Capital/Total Liabilities	(0.7)	0.6	(0.4)
Altman Z-Score				(6.4)

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 2016 with FY 2006.

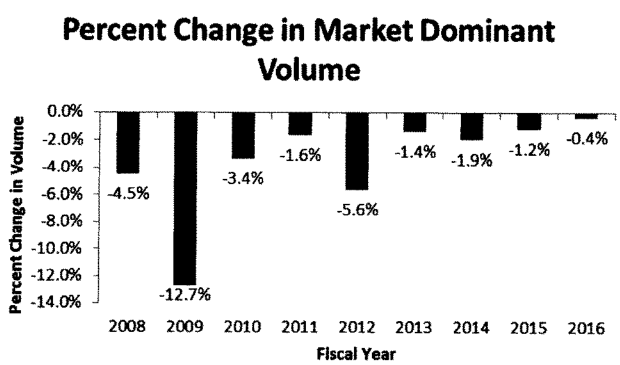
Total Mail Volume: Continuing Decline

Total mail volume in 2016 dropped to levels not seen in more than 29 years, and the Postal Service anticipates further reductions in total volumes for 2017. The aggregate decline in mail volume is the result of the economic recession of 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 decline, particularly in First-Class Mail

Over the last 9 years, Market Dominant products volume declined by approximately 52 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 2016, First-Class Mail volume declined by approximately 1.0 billion pieces, or 1.7 percent of total First-Class Mail, and Standard Mail volume increased by 840 million pieces, or 1.0 percent of total Standard Mail. These classes constitute the bulk of the volume of Market Dominant products overall. In FY 2016, 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 13.7 percent and 12.6 percent, respectively, in FY 2016. While Competitive products volume and revenue has grown consistently in recent years, its volume only makes up 2.9 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.

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 2016 Form 10-K statement, " [The Postal Service must] generate approximately $2.50 in Shipping and Package revenue to replace the contribution from each $1 of lost First-Class Mail revenue, as the costs to process and deliver Shipping and Packages services were, and continue to be, substantially higher than the costs associated with *First-Class Mail*."

<u>Personnel Related Costs</u>

In FY 2016, total personnel related expenses, including the payment to the Postal Service Retiree Health Benefits Fund (PSRHBF) and the non-cash adjustments to the workers' compensation, increased by $2.4 billion or 4.1 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 required the Postal Service to pay the government's share of the premium for its own annuitants, which, in FY 2016, amounted to $3.3 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 6 years, there is $51.9 billion in the PSRHBF and a current unfunded amount of $52.1 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 $52.1 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 $1.4 billion in FY 2016 – a majority of which comprises compensation and retirement benefits. Compensation increased by $703 million while retirement benefits increased by $277 million. Compensation expenses grew over the previous year mainly due to obligated salary increases and the growth in Shipping and Package volumes, where, because of the size and shape of pieces, handling requires more 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 $248 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. The exigent surcharge was removed on April 10, 2016, because the Postal Service had collected all of the allowable $4.6 billion. 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. Total liabilities exceed total assets by $56 billion.

Universal Service Obligation (USO)

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 in January 2017, the Commission estimated that the total of these three categories is $4.24 billion.

Aside from the financial pressure of generating sufficient funds to remain solvent, the Postal Service must also be concerned 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.

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 34 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.

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. 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, the Federal Trade Commission (FTC) issued a report titled, *Accounting for Laws That Apply Differently to the United States Postal Service and Its Private Competitors, Federal Trade Commission, December 2007.* The report identified and quantified the economic burdens and advantages that exist by virtue of the Postal Service's status as a federal government entity and its postal and mailbox monopolies. The FTC determined, based on 2006 financial results, that the Postal Service's unique legal status ultimately put the Postal Service at an overall disadvantage in the Competitive product market. According to the FTC, the Postal Service's competitive products 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 in providing competitive products, 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 155 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 241-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."

Where Do We Go From Here?

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 its "*Section 701*" reports issued in September 2011 and November 2016.

Section 701 of the PAEA 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. Appendix A to this testimony is the Executive Summary from the 2016 report and details the Commission's legislative recommendations. The Commission's report emphasized the starkly different environment faced by the Postal Service since the enactment of the PAEA – a time when volume was growing and the Postal Service was earning revenues that exceeded costs. In short, the Commission determined that the most important legislative recommendations it could make related directly to improving the volatile financial condition of the U.S. Postal Service.

I note that the bipartisan postal reform legislation, H.R. 756, the *Postal Service Reform Act of 2017*, introduced just last week by Chairman Chaffetz, Ranking Member Cummings, Subcommittee Chairman Meadows and Ranking Member Connolly, and Representatives Ross and Lynch is specifically designed to put the Postal Service on sound financial footing.

Today's hearing invitation noted that the hearing would discuss "the significance and potential implications of the Postal Regulatory Commission's ongoing review of the market dominant rate system." By law, 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, 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."

When I last testified to the Committee in May 2016, I stated that the Commission had already well begun marshaling its limited resources to identify approaches to structure the review and schedule a process that would allow full and open opportunities for those interested to participate. I also committed that the Commission would provide notice to the public of its plans for the review well in advance of commencing it.

We delivered on those commitments. On September 1, 2016, during a public meeting of the Commission, I first announced Commission plans for that review. The Commission chose to notify the public in September so that all interested parties could prepare to participate in the review. The public was informed that the Order beginning the review would be issued on December 20; that the deadline for public comments to be submitted would be in early Spring of 2017; and that the Commission planned to issue an order which included its findings and, if necessary, preparatory rule-making information for any changes to the system in early Autumn of 2017.

On December 20, 2016, at 8:00 a.m., the Commission commenced docket RM2017-3 to review the price cap system for regulating Market Dominant products. In carrying out its statutory responsibility, the Commission has sought to achieve a balance of seeking views from the public while at the same time recognizing the importance of providing certainty and being decisive in its task. As a result, the Commission has designed a process which seeks targeted input from the public, but also deliberately moves forward with the aim of completing its findings by early Autumn this year (2017). The Commission is indeed mindful that H.R. 756, your new bipartisan postal reform bill, would mandate a process whereby final rules regarding modifications or changes to the rate system must be implemented by very early 2018. We are working hard to meet that goal.

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. I commend this Committee leadership for again coming together, as you did last Congress, to introduce legislation to address these challenges. The Commission stands ready to assist in your search for answers on behalf of our Nation's postal system and the more than 325 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 2016 "section 701" report

(November 14, 2016)

EXECUTIVE SUMMARY

This marks the Postal Regulatory Commission's (Commission) second report under section 701 of the Postal Accountability and Enhancement Act (PAEA) of 2006. Every 5 years the Commission is required to issue a report and its first one was submitted to Congress and the President in 2011 (2011 Report). In general, the reports are to reflect the Commission's assessment of how well the PAEA is operating and is an opportunity to recommend legislation or other measures necessary to improve the effectiveness and efficiency of our Nation's postal laws.

The Commission's 2016 report, like its 2011 Report, emphasizes the starkly different environment faced by the Postal Service since the PAEA's enactment in 2006 – a time when volume was growing and the Postal Service was earning revenues that exceeded costs. Today, the Postal Service faces the reverse: mail volume that has declined more than 25 percent since 2006 coupled with a total net loss of $5.1 billion in FY 2015 - despite an exigent surcharge that generated an additional $2.1 billion in revenue.

Twice this year, the Commission was invited to provide testimony at congressional hearings focused on the steadily deteriorating financial condition of the U.S. Postal Service. Specifically, the Commission was asked to share with the Senate and House oversight committees key findings of its annual *Financial Analysis of U.S. Postal Service Financial Results.* Testimony delivered by Acting Chairman Taub described the fundamental problems facing the Postal Service: a growing liability for retiree health benefits; an inability to borrow for needed capital investments, such as new delivery vehicles and package sortation equipment; and the continued loss of high margin First-Class Mail revenues.

This fiscal year total net loss as of June 30, 2016, was $3.3 billion compared to a net loss of $2.8 billion for the same period last year, a deterioration of $0.5 billion. For this same time period, the Postal Service's total liabilities exceeded the total value of its assets by $53.7 billion. The Postal Service has recorded monthly net operating losses since the expiration of the exigent surcharge in April this year; and working capital for the 9 months which ended June 30, 2016, was negative $43.3 billion. The net deterioration of $2.3 billion in working capital from the beginning of the fiscal year was largely due to the growth in employee-related liabilities, including the statutory accruals for payments into the Retirement Health Benefits Fund (RHBF).

It is clear, the most important legislative recommendations the Commission can make relate directly to improving the financial condition of the U.S. Postal Service. While this year's 701 report will again discuss and make recommendations related to certain rate and service matters, along with improvements to Commission processes, the Commission places a particular emphasis upon the following recommendations:

- The Commission renews its recommendation from its 2011 Report that Congress modify the retiree health benefits fund prefunding level and payment schedule as a measure to improve Postal Service sustainability. Decreasing the funding target to one more in line with industry norms would provide much needed improvement in the Postal Service's assets to liabilities ratio.
- The Commission recommends lengthening the amortization period of the current unfunded liability. The current amortization period is 40 years. Extending the amortization period would free significant capital by reducing Postal Service annual payments.
- Further improvement in liquidity could be provided by allowing the Postal Service to use any available Federal Employees Retirement System (FERS) surplus, rather than requiring the surplus to be transferred to the RHBF. The Commission, therefore, recommends that Congress grant the Postal Service the authority to use available FERS surpluses to pay off current or future liabilities, including debt to the U.S. Treasury, pension liabilities, and retiree health benefit liabilities.

Finally, it must be noted that the timing of this report coincides closely with a significant Commission undertaking. By law, after December 20, 2016, the Commission shall commence a review of the price cap system for regulating Market Dominant products. The purpose is to determine whether 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. Considering the breadth of this review, certain postal rate matters that would normally be addressed in this report will be deferred for consideration in December's review.

In this report, the Commission also details a variety of other recommendations for possible changes to discreet rate, service, and regulatory matters or processes. All of the Commission's recommendations are listed in Appendix A.

On October 20, 2016, the Commission sent its report to the Postal Service for review and an opportunity to comment, consistent with Section 701 of PAEA. On November 9, 2016, the Postal Service sent back its comments, which are attached at Appendix B.

Section 701 Report Recommendations

- The Commission recommends that Congress amend the current required RHBF prefunding level to comport with standard industry practice in both private and public sectors.
- The Commission recommends lengthening the amortization period of the current unfunded liability.
- The Commission recommends that Congress grant the Postal Service the authority to use available FERS surpluses to pay off current or future liabilities.
- With clearly defined and limited exceptions, the Commission recommends establishing a "soft floor" (a lower limit subject to certain exceptions) on worksharing discounts, which would benefit the postal community by providing appropriate pricing signals to incentivize efficient mail preparation.
- The Commission again recommends that the definition of a post office be clarified to adopt the plain meaning of the term post office, inclusive of branches and stations.
- The Commission recommends clarification on whether CPUs and nonpostal operation units also fall under the Commission's administrative review authority under section 404(d).
- The Commission recommends consideration of the duration of emergency suspensions of post offices.
- The Commission recommends that Congress consider clarifying under which circumstances the Postal Service is required to consult with the Commission when making proposed service standard changes.
- The Commission recommends that Congress clarify the meaning of section 3691 and the requirement that the Postal Service set service standards "in consultation with" the Commission.
- The Commission recommends that if the Postal Service is permitted to offer new nonpostal services, proposed nonpostal services be subject to the same regulatory review the Commission applied when reviewing existing nonpostal services pursuant to section 404(e)(3).
- The Commission recommends that where a proposed nonpostal service meets the statutory test, the Commission should have the authority to designate the service as a Market Dominant, Competitive, or experimental product.

- The Commission recommends that Congress consider adding language to 39 U.S.C. § 3661 that requires the Postal Service, upon receipt of the Commission's advisory opinion, and prior to implementation, to provide a written response to Congress addressing the Commission's recommendations.
- The Commission recommends that Congress consider raising the maximum revenue limitation on market test products thereby providing the Postal Service with more opportunities for advancement of new postal products to bolster revenue streams.
- The Commission recommends that Congress increase the maximum duration on market tests for experimental products.
- The Commission recommends Congress consider allowing the Postal Service to satisfy the requirements of section 3641(b)(2) by setting forth a reasonable basis for its belief that an experimental product would not cause market disruption.
- The Commission urges Congress to consider and balance all the features of universal service as part of any review of changes necessary to preserve a financially viable Postal Service.
- The Commission concurs with commenters that the postal industry and general public could benefit from an updated FTC Report with a more current accounting for the value of relevant legal differences between the Postal Service and its private competitors.

Chairman CHAFFETZ. Thank you. I do appreciate it.

We are pleased to have the GAO with us as well. Ms. Rectanus, you are now recognized for five minutes.

STATEMENT OF LORI RECTANUS

Ms. RECTANUS. Thank you, Mr. Chairman. Chairman Chaffetz, Ranking Member Cummings, and members of the committee, thank you for the opportunity to be here today to discuss the Postal Service's financial challenges. While the Postal Service is a critical part of the Nation's communication and commerce, its financial situation puts it at risk of not being able to carry out its mission. Its financial condition has been on GAO's high-risk list since 2009.

My testimony today covers the factors affecting its financial condition, its unfunded liabilities, and the difficult choices involved in addressing these challenges. First, the continued deterioration of the Postal Service's financial condition is simply a truth that revenues are not keeping up with expenses, a trend since 2007. This means that over the last decade the Postal Service has had a net loss of over $60 billion. While much of this loss was in fact due to the nonpayment of retiree health prefunding payments, the Postal Service still lost over $10 billion outside of this requirement and other requirements.

The revenue expense gap occurs because first class mail, the most profitable mail, continues to decline and is now down to 1981 levels. The Postal Service has made significant efforts to grow revenue in other ways such as with package services.

In the meantime, however, expenses continue to grow largely because of compensation and benefit payments for employees. This is due to salary increases, as well as a larger workforce in the past several years, to support the more labor-intensive package business. In fact, over the past three years the workforce has actually increased by over 20,000 people, contrasting sharply with prior years when its size decreased greatly. The Postal Service reported that rising comp and benefit costs generated over $1 billion in additional expenses for active workers in 2016. Bottom line is that postal revenues increased by $2.6 billion in fiscal year 2016 but expenses increased by over $3 billion.

While the Postal Service has made numerous efforts to right-size operations and undertake other cost-cutting initiatives, it has no current plans to implement the kind of major initiatives that would significantly reduce this financial gap. We recognize that previous efforts have faced resistance from stakeholders and they would involve tradeoffs. But in the absence of such efforts, the Postal Service is not on a solid path for the future.

Second, unfunded liabilities and debt total about $121 billion or almost 170 percent of annual revenues. They are mostly retiree health and pension benefit obligations for which the Postal Service has not set aside sufficient funds. And as we've mentioned today, about $50 billion of those liabilities are retiree health benefits that remain unfunded partly because the Postal Service has not made about $34 billion in required prefunding payments.

This year, the Postal Service will have about $10 billion in required payments for retiree health and pension benefits, which is roughly $3 billion over what it paid in 2015 and 2016. Given its poor financial position, Postal Service non-payments are likely to continue. This situation places everyone at risk. If the Postal Service does not adequately fund its benefits, ultimately, the taxpayer may be asked to step in or benefits or pay could be reduced.

Because the Postal Service cannot fix these problems by itself, comprehensive legislation is needed to better align expenses with revenues. In doing so, Congress has key considerations. First, what postal services do we need in the 21st century, and how should those be provided? Congress has the opportunity to consider what future customers need on a universal basis and what tradeoffs are acceptable.

Second, what is the appropriate level of compensation and benefits in an environment of revenue pressures? Congress can consider requiring that the Postal Service's financial condition be considered in any binding arbitration.

And finally, what is the continued viability of the Postal Service providing affordable universal service while also remaining self-financing? Congress has the opportunity to consider the pros and cons of various business models and identify the most appropriate model for the future.

In conclusion, as we've all said, the status quo was not sustainable, and I hope 2017 is the year of action. This concludes my statement. Chairman Chaffetz, Ranking Member Cummings, and members of the committee, I would be pleased to answer any questions you have.

[Prepared statement of Ms. Rectanus follows:]

United States Government Accountability Office

GAO

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

For Release on Delivery
Expected at 10 a.m. ET
Tuesday, February 7, 2017

U.S. POSTAL SERVICE

Key Considerations for Restoring Fiscal Sustainability

Statement of Lori Rectanus, Director, Physical Infrastructure Issues

GAO Highlights

Highlights of GAO-17-404T, a testimony before the Committee on Oversight and Government Reform, House of Representatives

February 7, 2017

U.S. POSTAL SERVICE

Key Considerations for Restoring Fiscal Sustainability

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 2016 to 156 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 $5.6 billion in fiscal year 2016, its tenth consecutive year of net losses. At the end of fiscal year 2016, USPS had $121 billion in unfunded liabilities, mostly for retiree health and pensions, and debt—an amount equal to 169 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 identified 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 a comprehensive package of actions is needed 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) considerations and choices Congress faces in addressing USPS's financial challenges. This testimony is based primarily on past GAO work that has examined USPS's financial condition—including its liabilities—and updated USPS financial information for fiscal years 2016 and 2017.

View GAO-17-404T. For more information, contact Lori Rectanus at (202) 512-2834 or rectanusl@gao.gov.

What GAO Found

The U.S. Postal Service's (USPS) deteriorating financial condition is unsustainable 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 such as salary increases and work hours continue to grow, 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 2016, when USPS was required to make $13.0 billion in retiree health and pension payments, it made $7.0 billion in payments—mainly due to not making a required retiree health payment of $5.8 billion. USPS's required payments have been restructured for fiscal year 2017 and are estimated to total $10.3 billion. USPS's ability to make these 2017 payments will be further challenged due to:

- *Expiration of a temporary "exigent" rate surcharge:* USPS has said the April 2016 surcharge expiration is reducing its revenues almost $2 billion annually.
- *No new major cost savings initiatives planned:* USPS made efforts in recent years to right-size its operations, but has no current plans to initiate major new initiatives to achieve cost savings in its operations.

Large unfunded liabilities for postal retiree health and pension benefits—which were $73.4 billion at the end of fiscal year 2016—may ultimately place taxpayers, USPS employees, retirees and their beneficiaries, and USPS itself at risk. As GAO has previously reported, funded benefits protect the future viability of an enterprise such as USPS by not saddling it with bills after employees have retired. Further, with USPS retirees participating 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 maintain the benefit levels. Alternatively, unfunded benefits could lead to pressure for reductions in USPS benefits or 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 business-like manner.

Chairman Chaffetz, Ranking Member Cummings, 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 choices Congress faces in addressing USPS's ongoing financial challenges. USPS is a critical part of the nation's communication and commerce, delivering 154 billion pieces of mail in fiscal year 2016 to about 156 million delivery points, and with about 640,000 employees. USPS, however, continues to face a serious financial situation with insufficient 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 2016, USPS had about $121 billion in unfunded liabilities and debt, most of which were for retiree health and pension benefits.[2] USPS continues to have $15 billion in outstanding debt—the statutory limit. These unfunded liabilities and debt are a large financial burden, increasing from 99 percent of USPS revenues in fiscal year 2007 to 169 percent of revenues in fiscal year 2016. USPS also recorded a net loss of $5.6 billion in fiscal year 2016—its tenth consecutive year of net losses totaling over $62 billion.

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.[3] We have previously issued a number of reports that identified 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.[4] We continue to believe that a comprehensive package of actions is needed to improve USPS's financial viability.

[1] 39 U.S.C. § 101(a).

[2] 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.

[3] GAO, *High-Risk Services: An Update*, GAO-15-290 (Washington, D.C.: February 2015). An updated GAO high-risk report will be issued later this month.

[4] For example, our December 2012 report analyzed five different approaches for funding retiree health benefits and discussed the differing impacts that each alternative would have on USPS's future annual payments and unfunded liabilities. GAO, *U.S. Postal Service: Status, Financial Outlook, and Alternative Approaches to Fund Retiree Health Benefits*, GAO-13-112 (Washington, D.C.: Dec. 4, 2012).

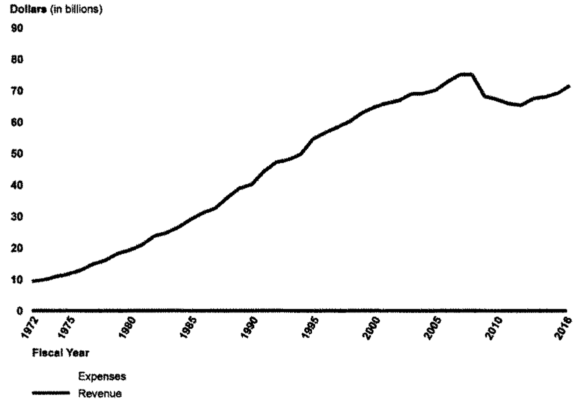
This testimony discusses: (1) factors affecting USPS's deteriorating financial condition, (2) USPS's ability to make required retiree health and pension payments, and (3) considerations and choices Congress faces in addressing USPS's financial challenges. This testimony is based primarily on our past reports and testimonies that examined USPS's financial condition, including its liabilities.[5] 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's financial information with reported results for fiscal year 2016, which ended September 30, 2016. In addition, we reviewed testimony and reports prepared by USPS and the Postal Regulatory Commission in 2016 and USPS estimates of retiree health and pension payments that USPS will 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.

[5] GAO, *U.S. Postal Service: Continuing Financial Challenges and the Need for Postal Reform*, GAO-16-651T (Washington, D.C.: May 11, 2016); *U.S. Postal Service: Financial Challenges Continue*, GAO-16-268T (Washington, D.C.: Jan. 21, 2016); *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).

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—a trend that has continued through fiscal year 2016 (see fig. 1). As a result, USPS has lost a total of $62.4 billion since fiscal year 2007.

Figure 1: U.S. Postal Service Revenue and Expenses, Fiscal Years 1972—2016



Source: U.S. Postal Service. | GAO-17-404T

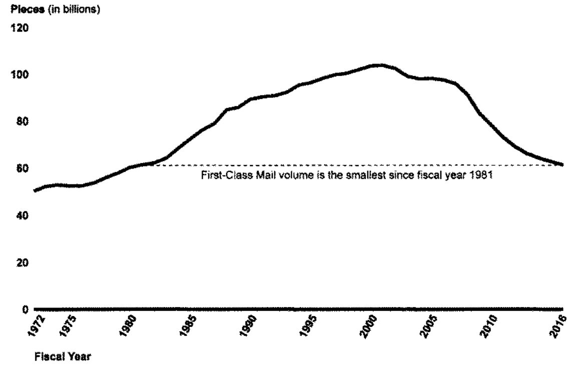
As we testified last year,[6] the continued deterioration in USPS's financial condition is due primarily to two factors.

1. *Declining First-Class Mail volumes:* The long-term decline of First-Class Mail volume, which USPS expects to continue for the foreseeable future, has fundamental implications for USPS's business model because this remains USPS's most profitable class of mail. Domestic First-Class Mail volume declined by 2 percent in fiscal year 2016 from the previous fiscal year to 61 billion pieces—a level 41 percent below its peak in fiscal year 2001, and the smallest level since fiscal year 1981 (see fig. 2). USPS recently reported that First-Class

[6] GAO-16-651T and GAO-16-268T.

Mail volume is declining as major commercial mailers actively promote the use of online services, and although the rate of decline has slowed, will continue to decline in future years with the migration to electronic alternatives resulting from technological changes.[7] In the long run, USPS also faces the possibility of a future economic downturn that could have an additional impact on First-Class Mail volume.

Figure 2: U.S. Postal Service First-Class Mail Volume, Fiscal Years 1972—2016



Source: U.S. Postal Service. | GAO-17-404T

Note: This chart shows domestic First-Class Mail volume.

2. *Growing Expenses:* USPS expenses increased by $3.1 billion in fiscal year 2016 from the previous year, outpacing the $2.6 billion increase in revenues. Increasing compensation and benefits expenses were a key driver of expense growth. USPS reported that compensation and benefits for active employees increased by $1.2 billion, due to contractually obligated salary escalations and additional work hours associated in large part with growth in the more labor-intensive

[7] United States Postal Service, *2016 Report on Form 10-K* (Washington, D.C: Nov. 15, 2016).

Shipping and Packages business.[8] In this regard, USPS reported a 14 percent growth in Shipping and Packages volume in fiscal year 2016.[9] However, to accommodate the surge in this volume and to minimize service disruptions during the holiday season, USPS reported increasing Sunday delivery service and adding non-career employees for the holiday season. This contributed to growth in USPS work hours in fiscal year 2016 from the previous year, when the number of USPS career employees increased by 17,000 and the number of non-career employees increased by 1,000. Over the past 3 years, the size of USPS's total workforce has increased by about 22,000, including career and non-career employees; this growth contrasts with the trend from fiscal years 1999 through 2013, when the workforce decreased by more than 288,000 (see fig. 3). Compensation and benefits comprise close to 80 percent of total USPS expenses. Thus, expenses will continue to grow if increases in salaries and work hours continue.[10,11]

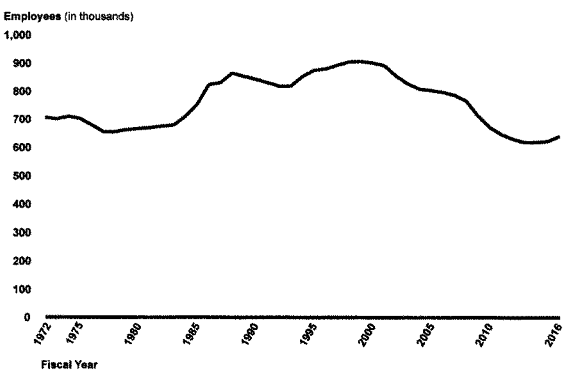
[8] The Shipping and Packages category includes Priority Mail, Priority Mail Express, Parcel Select, First-Class Package Service, Standard Mail Parcel Service Parcel Return Service, and Package Services such as Bound Printed Matter, Media Mail, and Library Mail.

[9] Growth in the volume of Shipping and Package Services and Standard Mail in fiscal year 2016 offset the decline in First-Class Mail volume. As a result, total mail volume increased by 0.1 percent in fiscal year 2016 to 153.9 billion pieces, which was 28 percent below its peak in fiscal year 2006.

[10] USPS has budgeted for a $0.4 billion increase in compensation and benefits for fiscal year 2017 based on a number of factors, including an anticipated number of work hours similar to fiscal year 2016.

[11] USPS's Total Factor Productivity (TFP) slightly declined in fiscal year 2016—the first time productivity declined since fiscal year 2009. TFP is an index that measures how efficiently USPS uses resources (inputs) to handle all aspects of its workload. See USPS, *FY2016 Annual Report to Congress* (Washington, D.C.: December 2016).

Figure 3: Total Number of U.S. Postal Service Employees, Fiscal Years 1972-2016



Source: U.S. Postal Service. | GAO-17-404T

Note: This graphic includes both career and non-career employees.

As previously discussed, USPS's unfunded liabilities and debt have become a large financial burden,[12] increasing from 99 percent of USPS revenues at the end of fiscal year 2007 to 169 percent of revenues at the end of fiscal year 2016. These unfunded liabilities and debt—totaling about $121 billion at the end of fiscal year 2016—consist mostly of retiree health and pension benefit obligations for which USPS has not set aside sufficient funds to cover.

[12] USPS's unfunded liabilities and debt as a percentage of its revenues declined to 169 percent at the end of fiscal year 2016 from 176 percent (an updated estimate) at the end of fiscal year 2015, largely due to growth in USPS revenues, which increased $2.6 billion in fiscal year 2016 from the previous year to $71.5 billion. In addition, USPS's unfunded liabilities and debt of $120.7 billion at the end of fiscal year 2016 was $0.9 billion less than the comparable figure at the end of the previous year. These totals included the latest Office of Personnel Management (OPM) estimates of unfunded USPS liabilities for postal pension benefits (projections for fiscal year 2016 and a revised estimate for fiscal year 2015), OPM valuations of unfunded liabilities for postal retiree health benefits, USPS estimates of liabilities for postal workers' compensation benefits, USPS debt, and other liabilities on USPS's balance sheet.

When the Postal Accountability and Enhancement Act (PAEA) established the Postal Service Retiree Health Benefits Fund, it 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.[13] As of the end of fiscal year 2016, USPS's liability for retiree health benefits was about $104.0 billion and the Postal Service Retiree Health Benefits Fund balance was $51.9 billion, with a resulting unfunded liability of $52.1 billion. USPS has missed a total of $33.9 billion in required prefunding payments, which represent about half of its total losses since fiscal year 2007.[14] However, USPS would have still lost $10.6 billion during this time period even without the annual prefunding requirement.

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 this fiscal year (2017), USPS is no longer required to make fixed prefunding payments. Instead, under the requirements established by PAEA, it is 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,[15] and

[13] Pub. L. No. 109-435, § 803, 120 Stat. 3198 (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 into the Postal Service Retiree Health Benefits Fund (PSRHBF) 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.

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

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

- a 27-year amortization schedule to address the unfunded liabilities for postal pension benefits under the Civil Service Retirement System (CSRS).[16]

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)[17], 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 $10.3 billion in payments for retiree health and pension benefits under CSRS and FERS—about $3.3 billion more than what USPS paid in fiscal year 2016 for these benefit programs.

[16] CSRS is a defined benefit, contributory retirement system for certain federal employees. It was replaced by the Federal Employees Retirement System (FERS) for federal employees who first entered covered service on and after January 1, 1987.

[17] In addition to providing an annuity at retirement based on years of service and "high-3" average pay, FERS also consists of Social Security and the government's Thrift Savings Plan (TSP).

Table 1: U.S. Postal Service (USPS) Payments for Retiree Health and Pensions, Fiscal Years 2016 and 2017 (Dollars in Billions)

USPS payment	Fiscal year 2016 - Required	Fiscal year 2016 - paid	Fiscal year 2017 - required (estimate)
Retiree health benefits			
Health premiums	$3.3	$3.3	Not applicable
Fixed prefunding	$5.8	$0	Not applicable
Normal cost	Not applicable	Not applicable	$2.9
Amortization	Not applicable	Not applicable	$2.6
Pension benefits			
Civil Service Retirement System (CSRS)			
Amortization	Not applicable	Not applicable	$1.2
Federal Employees Retirement System (FERS)			
Normal cost	$3.7	$3.7	$3.3
Amortization	$0.2	$0[a]	$0.2
Total	**$13.0**	**$7.0**	**$10.3[b]**

Source: U.S. Postal Service. | GAO-17-404T

Note: Fiscal year 2017 estimates may change later this year when the Office of Personnel Management (OPM) provides USPS with the amounts of these required payments.

[a]USPS has not made its fiscal year 2016 FERS amortization payment and has a pending request that OPM reconsider this amount.

[b]Data do not add exactly to the total due to rounding.

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 has reported that the April 2016 expiration of a 4.3 percent "exigent" surcharge that began in January 2014 is reducing its revenues by almost $2 billion annually.[18]

- *No new major cost-savings initiatives planned:* USPS has made efforts in recent years to right-size its operations to better adapt to declining mail volumes that are adversely affecting its financial position. For example, in fiscal year 2015, USPS reduced the hours of over 13,000 post offices to better match retail service with demand and reduced its physical footprint by consolidating 36 mail processing facilities, and instituted operational changes to better utilize resources. However, USPS has no current plans to initiate new major initiatives to achieve cost savings in its operations. According to USPS, it will continue to implement operational initiatives to contain costs and take actions to maintain liquidity,[19] but as we testified last year,[20] such actions will not be enough to stave off future losses and stabilize its finances. Although USPS has faced stakeholder resistance to its right-sizing efforts, in the absence of such efforts, USPS will continue to face challenges to appropriately match resources with mail volume and help address its compensation and benefits costs.

USPS has reported that without structural change to its business model and legislative change, it expects continuing losses and liquidity

[18] 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 collected $4.6 billion in incremental revenue, which represents USPS's approximate loss due to the suppression of mail experienced during the Great Recession. This surcharge was discontinued April 10, 2016, resulting in the reduction of many postal rates, including the rate for a First-Class Mail stamp that was reduced from 49 to 47 cents. On January 22, 2017, the First-Class Mail stamp rate was increased to 49 cents as part of USPS pricing changes implemented under the statutory price cap. However, the January 2017 increase did not mitigate the continuing fiscal effects of the expiration of the exigent increase, which was an increase over the inflation-based cap.

[19] To improve liquidity in recent years, USPS has reported conserving cash by spending only what it believed was essential to maintain its existing facilities and service levels. For example, although USPS said it must invest in upgrades of letter sorting equipment that is at or near the end of its useful life and also in equipment to fully capitalize on business opportunities in the growing package delivery market, it deferred facilities maintenance to conserve cash in instances where this could be done without adversely impacting employee health or safety issues.

[20] GAO-16-651T.

challenges for the foreseeable future.[21] According to USPS, it has maintained adequate liquidity only by not making required payments to prefund retiree health benefits and deferring needed capital investments. Looking forward, USPS has reported that, if circumstances leave it with insufficient cash, it may prioritize payments to its employees and suppliers ahead of some payments to the federal government, as it has done in the past.

Large unfunded liabilities for postal retiree health and pension benefits—which were $73.4 billion at the end of fiscal year 2016—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 after employees have retired.[22] 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. According to USPS's testimony last year, "absent fundamental legislative reform, we face the prospect of having to continue to default on these prefunding payments [for retiree health benefits] 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."[23] Alternatively, unfunded benefits could lead to pressure for reductions in benefits or in pay. Thus, the timely funding of benefits protects USPS employees, retirees and their beneficiaries, taxpayers, and the USPS enterprise.

[21] For example, USPS has proposed statutory changes that would require 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.

[22] GAO-13-112.

[23] USPS, *Statement of Megan J. Brennan, Postmaster General and Chief Executive Officer, United States Postal Service, Before the Senate Homeland Security and Governmental Affairs Committee* (Washington, D.C., Jan. 21, 2016).

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. Although USPS needs to take further action to reduce costs and increase revenues, USPS's actions alone under its existing authority will be insufficient to achieve sustainable financial viability; comprehensive legislation will be needed. 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. For example, as part of its efforts to reduce excess capacity, in January 2015 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. Even with the revised standards, on-time delivery performance declined significantly, particularly for the second quarter of fiscal year 2015, a decline USPS attributed to operational changes implemented in January 2015 and adverse winter weather. Performance has rebounded since then, facilitated in part by increases in workforce and mail transportation capacity and costs.
- *Compensation and benefits in an environment of revenue pressures:* Key compensation and benefits costs for USPS employees have increased and continue to increase, while the volume for First-Class Mail—USPS's most profitable product—has declined and continues to decline. 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 demand for their central product and services declined. However, although USPS has taken some steps to improve its financial situation, USPS has stated that its strategies to increase efficiency and reduce costs are constrained by statutory, contractual, regulatory, and political restrictions. USPS is subject to requirements to maintain 6-day delivery, limit rate increases for most mail within an inflation-based price cap, and participate in federal benefit programs. 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 percentage 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 unsustainable financial condition and the competitive environment, we continue to believe—as we reported in 2010[24]—that Congress should consider revising the statutory framework for 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, and 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. Any alternative business model 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.[25]

[24] GAO-10-455.

[25] GAO-13-658.

Finally, a fully functioning USPS Board of Governors is needed to support USPS's ability to carry out its critical responsibilities, as certain powers are reserved to the nine presidentially-appointed Governors who must be confirmed by the Senate. Because the last serving Governor left the Board in December 2016 due to term limits, the 11-member Board currently consists of only the Postmaster General and the Deputy Postmaster General. According to USPS, the critical responsibilities reserved to the Governors include setting postal prices, approving new products, and appointing or removing the Postmaster General and the Deputy Postmaster General. USPS stated last year 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.

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 Chaffetz, Ranking Member Cummings, 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; Derrick Collins, Assistant Director, Physical Infrastructure Issues; Samer Abbas; Antoine Clark; Kenneth John; Josh Ormond; Crystal Wesco; and Chad Williams 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 U.S. Postal Service (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 on 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)	(7.8)	(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)	(47.8)	(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)	(16.7)	(3.8)	**24.0**	**(121.6)**	**69.0**	176%
2016	(15.0)	(20.0)	(12.3)	(52.1)	(17.5)	(3.8)	**25.2**	**(120.7)**	**71.5**	169%

Source: U.S. Postal Service (USPS) Form 10-K Statements. | GAO-17-404T

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 "Total" line for the column labeled "Missed 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 ($33.9 billion) of the fiscal year 2016 $52.1 billion unfunded liability that is attributable to the missed prefunding payments is reflected as such on USPS's balance sheet; the remainder ($18.2 billion) of the $52.1 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 U.S. Postal Service (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)**
2015	177.4	194.1	(16.7)	105.2	109.0	(3.8)	282.6	303.1	**(20.5)**
Projected 2016	174.4	191.9	(17.5)	112.1	115.9	(3.8)	286.5	307.8	**(21.3)**

Source: U.S. Postal Service (USPS) Form 10-K Statements. | GAO-17-404T

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—2015 and projected amounts for fiscal year 2016. Key terms include the following:

Assets include securities of the Civil Service Retirement and Disability Fund (CSRDF). Although CSRDF is a single fund that does not maintain a separate account for each participating U.S. government employer, PAEA requires certain disclosures regarding obligations and changes in net assets as if the funds were separate.

Actuarial liabilities are actual amounts for fiscal years 2007—2015 and projected amounts for fiscal year 2016, 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: U.S. Postal Service (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 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
2016	50.3			0.0	1.5	51.9	104.0	(52.1)	5.8
2017	51.9			N/A	N/A	N/A	N/A	N/A	N/A
Total	**N/A**			**17.9**	**13.9**	**N/A**	**N/A**	**N/A**	**33.9**

Source: U.S. Postal Service (USPS) Form 10-K Statements. | GAO-17-404T

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—2016. 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) 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. Pub. L. No. 109-435 (2006).

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. No. 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 requirement 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.

Table 5: Summary of U.S. Postal Service (USPS) Pension and Retiree Health Benefit (RHB) Funds (Dollars in Billions)

	Total USPS Pension funded status			USPS RHB fund status			Total Pension & RHB summary		
Fiscal year	**Total pension assets**	**Total pension actuarial liabilities**	**Total pension funded status (unfunded)**	**RHB assets**	**RHB actuarial liabilities**	**RHB funded status (unfunded)**	**Total assets**	**Total actuarial liabilities**	**Pension and retiree health benefit funded status (unfunded)**
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	282.6	303.1	(20.5)	50.3	105.2	(54.8)	**332.9**	**408.3**	**(75.4)**
2016	286.5	307.8	(21.3)	51.9	104.0	(52.1)	**338.4**	**411.8**	**(73.4)**

Source: U.S. Postal Service (USPS) Form 10-K Statements. | GAO-17-404T

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—2016 for retiree health benefits, and actual amounts for fiscal years 2007—2015 and projected amounts for fiscal year 2016 for pension benefits, as of the end of each fiscal year. 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 that does not maintain a separate account for each participating U.S. government employer, PAEA requires certain disclosures regarding obligations and changes in net assets as if the funds were separate.

Actuarial liabilities are actual amounts for fiscal years 2007—2016 for retiree health benefits, and actual amounts for fiscal years 2007—2015 and projected amounts for fiscal year 2016 for pension benefits, 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.

(101462)

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Washington, DC 20548

Chairman CHAFFETZ. Thank you.

Mr. Sackler, you are now recognized for five minutes.

STATEMENT OF ARTHUR SACKLER

Mr. SACKLER. Thank you and good morning, Mr. Chairman, Ranking Member Cummings, and members of the committee.

The Coalition for a 21st Century Postal Service or C21 appreciates the opportunity to present our views on the Postal Reform Act of 2017, H.R. 756. We support this bill and urge its approval as promptly as possible. We also support Mr. Lynch's bill, H.R. 760, and urge its approval. Our hope is that you will be able to build upon this rare display of unity among stakeholders behind your bill and move it along.

C21 consists of trade associations and companies broadly representative of the $1.4 trillion mailing industry, which supports some 7–1/2 million jobs. It includes mailers of every kind and every size in every class and category of mail and their suppliers of paper, printing, equipment manufacturer, mail services, and more.

I respectfully ask that the study that presents those numbers be made part of the record.

Chairman CHAFFETZ. Without objection, so ordered.

Mr. SACKLER. We want to thank you, Mr. Chairman, the other original sponsors of this legislation, now joined by Mr. Ross, and your staffs for your efforts and persistence in developing this critical bipartisan bill.

Mr. Chairman, as you and everyone else has noted, the Postal Service is in deep financial trouble. Its balance sheet is awash in red ink, and its operations are barely breaking even. The industry respects the job the Postmaster General and her entire team has done in cutting billions in costs and making the system more efficient and effective.

But it hasn't been nearly enough. There are two prime reasons: technology and obligations imposed under PAEA. Only a few months after the Postal Service had its best year in 2006, Steve Jobs introduced the iPhone and the mobile revolution, including social media, was off and galloping. The mail diversion genie is out of the bottle and no one is going to be able to put it back. And it's a prime reason why there's been such a massive drop-off in the very profitable first class mail.

But the obligations in the tens of billions, especially for the virtually unique mandatory prefunding of postal retirees' health benefits, is a crushing burden that can be dealt with. When included in 2006's PAEA, no one had an inkling of the peril for paper brewing in Cupertino. The front-loaded $5.5 billion annually was marginally affordable, but not now and not for years.

In the face of this huge liability, the industry confronts the stark reality of a review of the postal rate-setting system that will be conducted by Chairman Taub and the Regulatory Commission. There's a serious risk that that liability could be dissipated by rate increases in a new system. That would gravely damage the industry and the Postal Service. To eliminate the Postal Service's red ink would require an increase our economists calculate of about 18 percent. That's unaffordable in today's environment, even if moderated to 6 to 7 percent increases per year for several years running.

H.R. 756 provides an elegant solution to this profound financial problem. Integrating postal annuitants into Medicare will save the Postal Service billions each year and follow the best practices of the private sector. Companies that offer health insurance to employees and retirees generally require them to join Medicare at age 65.

Most important, this integration will preclude the need for taxpayer support. The score on last year's bill with this same change was a net positive. The imposition on Medicare would be comparatively minimal. Integrating remaining annuitants into Medicare is central to our support for this bill.

The implications of this bleak financial situation are near existential for Postal Service in its current form, so we support H.R. 756, notwithstanding its one-time market dominant postal rate increase of 2.15 percent. We accept this increase in this unique set of circumstances only as necessary to achieve this bill and stabilize the Postal Service. Congress has wisely delegated rate-setting to the postal agencies, but with respect, the industry will be compelled to oppose any effort to regard this bill as a precedent for other legislative rate increases.

The industry has long supported the self-sustaining postal system funded entirely by postage. That remains the best course from our perspective. And that is the beauty of your bill. It vastly improves the Postal Service's financial stability, keeps the Postal Service self-sustaining, and wards off any prospect of a taxpayer bailout, as you noted, Mr. Chairman.

With that, I will conclude my testimony. Thank you for this opportunity, and I will be happy to answer any questions you or your colleagues may have.

[Prepared statement of Mr. Sackler follows:]

COALITION FOR A
21st CENTURY
POSTAL SERVICE

Before the
Committee on Oversight and Government Reform
U.S. House of Representatives
Washington, DC

Testimony of
Arthur B. Sackler
Sackler Brinkmann & Hughes LLC
On Behalf of the
Coalition for a 21st Century Postal Service

February 7, 2017

Mr. Chairman, Mr. Ranking Member and Distinguished Members of the Committee on Oversight and Government Reform, my name is Art Sackler, and I appear before you today as the Manager of the Coalition for a 21st Century Postal Service, or C21 as we call it. C21 is grateful for the opportunity to present to you our views on HR 756, The Postal Reform Act of 2017. For reasons this statement will set forth below, C21 supports this bill, and urges Committee markup and approval on the Floor of the House as quickly as possible. In the absence of this legislation, both postal-driven businesses and the Postal Service itself will be in grave financial peril soon.

C21 is a coalition of trade associations and companies from across the face of the mailing industry and its vital supply chain. Together, we broadly represent an industry with $1.4 trillion in annual sales, and employing 7.5 million workers.[1] Neither figure includes the Postal Service itself. Among our members are mailers of every kind making use of all rate classes and categories, the printing industry, the paper industry, manufacturers of equipment and software used by mailers and suppliers, mail service providers, and companies whose base is ecommerce. They range from small businesses through some of the largest corporations in the country. They are located throughout the fifty states. Accompanying this statement is a copy of a recent in-depth study of mailing industry jobs and revenues that we respectfully request be made part of the record. It includes a breakdown of the industry by state and by congressional district for both sales and jobs.[2]

Before we go further, C21 would like to express its great appreciation to Chairman Chaffetz, Ranking Member Cummings, Chairman Meadows, Ranking Member Connolly and Mr. Lynch, and their respective staffs, for the long and difficult effort that has culminated in HR 756. This bill, in C21's judgment, constructively addresses the problems at the core of the USPS financial predicament. Financially stabilizing USPS, as this bill would do, has become a most urgent matter.

The Unfortunate USPS Financial Position and Outlook

Mr. Chairman, as you and the Members of this Committee know well, the Postal Service has been, and continues to be, in a deep financial hole. This is not caused by operations. On the contrary, because of factors such as the extensive cost cutting accomplished by the Service over the past decade largely driven by the price cap in the Postal Accountability and Enhancement Act of 2006, the rapid growth in package deliveries from the boom in ecommerce, and at least some leveling off in the loss of traditional mail, postal operational finances are in relatively good shape.[3]

It is on its balance sheet that USPS is in financial extremis. Because of obligations imposed by Congress in PAEA, primarily the requirement to pre-fund retirees' health benefits,[4] and otherwise (e.g., workers compensation), the Service has confronted a payment load it has been unable to meet in at

[1] Chapman and Johnson, *EMA Foundation's US Mailing Industry Jobs and Revenue Study 2015*, October 6, 2015, attached, and http://www.envelope.org/ipsdocuments?ecp_v=dd&ecp_dp=Postal+Transformation%2FJob+Studies%2F2015+Jobs+Study .

[2] Id. at 25 – 35. The EMA Foundation's study's sales and jobs breakout for all 435 Congressional Districts includes, for example, Utah's Third District, where there are about 13,800 postal-related jobs, and nearly $1.5 billion in postal-driven commerce. In the Maryland 7th, the corresponding numbers are approximately 13,500 and $560 million.

[3] The Postal Service reported an operational surplus of some $615 million for FY 2016. We do note, however, that with the inexorable expansion of addresses to serve, and some new initiatives, postal expenses are up, primarily for adding to the workforce. Given that there is no corresponding increase in Market Dominant mail volume and the great majority of postal revenues it contributes, this equation presents a gathering problem for USPS' operational financial stability, as well.

[4] 5 USC ʃ8909a.

least four years. It has defaulted on its obligation for pre-funding in each of those years, with another one coming up in FY 2017.

There have been no penalties or otherwise adverse actions to the institution or its staff for these defaults, as there should not be for having to choose to keep the postal system running instead of meeting the prefunding and other obligations. That has not meant, however, that the obligations are escaped. The defaulted amounts are simply tacked on to the total to be amortized over forty years as also required by PAEA.[5]

According to the Postal Service, the balance sheet shows the institution in the red by some $81.2 billion overall. Of that, approximately $68 billion is due to the obligations, or "noncontrollable" expenses, imposed by statute. Counting these obligations in an annualized fashion, USPS estimates a net loss of $4.2 billion in FY 2017, continuing a string of that scale of net losses, and a very slight operations surplus. It is, in the view of C21, extremely clear that these obligations must be mitigated for USPS to regain its financial balance.

Placing the USPS Balance Sheet Desolation in its Full and Threatening Context

It is important to put this bleak financial picture in the context of the overall postal ecosphere. Mailers and their suppliers are facing a review and potential reworking of the "modern rate setting system" mandated ten years after enactment by PAEA.[6] Initiated on schedule by the Postal Regulatory Commission on the 10-year anniversary of PAEA's signing into law by President George W. Bush, that process is well under way.

The great fear of the postal-reliant businesses that comprise our coalition and the balance of the industry is that, in the absence of legislation such as HR 756, the Commission may believe itself compelled to make up the gap in USPS finances via the only tool it has in its toolbox: raising postal rates. The industry does not subscribe to the view that the statute authorizes the Commission to abrogate the rate cap,[7] but if the Commission were to proceed to raise rates beyond the cap, it would take years to sort out in the courts.

Were the foregoing to happen, rates would rise dramatically. Our best estimate of how rates would have to rise to fully rectify the postal balance sheet is 17.6%, with CPI-U increases, at least, on top of that. If those increases were stretched out to moderate sticker (or "rate") shock, and balance other rate setting objectives and factors in 39 USC ʃ3622(b) and (c), we estimate the likely course of increase would be 6-7%/yr for three years, followed by at least CPI increases. In either case, the results for mailers and their suppliers would be devastating. For an industry that has never fully recovered from the Great Recession, increases of this magnitude will kill off businesses, cost great numbers of jobs and, most of all, spur flight from the postal system.

In 2017, the state of communications technology combined with demographics pose an unprecedented challenge to USPS. The full-scale acceptance and sufficient trust of email, online banking and a spectrum of other transactions, online promotions and marketing of various kinds and, most of all, mobile technology and its commercial apps, and social media makes diversion from the mail easier,

[5] 5 USC ʃ8909a(d)(2)(B)(2)

[6] 39 USC ʃ3622(d)(3).

[7] 39 USC ʃ3622(d)(1)(A)

dramatically less expensive and more impactful than ever. The millennial generation and large and growing numbers of its elders have become very reliant on this panoply of technology for a great range of communications, distribution, and transactional purposes.[8]

For mailers then, the choice of paper versus electronics becomes one of return on investment. A big component of determining ROI is price. With prices of postage rising in a major way, the ROI becomes eroded, biasing companies against using paper. Pre-Internet, the price of a piece of mail was reliably about one-third for paper, one-third for printing and one-third for postage. Today, postage costs range from 55-70%, depending on the type of mail. This is a reflection of the relentless increases in postage, even if only at CPI-U, over the last ten years while the prices of paper and printing stagnated or even declined.

So, with the increases contemplated above, we believe the probability is high that vast additional volume will be reviewed for removal and diversion to electronic communications. Companies overwhelmingly report that that will be the case.

In this regard, it is of no comfort that the recent "exigent" surcharge imposed on the system did not result in an apparent decline of mail. First, by definition, it was a temporary surcharge so mailers could plan for and absorb it in ways they will not be able to do if faced with the prospect of significant, permanent increases. Second, mailers report that the re-expansion of the economy from the depths of the recession masked the impact of diversion from those increases. That is, companies generally were seeing gains in customers and accounts. With those added accounts, a number remained in paper, although an increasing percentage of new accounts were all-electronic. The net effect was some stasis in mail volumes. With respect, we urge you not to expect a similar result from increases in postage if they are even in the same ballpark as those projected above.

Integrating Postal Annuitants into Medicare is an Essential Part of the Solution

In light of the above, we believe it is imperative that your bill be enacted into law.[9] We start from the premise that the postal system has worked well and should continue to work under a system supported entirely by user fees. We believe that a solution must be found within the four corners of that construct if at all feasible.

That is why we strongly support the Medicare Integration provisions in Title I of your bill. By moving postal annuitants to Medicare at age 65, USPS will realize a savings of some $2.9 billion annually. And by continuing to provide an insurance program under the Federal Employees Health Benefits Program as an employee group wraparound program, or essentially supplemental health insurance, the bill ensures full coverage for all postal annuitants.

These provisions conform to the best practices of the private sector. Companies that maintain health insurance for their employees and retirees routinely require a transition into Medicare at age 65.

[8] See, e.g., https://www.marketingsherpa.com/article/chart/channels-preferred-by-age-groups; https://www.miteksystems.com/blog/83-millennials-expect-mobile-capture-all-mobile-transactions; and http://npf.org/pdfs/presentations/2016/Winning%20with%20Millenials%20and%20Securing%20the%20Future%20of%20the%20USPS.pdf

[9] Accompanying this statement is a letter from more than 1330 companies and trade associations expressing support for the direct antecedent to this bill in the 114th Congress, HR 5714, which we respectfully request be made part of the record. That level of support persists.

The companies may then offer supplemental insurance programs, or at least a contribution to each employee or retiree toward obtaining his or her own supplemental.

There is, however, one other private sector best practice we would urge the Committee to follow: investments of some funds into conservative vehicles. Conservatively investing a minor percentage of the funds in the RHBF will result in returns on those invested funds that are multiples of the current rules constraining these funds to invest in Treasuries at the current 1.7% more or less. This is not only a private sector best practice, but would also follow the successful approach used in the federal Thrift Savings Plan life-cycle funds, and adopted by Amtrak, TVA, the Railroad Retirement Board, and others. The bill introduced by Mr. Lynch, HR 760, The Postal Service Financial Improvement Act of 2017, would accomplish just that. We urge approval by the Committee and a favorable Floor vote on this bill, as well.

In any event, not to integrate all postal annuitants into Medicare would foreclose the only affordable and budget-wise path to stave off a high risk of financial chaos for the postal system and its users and suppliers. Ultimately such a problematic situation would fall to Congress, the guarantor of all postal obligations, which would have to respond with taxpayer funds or radically change the system. No one wants a bailout or the disruption severe change would cause throughout the country, and especially in rural areas.

C21 Members Accept the 2.15% Market Dominant Increase in HR 756 as a Unique Necessity

Sec. 207 of your bill would impose a one-time 2.15% market dominant-wide rate increase. To put it bluntly, mailers do not welcome rate increases generally, including this one; they are bad for business, although acknowledged that within limits a cost of doing that business.

C21's members also are concerned about the precedent of returning some rate setting to and by Congress. Congress wisely delegated its rate setting authority to the two postal agencies it created in 1970's Postal Reorganization Act, and reaffirmed in 2006's PAEA. By taking politics out of the Postal Service, Congress assured that rate setting according to standards it set would be handled in a dispassionate manner by professionals at the Service and at the regulator. It also assured that its Members would not have to spend precious time and staff resources in a bid to address complex and numerous postal rates in an equitable manner. While hardly a perfect system, rate setting both under PRA and after PAEA has generally been balanced and objective; something that is considerably harder to achieve in a political environment.

Nonetheless, we accept the necessity *in this unique set of circumstances* for the one-time across-the-board 2.15% increase (so long as it is not raised above 2.15% and Medicare Integration is achieved throughout the legislative process[10]) as, from our perspective, a necessary evil to assure longer-term postal financial stability. Our support for the bill overall will remain notwithstanding this increase. And it will certainly not hurt the Postal Service to receive an additional $1.1 billion annually from this increase.

C21 does wish to add, however, for the record that it will strenuously oppose any attempt to view this increase in this unique situation as a precedent for any other legislated increase. Postal rates

[10] Were either of these two conditions no longer to be met, our coalition would be compelled to withdraw our support for this bill, and oppose it.

are user fees, not taxes. They should, therefore, never be viewed as the source for an offset of any other budgetary or non-budgetary government expenditure that does not impact the postal system directly and exclusively. It is worth reiterating what Members of this Committee well understand: mailers must pay taxes, but they can choose not to mail.

Service Performance Execution to Standards Should be Addressed

Medicare Integration and the rate increase are the two core provisions in HR 756, in our judgment, essential to maintaining the financial viability of USPS. However, there is one other area that we believe needs to be addressed in any finished legislative product: execution to service standards.

Many of our members have reported service problems, notably failures to meet the revised, slowed service standards of recent vintage. This has been particularly visible in rural areas, but the reports cover all Market Dominant mail categories. C21 believes it is important to compile and examine these failures with a view toward meeting service standards universally and reliably. C21 members understand that the Postal Service "gets it" on service and has been making major efforts and investments to enable meeting its standards in a very high percentage of its mail, while continuing its necessary emphases on efficiency and cost effectiveness. Nevertheless, reports of problems persist.

Therefore, C21 believes that the best way to approach resolving these problems would be to charge the Postal Regulatory Commission with studying within specified time limits affordable options, in conjunction with the Postal Service and postal stakeholders, to ensure current service standards are being met universally and reliably.

We urge you to consider an approach that would address this issue.

Nonpostal Services

The physical delivery of mail and packages is the core function of the Postal Service. C21 supports the USPS's efforts to develop innovative mailing and shipping services. Continued innovation around the delivery function is necessary to enhance the value of mail, facilitate e-commerce and grow mail and package volumes. C21 also supports a small amount of additional flexibility for USPS to assist in providing limited governmental services on behalf of other federal agencies, or state, local and tribal governments, as provided in sec. 204 of your bill.

We do not, however, endorse expansion into unrelated fields, such as banking, insurance, telecommunications, printing or the provision of mail services. This is for three reasons: 1) it would be huge distraction of executives' time and existing, precious postal resources to develop such additional businesses; 2) it could easily create unfair competition with the government in the field; and 3) based on past history, it would generate fierce opposition from industries affected, and bog down or even stop any progress on urgently needed legislation. Nor should USPS be permitted to expand into private markets by licensing the USPS brand or other intellectual property. Businesses generally believe that USPS should stick to its core competencies in collecting, handling and delivering mail.

We believe HR 756 has struck the right balance on these services.

Once again, Mr. Chairman, the Coalition for a 21st Century Postal Service appreciates this opportunity to present our views to your Committee. The time to act is now and your bill presents an intelligent, workable and bipartisan approach to fixing the problem. We commend the bill and I would be happy to respond to any questions you or your colleagues may have.

Chairman CHAFFETZ. Thank you.

Mr. Rolando, you are now recognized for five minutes.

STATEMENT OF FREDRIC V. ROLANDO

Mr. ROLANDO. Thank you, Chairman Chaffetz and Ranking Member Cummings and members of the committee for the opportunity to testify on behalf of ——

Chairman CHAFFETZ. I am not sure that mic—is that microphone on?

Mr. ROLANDO. No.

Chairman CHAFFETZ. Oh, okay. But is the—there.

Mr. ROLANDO. Is that better?

Chairman CHAFFETZ. That is much better.

Mr. ROLANDO. All right.

Chairman CHAFFETZ. There you go.

Mr. ROLANDO. Again, thank you for the opportunity to testify on behalf of 295,000 active and retired letter carriers and the three other postal unions, the APW, the Rural Letter Carriers, and the Mail Handlers union.

We commend the committee for introducing H.R. 756 and Representatives Lynch and McKinley for introducing H.R. 760, a bill that would greatly improve the way the Postal Service's trust fund for retiree health benefits is invested.

This morning, I will focus my remarks on the postal reform bill. Please see my written testimony to see why we support the Lynch-McKinley bill.

By introducing H.R. 756, the leadership of this committee has set a standard for bipartisan cooperation on legislation that should be emulated. The bill has broad support across the mailing industry, including business and labor, and is based on best practices in the private sector. Bipartisanship on postal reform makes sense given that the Postal Service is based in the Constitution and operates independently without taxpayer funds.

It is vital to our national economic infrastructure. We serve every community, every household, and every business in America at least six days a week. At 84 percent, few organizations have higher public favorability rating than the post office, and no other agency engenders a greater sense of trust. In the age of e-commerce, vote-by-mail, and mail-order prescription drugs, it's more important than ever.

There is broad agreement among all the major stakeholders that legislation is urgently required to strengthen the Postal Service. Our coalition of stakeholders believes that the two bills introduced last week have the essential elements needed to stabilize and fortify the Postal Service for years to come.

Over the past decade, postal employees have worked diligently to restructure operations, cut costs, and sharply increase productivity in response to technological change and the Great Recession. Despite the loss of more than 200,000 jobs, we've managed to preserve our networks and to maintain our capacity to serve the Nation.

But only Congress can address our biggest financial challenge, the unique and unsustainable burden to prefund future retiree health benefits decades in advance. No other enterprise in the country faces such a burden, which was imposed by legislation in

2006. The expense of this mandate has accounted for nearly 90 percent of the Postal Service's reported losses since 2007. Without a change in the law, the mandate will cost $6 billion this year alone.

H.R. 756 would maximize the integration of Medicare and our Federal health program for Medicare-eligible postal annuitants, most of whom have already voluntarily enrolled in Medicare Parts A and B.

The proposal would also give us access to low-cost prescription drugs and other benefits provided to private employer plans by the Medicare Modernization Act. The savings would help to reduce all of our premium costs, and therefore, prefunding costs. This approach adopts the standard practice of large private companies that provide retiree health insurance. It would effectively resolve the prefunding burden that undermines the health of the Postal Service while only raising Medicare spending by 1/10 of 1 percent over 10 years.

H.R. 756 also addresses a revenue shortfall caused by the expiration of the 2013 exigent rate increase authorized by the Postal Regulatory Commission to help the Postal Service recover from the permanent decline in mail volume caused by the Great Recession. The compromise adopted by your leadership bill, effectively restoring half of the exigent increase, is a reasonable one.

Mr. Chairman, your bill effectively deals with the two core issues that must be addressed: the unaffordable prefunding mandate and the expiration of the exigent increase, and it does it in a way that meets the budget scoring rules of the Congressional Budget Office. All four postal unions urge the committee to adopt this legislation. We pledge to work with all of you in our broad coalition of mailing industry partners to achieve postal reform this year. Together, we can strengthen a great national institution and, even better, we can show the country that it is still possible to make our democracy work for the common good at a time of great partisan polarization.

Thanks again for inviting me to testify today.

[Prepared statement of Mr. Rolando follows:]

Testimony of

Fredric V. Rolando

President, National Association of Letter Carriers

to a Hearing on "Accomplishing Postal Reform in the 115th Congress"

by the House Committee on Oversight and Government Reform

February 7, 2017

Thank you, Chairman Chaffetz and Ranking Member Cummings, for the opportunity to testify today on behalf of NALC and its 295,000 members, active and retired letter carriers who live and work in every community in the country. I am pleased to represent the other three postal unions in today's hearing -- the American Postal Workers Union, the National Rural Letter Carriers Association and the National Postal Mail Handlers Union. We commend both of you along with Chairman Meadows, Ranking Member Connolly and Reps. Lynch and Ross for your dedication to our constitutionally-mandated Postal Service and your commitment to achieving postal reform through the introduction of H.R. 756, the Postal Reform Act of 2017. I also wish to add a special thank you to Congressman Lynch for re-introducing his bill, H.R. 760, the Postal Service Financial Improvement Act of 2017. That bill would dramatically improve the way the assets of the Postal Service Retiree Health Benefits Fund are invested.

Mr. Chairman, you have asked me to discuss the urgent need for postal reform legislation and how the pending review of the postage rate-making system by the Postal Regulatory should influence the debate over postal reform. I am happy to do that today.

There is broad agreement among all the major stakeholders – and increasingly in Congress

– that legislation is urgently required to strengthen the Postal Service. NALC and the other postal unions believe that H.R. 756 and H.R. 760 have all the elements needed to stabilize and fortify the Postal Service for years to come. Before discussing these elements, it is important to acknowledge all that we have done to strengthen the Postal Service on our own. Indeed, the Postal Service and its employees have worked diligently since the last major postal reform bill was passed ten years ago to restructure operations, cut costs and markedly increase productivity in response to technological changes and the effects of the Great Recession. In fact, even as the number of delivery points continued to grow by about one million addresses per year, the postal workforce has been reduced by more than 200,000 positions. In so doing, we've successfully managed to preserve our networks and to maintain our capacity to serve the nation.

Although we will continue to adapt and evolve to meet the changing needs of America's businesses and households in the years ahead, only Congress can address our biggest financial challenge: the unique and unsustainable burden to massively prefund future retiree health benefit premiums decades in advance. No other enterprise in the country faces such a burden, which was imposed by the Postal Accountability and Enhancement Act (PAEA) of 2006. The expense of this mandate has accounted for nearly 90 percent of the Postal Service's reported financial losses since 2007. Without a change in the law, that mandate will cost nearly $6 billion in FY 2017 alone.

These reported losses have obscured a tremendous operational comeback in recent years, as the combination of a boom in e-commerce delivery, record productivity and stabilizing letter mail volumes have helped the Postal Service record operating surpluses over the past three years.

In fact, the Postal Service, which requires no taxpayer appropriations, remains a vital component of this country's economic and communications infrastructure. In 2016, the Service delivered more than 150 billion pieces of mail and became an even bigger player in the booming e-commerce sector, now offering 7-day delivery. Almost one half of all bills are still paid by mail. The majority of bills and statements received by households are still delivered by mail. Trillions of dollars move through the postal system every year. The Postal Service's $72 billion in revenue is only a small part of the $1.4 trillion of GDP accounted for by the U.S. mailing industry, which now employs 7.5 million Americans, mostly in the private sector. The health of this huge industry depends on a healthy Postal Service.

Although the Postal Service's 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 have done our part to preserve the Postal Service, which enjoys an 84 percent approval rating with the American people according to the most recent Pew Research survey on federal agencies. By advancing H.R. 756 and H.R. 760, Congress can now do its part to extend the Postal Service's 240-year history of serving America deep into the 21st Century.

H.R. 756 – The Postal Reform Act of 2017

There are two major legislative/regulatory burdens placed on the Postal Service under current law. The prefunding mandate and an overly restrictive and inflexible cap on postage rates. Relief from these burdens would go a long way toward strengthening the Postal Service over the long run. Fortunately, the Postal Reform Act of 2017, introduced last week by the leaders of this committee, effectively addresses these burdens in a way that the meets the budget scoring rules established by the Congressional Budget Office.

The prefunding mandate

As I indicated in the introduction to this testimony, 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. Congress adopted this mandate in a most inflexible manner. 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 pre-funding expense is actually expected to increase in 2017 – and every year thereafter -- as a result of these actuarial-based payments. They will be even more unaffordable than ever.

According to an annual survey of Fortune 1000 companies by Towers Watson, only 38 percent of such firms pre-fund retiree health at all – that is, 62 percent don't prefund at all. (See *Perspectives: Accounting for Pensions and Other Post-Retirement Benefits, 2015.*) Those companies that voluntarily pre-fund typically make contributions only when the companies 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 misleading impression that the Postal Service is failing operationally.

The damage the prefunding mandate has inflicted is not just financial. It has starved the Postal Service of needed investments, most notably the urgent need to replace its obsolete fleet of vehicles. It has also adversely affected the quality of service received by the American people, especially in the immediate aftermath of the Great Recession. Between 2008 and 2013, the Postal Service removed tens of thousands of mail collection boxes; slashed the operating hours of thousands of post offices; and reduced its service standards in order to dramatically downsize its network of mail processing plants. When we diminish services we risk unnecessarily driving mail volume out of our system.

The leadership of this committee reached bipartisan consensus on a concept for addressing the prefunding burden during the last Congress, which was included in a bill (H.R. 5714) adopted by the Committee but never presented to the full House of Representatives for a vote. It included reforms to the Federal Employees Health Benefit Program (FEHBP) as it relates to postal employees and Medicare coverage. These reforms, which are modeled on best practice in the private sector, would all but eliminate the Postal Service's unfunded liability for future retiree health benefits. We are very pleased your new bill retains these reforms.

Under H.R. 756, FEHBP plans would segregate postal employees and postal annuitants into a separate risk pool and all postal annuitants would enroll in Medicare Parts A&B when they reach 65 years old. (At present, 80-90 percent of postal annuitants already voluntarily enroll in the two main parts of Medicare.) The proposal would also give FEHBP plans access to low-cost prescription drugs and other benefits made possible by the Medicare Modernization Act. The savings would help reduce FEHBP premium costs -- and prefunding costs. Indeed, about half the reduction in the Postal Service's unfunded liability would come from prescription drug savings; the rest from maximizing the participation in Medicare Parts A and B.

This approach ensures that the Postal Service and its employees fully benefit from the $30 billion they have contributed in Medicare taxes since 1983 and adopts the standard practice of large private companies that provide retiree health insurance. This reform would effectively resolve the prefunding burden that undermines the health of the Postal Service while raising Medicare spending by just one-tenth of one percent over the next 10 years.

Pricing regulation

The second major burden placed on the Postal Service is the stringent and inflexible system adopted by the PAEA for regulating postage rates. In the testimony we presented to this committee in May 2016, we outlined the many shortcomings of inflexibly tying the rise in postage rates to increases in the Consumer Price Index. There is no need to rehash those shortcomings here in this testimony because the Postal Regulatory Commission has initiated a comprehensive review of the price-setting process for so-called Market Dominant services. This review was mandated by the PAEA, which also empowers the Commission to make changes if the objectives of the current system are not being met. We believe that the PRC is the most appropriate venue for deciding the future regulation of postage rates and other issues related to cost accounting and rate structures.

However, we believe this Committee should address one rate issue that was not contemplated by the 2006 law – the expiration of the 4.3 percent exigent rate increase authorized by the PRC to help the Postal Service recover from the permanent decline in mail volume caused by the Great Recession of 2008-2010. Given this permanent decline in volume, we believe that the PRC should have made the exigent increase permanent. Nevertheless, after years of litigation between the PRC and the USPS and other parties, the exigent increase expired on April 10, 2016.

This has complicated the task of stabilizing the Postal Service's finances. The loss of $2 billion in annual revenue resulting from the expiration means that the Postal Service's modest, yet healthy operating profits in recent years (approximately $1 billion annually) will turn into operating deficits of approximately $1 billion annually. In January 2016, before the April 10th expiration of the exigent increase, the four postal unions, the Postal Service and a significant number of major mailers, argued that Congress should freeze Market Dominant postage rates in place until the PRC review is completed (waiving the final two CPI-based increases) as part of a narrowly focused set of reforms to strengthen and stabilize the Postal Service. This would have effectively made the exigent increase permanent.

Even after the exigent increase expired, our industry coalition worked to forge a consensus approach to the exigent rate increase issue. The compromise adopted by your leadership bill – effectively restoring half of the exigent increase – is a reasonable one. We are very pleased that this compromise is included in H.R. 756.

We believe that there is an urgent need to enact legislation along the lines of H.R. 756 because if we do not, the current PRC review of the rate-setting process will have no choice but to address both the burden of prefunding and the need to make up for the lost exigent increase revenues. That could lead to an untimely rate shock that neither the American people nor the Postal Service's diverse group of stakeholders would welcome.

As the Committee prepares to mark up H.R. 756, we will suggest minor improvements to the language in two sections of the bill. With respect to integration with Medicare Part B, I am sure that is nobody's intent to require any current Medicare-eligible annuitant to enroll in the program if neither the annuitant nor the Postal Service can benefit from doing so. A modest tweak in the language would address this rare circumstance. With regard to the proposed policy of providing all new addresses with curb-line or centralized delivery, we'd suggest giving the Postal Service the flexibility to make sensible exceptions to the policy if it is more efficient or financially beneficial to do so. Again a modest tweak in the language in Section 202 could accomplish this.

We urge the Committee to quickly schedule a mark up of H.R. 756, and then to vote for its approval.

H.R. 760 – The Postal Financial Improvement Act of 2017

Let me now turn to another legal burden that undermines the financial stability of the Postal Service: the overly restrictive investment policies applied to the Postal Service's retirement funds. We are pleased that this committee will review these policies by considering Mr. Lynch's bill, H.R. 760, the Postal Financial Improvement Act.

In general, the Postal Service has incredibly well funded retirement plans, although declining interest rates in recent years have temporarily inflated liabilities and created relatively small unfunded liabilities. At the end of 2015, the Postal Service's CSRS and FERS pension funds were 93.2 percent funded – well into the healthy "green zone" under the private sector Pension Protection Act and much better than the 80.3 percent funded percentage for the 100 largest pension plans according to the November 2016 Pension Funding Index produced by the Milliman Company. At the same time, while the median level of funding for retiree health benefits among Fortune 1000 companies is zero percent (0 percent), 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 $338 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. Best practice in the private sector is to invest in a well-diversified portfolio of private sector stocks, bonds and real estate as well as government bonds.

The best place to begin improving the way the Postal Service invests its assets for retirement costs is the PSRHBF. It makes the most sense because it is a unique burden of the Postal Service and the assets in the PSRHBF are not commingled with the assets of other agencies, as in the case with the CSRS and FERS plans.

Current PSRHBF investment policy effectively forces the USPS (postage rate payers) to give Uncle Sam a low-cost loan instead of investing strategically to cover future health care liabilities. The retiree health fund has been earning 3-4 percent on its Treasury bonds, but long-term health care costs are rising 5-7 percent annually. It makes no financial sense to invest the PSRHBF in assets that yield less than the rising cost of health care.

Thankfully, H.R. 760 would allow us to move toward private sector best practice by adopting a more sensible investment policy for the Postal Service Retiree Health Benefits Fund, which now holds $52 billion in trust to cover the Postal Service's share of retiree health care premiums.

H.R. 760 would direct the Secretary of the Treasury to invest up to 30 percent of the PSRHBF's assets in private sector stock and bond index funds -- the kind of safe, non-political, low-cost funds offered by the federal Thrift Savings Plan. Under the bill, the Secretary would hire one or more investment managers and chair an Investment Committee to manage the investments in private sector index funds. By adopting H.R. 760, Congress could:

- Raise the long-term rate of return on the retiree health fund's assets;
- Reduce the burden of prefunding;
- Offset the cost of postal Medicare integration;
- Relieve upward pressure on postage rates; and
- Reduce the misguided impulse to slash service levels

H.R. 760 is identical to a bill adopted by this Committee in the last Congress – H.R. 5707. One of the much discussed challenges of the bill last year was the complications posed by the need to convert some of the PSRHBF's non-marketable Treasury securities into cash before using it to purchase private sector index funds. We believe this challenge could be overcome if H.R. 760 were amended to provide for the creation of a separate off-budget investment fund on the balance sheet of the Postal Service, instead of taking assets out of the PSRHBF to execute new investments. We could call this new fund the USPS Health Investment Trust (HIT). The same Investment Committee could then be directed to invest some or all of its future normal cost and amortization payments through the HIT. (These payments would, under current law, flow directly into the PSRHBF. But in the future they could be invested by the HIT first.)

The assets in the HIT would be invested as directed by the bill – in index funds of stocks, bonds, and government securities -- and be used to fund the PSRHBF, as needed. The Postal Service could be required to maintain a minimum balance in the PSRHBF – for example, enough to cover three to five years of postal retiree health premiums, held 100 percent in Treasury bonds the way it is now.

With or without these improvements, we urge the Committee to adopt H.R. 760 so that it may be considered along with H.R. 756 by the full House of Representatives.

Conclusion

The introduction of these bills and today's hearing are two vital steps in what will surely be a long-process. Last year the legislation was referred to both the Ways & Means and Energy & Commerce Committees. Meanwhile, the Senate will also have to agree to take it up in the weeks and months to come. On behalf of more than half a million active and retired postal employees, I want to thank the leaders of this committee for beginning this process.

All four postal unions urge the Committee to adopt this legislation as quickly as possible. We pledge to work with all of you and our broad coalition of mailing industry partners to make this legislation a reality. Together, we can not only strengthen a great national institution to better serve the American people and its businesses, we can also show how it is possible to make our democracy work for the common good at a time of great partisan polarization.

Thank you, Chairman Chaffetz, Ranking Member Cummings and all the Members of the Committee for inviting me to testify on this crucially important matter.

Chairman CHAFFETZ. Thank you. I love your passion for it, and not many people get choked up on postal reform so we appreciate your passion there and ——

Mr. ROLANDO. It's in my blood.

Chairman CHAFFETZ. There you go. Thank you. Thank you very much.

I will now recognize myself for five minutes.

One of the choices that is before us is to do nothing, right? Just let her go, just keep on the same trajectory. I would like to kind of hit the three—let's start with Ms. Rectanus. From your perspective, do nothing, what happens?

Ms. RECTANUS. To be quite simply—to be, you know, I guess the doomsday is we're going to run out of money. As an example, in 2017 with the restructuring the $52 billion that the Postal Service has put aside, that's where premiums are going to start to come out of now. And given that for retirees, the Postal Service has paid three to four premiums a year, billion dollars in premiums a year, with a total of $52 billion it's not hard to understand that that fund's going to run out of money. So if we run out of money, what happens? Either the—we're talking about a taxpayer bailout, as you had talked about. We're talking about reducing pay in benefits, which could come to trouble. Or we could talk about saddling the Postal Service with coming up with more money when they probably do not have that. So there's not really a good scenario other than we're going to run out of money.

Chairman CHAFFETZ. Chairman Taub, what is your perspective on that?

Mr. TAUB. I'd concur with GAO on that. You know, I think I would add that we're in some ways past the point where it's somewhat salvageable. I think in the early years after the Great Recession, if it was just the prefunding issue and that had gotten fixed, the Postal Service may have had some breathing room.

Right now, over half of the problem goes beyond just the prefunding and we're starting to see, as I said, the impact of assets that have not only—getting to the end of their depreciated life but are fully depreciated. And the inability to invest in where there are opportunities of innovating the core, as the Postmaster General calls it, you need capital to do that. And when your borrowing authority is maxed out, you have roughly 30 days of cash on hand, not only would I concur with the GAO's assessment but I would argue we're already in the danger zone.

Chairman CHAFFETZ. What is your general perception if you can—and you may not be able to—but what is your general perception of what would happen to postal rates?

Mr. TAUB. Under current law, as we speak, the majority of their products, market-dominant letter mail, periodicals, flats, advertising mail are capped at CPI and only for extraordinary circumstances. We're in the midst of that review now trying to balance these nine objectives. I would note in regard to your question and the focus of the hearing today, objective number five speaks of having financial viability in the sense of retained earnings and financial stability. So one of the nine objectives that must be applied equally goes to the heart of this financial issue.

Chairman CHAFFETZ. And, Postmaster, from your perspective, we do nothing, what does that picture look like?

Ms. BRENNAN. Yes, Mr. Chairman, clearly the financial condition worsens and the continued default on legally obligated payments that impact both current employees and retirees. And the most egregious failure would be an inability to meet our obligation to serve the American public, an inability to deliver the mail.

Chairman CHAFFETZ. What is your current cash on hand? And then once you give me that number, then why isn't that used to pay some of the payments that were due? You have defaulted, I believe, on five payments.

Ms. BRENNAN. Yes, Mr. Chairman. We've defaulted for the past five years to the tune of $33.9 billion. Our current cash on hand is $8.2 billion. And a determination was made by the Temporary Emergency Committee, which consisted at the time of our lone independent governor, myself, and the Deputy Postmaster General to default on that payment to ensure that we can serve sufficient cash, which for an organization of our size is arguable at best—but to reserve sufficient cash to ensure if there is any contingency that would occur in the near-term, we could at least have some cushion.

Chairman CHAFFETZ. I mean, you have more cash than some of the others who are in the mail industry, but where is that proper balance? Where is ——

Ms. BRENNAN. Well, and I think—that's a concern, Mr. Chairman, because for an organization that has expenditures of more than $70 billion a year, we would submit that $8.2 billion is insufficient. That's the concern for us. And also as noted by the chairman—and we've discussed this—the fact that we have deferred on critical capital investments in the past five years to the tune of over $8.9 billion, that impacts our ability to compete and to generate additional revenues.

Chairman CHAFFETZ. Tell us if you can give me a perspective on your fleet management. There was a hearing I think Chairman Meadows chaired earlier about the fleet. We were concerned the Postal Service was going to come up with a very sizeable contract to—but explain to me where you are in the fleet and where you—your perspective on it.

Ms. BRENNAN. Yes, Mr. Chairman. Well, we have one of the largest civilian fleets in the country with over 212,000 vehicles traveling more than 4 million miles a day. The fleet, though, is at the end of its expected life, particularly our delivery vehicles that the average age is over 25 years. And the maintenance—annual maintenance cost is over $1 billion.

So we have an approach to look at the next-generation delivery vehicles that currently we're in the midst of a prototype testing period where we're working with six different suppliers to provide us with these vehicles that we will test over the course of the next 18 months. We also just this week actually—a request for proposal for a commercial off-the-shelf solution for right-hand-drive vehicles is expected. So we've got a multi-prong approach looking at how to address the vehicle fleet.

Chairman CHAFFETZ. Okay. Mr. Cummings had a follow-up on that whole ——

Mr. CUMMINGS. Yes, just one question. What are we doing about—when you consider the fleet—making it in America? I mean, are these—what do you all aim at? Is there any—you know, we have got a lot of concern about trying to make sure we give our automobile industry as much business as possible. I was just wondering what you are doing there.

Ms. BRENNAN. And, Congressman Cummings, we don't—we haven't made any decision in terms of the production phase of that next-generation delivery vehicle, but we will follow our typical protocol, which is preference for domestically sourced parts, and we will require production of the vehicle, assembly of the vehicle in the United States.

Mr. CUMMINGS. Well, you should expect to hear from President Trump this afternoon.

Chairman CHAFFETZ. All right. I will now recognize the gentleman from Massachusetts, Mr. Lynch, for five minutes.

Mr. LYNCH. Thank you, Mr. Chairman. And I want to thank the witnesses.

Mr. Chairman, you deserve great credit on this. I have to say you have done a masterful job with the able support of Mr. Cummings and the relentless leadership of Mr. Connolly and Mr. Meadows, who have really avoided the landmines during this whole process. And I think as well we have been helped enormously by Ms. Lawrence on our side and Mr. Ross, who a long time ago got into this battle.

There are a bunch of others—you know, this has been a negotiation. We have been in the trenches. It has been a little bit like mudwrestling at times, but we have come out of this in pretty good shape based on the stakeholders' testimony this morning. And I don't want to leave anybody out here. I know that Fred Rolando, our president of Letter Carriers, is here, but also behind him Jim Sarver and Corey Kelly have been enormously helpful to us during negotiations. With the Rural Letter Carriers, Jeanette Dwyer and Paul Swartz have been terrific. The APWU, that is my mother's union and my sister's union. I have about 17 members of my extended family that are either letter carriers or postal clerks, so this is important for me to be able to go home.

But Mark Dimondstein and Jennifer Warburton have been terrific with us, great job. And our mail handlers' President Paul Hogrogian and also Bob Losi with the Labors International and the Mail Handlers union have been terrific. And also Postmaster Bryan, you have been dynamite on this. And there has been—you know, there has been compromise necessary on all parts but you have been terrific in your relationship with the unions, which has made my life much easier but also Sheila Meyers and Ron Stroman, our old friend who used to be on this committee. And as well the staff on both sides, majority staff has been extremely patient, as has our staff. They have been doing a great job.

Probably the key component of this proposal is really—is two-pronged. One is the establishment of postal-specific health plans within the Federal Employees Health Benefit Program. What we are going to do is require postal employees to actually sign up for Medicare and coordinate their benefits. It is going to save us a ton of money and also get away from that annual $5.5 billion that we require the Postal Service to contribute to accelerating their retirees' health benefits.

But I do want to ask the Postmaster General about that. So there are some concerns out there about the funding of that piece that will require postal employees to sign up for Medicare and that it is some type of giveaway. That is what I have heard out there. Now, you and I know differently, but could you explain to me how much money the postal workers have contributed to Medicare but in large part have not participated in that? Could you describe that for me, please?

Ms. BRENNAN. Yes, Congressman. In our opinion this is a question of fairness. We're merely asking that we be treated like any other self-funded entity that provides retiree health benefits, as noted by a number of the panelists. It's best practice in private sector. And that's the ask from the Postal Service. And our employees in the Postal Service have paid more than $30 billion into the Medicare trust fund since the early '80s, and we're just asking to receive the benefit for which employees have paid.

Mr. LYNCH. That is great. Mr. Rolando, on the accelerated funding of employee health benefits that costs the post office about $5.5 billion a year. Is there any other agency in the United States Government that is required to accelerate their funding like this or are they allowed to pay as people are projected to retire?

Could you press your—there you go.

Mr. ROLANDO. Sorry.

Mr. LYNCH. You sound like a Patriots fan.

Mr. ROLANDO. No comment.

Mr. LYNCH. Take the Fifth, I know.

Mr. ROLANDO. No, there's no other agency or private company that is required to do the prefunding. And I think relative to the chairman's question, I think what happens absent the legislation is one of two things. We either are in a position to just pay the premium each year for the retiree health benefits and remain 50 percent prefunded, which is 50 percent more than anybody else. Or the other option would be if we need to be at 100 percent, we have to deal with that in the rates process, which nobody else wants to do.

Mr. LYNCH. Okay. Thank you very much. Mr. Chairman, I thank you for your indulgence, and I yield back.

Mr. MEADOWS. [Presiding] I thank the gentleman.

Ms. Brennan, I want to make sure we clarify one thing. I think your statement was that—and maybe I misheard—that postal employees pay $30 million. I think it's $30 billion ——

Ms. BRENNAN. Thirty billion, sir, yes.

Mr. MEADOWS. Okay. All right.

Ms. BRENNAN. Yes, $30 billion.

Mr. MEADOWS. Thank you. The chair recognizes the gentleman from Texas, Mr. Farenthold, for five minutes.

Mr. FARENTHOLD. Thank you very much. And, Postmaster General Brennan, the big financial crush obviously that we hear again and again is the decline in the volume of first class mail, which is basically your profit center. And so is there a bottom to this where, as people start to get all of their bills by electronic mail and are paying electronically, email penetration is way up there in this country, but there are certain things you just want to do in the mail, you know, thank-you notes, certain types of invitations. I am much more likely to open a—well, that is not first class but we get into advertising. I would much rather—I am much more likely to open a catalog that comes to me in the mail than I am to click on something in a, quote, "spam" type email. So is there a bottom to the loss of volume that has been looked at or projected anywhere? And is there a turnaround there?

Ms. BRENNAN. Congressman, the single-piece first class mail, which is the stamp mail which is most susceptible to electronic diversion, we do project out the current secular trends to continue, roughly a 4 percent decline each year.

Mr. FARENTHOLD. In perpetuity?

Ms. BRENNAN. As far out as the next five years. Beyond that, I think it's more art than science at—frankly. What I would submit is that the largest portion of the first class mail piece is commercial mail, which is, as an example, bill presentment. Mr. Sackler represents a number of these mailers and would tell you that the value of that mail—and many consumers still want that statement in the mail. We have worked with the industry, promotions to turn that mailroom into a marketing center as opposed to just a cost center. So that's gone a long way in terms of helping to stabilize that particular component of the mail.

But I think our responsibility, and we've demonstrated that, is that we will continue to scale to demand ——

Mr. FARENTHOLD. Okay.

Ms. BRENNAN.—adjust the infrastructure ——

Mr. FARENTHOLD. All right.

Ms. BRENNAN.—as necessary.

Mr. FARENTHOLD. So there is a limit to how you can scale to demand I would think when you have got to service 100 percent of the country. So I guess that is my next question is you mentioned that part of your expenses is six-day delivery to everywhere. Is it worth looking at at some point in the future maybe not six days to everywhere for everything? I mean, to be competitive, maybe you do need six and actually I think one of your competitive advantages is seven-day package delivery. You know, over Christmas I got packages from Amazon that you guys brought on Sunday. Matter of fact, I got one a couple of weeks ago. Apparently, you are still doing it.

So is shrinking to a less-than-six-day delivery for non-packages a potential cost-savings?

Ms. BRENNAN. Yes, as you noted, we are delivering packages seven days in select locations, primarily major metropolitan areas. The ——

Mr. FARENTHOLD. I am happy Corpus Christie, Texas, is now a major metropolitan area.

Ms. BRENNAN. I said primarily, and we are expanding that because certainly we serve every home and every ——

Mr. FARENTHOLD. Right.

Ms. BRENNAN.—business, Congressman. To your point, and candidly, we've spent the better part of the past two years trying to build a coalition around core provisions of a bill likely to generate broad support. And that's what we focused on. And also I would offer candidly it's been my experience that there's no congressional consensus around moving to five-day delivery.

Mr. FARENTHOLD. Well, I can tell you that for sure as well.

But let's go back to Amazon for a second. I think they gave you all a big boost over the holiday season. I think they are a number-one customer for package delivery across you and your competitors in the country, but their stated goal is to cut you guys out. So I mean in the long term is this something that you can count on or am I going to see the Amazon drone delivering my package?

Ms. BRENNAN. Amazon is obviously a valued customer and business partner. I would say that there is competition in every product line and none more than in the last mile of delivery, whether it be the traditional competitors, Amazon, the crowdsourcing of package delivery. So we're well aware of what those headwinds look like. And again, I would offer that our ability then to scale to demand. We've got to compete for that business every day, and we'll continue to do that to earn that business.

Mr. FARENTHOLD. All right. And finally, you talked about capital expenses beyond—your biggest being vehicles. What are your big capital—just list off the couple of items that are your big capital items beyond vehicles.

Ms. BRENNAN. Information systems, our IT infrastructure, repair and alteration, facility modifications, additional capacity for package sortation.

Mr. FARENTHOLD. All right. Well, I see my time has expired. I may be around for a second round of questioning if you guys are.

Ms. BRENNAN. Thank you.

Mr. FARENTHOLD. Thank you.

Mr. MEADOWS. I thank the gentleman. The chair recognizes the ranking member of the full committee, Mr. Cummings.

Mr. CUMMINGS. Thank you very much.

Ms. Rectanus, the last time you were here to discuss the postal issues in May of 2016, you testified, and I quote, "The Postal Service's financial condition continues to deteriorate." You attributed the decline in the financial condition to declining mail volume and growing expenses. What trends have you observed in the Postal Service's financial condition over the last eight months? And has that deterioration continued?

Ms. RECTANUS. We've observed a continued—sort of the same decline that we saw before, the same types of losses, about the same nonpayment of the prefunding continuing and the difficulty to generate the kind of revenue in order to support the expenses.

Mr. CUMMINGS. And let's go through some of the financial figures for fiscal year 2016, Ms. Brennan. At the end of fiscal year 2016, the Postal Service reported $610 million in controllable income compared to $1.2 billion in controllable income at the end of fiscal year 2015. Is that right?

Ms. BRENNAN. That's correct.

Mr. CUMMINGS. Controllable income excludes retiree health benefits, prefunding pension liabilities, and workers' compensation liabilities, correct?

Ms. BRENNAN. That's correct.

Mr. CUMMINGS. According to your fiscal year 2016 financial results, as a result of the expiration of the exigent rate increase, and

I quote, "Revenue for 2016 was lower by approximately $1 billion than it otherwise would have been." And the Postal Service has reported that, and I quote, "Going forward without the surcharge, the Postal Service expects its revenue to decline from what it otherwise would be by almost $2 billion per year. Ms. Brennan, can the Postal Service afford to lose an additional $2 billion in revenue each year going forward?

Ms. BRENNAN. No, sir.

Mr. CUMMINGS. Do you believe that the exigent rate increase needs to be restored?

Ms. BRENNAN. I do. And as this coalition had discussed with the leadership of this committee, the compromise proposal to half it, the Postal Service is supportive of that as packaged as part of a larger reform bill.

Mr. CUMMINGS. Ms. Brennan, I also have concerns about the state of the Postal Service's liquidity, particularly given that the Postal Service has exhausted the credit limit of $15 billion. How many days of cash do you currently have on hand?

Ms. BRENNAN. It's roughly 30 days, Congressman.

Mr. CUMMINGS. Have liquidity problems affected or do you anticipate that they will affect the Postal Service's ability to pursue needed capital investments?

Ms. BRENNAN. It will. As we've done in recent years, we'll prioritize our capital spend, recognizing that, given the competitive landscape, in order for us to continue to compete and generate additional revenues, we need to invest.

Mr. CUMMINGS. Now, Mr. Taub, last year when you appeared before the committee to discuss postal operations, you testified that, based on the Postal Regulatory Commission's analysis of the Postal Service's financial strain, and I quote, "There is a high probability that the Postal Service will go into financial distress," end of quote. Is that assessment—is that still valid?

Mr. TAUB. Yes, it is, Congressman.

Mr. CUMMINGS. Absent any legislative action, when might the Postal Service experience financial distress?

Mr. TAUB. You know, trying to crystal ball things like that is difficult, but I would say in the short term we're looking in that five-year window as the Postmaster General indicated. They've done their own look forward, and, absent change, about in the two- to three-year window there's some real challenges for the Postal Service.

That being said, to the Postal Service's credit, they have ensured that delivery to the American mailing consumer and businesses remains the top priority. So whereas they may start seeing some challenges with meeting service standards, for example, or being able to keep certain facilities open, their commitment to continuing to deliver is front and center. So for the average consumer, we may not see the full brunt of it right away, but there's some hell to pay, shall we say, if there isn't change.

Mr. CUMMINGS. Now, Ms. Brennan, I kind of joked about it but I was serious. On this fleet situation, how is that decided? Because you can imagine that there is going to be some tweeting about you this afternoon. But tell me, how is that decided with regard to the fleet? That is a lot of jobs. That is a lot of vehicles.

Ms. BRENNAN. We have a competitive procurement process where, in this example that I cited on the next-generation delivery vehicles, we had a request for proposal that went out. It was open competition. And we ended up with—we selected six suppliers. I'll provide for the record—I believe we had maybe 10 suppliers in total that competed for the process. I'll provide that for you.

Mr. CUMMINGS. Yes, please do.

Ms. BRENNAN. But again ——

Mr. CUMMINGS. Please do, I said.

Ms. BRENNAN. Yes.

Mr. CUMMINGS. I would like to see that. Yes.

Mr. CUMMINGS. And finally—and I will close with this, Mr. Chairman, and I thank you for your indulgence—many industries, millions of jobs, and millions of people depend on the Postal Service. I believe that Congress must act now and we must act right now to help put the Postal Service on a sustainable path forward. This committee should quickly consider the bipartisan postal reform bill we have introduced, and the House should adopt the measure as soon as possible.

And again, I just want to—I don't know how this hearing is going to go because I know we have votes coming up, but I want to thank everybody, every single body. They didn't mention everybody's names, but you know who you are. I really, really thank you.

Now, you all have got to—I believe that we are on I would say about the five-yard line, and you all have—well, let's say 10. Well, you all have got to help us get the ball over the line, seriously. Let the Members of Congress know how you feel and give us the support that we need. Thank you very much.

Mr. MEADOWS. I thank the gentleman. The chair recognizes the gentleman from California, Mr. Issa, for five minutes.

Mr. ISSA. Well, thank you, Mr. Chairman. And I want to thank Mr. Cummings for giving me a different opening than I was going to have. Ladies and gentlemen, it is the third quarter and you are down by 25 points, and if Tom Brady doesn't come in, the fact is you are bankrupt. You are beyond bankrupt. You are in record deficit. Let me just go through the numbers because I, like Mr. Cummings and Mr. Chaffetz, want this bill to move and I want it to accomplish what a bill a little over 10 years ago didn't.

Ten years ago when I was young to this committee we in fact—are we going to get into Patriots jokes here? If we are, let me know. But 10 years ago roughly we thought we would fix this, and all we really did was give you a line of credit that you ran up against your deficits.

So if I do the arithmetic round numbers, 33.9, I will call it $34 billion, that is what you haven't paid that was your obligation under the law to pay and you simply defaulted on it. Ms. Rectanus, I will use you for the numbers, make sure I am right. Deferred maintenance is about $9 billion, those vehicles and things that just have to be restored soon or the wheels literally will fall off. There is $15 billion that Congress gave in a line of credit that simply went to pretend like bills were being paid when in fact it was simply taking care of the losses. So that comes out to 57.8 if my pencil was right. But I am sure there are some odds and ends on top of it. And since we are running at half-a-billion dollars a month of loss, anything we say, by the time it gets enacted, will be over $60 billion.

During my entire tenure on this committee, people have talked about having to prepay and how, you know, that is onerous, but there is only about $50 billion in prepay. So the debt is far greater than the prepay today, so if we just wipe those across each other, you still have a net debt. Isn't that true, Ms. Rectanus?

Ms. RECTANUS. That is true. The unfunded liabilities are about $121 billion. So, yes, while RHB is 50-some billion of that, there is, you know, a significant amount of additional debt ——

Mr. ISSA. Okay. So if we did a classic bankruptcy sort of back-of-the-envelope, we take the assets of the prepaid and we wipe it out against all these deferreds, you put it back and forward, you still end up in the same boat, which is there is no net equity in the post office. Additionally, the post office is losing money in the bill even with the transfer of the obligation from post office first to Medicare first, meaning that the taxpayers, which includes postal workers who pay into Medicare, are going to get a bill. Their costs are going to go up in return for the post office going down. And I supported that during my chairmanship. I am not trying to walk away from that provision. It is something I expect we will do. But you still end up with a loss, right, Ms. Rectanus?

Ms. RECTANUS. Yes. There are other things going on with the Postal Service's business model that are beyond the retiree health.

Mr. ISSA. Okay.

Ms. RECTANUS. Fundamentally, revenues are still having a difficult time keeping up with expenses.

Mr. ISSA. Okay. Well, let's go through this. And I always make the assumption that we are not cutting pay of any worker. We are not firing or laying off any worker, but we can and should make our labor force the right size going forward.

So if we went aggressively toward no longer having a small portion of the population get mail put in a chute and those who are in single boxes going to near-single boxes, twos, fours—in other words, we went to an all clustered arrangement the way Carmel, California; Rancho Santa Fe in my district, some of the most affluent neighborhoods, in addition to some of the poorer neighborhoods already have, cluster boxes, that still saves about the difference between the loss and a profit, doesn't it?

Ms. RECTANUS. In terms of moving to delivery, there are potentially significant savings ——

Mr. ISSA. So ——

Ms. RECTANUS.—to that approach ——

Mr. ISSA.—additionally ——

Ms. RECTANUS. There's tradeoffs.

Mr. ISSA. Additionally, the United States post office, with the power of the government, if they chose to aggressively site in or near people's homes cluster boxes that could safely hold packages, they would leapfrog in service capability what Amazon is trying to build at your corner gas station, wouldn't they? And I guess I should take that to the Postmaster General. Not what are the problems, but if you did that, wouldn't you in fact offer a service far better and far more distributed than that which Amazon is trying to build today in some parts of urban America?

Ms. BRENNAN. Congressman Issa, as you and I discussed, the Postal Service approach is all new possible deliveries, as noted—excuse me. We add nearly a million a year. Based on the delivery characteristics, we either implement box-on-post at the end of your driveway or centralized delivery. And just looking at last year where, when we looked at the growth by mode, over 750,000 new deliveries were centralized. So there is certainly an efficiency gain associated with that.

Mr. ISSA. Okay. And don't we owe it to the American people to be efficient everywhere, to find not pockets of resistance but in fact to say that all recipients are created equal? They pay the same amount. If there is an excess charge because of distance meaning—and I see some of the rural delivery people here in the audience—it costs more to get it 30 miles out in the country in an unpopulated area, but it shouldn't cost more to get it delivered in an urban environment than it actually costs in that rural environment, should it?

Ms. BRENNAN. As you know, we have a universal service obligation. In terms of efficiency, as noted, based on the delivery characteristics—and we try to strike a balance clearly in terms of the need to meet the customer ——

Mr. ISSA. Mr. Chairman, I am just going to have one very quick follow-up just to get the record complete if I could. If you implemented cluster at every point in America to the greatest extent physically possible and not over the objections but physically possible, wouldn't you save enough money to be in the black with the other changes that are in this legislation such that you could make investments and in fact be better prepared to compete against those who are trying to essentially take over work that you are better suited to do in principle today?

Mr. MEADOWS. The gentleman's time is expired but you can briefly answer.

Ms. BRENNAN. Thank you. I would say in addition to this bill, a favorable outcome of the PRC 10-year price review and continued aggressive management actions we can be solvent a decade beyond.

Mr. ISSA. Thank you, Mr. Chairman.

Mr. MEADOWS. All right. I thank the gentleman. The chair recognizes the gentlewoman from Michigan, Mrs. Lawrence, for five minutes.

Mrs. LAWRENCE. Thank you, Mr. Chair.

I want to acknowledge the chairman and the Ranking Member Cummings and the committee for all the hard work they have done. I looked Chairman Chaffetz in the eye and constantly had the ear of Congressman Cummings that this was a very important responsibility of this committee, and I thank you both for your leadership.

I want to ask a question about—we all know that the Postal Service is dependent upon the rate of the cost of mail to generate revenue, so under the Postal Accountability Enhancement Act, the Postal Regulatory Commission was required to establish a new system to regulate rates for market-dominant products. The act also mandated that the Commission review the rate system 10 years later to determine if the system is meeting the objectives established by Congress.

The Commission began the review in 2016 and it stated, and I quote, "The Commission will determine if the objectives taken into account the factors are being achieved by the current system."

Mr. Taub, if the Commission finds that the system is meeting its objective, does the review end?

Mr. TAUB. Under the law, it speaks to if the Commission finds that there's a need for a modification or a change to the system, if necessary, it would undertake a rulemaking to take that change. Conversely, if there is no change needed, there wouldn't seem to be a need for a rulemaking change. But that being said, we're in the midst of that review, and I certainly don't want to prejudge how it might come out.

Mrs. LAWRENCE. Well, you are in the midst of it, but I have a question. Will the Commission consider service performance in determining whether rates are fair?

Mr. TAUB. Oh, we have to. It's one of the nine objectives. Objective number three is to maintain high-quality service standards established by law. There are nine objectives in the law, and they all have to be applied concurrent with the others. So it's a challenge. There's objectives such as creating predictability and stability in rates, allowing the Postal Service pricing flexibility. There's the mandate that we have to assure adequate revenues, including retained earnings to ensure financial stability. And there are several others, even including deterring terrorism and protecting the mail.

Mrs. LAWRENCE. Absolutely.

Mr. TAUB. So it's a lot to balance.

Mrs. LAWRENCE. I want to ask the Postmaster General Brennan. Talk to me about—because I am so committed to the postal reform, but tied to that is our customer service performance. So can you speak to that when it comes to the rate saying how does this impact your vision and policies for the Postal Service?

Ms. BRENNAN. Yes, Congresswoman. In fact, as noted, the favorable outcome of the postal regulatory 10-year price review is very important to us. While we recognize that we're not going to price our way out of this and we certainly don't want to do anything that would further accelerate movement out of the mail, we recognize that we have competition in every product line. So we're looking for pricing flexibility. In fact, I would say that our position is that a price cap is fundamentally unsuited in a network environment.

That said, for us, service goes beyond transit time. And as you and I have discussed, it's that customer experience at every touchpoint in the organization. And we are investing in additional training to ensure that we are providing the best possible customer experience for the American public.

Mrs. LAWRENCE. Mr. Taub, I wanted to bring up recently a joint alliance of 16 mailers filed a motion with the Commission requesting changes to the review procedural schedule. Specifically, they asked to be allowed to provide reply comments. The Commission denied this motion. As you are aware, the decisions of the Commission would be about—would make the rate system more profoundly impact our billion-dollar mailing industry. What opportunities will exist for—to ensure that the industries weigh in during this review process?

Mr. TAUB. Thank you, Congresswoman. Indeed, we're in the midst right now of what is termed an advanced notice of proposed rulemaking. So we are at the very initial stages of looking at the system and have opened up a very long 90-day comment period for anyone and anyone in the American public and industry to provide us comments. As I mentioned, early autumn of this year would be the time when we're hoping to be able to issue our order to say is the system meeting the objectives? If not, if we are going to move to the next phase, that would begin a notice of proposed rulemaking, which in that process provides a very robust comment period. So we're quite a ways from being in a position to say with any certainty what the Commission will do, and if it is a change, that would be—have to take the form of a final rule that first would go through a very robust notice and comment process.

Mrs. LAWRENCE. Thank you, Mr. Chair, and I yield back.

Mr. MEADOWS. I thank the gentlewoman. The chair recognizes the gentleman from Georgia, Mr. Hice, for five minutes.

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

Ms. Brennan, I want to go back to some other comments that have been made just to try to get a little broader perspective. One of the issues that came up specifically dealt with Amazon and a serious competitor that they are. And one of the areas of technology that they have excelled in obviously is drone delivery. Is there any looking into consideration of drone delivery with the Postal Service?

Ms. BRENNAN. Currently, our engineering group is researching and we're probably on the peripheral of this advanced technology, currently just learning. And I would say, whether it's drone exploration or any other type of new technology, Congressman, we need the capital monies to be able to invest.

Mr. HICE. Well, I understand the need for capital monies to invest, but you are looking into the possibility?

Ms. BRENNAN. We're exploring and recognizing what's happening in the industry. Right now, we're not an early adopter I would categorize that, but we're certainly aware of what's happening in that space.

Mr. HICE. Okay. So at the current time then the commitment is to continue with the vehicle delivery?

Ms. BRENNAN. Correct.

Mr. HICE. Okay. And it is astounding to me and I think probably most people to know you have got over 200,000 vehicles on the road doing some 4 million miles a day. That is a staggering amount. I am curious; you mentioned the commercial off-the-shelf right-hand-drive proposal, as well as the next-generation delivery vehicles. First of all, the commercial off-the-shelf, how many proposals did you receive?

Ms. BRENNAN. Actually, they're due this week ——

Mr. HICE. Okay.

Ms. BRENNAN.—either today or tomorrow, so I don't have that information. I'll ——

Mr. HICE. So ——

Ms. BRENNAN.—provide it for the record.

Mr. HICE. Do you know what you would anticipate?

Ms. BRENNAN. I don't.

Mr. HICE. Okay. When will an award be granted with that? Do you have any idea?

Ms. BRENNAN. Well, we'll do our due diligence depending on how large that potential supplier pool is, but we'd want to move with pace given the need.

Mr. HICE. And what would that pace look like? Are we talking months or ——

Ms. BRENNAN. Months, yes.

Mr. HICE. Okay. So six months-ish?

Ms. BRENNAN. Yes, or less.

Mr. HICE. Okay. Or less. Okay. And the next-generation delivery vehicles, with that, when will the testing begin?

Ms. BRENNAN. The testing we anticipate will begin next fall.

Mr. HICE. Okay. So fall of 2018?

Ms. BRENNAN. Of ——

Mr. HICE. So this coming fall?

Ms. BRENNAN. 2017, yes.

Mr. HICE. 2017, okay.

Ms. BRENNAN. Yes, the supplier—excuse me. The suppliers have one year in which to develop the prototypes, and then we anticipate testing for a good probably 12 to 18 months. We'd like to test those vehicles in different climates, in different topography, and the like.

Mr. HICE. And how will you determine the most cost-efficient product between the two?

Ms. BRENNAN. Best value. We would look at a host of factors. We'd look at the lifecycle cost. We'll also look at certainly fuel efficiency and ensure we've got industry best standard with safety features and the like. And also obviously the efficiency for our employees to be able to maneuver safely in the back of the vehicle.

Mr. HICE. Okay. How in the world are you going to fund this acquisition?

Ms. BRENNAN. Therein lies the challenge for us ——

Mr. HICE. Yes, it does.

Ms. BRENNAN.—Congressman. We've deferred, and it's why the vehicles are beyond their expected lifespan, and it's why we're incurring these costs to keep them on the road. So the sooner we can get this bill passed, the sooner we can get an outcome from the 10-year price review, and then incumbent upon management to continue to do our part to control costs.

Mr. HICE. But you are looking at an acquisition?

Ms. BRENNAN. We have made no decisions on production. We're merely in a prototype-testing phase.

Mr. HICE. Okay. Then what would—when the time comes and obviously at some point it is going to have to come. When the time comes, how many vehicles are you looking at?

Ms. BRENNAN. We've made no commitments on numbers, but if you look just at the delivery fleet, it could be as high as 140,000. But there's been no commitment made to any quantity of vehicles in a production environment.

Mr. HICE. Right. I understand that there is no commitment because you are still waiting on the funding aspect of it all. Is there any consideration though of looking—just to throw an arbitrary number out—of purchasing maybe 10,000 vehicles at a time or do you feel the requirement to get 100-plus thousand?

Ms. BRENNAN. No, it'll depend, first of all, on available capital to fund that, and we certainly want to be flexible enough because obviously, technology is changing and you want to ensure that the Postal Service would be able to benefit from any changes in technology. So there's no commitment in terms of a defined number of vehicles that we would purchase in any given year.

Mr. HICE. So that is all—your last question, obviously, the vehicles we have two-plus decades old. At some point a decision has to be made. What kind of time frame do you think we are working under?

Ms. BRENNAN. Well, in addition to the next-generation delivery vehicle and now the commercial off-the-shelf solution that we'll evaluate, we also have a bridge strategy where we typically replaced in the past—say, in the past two years up to 12,000 vehicles at a time. But again, the decision will be made based on available funding and certainly based on supplier ability to provide the vehicles for us.

Mr. HICE. Well, thank you for your work ——

Ms. BRENNAN. Thank you.

Mr. HICE.—and thank you, Mr. Chairman.

Mr. MEADOWS. I thank the gentleman. The chair recognizes the gentleman from Virginia, Mr. Connolly, for five minutes.

Mr. CONNOLLY. I thank the chair.

Ms. Brennan, the fixed payments established in title 5 of the U.S. Code for prefunding of the retiree health benefit fund expired in 2016, but the payments in that fund are required to continue. What are the payments expected to be in 2017? Mr. Rolando in his testimony pointed out they are actually expected to grow.

Ms. BRENNAN. Well, in addition to the normal costs and the amortization costs for the RHB, we also have the requirement for our pension obligations. So in sum total, our retirement-related payments exceed $10 billion.

Mr. CONNOLLY. Ten billion?

Ms. BRENNAN. Ten billion.

Mr. CONNOLLY. And is that the largest source of the insolvency concern?

Ms. BRENNAN. It is.

Mr. CONNOLLY. It is. And the bipartisan legislation that you have been involved in that we have introduced, would that address that issue?

Ms. BRENNAN. As noted, Congressman, this bill, as proposed, would generate over $26 billion over a five-year period in new revenue and cost-savings. And then it's incumbent upon management to continue to drive operating efficiency and also we look to the chair and the PRC for a favorable outcome of the price review.

Mr. CONNOLLY. And then, let me see. You have also got on top of that—you have got the payments to cover the pension liabilities, is that correct, of your employees?

Ms. BRENNAN. Yes, and I included that, sir, in the 10.3.

Mr. CONNOLLY. And that's $1.5 billion.

Ms. BRENNAN. The—it's 1.2 for ——

Mr. CONNOLLY. In 2017?

Ms. BRENNAN. Correct. For the CSRS it's 1.2, sir.

Mr. CONNOLLY. Right. And you got Federal Workers Compensation Fund, which I think is $1.4 billion roughly ——

Ms. BRENNAN. Yes.

Mr. CONNOLLY.—for 2017? So total payments due on September 30, my calculation roughly is about $8 billion. Yours is 10?

Ms. BRENNAN. Due on September 30 is actually $6.7 billion. What I cited was the annual costs ——

Mr. CONNOLLY. Got it.

Ms. BRENNAN.—of all retirement-related payments.

Mr. CONNOLLY. Got it. And, frankly, that is just a weight too heavy.

Ms. BRENNAN. It is.

Mr. CONNOLLY. Okay. And so I think that really makes for the compelling case for why we simply can't let well enough alone. We have to do something or we are going to lose the Postal Service as we know it. Is that your assessment as well, as the Postmaster General?

Ms. BRENNAN. It's urgent, Congressman. And as noted previously, absent this legislative action and the regulatory reform, the financial condition worsens, we continue to default, we put at risk current and future—or excuse me—current retirees' and future retirees' benefits at risk, and we threaten our ability to meet our universal service obligation.

Mr. CONNOLLY. I want to also salute you, Ms. Brennan. I have worked with several Postmasters General. I think you have really tackled this job with an open mind. You have listened to competing points of view. You have tried to make sure the stakeholders are represented. You have shown respect for the workforce and for even dissenting points of view. I think your willingness to state the case but also be flexible in trying to find solutions and be open to other points of view I think frankly helped break the logjam up here. And that was a spirit we were lacking, frankly, in the past.

Ms. BRENNAN. Thank you, Congressman. Thank you for your leadership.

Mr. CONNOLLY. Mr. Rolando and Mr. Sackler, you are kind of representing stakeholders from different points of view. I assume you both concur something like this is necessary, and absent this, we risk the collapse of the Postal Service as we know it.

Mr. ROLANDO. Yes, this is ——

Mr. CONNOLLY. And I don't mean to put words in your mouth but your support gives evidence ——

Mr. ROLANDO. Well, there's no voice that helps ——

Mr. CONNOLLY.—to something.

Mr. ROLANDO. No, I think this legislation is important. That's why we support it. But I also think, you know, to the other extreme it's important to offer a perspective on what Chairman Issa mentioned, that, you know, when you look in terms of fairness and what we're required to do versus other agencies and other companies, his analogy with regard to bankruptcy, I think every Federal agency in the government and many companies would also be in bankruptcy under the analogy that you offered. But yes, we're prepared to work and go forward with this legislation, very necessary.

Mr. CONNOLLY. Mr. Sackler?

Mr. SACKLER. Well, Mr. Connolly, we strongly support this bill. We think that you and the chairman and the ranking member and Mr. Meadows and Mr. Lynch have really come up with a solution that's absolutely necessary. Without this kind of relief lies disaster for the Postal Service and for changing it into something that we don't recognize.

I would just add, though, another thing to be wary about is the rate-setting proceeding—rate-setting system proceeding that the Commission is undertaking. If the rate cap is removed and the liabilities are addressed through rate increases, then it's basically—in terms of loss of volume, you ain't seen nothing yet. That will guarantee that all of the obligations and the entire set of problems that the Postal Service has will land once again on your doorstep, and those obligations will have to be funded by the Treasury.

The industry—sizeable pockets of the industry have never recovered from the Great Recession, and when you couple that with the kind of diversion from the mail that we are seeing—and first class is the most prominent example—more than a third of that is already gone. The commercial first class mail that has left the system at a slower pace than single-piece first class mail, those folks now have huge—a huge array of electronic options.

Mr. CONNOLLY. I would just ——

Mr. SACKLER. And if it loses too much ——

Mr. CONNOLLY. I would just observe—and yielding back. And my friend Mr. Meadows and I have worked on an entity with a similar dilemma, Metro. If you get in a vicious cycle where we cut back services and raise costs—raise prices, you lose more customers, requiring you to cut back on services and raise more costs. And that becomes a never-ending vicious cycle that can also yield to very undesirable outcomes. So your caution is well-taken. And I yield back. Thank you, Mr. Chairman.

Mr. MEADOWS. I thank the gentleman. The chair recognizes a welcome addition back to the committee, the gentleman from Florida, Mr. Ross, for five minutes.

Mr. ROSS. Thank you, Chairman. Four years ago, I left this committee, and at that time this issue was in a great deal of contention. We had been working. We tried to bring things together. Unfortunately, we didn't have a plan together. I laud my colleagues on both sides of the aisle. I laud those in the panel for bringing together this package. Unfortunately, I feel that my only contribution has been the fact that I left this committee four years ago.

But having said that, I think ——

Mr. CONNOLLY. And by the way, there has been a void.

Mr. ROSS. Thank you, Gerry.

I do stand here very much in support of maintaining, sustaining, resurrecting, and otherwise making sure the Postal Service stays alive for a very, very long time and continues to serve the American public. And so I am glad to be an original cosponsor of this bill. I am glad that we are moving this along, and I am very hopeful that this will get through.

Having said that, I do have some concerns that I still had some time ago. And, Ms. Brennan, you mentioned that you need to be able to compete and to invest in order to gain revenue. My question to you is are you looking at investing infrastructure for competitive products or for market-dominant products? In other words, are you looking at partial investment or first class mail or market-dominant products?

Ms. BRENNAN. Congressman, it's both in some cases because some of—when I think of the processing equipment in our facilities that needs to be replaced, there's ——

Mr. ROSS. So parcel can be more efficient.

Ms. BRENNAN. In this case I'm talking about letter sortation ——

Mr. ROSS. Okay.

Ms. BRENNAN.—to be more efficient. They're looking at deploying robotics to reduce overall labor costs. That would be to support market-dominant products in the example that I'm referencing here, but also to support competitive products.

Mr. ROSS. And, Chairman Taub, my concern is is that in 2002 I believe it was the USPS attributed 4 percent of its delivery cost to packages, competitive products, partial. In 2016 package volume doubled and letter mail, first class mail declined by 25 percent. Yet the USPS still attributes less than 5 percent of its delivery cost to packages. My concern is is are subsidizing—are we taking market-dominant products, first class mail, and using revenues from that to subsidize a competitive product?

Mr. TAUB. Under the law in our review, that's not the case.

Mr. ROSS. You can't do it under the PAEA.

Mr. TAUB. Right.

Mr. ROSS. So is it a concern of yours, though, that that—if we as Congress raise rates by one cent, that increased revenue, is that going to go to what? Is it going to go to subsidize a competitive product?

Mr. TAUB. No. Under the bill as written, it's on the market-dominant side. And right now, the one area where the Postal Service is receiving money that is going to the institutional cost of the Postal Service is on the competitive side. In fact, market-dominant is a big money loser. There's a whole class of products ——

Mr. ROSS. Right.

Mr. TAUB.—that aren't covering their costs, standard mail. So frankly, the cost-coverage problems are predominantly on the market-dominant side.

Mr. ROSS. So I understand your testimony to be that the parcel system, the parcel delivery system, the package delivery system is covering its costs?

Mr. TAUB. Under the law and the constructs of regulation in place, it is.

Mr. ROSS. And the transparency for that accounting is important to me because I don't want us to step into something 10 years from now or five years from now when we realize that market conditions have changed and we are subsidizing a competitive product to the detriment of the U.S. Postal Service.

Mr. TAUB. Exactly. Congressman, if I may just take a minute or 30 seconds to put in a little context, before 2006, there was not the vibrant transparency and accountability that exists today. And right now, the Postal Regulatory Commission tells the Postal Service how to measure costs, how to report them. We're in the midst right now of ——

Mr. ROSS. So we are not hiding institutional costs with the parcels?

Mr. TAUB. Based on our review, that is not the case. We do have one P.S. Every five years we have to set what collectively competitive products must contribute to the overhead, and we're in the midst of that review right now. And the law says it has to be an appropriate share. So we're going to be looking at what collectively each year the Postal Service—right now ——

Mr. ROSS. I appreciate that.

Mr. TAUB.—it's 5.5 percent. Postal Service this past year it was about 17 percent, well above.

Mr. ROSS. All right. Thank you.

Mr. TAUB. Yes.

Mr. ROSS. Mr. Rolando, I would be remiss if you and I didn't have a conversation. I miss seeing you as much as I am sure you miss seeing me. But be that as it may, still the one issue remains that 80 percent of the costs of the Postal Service is labor. And, again, as markets continue to diversify and products continue to change, we are going to come back and look at how we handle the labor costs. Are you prepared—do you think that it is going to be necessary that we have to now start looking at collective bargaining in terms of how we deal with the cost of labor?

Mr. ROLANDO. I didn't know you were gone but ——

Mr. ROSS. I made that much of an impact.

Mr. ROLANDO. No, seriously, that's what we've been doing for the last 10 years. This isn't something that's been on the sideline while we wait for ——

Mr. ROSS. And I appreciate you ——

Mr. ROLANDO.—instruction. Yes.

Mr. ROSS.—always coming to the table on that. And I know you ——

Mr. ROLANDO. Yes.

Mr. ROSS.—defend and advocate very well for your Association of Letter Carriers, and I admire that. I just don't think we can ever remove you from the equation, and it is an ongoing ——

Mr. ROLANDO. Right.

Mr. ROSS.—process that we are going to have to have with you and your association.

Mr. ROLANDO. And it has been and continues to be.

Mr. ROSS. Thank you. And I yield back.

Mr. MEADOWS. I thank the gentleman. The chair recognizes Mr. Cummings.

Mr. CUMMINGS. Just based on that last just 30 seconds, just based on Mr. Ross' last question, again, I want to reiterate I have not seen unions work so hard to try to come up with solutions anywhere than the postal unions. And we could not have done this—and I am sure all of our—everybody up here will agree—without the unions. And I really thank you because it is difficult because you have to—like I said, you have got to balance the needs of your members, there are expectations, and at the same time be—and it calls for phenomenal leadership. And I just want to take the time to thank all of you for what you have done. I just wanted to reiterate that.

Mr. MEADOWS. The gentleman recognizes the gentleman with the stylish glasses from Missouri for five minutes.

Mr. CLAY. And, Mr. Chair, I know the ranking member took some of my time. Oh, no, they restarted. Very good.

Mr. MEADOWS. The gentleman will recognize that the chairman is always fair with ——

Mr. CLAY. All right.

Mr. MEADOWS.—its time.

Mr. CLAY. The ——

Mr. MEADOWS. We are glad the gentleman from Missouri could get out of bed to come to the hearing.

Mr. CLAY. No, no, in seriousness, no, you know, let me say that the Postal Service has a complex and critical mission to deliver mail to every community, every business, and every American in the U.S. six days a week. Currently, the Postal Service delivers to near 154 million address, which is a staggering number. Ms. Brennan, obviously the Postal Service has to have enough personnel and a large enough network to serve this number of addresses, doesn't it?

Ms. BRENNAN. That's correct. We need to maintain an extensive network that includes facilities, equipment, people, and the like.

Mr. CLAY. Which adds up to a substantial fixed cost, doesn't it?

Ms. BRENNAN. Correct, Congressman.

Mr. CLAY. These fixed costs are continually growing because the Postal Service must deliver mail to 900,000 new addresses a year. Is that correct?

Ms. BRENNAN. Roughly, yes, sir.

Mr. CLAY. It is difficult to cover these fixed overhead costs because the Postal Service's mail volume and revenues have declined and are expected to continue declining. Since 2007, total mail volume has declined by 27 percent, and the volume of first class mail has declined by 35 percent. Ms. Brennan, first class mail provides the greatest amount of revenue to help cover the Postal Service's overhead cost. Is that correct?

Ms. BRENNAN. That's correct. It defines our requirements and pays the bills, and it's why we've taken the actions we have over the past few years to scale to demand based on that decline.

Mr. CLAY. Sure. And the Postal Service's package business has grown significantly, but the volume of package delivery has not been enough to make for lost first class mail volume, is that correct?

Ms. BRENNAN. That's correct. Package volume is roughly 3 percent of our total volume.

Mr. CLAY. Now, how much an increase in package volume would you need to make up for lost first class mail volume? Any idea?

Ms. BRENNAN. Volume increase, a percent would be roughly 250 percent.

Mr. CLAY. Okay. And, Ms. Brennan and Ms. Rectanus, you have both previously testified that the Postal Service's untenable fiscal situation is tied to a flaw in the agency's business model. On one side the law limit's the Postal Service's ability to increase its revenues because it cannot raise postage rates above the CPI base price cap, and the Postal Service's authority to pursue new products and services is severely limited. Ms. Rectanus, do I have that correct?

Ms. RECTANUS. Again, these are legal current requirements. I don't think GAO has classified them as flaws, but yes, we have said that those are currently legal requirements that they—either they must meet or affect their ability to generate revenue.

Mr. CLAY. And on the other side, the Postal Service is limited in its ability to cut cost a significant portion of which are fixed costs relating to the network pensions and healthcare benefits, is that correct?

Ms. RECTANUS. That's correct. The—there are legal requirements that they make these pension payments, and as we've talked about before, there are some legislative prohibitions that affect their ability to downsize or right-size or make other changes that would help reduce some of their expenses.

Mr. CLAY. So we are in line for another postal rate increase, is that correct? Or maybe someone—Ms. Brennan, can you answer that? We are in line ——

Ms. BRENNAN. We just recently, Congressman, raised prices on our market-dominant within that strict price cap of 8/10 of a percent. We also have the 10-year price review before the Commission currently.

Mr. CLAY. And how much of the shortfall would that help make up or does it just keep us above water?

Ms. BRENNAN. Well, it's part of the path to wellness if you will. It's—this legislation that will generate over $26 billion over five years, it's the PRC price review and it's continued management action.

Mr. CLAY. And we should not be surprised by the Postal Service's financial situation considering that the private sector businesses don't have these restrictions, which means that I think this committee is on the right path by reviewing this legislation and hopefully moving it out.

Mr. Chairman, I see that my limited time has expired and I will yield back whatever has left.

Mr. MEADOWS. The gentleman has gone over an unlimited amount of allocation.

And so the chair recognizes himself for five minutes for a series of questions.

I want to thank each of you. Mr. Rolando, I want to come to you. Your statement was just unbelievable. You said all four unions support this bill with no changes. Is that correct? Is that correct? With no changes you support this bill, all four unions?

Mr. ROLANDO. Yes, all four unions support this bill. I think we mentioned two tweaks in the written testimony that we thought would be helpful.

Mr. MEADOWS. Yes, but if those two tweaks don't get done, this is better than ——

Mr. ROLANDO. Totally support this bill coming out of committee, absolutely.

Mr. MEADOWS. All right, Mr. Rolando. Thank you for your willingness to put it forth. I know that that comes at some cost to some of your members. You know, they are not all unified in supporting necessarily this bipartisan bill, so I recognize that.

Mr. ROLANDO. No, we believe we've got the members covered.

Mr. MEADOWS. Okay. Well, very good. So let me come back a little bit. I am willing to invest the political capital. We have a number of stakeholders that are here as we are looking to truly save the Postal Service as we know it. At the same time, what I don't want is a hearing to happen 10 years from now where the GAO comes in and says shortly after the 2006 bill was passed, we started on a path that was fiscally not responsible. Of course, your opening testimony said from 2007 on. So it means the minute that we passed the bill we have had an issue since we passed that 2006 bill. Is that correct?

Ms. RECTANUS. I—again, I think when the bill was passed, there was a sense that this was a forward-thinking foresight-focused effort. I think the Postal Service itself recognized that these were a good idea, don't know if anyone anticipated the recession that would come after and the inability to ——

Mr. MEADOWS. Yes, but 2007, the recession wasn't here at 2007. Your testimony said 2007. We were still blowing and going at that particular ——

Ms. RECTANUS. That's true.

Mr. MEADOWS.—time.

Ms. RECTANUS. That's true. In 2007 is when the Postal Service first started recording those losses.

Mr. MEADOWS. Okay. So, Ms. Brennan, I want to come to you because part of what you have talked about is, well, this helps the balance sheet, but you are leaving yourself an out that says that if Mr. Taub doesn't do what he believes—what you believe is appropriate there that you could still potentially have problems. So what do you believe Mr. Taub needs to do?

Ms. BRENNAN. Mr. Chairman, my point there was that having a strict price cap on products that generate roughly 74 percent of your revenue and having a universal service requirement ——

Mr. MEADOWS. But you are making money on those products. I mean, according to your balance sheet, you are making money so, I mean, why would you need an increase?

Ms. BRENNAN. Well, my point is that a strict price cap, again, where you've got competition in every product line, including in market-dominant, that ——

Mr. MEADOWS. Well, the only competition you really have in market-dominant is the internet. And when we really look at—I mean, let's be honest about it. Competition the way that you are defining it is very different on packages than it is on your market-dominant product, wouldn't you agree with that?

Ms. BRENNAN. Well, if you look at electronic diversion, whether it's bill payment, and then when you look at our standard or our advertising mail, which is susceptible to digital advertising, which is ——

Mr. MEADOWS. Right, the internet.

Ms. BRENNAN.—certainly—exactly—but has certainly increased. That puts pressure on the organization. But I'm not saying ——

Mr. MEADOWS. So what would you like to see from Mr. Taub, getting back to my question?

Ms. BRENNAN. I'd like there to be no cap and to give postal leadership the opportunity to set price.

Mr. MEADOWS. All right. So let's go with no cap and your ability to set the price as you see fit. So let's go to the elephant in the room that we continue to hear about, and that is service standards. Senator Heitkamp has spent a number of calls—I have committed to her that we will address service standards. So a two-day package, how long does it take for a two-day package to get there before they get a refund under the Postal Service?

Ms. BRENNAN. The only refund would be if it's a priority mail express piece.

Mr. MEADOWS. So a two-day package, when you are advertising a two-day package, if it takes six days to get there, do they get their money back?

Ms. BRENNAN. No. It's a service standard, not a guarantee. But clearly ——

Mr. MEADOWS. But do you make that clear?

Ms. BRENNAN. Yes.

Mr. MEADOWS. Okay. Because when we go and we get a two-day package, how many days do you think we expect it to take to get there?

Ms. BRENNAN. Two days.

Mr. MEADOWS. Exactly. So when it doesn't get there in two days, who do we blame?

Ms. BRENNAN. Well, it's a failure on our part. There's a process failure that we need to address.

Mr. MEADOWS. All right. So when you don't do that, when Senator Heitkamp gets complaints or I get complaints, where does the responsibility or the penalties lie? I mean, how do we fix that?

Ms. BRENNAN. Well, I think we've demonstrated that we've addressed systemic issues, but I would also ——

Mr. MEADOWS. Well, not according to Ms. Heitkamp and not according to me you haven't address the systemic issues. You may have addressed some, but from a service standard, we need to make sure that all these stakeholders—because I just got pulled into five newspaper owners just the other day because they knew the hearing was coming. And they said it doesn't do them any good when a newspaper is supposed to get there on a Thursday and it has got coupons for a Thursday, Friday and it gets there on Monday or it gets there, you know, two weeks later. So how do we make sure that service standards get pulled into this?

Ms. BRENNAN. Well, I would say, first of all, Mr. Chairman, obviously service is foundational. It's key to growth for us. And we address any service issue that is experienced by a customer. In terms of how you address it, I think we have had some conversation regarding maintaining the existing service standards as-is.

Mr. MEADOWS. But I have talked to some of your union employees, you know, going back to Mr. Rolando, and they say that the way that you measure that sometimes misrepresents—it allows you to take your best service standards with first class mail and yet some of the others—is that not accurate?

Ms. BRENNAN. We measure every class of mail.

Mr. MEADOWS. All right. So which one—are you meeting service standards across the board?

Ms. BRENNAN. In terms of last fiscal year we made our composite service standard for ——

Mr. MEADOWS. You just changed the word. You said you had them individually and then you just used the word composite. So which of those individually did you meet or not meet?

Ms. BRENNAN. We met our standard service performance target for last year. We met our standing ——

Mr. MEADOWS. On each one of those categories?

Ms. BRENNAN. No, our composite.

Mr. MEADOWS. That is what I am asking. You are giving me an answer to a question I didn't ask. So in these individual buckets, which ones did you meet and which ones did you not meet?

Ms. BRENNAN. In terms of how we measure performance, last year, we did not meet the service standard in our first class and our priority or our standard. We showed marked improvement compared to the prior year. We established ——

Mr. MEADOWS. So three of how many buckets?

Ms. BRENNAN. We established the service goals with the Board of Governors and we established ——

Mr. MEADOWS. Well, there is no Board of Governors anymore.

Ms. BRENNAN. There was at the time ——

Mr. MEADOWS. There was a Board of Governor.

Ms. BRENNAN.—Mr. Chairman. There was an independent governor, yes, at the time. And we established stretch ——

Mr. MEADOWS. So ——

Ms. BRENNAN.—targets ——

Mr. MEADOWS. So I am running out of time. So out of—how many buckets do you have for service standards? Because you just said you didn't meet them ——

Ms. BRENNAN. In those three ——

Mr. MEADOWS.—in three of them.

Ms. BRENNAN.—we did not. We met our scanning target, we met our customer insight target, and we met our parcel select target.

Mr. MEADOWS. All right.

Ms. BRENNAN. Three of the six.

Mr. MEADOWS. And so how can you say as a composite that you are meeting the service standards? If you are losing 50 percent of the time, how are you meeting the standard?

Ms. BRENNAN. The example I was giving you on standard or marketing or advertising mail was we measure letter volume, we measure flat volume, we measure the volume, whether it's measured at a sectional center facility or upstream at a network distribution center. We provide that level of granularity to our customers and to the industry.

Mr. MEADOWS. All right. I am way over time so I am going to recognize the gentlewoman from Illinois, Ms. Kelly.

Ms. KELLY. Thank you, Mr. Chair. And welcome to the witnesses.

The reform proposal approved by the committee during the last Congress includes a provision championed by Ranking Member Cummings to create a chief innovation officer position to lead the development of innovative postal and non-postal products and services. Ms. Brennan and Mr. Rolando, there is some agreement among some of the major stakeholders about allowing the post office to partner with State, local, and tribal governments. Isn't that true?

Ms. BRENNAN. That's correct.

Mr. ROLANDO. Yes, it is. I believe Chairman Chaffetz has initiated some of those efforts within his own State.

Ms. KELLY. Well, I was going to ask for an update beside that, any update about it?

Ms. BRENNAN. In terms of current efforts?

Ms. KELLY. Yes.

Ms. BRENNAN. Within the constraints of the law, one example would be working with the Census Bureau in Arizona to on-board new employees utilizing in-person proofing at our retail units.

Ms. KELLY. Okay. Obviously, to be financially viable, the Postal Service must reduce cost and increase revenue, as we have been talking about, and you have taken significant steps to reduce cost over the last several years, which has resulted in about 14 billion in annual servings. But there are limits to how much you can cut cost and still meet the universal delivery mandate and preserve an adequate level of service. So let's talk about the other side of the equation, increase revenues. One option is for the Postal Service to expand the products and services it offers. Mr.—that was a mouthful. Ms. Rectanus and Mr. Taub, do you agree that in order to be financially viable in the long term, it is important for Postal Service to develop innovative products and services?

Ms. RECTANUS. The GAO's position is that there has to be a delicate balance between revenue generation and cost-cutting. In that respect, we do support the Postal Service's efforts to generate revenue in—consistent with the role that it plays. For those areas where it could make appropriate money, we would support that. We would not support areas where it would unfairly benefit because of its monopoly in infrastructure status. And given its financial situation, we also would not support anything that's inherently risky.

Mr. TAUB. I certainly agree. The Postal Service under current law is not only authorized but encouraged to undertake as many dynamic and interesting and innovative postal products. What they are barred from under current law is getting into non-postal products. But certainly when it comes to postal products and services, the sky is the limit. And as I said, I know the Postmaster General and her team are focused on, as they call it, innovating the core, which is what it should be about.

Ms. KELLY. And do you guys have anything that you would recommend?

Mr. TAUB. Attached to my testimony is a long list of recommendations that we just sent to the President and Congress recently under a mandate of law. Some of that was along the lines of, to your question, allowing a little bit more flexibility on experimental product offerings, whether it's revenue limits or length of time or the statutory requirements that they can undertake. When it came to non-postal services and products, the Commission recommended that we have a very mature regulatory system in place for reviewing and approving postal products and services. So that could work well as a protection for the public interest, shall we say, from the unfair competition aspect if the Postal Service were allowed to broaden the aperture and get into non-postal products.

Ms. KELLY. And, Ms. Brennan, can you tell us about some of the efforts that the post office has undertaken that the Postal Service can pursue?

Ms. BRENNAN. Currently, in terms of innovation one example I would provide is informed delivery where we're testing, the consumer would receive on their smartphone a digital image of the mailbox content that will be delivered today and also provide a click-to-shop option there.

Ms. KELLY. Okay. And how is your financial situation preventing you from being innovative?

Ms. BRENNAN. I think the overall financial condition of the Postal Service informs every decision we make. So clearly, we have to prioritize and remain focused on core business.

Ms. KELLY. Okay. I can't compete with Representative Lynch with his 17 family members in the post office, but I have five.

Ms. BRENNAN. Five.

Ms. KELLY. And so I have to be able to go home, too. But I do believe that to ensure the Postal Service's long-time viability that we in Congress have to do everything we can to provide the agency more authority and flexibility to find ways to cut costs and increase revenue.

Thank you. I yield back.

Mr. MEADOWS. The gentlewoman has access to popcorn that the gentleman from Missouri would never have access to that makes her a cut above, I assure you.

So the gentleman recognizes the gentleman from Wisconsin, Mr. Grothman, for five minutes.

Mr. GROTHMAN. Yes, Ms. Brennan, you say that the current rate cap is completely unsuitable, which I understand. But aren't you concerned that significantly upping the rates would result in further decreasing the mail volumes?

Ms. BRENNAN. Congressman, absolutely. We do not want to do anything that would further accelerate moving out of the mail. I think if you look at the history prior to the PAEA, the Postal Service on balance filed price increases that were relatively modest.

Mr. GROTHMAN. Okay. Mr. Sackler, industry is the biggest user of the mail and is the largest contributor to volume. Maybe we call that junk mail sometimes. I don't know. Maybe you don't call it that. What effect would an increase have on the declining volume, the industry ——

Mr. SACKLER. It would have a major impact, Mr. Grothman not just in the direct mail promotional kinds of categories but further diversion into electronic alternatives and the very profitable first class mail, just to point out that mail is marked up more than 330 percent. So it's invaluable to the postal system. And If the rates go up in a very significant way from here, the outflow, which has been starting to plateau a little bit, would reaccelerate and probably in a great extent.

Mr. GROTHMAN. Okay. H.R. 756 proposed a 2.1 percent increase, is that right? Do you think that is going to have an effect?

Mr. SACKLER. It may have an effect on some. There are some in the industry, as you may know and as Chairman Meadows may know, that oppose even that amount of an increase as unaffordable. The large majority of the industry, however, is willing to accept the risk of adding 2.15 percent onto the rate base in exchange for getting this bill, which, on balance, would be hugely helpful through the Congress.

Mr. GROTHMAN. Okay. Maybe you have already covered it, but when you have projections the out years, are you projecting that to cause a decrease in mail volume?

Mr. SACKLER. I think that with the establishment of so much trust and reliance on electronic media, there is little that can be done to reverse some of the outflow of mail. But if you add a huge increase on top of that, it's going to accelerate it dramatically. That's the worry of the industry.

Mr. GROTHMAN. Okay. You consider the 2.1 percent not a significant increase? Is that what you are telling us?

Mr. SACKLER. It is significant, but it is one that, to put it colloquially, we're all holding our noses and accepting in the spirit of compromise in order to get this bill done.

Mr. GROTHMAN. Okay. Ms. Brennan, one other thing. Do you think you can do anything to stop the decline in mail volumes?

Ms. BRENNAN. Congressman, in terms of the first class mail, I think the best we can do is slow the diversion of first class mail. I think the efforts with the industry in terms of giving print a digital reflection will help us stabilize the marketing mail or the advertising mail. And regarding the package growth, given the competition, particularly in the last mile, our forecast is that the rate of growth will slow. So we'll face these upward pressures, and, as I noted earlier, we'll continue to make responsible decisions and scale to the demand.

Mr. GROTHMAN. Is there anything else that you would like to have if this didn't have to be a compromise bill, you would have your dream bill?

Ms. BRENNAN. I don't want to alienate the individuals to the far left. However, I would say we initially had proposed restoring the full exigent price increase as opposed to the compromise of 2.1, but we certainly recognize this is a compromise bill and we value the industry. They're our business partners and we want to keep them at the table and in the mail.

Mr. GROTHMAN. Okay. I yield the remainder of my time.

Mr. MEADOWS. I thank the gentleman. The chair recognizes the gentlewoman from the District of Columbia, Ms. Eleanor Holmes Norton.

Ms. NORTON. I thank you, Mr. Chairman, for this early hearing on the Postal Service. After all, we got through a bipartisan postal bill last Congress that had to go to another committee, so it didn't come out of the Congress. But when you hear Mr. Rolando say that all four unions support this bill and you had Democrats and Republicans supporting this bill, I am very hopeful that this time we can get this bill done.

I have a question about an age-old issue, the pension issue. And in the last bill we required the Postal Service to use demographic assumptions of the Postal Service, specific to the Postal Service, to calculate pension liabilities. For the record, Ms. Brennan, what is there about the demographics of the postal workforce as compared with the Federal Government workforce that apparently lowers the costs for the Postal Service's pension.

Ms. BRENNAN. Ma'am, there are a couple issues, one in terms of demographics. The age of the workforce, the turnover rate, the economic assumptions go to the salary growth, given that we're largely blue-collar, 90 percent of our employees' salaries are negotiated through collective bargaining agreements. And this provision in and of itself will generate roughly $4 billion over five years for the Postal Service.

Ms. NORTON. So the factors that differ or separate you out from the Federal Government workforce are collective bargaining?

Ms. BRENNAN. No, ma'am. The—specifically, the demographics are the age of the workforce ——

Ms. NORTON. The age of the workforce is younger?

Ms. BRENNAN. Yes, and particularly the noncareer employees, we have over 135,000 flexible workforce. Also, the turnover rate and then the economic assumptions I stated were based on the fact that the majority of our employees' salaries are determined through collective bargaining agreements ——

Ms. NORTON. The turnover rate, is it greater or less than the Federal Government turnover ——

Ms. BRENNAN. In terms of our noncareer employees, it's greater.

Ms. NORTON. Yes.

Ms. BRENNAN. In terms of our career employees, I believe it's better. It's less than 1 percent. But I'd have to check those numbers, ma'am.

Ms. NORTON. Could I ask Ms. Rectanus, do you agree with this assumption that we have been making in the last bills—I think it is in this bill as well—that specific demographics of the Postal Service should be used rather than demographics from the Federal workforce?

Ms. RECTANUS. We do support that under the premise that if you're going to be identifying surpluses and liabilities, you want to use the most accurate data you have. So we do support using postal-specific assumptions.

Ms. NORTON. Here is the rub. And perhaps one of you could explain this to me. The CBO has also estimated but used the OPM, the Office of Personnel Management, but it is estimated that using postal-specific demographic data to calculate contributions owed by the Postal Service would result in a huge amount, $6 billion, an increase in the contributions from all other Federal agencies. Now, the CBO could not explain that. Since you would assume that, although the payments go into one fund, changing the assumptions on one side would result in equal and opposite change on the other side. So do any of you have an explanation as CBO itself did not on why the contributions owed yield a $6 billion increase in contributions that all other Federal agencies would be required to make?

Ms. BRENNAN. I would just comment, Delegate Norton, that we're asking OPM for a redetermination of that value.

Ms. NORTON. Thank you. Considering that we—I am sure the chairman would like to move this bill, do you expect that to come in the near future?

Ms. BRENNAN. I can't answer that, ma'am.

Ms. NORTON. Mr. Chairman, I think the committee ought to ask, lest we find that this—rebellion from the Federal workforce because this is an unexplained difference between the overall Federal workforce and the postal workforce if we could inquire and perhaps ask the CBO to further explain its $6 billion increase finding.

Mr. MEADOWS. Well, the only thing that the chair recognizes is a CBO analysis is the only entity that makes a weatherman's forecast look good. And so with that, I will be glad to ask for clarification from CBO.

Ms. NORTON. Thank you, Mr. Chairman.

Mr. MEADOWS. I thank each of you for your input, for your testimony here today. I want to thank the stakeholders. I have learned more about postal reform than I have ever cared to know based on your input, but it has been very valuable input.

As we look at this, one just remaining item, Ms. Brennan, I am going to ask you. And I believe that in talking to your Deputy Postmaster General that I have this commitment, but I want it for the record. We need a real transparency as it relates to your financials and how we can look at this because there seems to be an indication that that is totally in the purview of the PRC and bypassing Congress. I am certain that that was not the message that was meant to be sent, but it was the message that was received. And so my concern is is when we look at that, you are asking for Congress to act to provide relief. I can't make that informed decision without clear financials. And so do I have your commitment to make sure you get to this committee the type of financials with transparency that helps us make an informed decision?

Ms. BRENNAN. Yes, any information you need, Mr. Chairman. And I suspect you're talking specifically about the costing methodologies and cost attribution?

Mr. MEADOWS. Well, as we look at that, yes.

Ms. BRENNAN. Yes.

Mr. MEADOWS. I am a business guy and ——

Ms. BRENNAN. Understood.

Mr. MEADOWS.—when you look at, for example, we have got $2.5 billion increase in institutional cost when we have the first class mail volume going down. So I need to know where the 2.5 increase in institutional costs went since obviously it can't be attributed to those areas. And I am not asking you to answer that here today unless you want ——

Ms. BRENNAN. However, I may.

Mr. MEADOWS. If you want to get into it—I don't think you want to go there today. Why don't we just leave it for the record ——

Ms. BRENNAN. That's fair. That's fair.

Mr. MEADOWS.—because as we look at institutional costs, I have a great concern that we mandated it at a certain percentage in 2006. And yet when we have your revenue, about 25 percent of it now comes from packages, and that mandated compliance has not changed. And so that is for a more in-depth discussion that we won't hold in a public forum. But as long as I have your commitment ——

Ms. BRENNAN. You have my commitment, whatever information you need.

Mr. MEADOWS. All right.

Ms. BRENNAN. Absolutely.

Mr. MEADOWS. The other point I would ask you is to get with Senator Heitkamp on service standards.

Ms. BRENNAN. Will do.

Mr. MEADOWS. If she is not happy, I am not happy, and I am saying that from the other side of the aisle, okay? And so we need to make sure that service standards are addressed.

And so if there is no further business before this committee, the committee stands adjourned.

[Whereupon, at 12:19 p.m., the committee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

Richard G. Thissen
National President

Jon Dowie
National Secretary/Treasurer

February 6, 2017

Committee on Oversight and Government Reform
United States House of Representatives
Washington, D.C. 20515

Dear Members of the House Committee on Oversight and Government Reform:

On behalf of the National Active and Retired Federal Employees Association (NARFE), I appreciate the opportunity to submit our views regarding legislative reforms affecting the United States Postal Service (USPS or "Postal Service") in advance of the February 7 hearing, "Accomplishing Postal Reform in the 115th Congress." NARFE represents the interests of federal and postal employees and retirees, as well as their spouses and survivors, and has more than 220,000 members across the country, about 30 percent of whom are retired postal workers, their spouses or survivors.

This letter will offer our views on postal reform generally, but will focus on H.R. 756, the Postal Reform Act of 2017, which was introduced by Chairman Jason Chaffetz, R-UT, with the co-sponsorship of Ranking Member Elijah E. Cummings, D-MD, and Reps. Mark Meadows, R-NC, Dennis A. Ross, R-FL, Gerald E. Connolly, D-VA, and Stephen F. Lynch, D-MA.

NARFE strongly opposes this bill, as it unfairly places the burden of fixing the Postal Service's finances on the backs of postal retirees. In so doing, it breaks a longstanding promise to postal retirees by removing choice as it relates to their health care and forcing them to pay additional health insurance premiums or lose their earned health insurance coverage.

Specifically, the bill would require postal employees and retirees to enroll in Medicare or forfeit the Federal Employees Health Benefits Program (FEHBP) coverage they earned as a benefit of long years of employment. For those 76,000 current postal retirees not enrolled in Medicare, this individual mandate would require an additional $134 per month (or more) in Medicare Part B premiums. That's more than $1600 per year for an individual, and more than $3200 per year for a couple. All for health insurance coverage many postal retirees do not want, may not be able to afford, and have previously chosen not to take.

NARFE has no objection to this requirement for current employees/future retirees, and suggests a simple alternative that would preserve choice for current postal retirees and realize substantial savings for the Postal Service: automatically enroll current postal retirees in Medicare Part B, but provide them with a short opt-out window of 60 or 90 days. This option was offered as an amendment by Rep. Brenda Lawrence, D-MI, at last year's mark-up and, at the very least, should receive consideration and a vote at any subsequent mark-up. Without this option, the bill breaks a promise regarding postal retiree health benefits and replaces the individual postal retiree's choice of health insurance with a paternalistic government requirement, at significant cost to the Medicare program.

Below are further comments on the mandatory Medicare enrollment proposal, NARFE's proposed amendment, the prefunding requirement, alternatives for consideration, and other issues.

Mandatory Medicare Enrollment and the Postal Service Health Benefits Program (PSHBP)

NARFE opposes H.R. 756 because of the provision, within Section 101, that would force eligible postal retirees, their spouses and survivors to enroll in Medicare Part B or forfeit the Federal Employees Health Benefits Program (FEHBP) coverage that they earned as a benefit through years of employment. For those required to newly enroll – about 76,000 individuals – this would require a minimum of $134 per month in Medicare premiums ($268 per month for couples).

We object to this provision for current retirees on two grounds: it changes the bargain regarding health benefits for postal retirees after they have retired, setting a dangerous precedent; and it removes choice for postal retirees with regard to their health insurance coverage. As a result, postal retirees, their spouses and survivors would be forced to pay more in premiums for additional coverage they may not want, while on a fixed income and unable to recoup those costs.

This provision may also cost postal retirees an additional $850 per year, on average, in health care costs.[1] While NARFE recognizes that dual enrollment in Medicare Part B and FEHBP (or Postal Service Health Benefits Program, as the legislation creates) provides some benefit, in the form of lower deductibles and co-pays, the value of that wraparound coverage is only about $750 per year, on average. Yet, Part B premiums cost an additional $1,600 per year. Not only would this bill remove the choice from postal retirees as to whether they pay more in premiums up front for the possibility of lower costs down the road, but it turns out that this option is likely to be the more expensive one, according to a report by the Heritage Foundation.

NARFE does not object to this provision for current employees/future retirees, as it would not be breaking a promise of future retiree health benefits in exchange for current employment. It also would allow current employees an opportunity to plan for their future.

[1] "Postal Service Health Benefits and the FEHBP: The Urgent Case for Getting Reform Right," Walton Francis, Heritage Foundation, available at: http://www.heritage.org/health-care-reform/report/postal-service-health-benefits-and-the-fehbp-the-urgent-case-getting.

Automatic Enrollment and Transition Fund

While NARFE opposes the overall mandatory Medicare enrollment proposal, we support two provisions included in the bill having to do with the transition to Medicare.

First, we support a provision requiring that those postal retirees forced to enroll in Medicare as a condition of continuing their FEHBP coverage be automatically enrolled. This would avoid a complete loss of health insurance coverage for individuals who fail to enroll affirmatively.

Second, we support a provision calling for those postal retirees forced to enroll in Medicare to pay less than full Medicare Part B premiums for the first three years of coverage -- paying only 25, 50 and 75 percent of their premium in years one, two and three, respectively. This would lessen the financial impact of the forced enrollment. Nonetheless, it still changes the health benefits for postal retirees after they have retired and removes the choice they currently have.

NARFE's Proposed Alternative: Allow Current Postal Retirees to Opt Out

NARFE suggests a simple change to the current construct: retain the provision automatically enrolling postal retirees in Medicare, but provide current postal retirees the option to opt out of the forced enrollment.

This proposal would allow postal retirees to retain choice. The notification of enrollment in Medicare, along with notice of the option to opt out, could 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, retaining much of the savings sought by the Postal Service. We propose a small opt-out window (60 or 90 days) to encourage enrollment. NARFE also would educate its postal retirees on the benefits of Medicare enrollment.

Rep. Lawrence proposed an amendment that would have made this change at the July mark-up to last year's postal reform bill (H.R. 5714, 114th Congress). Unfortunately, the committee did not vote on the amendment. We ask that this proposal receive a vote this time around.

Not only would this proposal allay the legitimate and serious concerns of postal retirees, but it could reduce the cost to Medicare resulting from increased enrollment, and thereby mitigate objections from the members of the House Committee on Ways and Means and others.[2] According to the Congressional Budget Office, the mandatory Medicare

[2] For individuals with dual enrollment in Medicare Part B and FEHBP, Medicare becomes the primary payer.

provisions of this bill would increase Medicare spending by $7.8 billion over 10 years.[3] The opt-out would allow USPS to retain savings and simultaneously lessen the constraints placed on Medicare.

Postal Service Health Benefits Program

To ensure that the savings created by the mandatory Medicare enrollment are captured by the Postal Service, Section 101 of H.R. 756 creates a new Postal Service Health Benefits Program (PSHBP), parallel to the FEHBP, to be implemented and administered by the Office of Personnel Management (OPM), for postal employees, Medicare-covered annuitants, and their spouses and survivors. Premiums for these plans would be based on a separate, postal-only risk pool. With Medicare picking up a share of the costs for those newly enrolled postal retirees and family members, PSHBP premiums would be reduced. However, based on preliminary estimates by the USPS that premiums will be reduced by about 10 percent, this reduction would not come close to covering the additional premium cost for new enrollees in Medicare Part B.

NARFE does not object to the basic construct of the PSHBP, which allows postal employees and retirees to retain their current health insurance plans, but we have concerns that the most-costly postal retirees and family members will remain in FEHBP plans, impacting the FEHBP risk pool.

Under H.R. 756, most postal employees, retirees and their family members would be able to retain their current FEHBP plan under the new umbrella of PSHBP, which NARFE supports. Any current FEHBP plan with at least 1,500 postal enrollees would be required to provide a parallel PSHBP plan. The parallel PSHBP plans would have to be "actuarially equivalent" to current FEHBP plans. For example, there would be a Blue Cross Blue Shield Standard plan under both the FEHBP and PSHBP, which would offer equivalent benefits, but for different premiums. NARFE remains wary of splitting the FEHBP risk pool and the precedent it may set for the future, but the manner in which H.R. 756 does so is likely the least disruptive.

However, NARFE is concerned that the PSHBP would exclude from coverage about 11,600[4] postal retirees and family members who are not eligible for Medicare – essentially, those who retired prior to 1983. These individuals would remain in the FEHBP. Because of their age and the fact that their health care costs are covered only by the FEHBP, they are the most expensive group of participants to cover. By excluding them from the postal risk pool and leaving them in the FEHBP risk pool, H.R. 756 would cause a subtle cost-shift to the FEHBP. Congress should be wary of setting a precedent through cherry-picking risk pools.

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[3] CBO Cost Estimate, *H.R. 5714, the Postal Reform Act of 2016, as ordered reported by the House Committee on Oversight and Government Reform on July 12, 2016*, November 10, 2016, available at: https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/costestimate/hr5714.pdf.

[4] This number likely has decreased from last year, when the figure was cited to us by congressional staff, based on USPS data.

Medicare Part D Coordination

NARFE supports the coordination of prescription drug benefits by both the FEHBP and PSHBP plans with Medicare Part D, either through the Retiree Drug Subsidy Program or an Employer Group Waiver Plan (EGWP). Both of these options are available to private-sector companies that provide adequate prescription drug coverage to meet Part D requirements. Both options lower the cost of providing retiree prescription drug coverage, without reducing the quality of coverage.

In addition to allowing PSHBP plans to coordinate coverage with Medicare Part D, the committee also should authorize FEHBP plans to do the same. There is no sound rationale to allow one to do so, but not the other.

Waiver of Late Enrollment Penalties and Benefits of Part B Enrollment

NARFE supports the provision of H.R. 756 providing a waiver of increased Medicare Part B premiums that otherwise would apply due to late enrollment for those currently retired and newly enrolled in Medicare. Without this, the mandatory enrollment provision would be grossly unfair and even more cost-prohibitive for the participant.

Eliminate the Prefunding Requirement

The impetus behind mandatory Medicare enrollment for postal retirees and their family members is to lower the Postal Service's prefunding payments for retiree health benefits. By requiring Medicare to pay first for all postal retirees and family members, H.R. 756 lowers the Postal Service's future liabilities.

But the need to lower future liabilities now is the result of an unnecessary and overly burdensome congressional mandate to fully prefund all of the Postal Service's future retirees' health care obligations. Rather than complicate the matter by shifting costs to Medicare, breaking promises to postal retirees and mandating additional health insurance coverage that many postal retirees do not want, we suggest a much easier solution for the USPS' artificial financial crisis: eliminate the prefunding requirement.

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 over 10 years, 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 short time frame.

Without this obligation, the USPS would have made a profit during the last three fiscal years (2014, 2015 and 2016). Its controllable operating income was $1.357 billion in

FY14, $1.188 billion in FY15, and $610 million in FY16.[5] Yet, its FY16 books show a $5.591 billion net loss, primarily due to its $5.80 billion prefunding obligation.[6] But the USPS did not make its prefunding payments last year; it has not done so since 2010.

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. Since 2012, the USPS has reduced delivery standards, which has resulted in increased delivery time 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. The prefunding requirement is a counterproductive congressional mandate that should be eliminated.

Other Suggested Alternatives for Legislative Action

The impetus for mandatory Medicare enrollment is to reduce the prefunding liability and thereby improve the Postal Service's finances. But there are other options for doing this without forcing postal retirees to solve these financial problems.

First, Congress 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 and half of FY16, was instrumental in increasing USPS revenue. In FY15 alone, it increased revenue by $2.1 billion.[7] This rate increase ended in April 2016 when the USPS' authority to maintain it expired. The consequent loss of revenue resulting from this rate decrease will only drive further counterproductive cost-cutting strategies. Congress should allow the USPS greater ability to raise rates to sufficiently account for the costs of mailings, increasing revenue. Without this ability, the USPS will continue to provide subsidized service below cost to mass mailers.

Additionally, Congress could loosen the shackles on the USPS' ability to increase revenue in other ways. For example, 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. Or Congress could allow or direct the USPS to increase financial services to those without viable private-sector options for things such as check cashing, bill payment, savings accounts or small-dollar loans. The Postal Service provided some of these services prior to the mid-1960s, and many other industrialized

[5] U.S. Postal Service Reports Fiscal Year 2016 Results, available at: https://about.usps.com/news/national-releases/2016/pr16_092.htm; 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 May 10, 2016).
[6] 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 the Federal Employees Retirement System (FERS) using governmentwide, rather than postal-specific, assumptions. These two items account for a loss of $1.026 billion and $248 million, respectively. *Id.*
[7] 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 May 10, 2016).

countries do so. Congress should examine closely its restrictions on the USPS' ability to increase revenues by eliminating or lessening the limitations it currently imposes on USPS activities.

Additional Views on Postal Reform

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. H.R. 756 rightly preserves six-day delivery by not specifically targeting the number of delivery days.

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 are retired and some may not have the ability to walk several blocks to retrieve their mail – and they shouldn't have to.

H.R. 756 takes an ill-advised step away from to-the-door delivery, prohibiting it for new addresses and allowing conversions of existing neighborhoods under certain circumstances. This would be neither efficient nor what the American people want from their Postal Service.

Conclusion

Simple solutions exist for the financial problems facing the Postal Service, but H.R. 756 takes a more complicated route – forcing postal retirees and survivors who are satisfied with their current health insurance coverage to pay another $1600 per year or more to keep it.

The reason for doing so is unconvincing. This Congress is simply trying to save the Postal Service money in a manner that avoids more politically difficult decisions.

This is not the only path forward. Why not allow the USPS to raise the price of postage to a more reasonable amount, instead of continuing to heavily subsidize the business of bulk mailers? Why not allow the USPS to ship alcohol or provide more financial services? Why not eliminate or lessen the burdensome prefunding requirement?

These are the questions you should ask before you place the burden of postal reform on the backs of postal retirees and their survivors.

While this postal reform bill is much improved compared to its predecessors, it seeks significant savings through "Medicare integration," as supporters like to call it. We call it unfair and unnecessary. It augments the finances of the Postal Service at the expense of its retirees.

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 G. Thissen
National President

United Postmasters and Managers of America

February 1, 2017

Honorable Jason Chaffetz, Chairman
Honorable Elijah Cummings, Ranking Member
House Committee on Oversight and Reform
Washington, DC 20515

Dear Chairman Chaffetz and Ranking Member Cummings:

As you know, on November 1, 2016, the United Postmasters and Managers of America (UPMA) was established through the merger of the National Association of Postmasters of the United States and the National League of Postmasters. On behalf approximately 27,000 members of UPMA, we commend the bipartisan efforts of your committee to introduce and its intent to expeditiously pass H.R. 756, a postal relief measure similar to legislation the committee passed during the 114th Congress.

H.R. 756 reflects priorities Postmasters and postal managers have articulated in the past. For example, the measure provides relief from the impact the injurious postal retiree health benefit pre-funding requirement and establishes a more equitable calculation of the Postal Service's pension and health insurance liabilities. In addition, the bill provides the agency with greater product and price flexibility, creates a pause in efforts to reduce hours, reclassify and consolidate rural post offices, and heightens the due process rights of certain managerial level postal employees. We are also appreciative that H.R. 756 does not include a provision requiring the Postal Service to alter its process for securing air parcels, which would have cost the Postal Service more than $3 billion.

While there may be a number of future amendments that UPMA could support, including a clarification of how Medicare interacts with the postal retiree health coverage, enhancement of protections extended to Postmasters and managers serving rural communities, and improving rural postal services, UPMA supports H.R. 756. We thank the committee for its bipartisan commitment to move this bill to the floor of the House of Representatives. Consequently, UPMA looks forward to working with you and the House bipartisan leadership to pass the bill.

Sincerely,

Sean Acord
Co-President

Anthony Leonardi
Co-President

8 Herbert Street, Alexandria, Virginia 22305-2600 • 703-683-9027 • 703-683-0923 (fax)
www.unitedpma.org

COALITION FOR A
21st CENTURY
POSTAL SERVICE

Contact: Art Sackler
art.sackler@sbhlawdc.com/202-955-0064

Mailing Industry Offers Support for Postal Reform Act of 2017
Bill Would Preserve the Postal System and Avoid a Bailout

Washington, DC ..... February 1, 2017 The Coalition for a 21st Century Postal Service (C21) expressed its support for HR 756, the Postal Reform Act of 2017, introduced yesterday by a bipartisan group of Members of the House Oversight and Government Reform Committee, including its leaders. The Postal Service is in deep financial trouble, and this bill would constructively address, among other things, retiree health obligations that account for many $ billions in postal red ink.

Not only is the postal system deeply in the red on its balance sheet from its virtually unique and unsustainable statutory prefunding obligations (operations are nominally in the black), it and its customers are confronting a mandated review of its rate setting system this year. What is at stake is whether the Postal Service can continue to be wholly funded by user fees: postage. It receives no taxpayer funds. Absent this bill, the result could be major, unaffordable rate increases that would drive large volumes of mail out of the system, damaging businesses and costing jobs around the country. Ultimately, taxpayer funds would be necessary to prop up a failing, but still essential postal system.

"This bill provides an intelligent, workable and bipartisan solution to the financial predicament faced by the Postal Service," said Art Sackler, Manager of C21. "C21 member mailers and suppliers, and the industry as a whole, have long supported a universal, self-sustaining postal system, and this bill would keep it that way."

The industry generates $1.4 trillion in commerce, and employs 7.5 million workers. With the major increases necessary to cover its liabilities, mailers would gravitate far more aggressively to electronic alternatives to mail in online, social and mobile media. This would put the survivability of the postal system at risk, and likely require support from taxpayers.

"The beauty of this bill," added Sackler, "is that it would put the Postal Service back on the path to financial balance without taxpayer funds."

The OGR Committee will conduct a hearing on HR 756 on February 7. C21 will testify.

# # #

The Coalition for a 21st Century Postal Service consists of business mailing associations and companies - including newspapers and other periodicals, advertisers and catalogers, greeting cards, financial services, telecommunications, insurance and other statement mailers, ecommerce businesses and other parcel shippers, small businesses of every kind - and their suppliers - paper, printing, technology, envelope manufacturing, mail services and other companies.

ACMA

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a cision company

Major Mailing Organization Backs House Oversight Committee's New Postal Reform Bill; Urges Immediate Passage

AMERICAN CATALOG MAILERS ASSOCIATION

NEWS PROVIDED BY
American Catalog Mailers Association →
Feb 01, 2017, 18:31 ET

WASHINGTON, Feb. 1, 2017 /PRNewswire-USNewswire/ -- The American Catalog Mailers Association wholeheartedly endorses the just-released Postal Service Reform Act of 2017, a critical milestone toward resolving the health of our nation's Postal Service, which drives some 7.5 million jobs and $1.4 trillion in commerce. The bill was introduced by the House Oversight and Government Reform Committee on January 31st.

"We are delighted with the progress to resolve an enormous problem that only Congress can solve, and the House seems intent on doing just that," says Bob Runke, ACMA's Vice Chairman and CEO of Barco Products. "We commend Chairman Chaffetz, Ranking Member Cummings and the bipartisan co-sponsors for all their hard work in the past session and their leadership in the new Congress."

The ACMA believes that by gaining bipartisan support from Congress, as well as Postal Service management, its labor unions and the mailing community, this bill can truly make a difference to jobs in America while protecting critical infrastructure that all Americans rely on.

"Passage of this bill is vital for the future survival of our Postal Service," says the ACMA's President & Executive Director Hamilton Davison. "Absent Congressional action, users of the mail will face increasing uncertainty that will drive business out of the mail and effectively force unprecedented taxpayer support to keep the USPS afloat - and nobody wants that." Since 1971, the US Postal Service has been fully funded by postage. It receives no taxpayer funding.

"We sincerely hope the House of Representatives will quickly push this bill forward," Davison adds. "It has been studied, vetted, positively scored and is clearly good for all interests. Congress must demonstrate this is not business as usual and get this commonsense legislation passed into law."

About the American Catalog Mailers Association

HARLAND CLARKE HOLDINGS®

Victor Nichols
Chief Executive Officer

February 2, 2017

The Honorable Jason Chaffetz
Chairman
House Committee on Oversight and Government Reform
2157 Rayburn House Office Building
US House of Representatives
Washington, DC 20515

Dear Chairman Chaffetz:

On behalf of Harland Clarke Holdings (HCH), I am writing to thank you for your leadership and introduction of the Postal Service Reform Act of 2017, H.R. 756. Comprehensive postal reform legislation is the only way the current financial outlook for the USPS can be fundamentally improved to ensure continuity and stability for the future.

HCH is a key partner of the USPS through our Harland Clarke and Valassis operations. Valassis is the nation's largest program mailer, delivering advertising messages and values to up to 100 million households each week. Last year, Valassis entered more than 3 billion pieces of mail containing nearly 40 billion pieces of advertising into the USPS, touching 9 out of 10 American mailboxes. Harland Clarke is a leading provider of integrated payment solutions, marketing services, and retail products for nearly 12,500 financial and commercial clients, mailing nearly 300 million pieces of mail on an annual basis. As such, Valassis, Harland Clarke, and our customers rely heavily on a financially sound USPS as the means by which we deliver valuable products and solutions to consumers.

We are pleased that you, Ranking Member Elijah Cummings, Chairman Mark Meadows, Ranking Member Gerry Connolly and other key members of your committee have come together again to reintroduce a bipartisan postal reform bill in an expeditious fashion this Congress to achieve this goal. Similar to the bill unanimously approved by your Committee last July, H.R. 756 includes a range of reforms that will put the USPS on solid financial footing over the long term, including reforms of postal service health and pension benefits, governance, and personnel.

Additionally, rate predictability, consistency, and efficiency is of paramount concern to HCH. The enactment of comprehensive postal reform legislation, such as H.R. 756, will alleviate the pressure on postal rates as the only means of fixing the USPS' financial problems and put our company into a much better position to grow our volume with the USPS as we have in each of the last 7 years. Rate increases alone cannot solve the fiscal challenges faced by the USPS and meaningful reform legislation will address these challenges in a broader way, ensuring the stability of future postal rates.

Thank you for championing this important issue. We look forward to continuing to work with you and your staff on enacting comprehensive postal reform legislation this year.

Sincerely,

Victor Nichols
Chief Executive Officer

15955 La Cantera Parkway • San Antonio, Texas 78256 • Tel 415.519.0011
victor.nichols@harlandclarke.com

NATIONAL ASSOCIATION OF POSTAL SUPERVISORS
National Headquarters
1727 KING STREET, SUITE 400
ALEXANDRIA, VA 22314-2753
Phone (703) 836-9660

February 6, 2017

The Honorable Jason Chaffetz
Chairman
Committee on Oversight and
Government Reform
U.S. House of Representatives
Washington, D.C. 20510

The Honorable Elijah Cummings
Ranking Member
Committee on Oversight and
Government Reform
U.S. House of Representatives
Washington, D.C. 20510

Re: Postal Reform Act of 2017, H.R. 756

Dear Chairman Chaffetz and Ranking Member Cummings:

I write to thank you and your colleagues for your bipartisan efforts to restore the financial solvency of the United States Postal Service and ensure the efficient and affordable nationwide delivery of mail through the introduction of the Postal Reform Act of 2017, H.R. 756. In our view, meaningful reform of our nation's postal system needs to maintain prompt service for all Americans, address burdens that harm the Postal Service's financial health, and infuse greater innovation into the postal system. Your comprehensive reform legislation advances these priorities and has earned the support of the National Association of Postal Supervisors.

The Postal Reform Act of 2017 would reduce the Postal Service's onerous burden to prefund its retiree health benefit obligations. The legislation would also establish a more equitable calculation of the Postal Service's pension and health benefit liabilities and achieve savings through the integration of Medicare and FEHBP health benefits. And it would provide greater product and pricing flexibility to the Postal Service and assure due process rights of all Postal Service managerial employees.

We encourage the House Oversight and Government Reform Committee and others charged with responsibility to consider H.R. 756 to report the bill to the House floor as promptly as possible. Thank you for your leadership and your continued efforts to assure the delivery of prompt, affordable mail service to all Americans.

Sincerely,

Brian J. Wagner
National President

Representing supervisors, managers and postmasters in the United States Postal Service

Questions for Ms. Megan J. Brennan
Postmaster General
U.S. Postal Service

Questions from Chairman Jason Chaffetz

February 7, 2017, Hearing: "Accomplishing Postal Reform in the 115th Congress - H.R. 756, the Postal Service Reform Act of 2017"

1. Please explain all business rules, and procedures relating to the cost attribution of special purpose routes (parcel routes, pickup routes, and combination routes).
   a. Are these types of routes costed separately or jointly?
   b. How are the costs broken down?
   c. How is the price of gas costed?

Response:

Overview

The street time city carriers spend on Special Purpose Routes (SPR) involves activities relating to the collection of mail, often on "routes" called "collection routes" (instead of "pickup routes"); delivering parcels not during the routine delivery of mail on a fixed, daily line of travel, often on "routes" called "parcel routes;" and performing other necessary but unstructured activities such as driving between postal processing facilities or the airport to transport mail to the appropriate facility for delivery, often on "routes" called "combination routes." Carriers on "letter routes" service the same delivery points in the same order daily, but SPR carriers may not. The names of the "routes" can be misleading. Carriers on "letter routes" also deliver flats and parcels, as well as collect mail. Similarly, SPR carriers on "collection routes," "parcel routes" or "combination routes" may be conducting additional activities beyond what the name of the route suggests. For example, a SPR carrier on a "parcel route" may deliver parcels in the morning, service collection points in the afternoon, and make a facility stop on the way back to the office. The total street costs associated with SPRs in 2016 was approximately $455 million, or 3.7 percent of total city carrier street costs.

a. Jointly. The cost model used to attribute Special Purpose Route (SPR) street costs to products analyzes the activities performed by SPR carriers rather than classifying them based on route type. Consequently, the SPR cost model aggregates the costs across all SPR route types prior to the activities being jointly analyzed.

b. The heterogeneity of activities performed by SPR carriers greatly affects the methods used to attribute costs to products. Because of the dissimilarity of SPR activities between offices, the activities were aggregated across SPR types before being analyzed. At a high level, the Postal Service conducted a special study where a random sample of SPR carriers was asked to record their specific activities. These activities were aggregated into four cost pools. The first pool, Access Time, includes the time between collection boxes or delivery point stops in relatively close proximity including time at stop unrelated to volume. The second, Load Time, includes the time at the box or delivery point effecting delivery or collection. The third, Network Travel Time, includes time driving between postal facilities or between delivery or collection segments. The fourth, Support Time, includes driving to first activity from office or from last activity to office. Next, the Postal Service determined how much time was spent in each of the four cost pools that would vary with volume. For example, activities such as access time and load time are found to vary with volume, while network travel time does not vary with volume and is considered institutional. Support costs are allocated to Access Time, Load Time, and Network Travel Time on a pro rata basis. In 2016, SPR Access Time was $217 million, Load Time was $31 million and Network Travel Time was $207 million.

The variable costs are distributed to products using an ongoing statistical data system named the City Carrier Cost System. This system randomly samples SPR carriers and records the mail mix being delivered and/or collected. It uses the sampled data to assign volume variable delivery and collection costs to products in accordance with the Postal Regulatory Commission's established attribution methodology. The SPR cost model itself is filed as part of the Annual Compliance Report and can be found in the USPS-FY16-32, CS06&7-Public-FY16 workbook.

c. Fuel costs for postal vehicles are accumulated in general ledger accounts. Fuel expenses for SPRs are aggregated and then attributed in the same proportion as SPR street labor costs.

2. Please provide the itemized cost attributions for parcel routes, pickup routes, and combination routes.

Response:

As explained in the response to question one, the SPR cost model aggregates costs across all SPR types prior to conducting a joint analysis of activities. Hence, itemized cost attributions by route type are unavailable.

3. When special purpose routes are costed, how much of the route is considered "network travel"?
   a. How and in what circumstances is network travel attributed to individual products or classes?
   b. Please provide the attribution breakdown of network travel over each of the last ten years.

Response:

In FY 2016, SPR network travel costs were $207 million or 1.7 percent of the $12.4 billion in total city carrier street labor costs.

a. SPR network travel costs are those associated with movements not directly related to delivery or collection activities. For example, SPR network travel costs would include time traveling between postal facilities or between delivery or collection segments. SPR network travel costs do not include time traveling to and from the first activity (this time is considered support time) and exclude the time between nearby stops (this time is considered access time). Since SPR network travel costs are unrelated to volume, they are treated as institutional costs and not attributed to products.

b. Because SPR network travel costs are considered institutional and unrelated to volume, they are not attributed to products, and thus no breakdown to products exists.

4. How is the time associated with traveling to/from a route attributed?
   a. If it is partially variable and partially institutional, what are the percentage breakdowns?

Response:

a. SPR costs associated with travel from the office to the first activity and from the last activity to the office are considered support costs, and therefore are partially variable. In FY 2016, these costs were 41.8 percent variable and 58.2 percent institutional.

Questions for Ms. Megan J. Brennan
Postmaster General
U.S. Postal Service

Questions from Representative Bonnie Watson Coleman

February 7, 2017, Hearing: "Accomplishing Postal Reform in the 115th Congress-H.R. 756, the Postal Service Reform Act of 2017"

The Committee strongly supports the US Postal Service's licensing program and included language in the Postal Service Reform Act of 2016 to enhance and sustain it. Since these activities directly and positively impact the Postal Service's bottom line, I request that the Postal Service provide the Committee with an update on the status of these existing agreements, especially those that deal with supporting the core mission of the Postal Service and include items like mailing and shipping supplies.

Response:

United States Postal Service® Licensing protects the use and application of all USPS intellectual property. USPS intellectual property (stamps, trademarks, photographs, logos, and trade dress) are available for use in publishing, in advertising, on products, and in many other personal and professional applications. USPS utilizes licensing as a valuable marketing tool to enhance the Postal Service's brand with the following program objectives:

- Create additional touch points with current customers on our core products and services
- Introduce the Postal Service® to new customers who do not traditionally utilize our core services
- Reinforce positive attributes of the brand
- Protect the brand from misuse
- Generate additional stream of revenue

Current Licensee	**Category**	**Contract Start**	**Contract End**
Black Stone Design	Apparel	7.1.2016	12.31.2017
California Costumes	Novelty	4.1.2016	3.31.2018
Dynomighty Design, Inc.	Accessories	6.1.2012	5.31.2017
Greenlight LLC	Diecast	9.1.2016	12.31.2019
Hallmark Group Ltd	Collectibles	1.1.2017	12.31.2019
LePage's 2000	Mail & Ship	5.31.2012	5.31.2017
MBI	Collectibles	1.1.2015	12.31.2017
Old World Christmas Inc	Ornaments	8.1.2016	12.31.2018
Terracycle	Accessories	5.1.2016	4.30.2019
Trau & Loevner	Apparel	8.1.2015	7.31.2018
The Vintage Sign Co.	Home Décor	8.1.2015	9.30.2019
White Mountain Puzzles	Toys	4.1.2016	3.31.2019
Salsbury Industries	Mail & Ship	10.1.2016	9.30.2021
Florence Corporation	Mail & Ship	8.1.2016	7.31.2021
Compx Security Products	Mail & Ship	2.1.2016	2.28.2021
Postal Products Unlimited	Mail & Ship	10.1.2016	9.30.2021