AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

THE PRESIDENT'S FISCAL YEAR 2015 BUDGET PROPOSAL FOR THE POSTAL SERVICE

HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

APRIL 8, 2014

Serial No. 113–137

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

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

U.S. GOVERNMENT PRINTING OFFICE

89–896 PDF WASHINGTON : 2014

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

DARRELL E. ISSA, California, *Chairman*

JOHN L. MICA, Florida
MICHAEL R. TURNER, Ohio
JOHN J. DUNCAN, JR., Tennessee
PATRICK T. MCHENRY, North Carolina
JIM JORDAN, Ohio
JASON CHAFFETZ, Utah
TIM WALBERG, Michigan
JAMES LANKFORD, Oklahoma
JUSTIN AMASH, Michigan
PAUL A. GOSAR, Arizona
PATRICK MEEHAN, Pennsylvania
SCOTT DESJARLAIS, Tennessee
TREY GOWDY, South Carolina
BLAKE FARENTHOLD, Texas
DOC HASTINGS, Washington
CYNTHIA M. LUMMIS, Wyoming
ROB WOODALL, Georgia
THOMAS MASSIE, Kentucky
DOUG COLLINS, Georgia
MARK MEADOWS, North Carolina
KERRY L. BENTIVOLIO, Michigan
RON DESANTIS, Florida

ELIJAH E. CUMMINGS, Maryland, *Ranking Minority Member*
CAROLYN B. MALONEY, New York
ELEANOR HOLMES NORTON, District of Columbia
JOHN F. TIERNEY, Massachusetts
WM. LACY CLAY, Missouri
STEPHEN F. LYNCH, Massachusetts
JIM COOPER, Tennessee
GERALD E. CONNOLLY, Virginia
JACKIE SPEIER, California
MATTHEW A. CARTWRIGHT, Pennsylvania
TAMMY DUCKWORTH, Illinois
ROBIN L. KELLY, Illinois
DANNY K. DAVIS, Illinois
PETER WELCH, Vermont
TONY CARDENAS, California
STEVEN A. HORSFORD, Nevada
MICHELLE LUJAN GRISHAM, New Mexico
Vacancy

LAWRENCE J. BRADY, *Staff Director*
JOHN D. CUADERES, *Deputy Staff Director*
STEPHEN CASTOR, *General Counsel*
LINDA A. GOOD, *Chief Clerk*
DAVID RAPALLO, *Minority Staff Director*

CONTENTS

	Page
Hearing held on April 8, 2014	1

WITNESSES

Mr. Brian Deese, Deputy Director, Office of Management and Budget	
Oral Statement	8
Written Statement	10

THE PRESIDENT'S FISCAL YEAR 2015 BUDGET PROPOSAL FOR THE POSTAL SERVICE

Tuesday, April 8, 2014,

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

The committee met, pursuant to notice, at 10:00 a.m. in room 2154, Rayburn House Office Building, the Honorable Darrell Issa [chairman of the committee], presiding.

Present: Representatives Issa, Mica, Turner, Walberg. Lankford, Amash, DesJarlais, Gowdy, Farenthold, Woodall, Massie, Meadows, Cummings, Maloney, Norton, Tierney, Lynch, Connolly, Duckworth, Kelly, Welch, and Grisham.

Staff Present: Ali Ahmad, Majority Professional Staff Member; Molly Boyl, Majority Deputy General Counsel and Parliamentarian; Lawrence J. Brady, Majority Staff Director; John Cuaderes, Majority Deputy Staff Director; Adam P. Fromm, Majority Director of Member Services and Committee Operations; Linda Good, Majority Chief Clerk; Mark D. Marin, Majority Deputy Staff Director for Oversight; Jeffrey Post; Majority Senior Professional Staff Member; Laura Rush, Majority Deputy Chief Clerk; Sarah Vance, Majority Assistant Clerk; Peter Warren, Majority Legislative Policy Director; Rebecca Watkins, Majority Communications Director; Meghan Berroya, Minority Counsel; Kevin Corbin, Minority Professional Staff Member; Adam Koshkin, Minority Research Assistant; Julia Krieger, Minority New Media Press Secretary; Elisa LaNier, Minority Director of Operations; Lucinda Lessley, Minority Policy Director; Juan McCullum, Minority Clerk; and Mark Stephenson, Minority Director of Legislation.

Chairman ISSA. The committee will come to order.

The Oversight Committee exists to secure two fundamental principles. First, Americans have the right to know that the money Washington takes from them is well spent. Second, Americans deserve an efficient and effective government that works for them.

Our duty on the Oversight and Government Reform Committee is to protect these rights. Our solemn responsibility is to hold government accountable to taxpayers because taxpayers have a right to know what they will get from their government.

Our job is to work tirelessly in partnership with citizen watchdogs to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy. This is our mission statement.

As I look around the room, I feel it is fairly safe to say everyone here supports the Postal Service. The real question is not whether

but how to best reform postal delivery in order to bring fiscal stability to the Post Office.

In two Congresses, the committee has led on postal reform, comprehensive reform that, from CBO, scoring would bring financial stability to the Post Office and, in fact, end the bleeding red ink.

I still firmly believe the current bill, H.R. 2748, would be the best path to postal reform and to save the Post Office. H.R. 2748 will make difficult but common sense reforms that enable a troubled agency to right side itself. Any delay in necessary cost cutting reforms will only result in greater debt, greater burden that will limit flexibility for the Postal Service in the years to come.

You can never glean the intent of colleagues to your left or right from this position. What you do know there has been a reluctance to make the reforms that need to be made. These are bipartisan. It seems that any reform that would reduce the size of the workforce, even through attrition, is opposed by my democratic colleagues.

In the Senate, there seems to be a consistent pattern that postal reform is necessary along as it closes no post offices and no processing centers anywhere in the State of each and every Senator. This challenge is created by the necessary and, if you will, understandable legacy of the Post Office.

This is a legacy that goes back to my youth in which the Post Office delivered seven days a week, twice a day on many days, and ultimately we relied on first class mail for virtually every business transaction. I might note that in my youth, the Postal Service was smaller than it is today and rose from the 1960s through today and has fallen only over the last decade as there has been a precipitous drop in first class mail and even in other mail.

There is a bright future for the Post Office. Package delivery is likely to continue as e-commerce becomes the standard and the norm in greater amounts, but it brings a challenge and a challenge that I believe today we can discuss in light of the President's fiscal year 2015 budget proposal, which includes many of but not all of the most necessary changes.

One of them, which will be discussed today, will be ending a very light Saturday delivery, something that is a legacy as was Sunday delivery of the past.

Buried within the budget, I note without a score, that, in fact, the Administration recognizes that door delivery ceased in 1974 for further expansion needs to contract—two out of three homes in America do not receive delivery at the door while the cost of less than one out of three homes receiving delivery through a chute, or the door or the stoop in fact costs $6.5 billion in excess labor to the Post Office every year.

Recently, I visited a home here in Washington, D.C. in a suburban area of D.C., with large lawns and more than 30 steps leading to the front door. Those steps were uphill from the streets in which virtually all the residents parked on the street, and few had garages. It reminded me of the fact that these homes built in the 1940's, if they were built today, would secure mailboxes or conventional mailboxes at their door. Yet the Post Office has done absolutely nothing to alleviate a postal worker walking up 30 steps times 30 homes every day.

As you can imagine, these steps, this past winter were snow and ice filled day after day after day, an unnecessary risk to the postal delivery person and quite frankly, a complete waste of labor.

Although that is not an element and it may not be a part of any compromise, I have continued to try to educate this committee that cluster boxes located in neighborhoods like that would be easy to install, more efficient for the Post Office, but most importantly, since the future of the Post Office is brightest in delivery of small packages, the ability to lock a small package so it does not disappear or become damaged on that stoop in neighborhoods like the one I visited clearly would be beneficial to the consumer and ultimately beneficial to the Post Office's product quality delivery.

I could dwell on the many items on which we have come up short in the past. I choose not to. Today, we have a representative of the Office of Management and Budget on behalf of the President's proposal which includes a number of proposals postal labor unions have asked for and a few proposals that the Administration and I agree on that come from our side of the aisle.

It is my goal to hear out in this hearing today our witness and to embrace, to the greatest extent possible, the entire proposal from the Administration. I would hope through that embracing we could get a vote here on a bipartisan basis on the House floor and get into conference where we could, in fact, make the President's budget proposal a reality.

With that, I yield to the Ranking Member.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. Thank you for convening this hearing today to enable us to review the President's fiscal year 2015 budget proposal for the Postal Service.

The Postal Service remains the link that holds all corners of our Nation together and delivers mail to more than 150 million addresses nationwide and maintains a network of approximately 32,000 post offices.

However, as we well know, declining mail volume has reduced the Postal Service's revenue, even as it continues to be statutorily required to make multibillion dollar annual payments into a fund to cover future retiree health benefits, a requirement no other agency has. The Postal Service has now defaulted on nearly $17 billion in retiree health benefit payments and it will default on the payments due at the end of September of this year.

The Postal Service's cash position has improved, however, due largely to increased parcel and package volume which grew by six percent during fiscal years 2012 and 2013. Parcels and packages now account for almost one-fifth of the Postal Service's revenue.

The President's budget proposes several operational reforms that the Administration believes would provide significant relief to the Postal Service and place it on firmer financial footing over the long term. Many of these proposals echo provisions contained in legislation I and Congressman Lynch have previously offered.

For example, H.R. 2690, which I introduced last year, would recalculate the Postal Service's liability to the Federal Employee Retiree System on the basis of demographic assumptions that better reflect the unique characteristics of the Postal Service's workforce. The President's budget endorses this proposal.

The President's budget also would return to the Postal Service the overpayment it has made into the retirement system. The President's budget also supports the restructuring of the Postal Service's payments into the Retiree Health Benefits Fund. The Administration indicates that the plan it has offered would provide $9 billion in cost savings. The President's budget would make permanent the exigent rate increase recently approved by the Postal Regulatory Commission.

The Postal Service already has the authority to convert addresses receiving door delivery to curbside or centralized delivery. I believe the Postal Service has continued to make such conversions where they make sense and where neighborhoods support this change. I agree with the Chairman that such moves would help hopefully to save our postal workers from injuries and difficult circumstances.

New addresses should continue to be required to receive curbside or centralized delivery. Ultimately I believe the delivery frequency should be considered in the context of comprehensive postal reform legislation. Given the concerns of our colleagues on both sides of the aisle, any consideration of changes to the frequency of delivery should be the subject of a robust debate involving all stakeholders.

As I close, I commend the Administration for supporting comprehensive postal reform and offering a thoughtful package of policy proposals for our consideration. As we proceed, I hope we will focus on measures we can all agree on rather than measures that drive us apart.

It has been more than eight months since the committee marked up the Chairman's postal reform measure. Since then, the Senate Homeland Security and Government Affairs Committee advanced a bipartisan reform bill. Although I don't agree with everything in the Senate's bill, it offers a bipartisan starting point from which we could craft a measure that would ensure the Postal Service's position to succeed while serving the changing needs of its customers.

With that, Mr. Chairman, I yield back.

Chairman ISSA. I thank the gentleman.

We will now go to the subcommittee chairman from Texas, Mr. Farenthold.

Mr. FARENTHOLD. Thank you, Mr. Chairman.

I am really glad we are having this hearing today. I think we will find today that the President and what we passed out of this committee eight months ago is very close. We are not that far off. We are in agreement on most of the major issues. We will need to take an overall look.

While the Internet has been a boon for the Nation and the global economy, it has been a mixed blessing for the Postal Service. Package volume is growing rapidly thanks to e-commerce but that impressive growth has not been nearly enough to offset the decline in letters. Americans are rapidly changing how they communicate with one another and how they pay their bills. The Postal Service is struggling to adapt.

This does not mean that we are not living in a non-postal world. The Postal Service is a vital link in our economy, connecting even the most remote parts of this country. That is why postal reform

is so important. We cannot just move bits and bites around, we need to be moving atoms around. It is absolutely critical.

As the President stated in the budget, there can be no doubt the Postal Service is in need of reform. Today the troubled agency stands in default to the Treasury for $16.7 billion. Without substantial changes in current law, the agency now admits it will not be able to address its more than; $100 billion in unfunded obligations over the long term.

Last July, this committee passed the Postal Reform Act of 2013. Unfortunately we did not get the bipartisan support we were looking for. I thought we worked pretty strongly with the minority but we were not able to get a bipartisan bill. Hopefully, finding the pieces we agree on from the President's budget today will allow us to get the bipartisan support that we need.

I do want to take a second to correct the Ranking Member. I guess he has not reviewed the transcript from our subcommittee hearing of a couple weeks ago. The Postal Service is, in fact, not the only government agency required to accrue for future health benefits. The Department of Defense is also required to accrue for Tri-Care for Life so that management within the Pentagon would be aware of the cost of current day decisions on long term financial interest.

Getting back to the other issues in postal reform, where the savings can be, the President agrees that door to door delivery is too expensive. Our legislation came up with a solution that would continue door to door service for the elderly and disabled and we could come up with a way to pay for that if you wanted to do it. You pay a fee and you continue to get the mail.

There is no question it is more cost effective to do what we are doing in new subdivisions now, cluster boxes or curbside mail or typical boxes where the postal worker does not need to get out of his or her car to deliver those. It is safer and faster.

I am also glad to see the President's continued support for five day delivery of mail, a change supported by the American people. I cannot believe we are still debating this. We came up with a great compromise where packages would be delivered on Saturday so we could get around the problem of people needing their medications delivered and still save lots of money.

Unfortunately, the Postal Service was moving that way and they bowed to political pressure and backed off on it. That is not good. My fear as a government watchdog, a taxpayer and as a postal customer is without reform, the American people are going to be left footing the bill for taxpayer bail out of the Postal Service. That is the last thing we need right now.

Maybe it is a policy debate we will need to have, but I think you will find consensus on both sides of the aisle. Within these tight budgetary times, we just don't need to be bailing out the Postal Service.

As the chairman of the Subcommittee on Federal Workforce, U.S. Postal Service and Census, I am committed to continuing to work with the Postal Service and members of this committee to bring the necessary reforms needed to bring the Postal Service into the 21st Century. I truly believe it is the smart way for the Postal Service to lower its costs and improve its service.

I hope we can bring them to light today and find a way we can work with the President, members of the other Party, the Postal Service, their customers and all stakeholders which basically includes all American people to find a solution that works to give us a 21st Century Postal Service that can carry its own financial weight, can be a boon to our economy, get those atoms delivered on time, give us the quality of service we need and deserve nationwide at an affordable cost.

I yield back.

Chairman ISSA. I thank the gentleman.

We now recognize the Ranking Member of the Subcommittee, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman and the Ranking Member. Thank you for holding this hearing to examine the President's fiscal year 2015 budget proposal for the United States Postal Service.

I would also like to welcome Mr. Deese and thank him for his willingness to help the committee with its work.

While I don't agree with specific parts of the President's postal budget, especially with respect to the move to five day delivery, I do recognize it as a thoughtful and meaningful attempt to deal with our problem.

According to its most recent quarterly financial report, the Postal Service ended fiscal year 2013 with a net loss of $5 billion. The agency also endured a net loss of $354 million for the first quarter of fiscal year 2014, making it the 19th out of the last 21 quarters that it has sustained a loss. Moreover, the Postal Service has indicated that it will again default on its annual payments to pre-fund its future retiree health benefits when $5.7 billion becomes overdue after September 30.

It is against this troubling financial backdrop that the President has submitted the fiscal year 2015 budget that contains a number of proposals to address the serious fiscal challenges facing the Postal Service.

In examining the various recommendations issued by the Administration and as we continue to undertake the critical task of reforming the Postal Service, it is imperative that we bear in mind that the agency has recently demonstrated an ability to grow revenue while operating under very difficult financial conditions.

According to Postal Service testimony before our committee last month, fiscal year 2013 witnessed the first revenue growth for the agency since 2008, including a $923 million increase in package business, about an eight percent increase, and a $487 million increase in standard mail, about three per cent of volume.

Executive Vice President Jeff Williamson noted that "Growth in our package business was fueled by our priority mail simplification and enhancement efforts. We also formed a strategic partnership with Amazon to test Sunday package delivery in select markets. We are exploring similar partnerships with other companies."

This indicates that the path to greater financial viability for the Postal Service does not lie in service reduction, the degradation of our existing mail network or arbitrary workforce cuts. Rather, we have seen that the Postal Service can experience profitability when it capitalizes on distinct business features that have long set the agency apart from its competitors.

I am referring to an extensive and unparalleled mail network and a dedicated workforce that is ready, willing and able to provide personalized service to the American people six days a week, and now even on Sundays. That is what the customer wants.

Meaningful postal reform must not degrade the exceptional service standards that have come to define the Postal Service, but instead afford the agency the operational and financial flexibility to build upon what it already does best. That is why I remain steadfast in my opposition to a transition to five day mail delivery, although I concede that where appropriate, it may be possible in some rural and suburban areas to convert from door delivery to curbside deliveries, again where appropriate.

Rather, I think we should focus on commonsense reform that will only strengthen the Postal Service and I am encouraged that the President has again recommended that Congress to require the Office of Personnel Management to return to the Postal Service the surplus amount that it has overpaid for its share of federal employee retirement costs.

As noted by the Administration, the Office of Personnel Management should be required to calculate the surplus using an actuarial formula based on the specific demographics of postal employees.

I want to use my last minute to talk about the statement that the Ranking Member may have been wrong in singling out the Postal Service as the only agency required to pre-fund its employee health benefits going forward. The chairman of the subcommittee, a great friend of mine, indicates that DOD also is required to prefund their health benefits in advance.

However, I want to point out a major distinction that clearly sets this apart. The Department of Defense provides advanced payment of their health care benefits for retirees because Congress issues an appropriation, we give them the money to do it, each and every year. That is why they provide their health benefits in advance.

We do not provide an appropriation for the Postal Service. We let them sell stamps. That is quite different than the suggestion the Ranking Member was off base on that and is completely wrong. DOD gets an appropriation from the House and Senate and that is why they pay for their health benefits in advance.

With that, Mr. Chairman, I appreciate your indulgence and I yield back the balance of my time.

Chairman ISSA. Never an indulgence.

We now welcome our witness, the Honorable Brian Deese, Deputy Director, Office of Management and Budget. Please rise, pursuant to committee rules, to take the oath.

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

[Witness responds in the affirmative.]

Since you are the main show today, we will not gavel you at five minutes. Your entire opening statement is placed in the record without objection and you are free to use more or less the five minutes in any way you like.

You are recognized.

STATEMENT OF BRIAN DEESE, DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. DEESE. Chairman Issa, Ranking Member Cummings and members of the committee, thank you for the opportunity to be here today to discuss the President's proposal for reform of the U.S. Postal Service.

The Administration recognizes the value of the Postal Service to our Nation's commerce and communications and its essential role in connecting America with the global economy. We also recognize that for years, the Postal Service has ranked among the most trusted federal agencies and that is because they provide universal service to millions of Americans that is both reliable and affordable.

Unfortunately, the great recession exacerbated financial pressures the Postal Service has been facing for many years. In recent years, the Postal Service has faced a significant financial gap and large unfunded liabilities. Given these challenges, the Administration believes there is both a need and an opportunity for legislation to provide near term financial relief and long term structural reform that would help ensure the future viability of the Postal Service.

The proposals in the President's budget build on many of the proposals and business reforms that the Postal Service has been implementing in recent years. It focuses on four key principles that I would like to briefly touch on today.

First, the proposal provides the Postal Service with sufficient near term financial relief to avoid destabilizing near term measures that could undermine the Postal Service's core strengths. The Administration proposal would improve the Post Service's near term cash position by more than $20 billion over the next three years, providing time for key legislative reforms and operating efficiencies to take effect.

Second, the proposal provides the Postal Service with flexibility to adjust to a change demand environment. In addition to the Postal Service's ongoing administrative initiatives in this area, the Administration's proposal would provide the Postal Service with market-based authorities to realign its business and operational strategies.

Third, the proposal gives the Postal Service flexibility to generate additional revenue as well. This would include the authority to leverage its national network through new partnerships with State and local government entities, as well as expanding promising and profitable new lines of business.

Finally, the Administration's proposal would build on rather than undermine the Postal Service's core strengths. The Administration believes that the test for any comprehensive and balanced reform proposal must be that we improve the Postal Service's quality of service, including in rural America and responsiveness of its product offerings to build on the trust the Postal Service has with the American people.

The Administration is gratified by the serious work of members of this committee, as well as in the Senate, to bring forward ideas and approaches to addressing the Postal Service's challenges and we look forward to working with Congress to strengthen the Postal Service over the long term so that as I said it can continue to pro-

vide the American people with trusted, reliable and affordable service.

With that, I look forward to taking your questions on the Administration's Postal Service proposal.

[Prepared statement of Mr. Deese follows:]

Embargoed Until Delivered

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
www.whitehouse.gov/omb

TESTIMONY OF
BRIAN C. DEESE
DEPUTY DIRECTOR
OFFICE OF MANAGEMENT AND BUDGET
BEFORE
HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

April 8, 2014

Mr. Chairman, Ranking Member Cummings, and members of the Committee, thank you for your invitation to discuss the President's proposal for reform of the U.S. Postal Service.

The Administration recognizes the value the Postal Service adds to the Nation's commerce and communications, and its essential role in stitching together the vast expanse of our country and connecting America with the global economy. For years the Postal Service has ranked among the most trusted Federal agencies, and it provides reliable and affordable universal service to millions of Americans.

Unfortunately, the Great Recession exacerbated the financial pressures the Postal Service has been facing for many years, resulting in a financial gap that the Postal Service estimates at $20 billion by 2017[1] as well as large unfunded liabilities, as recently estimated by the Government Accountability Office (GAO) and Postal Service. Given these challenges, the Administration believes there is a vital need for legislative changes to help ensure the future viability of the Postal Service.

The proposals in the Administration's FY 2015 Budget seek to provide a responsible path to future viability focusing on four key principles:

- First, the proposal provides the Postal Service with near-term financial relief, largely through the restructuring of some key retiree liabilities, to avoid destabilizing or draconian near-term measures that could undermine the Postal Service's core strengths.
- Second, the proposal provides the Postal Service with flexibility to adjust to changing consumer demand, including the authority to gradually reduce mail delivery frequency to five days and to shift to centralized and curbside delivery where feasible.
- Third, the proposal gives the Postal Service flexibility to generate additional revenue over the long-term by allowing it to enter into partnership agreements with State and local governments, ship wine and beer, subject to regulations, and extend the exigent rate increases currently in effect.

[1] See, United States Postal Service Form 10-K for Fiscal Year 2013, page 8.

- Fourth, the proposal seeks to make these reforms in a manner that improves the quality of services and strengthens the institution of the Postal Service for the American people, including in rural America, while at the same time protecting American taxpayers.

Though the Administration has laid out a proposal of its own, we are heartened by the serious work of this Committee as well as the Senate in addressing these issues, and by the parallels we see between our proposal and those being considered in Congress. We look forward to working with members of Congress to enact bipartisan reform that will strengthen the Postal Service over the long-term and ensure it can continue providing the American people with trusted, reliable, and affordable service. In my testimony I will touch on the relevant factors that brought the Postal Service to the business environment it faces today and discuss the major elements of the Administration's proposal that we look forward to working with Congress and other stakeholders on this year.

Background

The Postal Service is an independent, self-funding business operation of the Federal Government. Over the last several years, it has struggled to adapt its operations and cost structure under current law to match evolving market conditions. Since 2007, as electronic communication has increased, total mail volume has declined by over 25 percent, and first-class mail volume has declined by over 28 percent. In FY 2012, the Postal Service fully exhausted its borrowing authority with Treasury and defaulted on $11.1 billion in statutory payments to prefund its retiree health benefits (RHB). In FY 2013 it defaulted on another $5.6 billion RHB payment.

To the credit of the Postal Service and its dedicated employees, it has undertaken significant administrative reforms under existing authority to reduce expenses, such as by consolidating mail processing facilities and reducing hours in some post offices to better match customer demand. It has reduced its workforce by more than 200,000 – or nearly 30 percent – over the last decade without resorting to layoffs or Reductions in Force. It has piloted means to expand its operations through same-day delivery and partnerships with the private sector, including online retailers, and has realized positive gains in certain business segments such as package delivery. These efficiency gains and innovations have helped narrow the gap between the Postal Service's revenues and expenses, and enabled it to end FY 2013 with a small positive operating cash position, although it was not able to make its $5.7 billion RHB payment owed that year. The Postal Service's financial position has also improved due to the Postal Regulatory Commission's (PRC) recent decision to increase postage rates across market-dominant products, including the exigent rate increase requested by the Postal Service resulting in a total three cent increase in first class stamps.

However, the recent improvements do not eliminate the need for comprehensive legislative reforms. The postage rate increase is time-limited to only the next two years; first-class mail volumes continue to decline; and the Postal Service's unfunded liabilities are not going away. In the near term, the Postal Service carries a $5.7 billion liability on its balance sheet for the annual RHB payment that is due in September 2014, and the Postal Service projects net accrual deficits through at least 2016. Given its financial position, the Postal Service has said that, unless

legislative reforms are enacted, it will likely default on all of its remaining RHB payments owed through 2016 as a means of retaining a positive cash position to sustain operations. The Postal Service has worked to close its financial gap to the extent it can under existing authorities, but it needs additional legislative authorities.

Near-Term Financial Relief

The Administration's proposal would improve the Postal Service's near-term cash position by more than $20 billion through FY 2016, providing time for key legislative reforms and operating efficiencies to take effect. The major component of this relief is through a sensible and balanced restructuring of some key retiree liabilities. Under current law, the Postal Service is directed to make specified annual payments to prefund future RHB of current employees. Starting in 2017 under current law, it will begin paying into the RHB Fund the estimated accruing retiree health care costs of current employees (i.e., the "normal cost"), and its remaining unfunded liability (UFL) for current and future retirees will be amortized over a 40-year period.

The Administration's proposal would restructure the Postal Service's RHB payment schedule to improve its near-term cash position and long-term fiscal sustainability. In the near-term, it would defer the full $5.7 billion RHB payment in FY 2014 and half of the RHB payment amounts in fiscal years 2015 and 2016 ($2.85 billion and $2.9 billion, respectively). These deferred RHB payments would be incorporated into the 40-year amortization schedule starting in 2017. The proposal would authorize the payment of health benefit premiums for current retirees to come from existing balances in the RHB Fund rather than from its annual cash flow beginning in 2014 rather than 2017 as under current law. To ensure long-term fiscal sustainability, it would require the Postal Service to begin making annual "normal cost" prefunding contributions starting in 2014, accelerating by three years what would happen under current law in 2017.

Under the Budget's proposed restructuring of RHB payments, the Postal Service is not being relieved of its RHB responsibilities or the requirement to pay its liabilities. Instead, the Budget proposal temporarily reduces Postal Service expenses over the next three fiscal years by deferring a portion of its intra-governmental payments to provide the necessary cash flow to implement additional reforms.

The Administration also proposes to provide near-term relief by returning to the Postal Service an OPM-calculated FERS surplus from its previous payments, using "Postal-specific" demographic factors, rather than the government-wide calculation that is currently used. The Administration believes this alternative methodology is appropriate given the size of the Postal workforce (approximately 500,000 employees) and demographic characteristics of Postal annuitants relative to those among the broader Federal employee population. While we understand from OPM that doing this calculation would take approximately six months following enactment, the Budget reflects an estimate of $5 billion for this surplus,[2] which is proposed to be returned to the Postal Service over a period of two years.

[2] This estimate is based on an estimate provided by the Postal Service Office of Inspector General in December 2012 (using Postal-specific factors including investment returns, salary growth rates, cost of living adjustments granted to Postal retirees, and Postal Service demographic trends).

Flexibility to Adjust to Consumer Demand

In addition to the Postal Service's ongoing administrative initiatives to consolidate mail distribution centers and reduce staff positions through separation incentives and attrition, the Administration's proposal would provide the Postal Service with market-based authorities to realign its business and operations strategies.

First, the Administration's proposal would provide the Postal Service with authority to gradually reduce mail delivery frequency from six days to five days. This authority would give the Postal Service the flexibility to make changes to the delivery schedule based on its assessments of business conditions and consumer demand. The Postal Service has indicated that it would retain a six-day delivery standard for mail services that are profitable, such as package delivery, maintain some Saturday post office window service, and otherwise flex its operations based on demand. The Postal Service has also indicated that, to address consumer-related issues associated with the transition to five-day delivery, it would take common sense business approaches to implementing a modified delivery schedule – including continuing to deliver to P.O. Boxes six days per week and continuing to deliver Express Mail seven days per week. The President's proposal and budget estimates assume the Postal Service would implement these measures in modifying its delivery schedule.

Second, the proposal would allow the Postal Service to begin shifting to centralized and curbside delivery for businesses and new residences. This authority, as described by the Postal Service, would require conversion for business addresses receiving door delivery, though package delivery would still continue to the door. In addition, the Postal Service would develop a program of voluntary conversion to centralized or curbside delivery for some residences currently receiving door delivery, but would not mandate a minimum amount or specific target for residential conversions. The Budget estimates that the Postal Service's exercise of the authority to streamline delivery in this fashion could save the Postal Service $500 million a year when fully implemented.

Flexibility to Generate Revenue

For the Postal Service, the flexibility to adjust to consumer demand is necessary but not sufficient – it also needs the necessary tools to generate revenues that match its expenses. To that end, the Administration's proposal would increase Postal Service revenues by allowing it to enter into leasing agreements with State and local governments for the joint use of its property and services. In addition, the proposal would allow the Postal Service to ship wine and beer, subject to regulation. The Budget proposal would direct the Postal Service to examine the potential expansion of retail alternatives to post offices, which have the potential to yield further operating cost savings.

Finally, the Budget proposal would sustain greater postal revenue by permanently extending the PRC's December 2013 exigent rate increase.

Maintaining Quality and Strengthening the Institution

While the Postal Service's financial position demonstrates the need for legislative reform, the Administration believes that any reform must build on, rather than undermine, the Postal Service's core strengths. Despite difficult financial circumstances, the Postal Service delivered 158 billion packages and pieces of mail to almost 153 million delivery points in 2013. It did so in a reliable and affordable manner, while maintaining the privacy and security of the items delivered and making innovations that continue to drive growth in certain areas.

The Administration's proposal will strengthen the Postal Service's quality of service, the responsiveness of its product offerings, and bring greater security to its workforce over the long-term by giving it the near-term financial relief it needs and the authority to realign its business and operations strategy to better match market conditions. The President believes any reform to the Postal Service must have as a central principle a commitment to maintain high quality service and to continue strengthening the institution over the long-term.

Conclusion

The Administration supports strengthening the Postal Service through balanced reforms that provide it with the operational flexibility to undertake structural changes that will help put it on a sustainable trajectory. Coupled with financial relief in the near term, the Postal Service would have time to undertake these reforms without continually defaulting on its obligations or forcing draconian steps that could endanger the Postal Service over the long-term.

The Administration understands the important role that the Postal Service and its employees play in providing universal service throughout the country and supporting American businesses and jobs. We are encouraged by recent activity in both the House and Senate that focuses on these important issues. We look forward to working with the Congress and Postal stakeholders on balanced legislation that puts the Postal Service on a path towards long term sustainability.

Chairman ISSA. Thank you.

I will recognize myself and without objection, the Chair is authorized to declare recesses of the committee at any time.

First of all, looking at the President's budget, the CBO has scored about $6.5 billion, if we were to convert the remaining homes that have to the door, so-called chute, delivery to the curb. However, in the President's budget, which usually scores higher than the CBO score for a number of reasons, you scored only $500 million in savings.

I note that it was a mandate on business while in fact no mandate on the private sector. In other words, if you will, residents would continue to be under the same 1974 encouragement to convert that has not led to conversion. Did you get your $500 million all from a calculation of business and if so, why would business be appropriate for a mandate in almost all cases and no residential?

Mr. DEESE. I appreciate the question. This is an important component of the Administration's plan.

The difference in scoring assumptions does derive from difference in the policy assumptions or the policy proposal itself. As you note, the Administration's proposal would do a couple things in this space.

The first is it would provide the Postal Service the authority to move to cluster, curbside approaches with respect to businesses and with respect to new residences.

Chairman ISSA. I appreciate that except they already have that authority. The question is you scored $500 million. Assume CBO makes $250 million, about half of what you usually score, out of $6.5 billion, if we were to do them all—by the way, I am supportive. I think the Ranking Member has more and more recognized and supported at least the idea that cluster boxes were an asset and not a liability when they maintain your packages in a secure and water resistant environment.

My question really was the mandate on business, which I support, it seems like it would score at least that amount and as a result, was there a calculation of any savings in residential because in order to score a savings, you have to beat the very small amount of residential reduction that is going on. That was the specific question. Did you get it all from business?

Mr. DEESE. The scoring assumption assumes that the majority of that savings comes from the conversion in the business space with a small amount coming from residential conversions. We did not include in the Administration's proposal a mandate or a target in the residential space.

Chairman ISSA. And why not? There has been a long history of people being very happy when they got conversion to cluster boxes and security and yet there has been very little of it under the law that has been around since before most people in this room's birth.

Mr. DEESE. Our rationale in that context was that while we agree there are opportunities for potential cost savings without undermining and in fact potentially enhancing customer service, that it is location dependent and situation dependent. There are promising strategies that the Postal Service is deploying but before mandating that on a wide scale at the residential level, we would want to understand better.

Chairman ISSA. Let me ask two quick questions before my time expires. There probably will be a second round.

You did ask for five day. The Administration has had that year after year after year. You are solidly in favor of that and I presume have had many years of public comment since it has been in the budget year after year. Is that correct?

Mr. DEESE. The Administration's proposal includes the authority for the Postal Service to move to five day delivery.

Chairman ISSA. It scores an assumption they will do it.

Mr. DEESE. It includes the assumption. The only thing I would note there is that it is our belief that needs to be a part of a comprehensive and balanced plan and that taken in isolation, the move to five day delivery doesn't solve anything.

Chairman ISSA. We concur with that. Would you say the President's proposal in the budget would be considered comprehensive, in the President's opinion?

Mr. DEESE. Yes, sir.

Chairman ISSA. If we embrace the entire budget proposal, that would, in fact, be comprehensive according to the Administration?

Mr. DEESE. We believe the proposal we put forward is comprehensive and balanced.

Chairman ISSA. Let me ask one last question related to the cluster boxes. Would the Administration consider it reasonable to go from what is stated which is the mandatory for business, voluntary for residents to mandatory for business, mandatory for residents which are substantially the same or identical to existing post-1974 implementation?

In other words, recognize that if your residence was designed substantially differently in the pre-1974 era right here in Washington these row homes with the kind of unique design that often does not easily facilitate a cluster box, but if you live in a classic residential or rural area that simply happens to have been built before 1974, would the Administration be prepared to negotiate and agree if it is the same as implementation post-1974 in large amounts, that pre-1974 should be mandated—in other words, fairness between somebody that has an identical community except this street was built in 1975 and this one was built in 1972?

Mr. DEESE. That is a specific proposal that we haven't closely looked. We would be happy to do so. The broader policy concern we have that we would want to better understand is whether imposing a mandate in this context would create untenable situations in particular locations. We would be happy to look at that specific proposal.

Chairman ISSA. I would appreciate that.

I will yield to the Ranking Member and give him the additional time.

The reason I asked that is we consider, at some point, that is essentially voluntary where not the same as millions of Americans have now had for generations. If a home built in 1975—a goose or gander kind of thing—since 1975 somebody has lived with it and it works, say a home on the same street but further down it was built in the 1960s, why wouldn't you convert it if it was substantially the same?

In the language that I proposed that we enter into negotiation with the Administration would limit the mandate to those in which it was substantially similar so there would be no injustice but rather a bringing to justice what has obviously worked in the last almost 50 years since the law must already be considered to work if it is substantially identical or there was some language that would be agreed to.

That would be what I would propose because I believe the proposal of the Administration could be enhanced in scoring substantially if we were to take those like residences and bring them in a ten year period to identical, if you could take that back.

I thank the Ranking Member for his indulgence and yield seven minutes.

Mr. CUMMINGS. Mr. Deese, on Wednesday, April 2, Budget Committee Chairman Paul Ryan unveiled his fiscal year 2015 budget. Included in the Chairman's budget was a proposal requiring postal employees to pay increased costs for health and life insurance. The budget would also subject postal employees to additional pension contribution rates that would be applied to all federal employees. Currently, postal employee contributions to health and life insurance is subject to collective bargaining.

Has the Administration used the chairman's budget proposal and if so, could you provide any feedback on that proposal?

Mr. DEESE. We have not seen the full detail of the chairman's budget proposal, so we have not reviewed the specifics but would be happy to do so and get back to you.

Mr. CUMMINGS. How soon can you get that to me?

Mr. DEESE. I would be happy to work on it as quickly as we can and get back to you shortly.

Mr. CUMMINGS. One of my key priorities for postal reform is the creation of a Chief Innovation Officer position in the Postal Service. This individual would be tasked with leading development of innovative postal and non-postal products and services within the Postal Service to meet customer's changing needs and generate additional revenues. Would the Administration support creation of such a position?

Mr. DEESE. That provision isn't specifically in the Administration's plan but the objectives are quite consistent with a number of the proposals in the plan in encouraging innovation particularly in new product areas and creating potential new revenue opportunities is something we do support. That is something we would be open to and happy to work on with you and others of the committee.

Mr. CUMMINGS. One of the main operational reforms included in the Administration's proposal for the Postal Service was "allowing the Postal Service to leverage its resources by increasing collaboration with State and local governments." Is that right?

Mr. DEESE. Yes, that is correct.

Mr. CUMMINGS. How do you see them doing that?

Mr. DEESE. I think the Postal Service's network across the country is a vital asset and one that they have already found some ways to take advantage of. For example, the processing of passport applications in post offices has been something that has enhanced customer service and customer satisfaction.

I think there are opportunities to build on that model and provide opportunities to provide other licenses or other State and local services and co-locate those in post offices that would both create customer efficiencies and also potentially create new revenue opportunities for the Postal Service as well.

Mr. CUMMINGS. Does the Administration believe that innovation or collaboration with other entities could yield additional revenue for the Postal Service? You talked about passports. I don't know how much revenue is there. The question becomes are some of these proposals revenue neutral?

You well know that when the Postal Service comes up with new ideas a lot of times there are already entities in the private sector that become concerned because they see it as competing against what they are doing. In many instances, they feel the Postal Service has an advantage over them because of the very network you just talked about.

I am wondering if you considered the types of entities other than passports, services that is?

Mr. DEESE. Yes. I think you raise an important point. I think it is an important question to ask for any potential expansion into a new product or service line given the unique position of the Postal Service, its monopoly position in some business segments, whether or not we would inadvertently create adverse competitive dynamics for private sector entities.

Our focus on collaborating with State and local entities was principally driven by the fact that most all of those services are governmental in nature, so they are not things that would raise concerns about competitive dynamics.

With respect to expanding beyond that into other services, that is a concern we share and one that we would look closely to make sure if they were expanding, that they weren't tripping up or undermining legitimate private sector business segments.

Mr. CUMMINGS. Recently, the Postal Service Inspector General released a white paper indicating that the Postal Service could potentially generate billions of dollars in additional revenue by providing non-bank financial services to underserved communities. I am very familiar with underserved communities because I am living in one and have been there for 32 years where there are no banks. Did you review the IG report?

Mr. DEESE. I am familiar with the IG report. Generally speaking, the President is obviously very committed to that policy goal of trying to expand access to banking services, particularly in underserved areas where they are unable to access or only able to access at extremely high costs and high risk to individual consumers.

With respect to leveraging the postal network, that is not something that is part of our proposal currently. I know there are proposals out there and we have been looking at them. I think that is a space we want to better understand the impact both in terms of potential competitive dynamics but also in terms of leveraging the strengths and assets of the Postal Service.

We haven't incorporated that into the Administration's plan but we want to learn more from some of the proposals that are out there.

Mr. CUMMINGS. I yield to the gentlelady, Mrs. Maloney, as arranged, the remainder of my time.

Chairman ISSA. The gentleman yields.

Mrs. MALONEY. I thank the Ranking Member for yielding.

There is a meeting with the President on his women's economic agenda today very shortly so a number of us will be going to that meeting. This is an incredibly important hearing. The Postal Service is so fundamental to this country.

I believe the mail should be delivered on time very day, including Saturday. It is a critical part of our economy and a critical part of peoples' lives.

The one area that I find completely troubling is the Postal Service is required to make fixed annual payments, between $5.4 and $5.8 billion over ten years to pre-fund the cost of future retiree health benefits for current employees and retirees. No other agency in the whole government is required to do this. This is incredibly unfair.

Not only do they have to and do they deliver mail to every corner of this country, on time every day including Saturday, they have to pre-fund their benefits. I just want to go on record on how terribly unfair this is and that it needs to be changed.

I will be reading the reviews and meeting with the Chairman and Ranking Member on the outcome of this important hearing.

I yield back to the Ranking Member.

Chairman ISSA. Are there any other women who will be attending and have to leave? With the indulgence of the Majority, you are now recognized.

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

Actually, with what my colleague just said, I can say, ditto, ditto, ditto. I do think it should stay six days a week and I do think we should relook at how pensions are paid. I agree with the statement just made.

Thank you. I yield back.

Chairman ISSA. Thank you.

Since I am getting a little indulgence from the Ranking Member, could I have one minute to follow upon what the Ranking Member said?

The Ranking Member talked about the proposal on banking. Obviously it is not in the President's budget, but I wanted to ask a question on consistency. If the State of Maryland, in partnership with Maryland post offices in Baltimore and so on, chose to have a government-sponsored partnership that accessed those that would be, if I understand correctly, consistent with the President's proposal, working with State and local governments, if a government entity would have something and utilize postal workers as part of their plan, that would be a government to government plan and consistent with the President's proposal, is that right?

Mr. DEESE. The goal of expanding with say State and local entities was to create space for those types of partnerships. With respect to whether those partnerships go into the issue of financial services or the issue of licensing or otherwise, we are prescriptive on that in the proposal but the idea is to focus on areas where you could find intersection.

Chairman ISSA. If the Post Office was to run an unemployment office, for example, an annex to an unemployment office on behalf of the State, that would clearly be consistent with the President's proposal because that would be inherently governmental.

Mr. DEESE. Those are the types of services that were contemplated. Obviously with respect to the specifics, that is the kind of business judgment we would want to leave to the Postal Service.

Chairman ISSA. I thank you.

We now go to the gentleman from Michigan, Mr. Walberg.

Mr. WALBERG. I thank the Chairman.

Mr. Deese, thank you for being with us today.

The President's budget calls for codification of the Postal Service's current plan to avoid closing many small rural post offices like the one that services my home by reducing their hours of operations to either two, four or six hours per day.

As part of the additional efforts to protect rural access to postal services, the committee's bill includes an amendment crafted by Representative Adrian Smith that would limit the total number of rural post office closures to less than five percent of the total number of remaining rural post offices per year. The question I have is how strongly would the Administration support this proposal?

Mr. DEESE. I think you put your finger on a key part of the Administration's proposal which is to actually codify in law the Postal Service's post-plan they have developed. The Administration believes that strategy is financially sensible and supports one of the key principles we believe should be a part of any plan which is to strengthen the Postal Service's core assets. One of its core assets is its network including its network in rural America.

The approach we would codify would seek to avoid post office closures in rural areas altogether by implementing alternative strategies, as you mentioned. We support that effort and believe from a financial viability perspective, it is not necessary or necessarily wise to go forward with substantial closures in the future.

Mr. WALBERG. In your written testimony, you state that under the Administration's proposal, "the Postal Service is not being relieved of its retiree health care benefit responsibilities or the requirement to pay its liabilities." This approach appears to implicitly reject a push by some of my Democratic members and colleagues to ask the USPS to only 80 percent of the cost of these benefits.

Can you explain why the Administration believes that the Postal Service should fully fund its retiree health care costs and not only 80 percent?

Mr. DEESE. I think this dovetails back to the points by Congresswoman Maloney as well. We believe that the current structure of fixed retiree health benefit payments is unsustainable. At the same time, we think it is important, as part of a comprehensive reform, to put the Postal Service in a position where it is financially viable enough to meet its long term obligations.

The approach we would take would be to restructure those payments in the near term, basically defer the full payment in 2014 and half of the scheduled fixed payment in 2015 and 2016 but build those into a 40 year amortization schedule. When you take that approach in the context of the other reforms in the President's plan,

we believe that 40 year amortization schedule is sustainable for the Postal Service to meet.

Our view is that we want to try to put the Postal Service in a position to meet its obligations over the long term but that needs to be balanced against the realities in the short term that without some near term relief, they will continue defaulting on their obligations.

Mr. WALBERG. Along with that, has the Administration taken a position on the Postal Service's proposal that all postal retirees be required to enroll in Medicare once they reach the eligibility age for Medicare?

Mr. DEESE. That is not a proposal on which we have taken a formal position. The focus of our proposal with respect to health care and health care liabilities has been trying to address the financial viability issue that we just discussed. That is a near term challenge because of the looming retiree health benefit payments.

With respect to modifying the source of the health care itself or modifying the benefit structure itself, that is not something on which we have taken a position; it is something that we know others have raised and we are looking at.

The one note I would make from the OMB perspective and from the Administration-wide perspective is as we look at proposals of that type, it is important to make an assessment on a whole of government, unified basis in terms of the fiscal impact they would have. We haven't taken a formal position but we are looking at those closely.

Mr. WALBERG. Thank you.

I yield back.

Chairman ISSA. I thank the gentleman.

We now go to the gentleman from Vermont, Mr. Welch.

Mr. WELCH. Thank you very much.

The most important thing is that at the end of the day, we have to have a strong and vibrant Postal Service. The Postal Service has been here longer than the United States Constitution. There are enormous pressures on the Postal Service now. Obviously the Internet has really cut into first class mail but the telegraph cut into the Pony Express and a lot of adjustment had to be made over the years.

Any approach that we take offered by the White House, offered by this committee, should have as the goal the strengthening of the Postal Service for the long term.

My view is that while there are enormous price pressures, the recourse we have cannot be one that ultimately undercuts the capacity of the Postal Service to provide the unique service that it does. Six day delivery, in my view, is very important. I am from a rural area. Folks in rural Vermont, all over Vermont, really depend on that Saturday delivery. My hope is that at the end of the day, we are going to maintain that six day delivery.

One of the questions I have of you, Mr. Deese, is whether the funding issue that some of my colleagues have brought up where we have situations in government and some State governments all around where sometimes pensions and medical expenses are under funded and that creates a huge problem and sometimes they are over funded and that creates a huge problem.

The cash flow for the Postal Service, where do you all stand on the funding levels for these pensions and the obligations that the Postal Service has that are constricting their cash flow and their ability to operate?

Mr. DEESE. I would say at the outset, the Administration strongly agrees with your bottom line principle that we need to be focused on a stronger Postal Service.

With respect to the pension and other outstanding liabilities, it is important to look liability by liability because it differs. With respect to the pension obligations in the FERS system, for example, that is a place where we believe that if calculated accurately based on postal specific characteristics, there is a surplus and the Postal Service has overpaid. Our proposal would rebate those resources.

Mr. WELCH. That is great. So we would right size the obligation, that would be actuarially sound but not bone crushing for the cash flow of the Postal Service. That is the goal, right?

Mr. DEESE. Yes, that is right. I think that you have to look at these pieces together because if a reform proposal doesn't achieve sufficient near term financial relief, then it is not going to allow time and space for reforms to take effect, nor allow for the Congress and Administration to actually solve this problem.

Mr. WELCH. We have to maintain the overnight delivery standards. One of the great things about any organization is when they can provide the service that customers need. Overnight delivery really is important to the Postal Service to be customer friendly. Number two is missed time where there is enormous pressure, loss of first class mail from the Internet, there has to be some freedom to innovate.

The companies that do well are the ones that adapt. Where is the Administration with respect to maintaining overnight delivery standards and giving some flexibility and freedom to the Postal Service to innovate and find other ways to generate revenue to make that Postal Service strong?

Mr. DEESE. With respect to the second piece on innovation, we agree that it is important to provide additional flexibility and authorities for the Postal Service to innovate and to expand where they have identified promising new business lines, for example, in the delivery of beer and wine.

With respect to the question of overnight delivery, we believe it is important to maintain the quality of service that customers have come to rely on and that has to be an integral part of making any of these reforms.

Mr. WELCH. Thank you very much, Mr. Deese.

Mr. Chairman, I yield back.

Chairman ISSA. Would the gentleman yield?

Mr. WELCH. I will yield, yes.

Chairman ISSA. Thank you.

I think the gentleman from Vermont made a good point, but earlier when the gentlelady from New York talked about pre-funding, from the Administration's perspective, because your proposal as I understand it is to essentially reschedule that pre-funding but not eliminate it. Is that correct?

Mr. DEESE. That is correct.

Chairman ISSA. That is because ultimately, these expenses come due and the revenue of selling stamps is where those eventual bills are to be paid, is that correct?

Mr. DEESE. It is important that the Postal Service is in a financial position to meet those obligations because those are obligations that their workforce is expecting.

Chairman ISSA. Consistent with any other pension and retirement program in the private sector?

Mr. DEESE. Yes. On the question of pre-funding, obviously to the degree that pre-funding is financially viable, it is a wise financial decision. We have a situation in the short term where the current law pre-funding obligations are untenable, so the Administration's proposal is focused on the 40 year amortization schedule that would make it more tenable.

Chairman ISSA. Your proposal is based more on their ability to pay today but still trying to eventually get them actuarially sound, is that correct?

Mr. DEESE. That is correct.

Chairman ISSA. Thank you.

We will now go to the gentleman from Texas, Mr. Farenthold.

Mr. FARENTHOLD. Thank you very much.

As chairman of the subcommittee, I want to talk about where we agree and disagree and maybe do this on big picture items so we know where to focus.

I assume you are familiar with the bill we passed out of this committee and the reforms in it?

Mr. DEESE. Yes, sir.

Mr. FARENTHOLD. What parts do you specifically disagree with that you think need additional work to be consistent with what the Administration is after?

Mr. DEESE. I think there are several provisions where there are ideas or proposals that are not incorporated in the Administration's plan. I think we have touched on a couple of them. One is the treatment of the cluster box and curbside delivery approach and the degree to which that is mandated into the existing residential customer base or not.

I think there is a second question that has come up in this conversation about the question of governance and the idea from the Ranking Member's legislation of a Chief Innovation Officer and whether and to what degree we need to create a new or separate layer of oversight or governance in order to give the Postal Service the flexibility to build on the ideas and proposals that it has already committed to.

I think there are also some disagreements or areas where the Administration proposal doesn't go in the space of collective bargaining and workplace protections where it is the Administration's view that if you look at what the Postal Service management has been able to do constructively with its workforce over the last couple of years, deploying creative tools, finding savings that it is not necessary in the current context to be prescriptive about future collective bargaining agreements.

Those are a couple places I would note there are proposals that are not included in the Administration's plan.

Mr. FARENTHOLD. So we are generally in agreement. That does kind of go through the big picture. We are generally in agreement we don't want to close too many rural post offices if we can avoid it.

Mr. DEESE. Generally in agreement there.

Mr. FARENTHOLD. Generally in agreement with revenue enhancement. We can call it innovation or revenue enhancement in such a way that does not give the Postal Service an unfair competitive advantage over the private sector. I think your proposal is doing more with respect to partnering the State and local governments. We are in general agreement on that principle?

Mr. DEESE. Yes. The only thing I would note there, which we believe is financially important, is extending the exigent rate increase currently scheduled to expire which does generate savings.

Mr. FARENTHOLD. As far as the pre-funding, I think there may be some details on exact actuarial formulas and numbers but I think we can agree that if we can get the math to work, there needs to be some form of pre-funding that is affordable today but does meet the long term needs of the Post Office to keep its commitments to its employees.

I like to tell postal workers who complain about this, don't you want to be sure there is money there for your health coverage.

Mr. DEESE. I think finding that balance is certainly a priority and one we tried to address in our bill.

Mr. FARENTHOLD. I think we are actually more generous in a modified six day than the President's proposal as far as days of delivery?

Mr. DEESE. With respect to the President's proposal, it would provide the authority for the Postal Service.

Mr. FARENTHOLD. To do nothing on Saturday if that was what they wanted to do?

Mr. DEESE. Our estimates there reflect what the Postal Service has stated it would intend to do which includes maintaining six day delivery for packages.

Mr. FARENTHOLD. The other big stumbling block would be cluster boxes. Our numbers show the modified six day cluster boxes get as close to 70 percent of the way to balance. Our proposal we would go to cluster boxes wherever possible and we added, addressing some concerns of the Minority, continuing home delivery for the elderly and disabled. We are looking at the potential of if you want to pay the Post Office a subscription fee, we will calculate what it cost to deliver to a home. Say it is $100 a year. You can pay that and continue to get that.

That seems to me to be a middle ground. Do you think that is something you could take back to the Administration and say where can we find some middle ground?

Mr. DEESE. We are certainly happy to take back the proposal you just put forward as well as the proposal the Chairman put forward. Our concern there is not to destabilize existing delivery. We are happy to look at it.

Mr. FARENTHOLD. I think we are consistent with also not wanting to reduce the size of the Postal Service workforce beyond voluntary attrition as well, is that correct?

Mr. DEESE. Our view is that the Postal Service management, working with its workforce, has found constructive tools to right size its workforce and that we should not be prescriptive in that.

Mr. FARENTHOLD. It looks like we are awful close on this. I have gone over my time. I appreciate your testifying and look forward to working with you.

I yield back.

Chairman ISSA. The gentleman yields back what he does not have.

We now go to the gentleman from Massachusetts, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

Mr. Deese, the decision of the Administration to move away from six day delivery and go to five day delivery, you have to acknowledge that we are going to stop service on a day when most businesses in America and most families are operating on a six or seven day schedule, so we are moving away from the market. Do you get a sense of that at all?

Mr. DEESE. I appreciate the question and understand this is a challenging area. I think when the Administration has looked at this issue, it has been in the context of the overall plan and what we are doing on the revenue side of the equation as well as what we are doing on the financial relief side of the equation.

Mr. LYNCH. Let us talk about the operational side of the equation. If you are going to use less letter carriers, you are not going to be delivering on Saturday, I assume that is the day. That is pretty much what we have talked about here, going from six to five. Regardless of what we do, the mail has to get delivered, whatever mail is there. That is a physical challenge.

We are going to have less letter carriers than we need to deliver, especially if these other changes—cluster boxes and going away from door-to-door delivery.

Have you thought about an early retirement incentive to get letter carriers out the door? The letter carriers I am speaking of specifically have not an offer of early retirement because we need them. We cannot give the letter carriers an early retirement up to now because that is the only way we get the mail delivered.

I am thinking especially about the $12.5 billion that would be a surplus from the over payment that these postal employees made to their retirement system. There is $12.5 billion sitting there. By my calculation, that would be less than $1 billion to do a serious early retirement incentive for members of the National Association of Letter Carriers and rural carriers as well.

Mr. DEESE. That is not a specific proposal we have looked at but we would be happy to look more closely at it going forward.

One note on this is it is important and we believe consistent with what Congressman Welch raised about coming out with a stronger Postal Service, that we also need to look at places where there is expansion opportunity.

Mr. LYNCH. Let us talk about that because that is my next question. Right now we operate the Postal Service that goes to every American business and home six days a week and we have the census. The most expensive part of the United States Census is the last portion where we send census workers out to every American home separately and pursue the census.

I am just wondering if the Administration had thought about using letter carriers who know these routes anyway to go to these homes the other six days of the week, to use them to actually take over that responsibility that the census is paying for separately right now. Maybe we could even pull in some of the retirees who also know these routes very effectively and reduce our cost both of the census and the Postal Service so we are saving money for the postal customer and saving money for the taxpayer as well. Have you thought about that?

Mr. DEESE. That is a creative idea. It is not one that we have looked closely at, but, again, one that we would be happy to look at.

Mr. LYNCH. Let me jump over to door delivery. You have acknowledged, I think rightfully, that there are probably ways we can more efficiently provide for delivery in rural areas that might be amenable and suit for cluster box delivery. I think that will happen.

Have you looked at the Chairman's bill, H.R. 2748?

Mr. DEESE. Yes, sir.

Mr. LYNCH. He suggests that by 2022, we are going to convert over 75 percent of folks getting their mail delivered at the door. That is 38 million people. He is suggesting that 30 million of those people by 2022 would go to a cluster box.

Looking at the demographics in this country, urban areas will have to be converted. There is just not enough people in the rural areas—that is why they call them urban, there are lots of people there in places like south Boston, Dorchester, and like Baltimore, Maryland where the houses are attached and there is no place to put a cluster box.

I am wondering if you think that is realistic in terms of trying to convert out of 38 million door delivery points that we are going to convert 30 million of those to cluster boxes?

Chairman ISSA. The gentleman's time has expired but you can answer.

Mr. DEESE. We do have a cluster box component to the proposal, to the Administration's proposal. That is a place where we do have concerns specifically about putting a hard target or mandate on conversion rates.

As we discussed here, there are challenges where in some geographic locations you can enhance service and save money through these types of approaches. We are supportive of the postal service looking for additional areas, but mandating that on a broad scale could create unintended consequences which I think we would like to avoid.

Mr. LYNCH. I appreciate that and I yield back.

Thank you, Mr. Chairman.

Chairman ISSA. I thank the gentleman.

We now go to the gentleman from Florida, Mr. Mica.

Mr. MICA. Thank you, Mr. Chairman.

Mr. Deese, it appears more and more that the funding of the postal operations is turning into a big Ponzi scheme by not paying bills that are coming due and not actually meeting our obligations. That is unfortunate and I know you are trying to correct that.

How are you keeping this afloat, I just asked that? They said we are not pre-funding the health care, I guess some retirement worker compensation pension, so it is all of the above. We are not meeting our obligations on. Tell me the losses. The current year, what is the projected loss?

Mr. DEESE. The loss in the prior fiscal year, fiscal year 2013, the one we are in now, the projections are that the Postal Service will not make the $5.6 billion scheduled payment. I believe the net loss will be somewhat smaller than that.

Mr. MICA. So $5 billion, last year was $5 billion?

Mr. DEESE. About $5 billion.

Mr. MICA. In the budget you are presenting, what is your projected loss?

Mr. DEESE. In the Administration's plan, in the budget, by restructuring those retiree health benefit payments, our goal would be starting in fiscal year 2015 and going forward.

Mr. MICA. I agree with just about everything. I go for the five day service. I saw your proposal. Let me ask, on the five day service, we are having trouble getting votes from the other side of the aisle and the other side of the Congress. Is the Administration prepared to help on the five day issue? Are you working it?

Mr. DEESE. From the Administration's perspective, we were discussing the issue of changing the delivery schedule.

Mr. MICA. Again, we are going to need support to pass this stuff. When I look at all your points here, the biggest thing I would disagree with is refunding over two years' projected surplus of the Post Service Federal Retirement System. Talk about a Ponzi scheme. I chaired Civil Service for four years, probably the longest of any Republican and the first one in 40 years and I saw the way that was treated as a big cookie jar.

There is a projected surplus of about $500 million from FERS last year but there is a deficit of $19.8 billion at CSRS, right, a projected deficit, right?

Mr. DEESE. Yes.

Mr. MICA. How can you balance something by taking money out of a retirement account or try to use it as a balance to take money out of an account that we need to keep every penny in that we possibly can?

Mr. DEESE. I think the challenge our proposal seeks to address is that without sufficient near term financial relief——

Mr. MICA. You are taking money out of one account that actually should be shored up. If I were a postal union member or employee, I would be outraged. We need to get every penny we can into CSRS because you are running almost a $20 billion deficit there. This is again part of this Ponzi scheme.

You have to cut losses. Where is the biggest loss? They said first class mail is down 25 percent, so that is continuing to lose money. I thought most of the money that was lost was in commercial mail, is that correct or incorrect?

Mr. DEESE. The first class mail continues to be profitable. The issue is declining volume.

Mr. MICA. I have been in business. I looked at where my losses are and then I cut my losses. We may do it differently in government, we steal out of this pot to fund to a fund that's even more

in hock. That is not the way it should happen. The biggest loss is still in commercial mailing? They are making money on packages and probably first class, right?

Mr. DEESE. That is right.

Mr. MICA. You have to cut your losses in commercial, right? Somebody is paying for this, it is a huge debt—or the employees are paying for it. The employees are paying for it because they are going to get screwed in the end. There is not going to be money there and the taxpayer is going to get screwed in the second year because somebody is going to have to bail out the whole Ponzi scheme.

Mr. DEESE. The Administration believes strongly that one strong justification reform is avoiding liability that ultimately gets shifted to taxpayers down the road.

Mr. MICA. We are willing to work with you. You need to work with the Democrats, the House and the Senate. We need to do this. We need to secure the postal system in the United States of America. It is still very important.

You have thousands of people who have worked hard all their lives, great, great people and we have an obligation to them, not just to pay their salary but keep the system going and then also to meet their retirement obligations and benefits that we have incurred.

I am over. I yield back.

Chairman ISSA. The gentleman's time has expired. I thank him for yielding back.

We now go to the gentlelady from Illinois, Ms. Duckworth.

Ms. DUCKWORTH. Thank you, Mr. Chairman.

I would like to yield one minute to Mr. Connolly from Virginia.

Mr. CONNOLLY. I thank my colleague from Illinois.

I just want to correct the record for my friend from Florida. The idea that the problem is on the Democratic side of the aisle with respect to supporting six day delivery is simply not correct. I would point out that the Connolly-Graves resolution, Mr. Graves being a Republican, H.R. Resolution 30, has 210 co-sponsors, Republicans as well as Democrats, for the record.

I thank my colleague and yield back to her.

Ms. DUCKWORTH. Thank you.

Mr. Deese, thank you so much for being here. I do have a couple of questions of clarification based on the discussions we have had so far. Let's talk about the cluster boxes.

With new construction and new housing complexes being built, you will be working with the developers to put these cluster boxes throughout the neighborhoods, is that correct?

Mr. DEESE. The Postal Service would be working with them.

Ms. DUCKWORTH. We got 55 inches of snow in Illinois this past winter. I still had two feet of snow on the ground when I left my house in a shady area in my backyard. There was no way that in my wheelchair I could possibly have made it to the corner cluster box.

I just want to be sure the discussions we have had touched on the fact that there would be exemptions. Is there an actual move to make sure that is codified in some way, that persons with dis-

abilities would be exempt from the cluster boxes, even in new developments?

Mr. DEESE. The Administration believes that making sure there are those types of accommodations in any proposal is important.

Ms. DUCKWORTH. Let's hope that it is more than just a philosophy and we actually do follow through with that because as I said, there is no way I could have made it through the sidewalk under five feet of snow. It was taller than how tall you are sitting there right now.

The other question I have has to do with the philosophy of how we provide services. As you mentioned in your testimony, you believe that any postal reform must build on rather than undermine the Postal Service's core strengths. That is something on which we definitely agree.

I would argue that the Postal Service's main core strength is its reliability and the unique mission to serve the American public regardless of profit considerations. Don't you think it is counter intuitive to lower service standards or just going to five day delivery at a time when the Post Office desperately cannot afford to lose anymore business to competitors such as to mail alternatives?

Mr. DEESE. I think we share the goal of trying to build on the core strengths including the trust the Postal Service has developed with its customer base and the universal service requirement which makes it unique as an institution.

The challenge that the Postal Service faces is that we have a rapidly changing business environment. The rise of the Internet and electronic communications changes the equation for the Postal Service.

The Administration's plan, while building in the authority to move toward five day delivery in some instances and some segments, also looks for ways for the Postal Service to leverage those core strengths to expand into areas where the overall market segments are expanding and where the Postal Service has an opportunity to strengthen its relationship with its customers.

We are seeking to strike that balance along with giving the Postal Service the near term financial relief and flexibility that it needs so that it does not keep defaulting on its obligations and we are not back here in a couple of years because we haven't given it sufficient financial flexibility.

Ms. DUCKWORTH. I also wanted to mention one other thing in clarification based on the discussions we have had. That is specifically the difference between the DOD retiree health care program system and how that is funded in comparison to the Postal Service.

Yes, Tri-Care for Life is a system that is pre-funded. It is appropriated for. The other component of this is that DOD retirees actually are paid from Medicare first and Tri-Care for Life is a secondary payor. That is not the case with the U.S. Postal Service retirees so there is a significant difference.

Do you have any estimates on what the cost savings would be if the U.S. Postal Service were allowed to be the secondary payor behind Medicare?

Mr. DEESE. That is actually not something on which we have done a cost estimate at the Office of Management and Budget. I don't believe the Congressional Budget Office has either. It is an

important issue and an important question. I know that was a component of a proposal that was introduced in the Senate. That is an area that we are looking at currently.

Ms. DUCKWORTH. Thank you. I am out of time.

I yield back, Mr. Chairman.

Mr. MICA. [Presiding] Pleased to yield to the gentleman from Virginia, Mr. Connolly.

Mr. CONNOLLY. Thank you, Mr. Chairman.

Again, I thank my friend from Illinois for yielding to me.

Welcome, Mr. Deese.

It is said that Wayne Gretsky used to say, I skate to where the puck is going to be, not where it has been. One has the sense in talking about these postal issues that Mr. Donahoe and his management team are always skating to where the puck was.

For example, in looking at new business opportunities, let us start with the Federal Government. There is an IG report that shows that in 2011, the federal agencies spent $342.6 million in parcel delivery. Do you know what share of that federal market the Postal Service had?

Mr. DEESE. I do not.

Mr. CONNOLLY. $1.2 million. The next year, they did a little bit better, we spent $336.9 million as the Federal Government, and the USPS share was $4.8 million, about 1.5 percent. Is there a growth opportunity, do you think?

Mr. DEESE. It is not an area at which we have looked closely but it does seem like on these types of spaces where you are looking at governmental functions, the Postal Service does have opportunities. Obviously, the question is how to leverage the network and the competencies that the Postal Service has.

It may be, in some cases, that is more challenging, but certainly this is an area where we think the Postal Service has more opportunity.

Mr. CONNOLLY. Surely I think you would agree, given your hat, OMB, this federal business is low hanging fruit?

Mr. DEESE. We are absolutely in the business of looking for ways to reduce cost and reduce duplication.

Mr. CONNOLLY. The six day versus five day mail issue, as I pointed out we now have 210 sponsors saying six days. That is 8 shy of an absolute majority here in the House. It is filled with Republicans as well as Democrats, so good luck in trying to persuade Democrats that we ought to accept the Administration proposal.

I would like to know more about how you, OMB, the Executive Branch, accepted this proposal? From your earlier testimony, it sounded to me like you accepted whatever analysis there was from USPS and simply incorporated it into your initiative, is that correct? Did you do a separate analysis on the pros and cons of going from six to five?

Mr. DEESE. In the context of putting together a policy proposal, the Administration looked at the policy impact of that. With respect to the scoring assumptions that generated the savings estimate in the President's budget, those scoring assumptions are based on the plan or what the Postal Service has indicated it would intend to do.

Mr. CONNOLLY. Yes. You do understand that the Postal Service has failed to provide us with any analysis proving that as a matter of fact, outside of a static model, that this is a slam dunk decision, that it is a net saver always?

Given the fact that, for example, parcel delivery, package delivery, technology creates business as well as decreases business. Yes, first class mail is declining but parcel delivery is actually growing very robustly, you would agree?

Mr. DEESE. That is right.

Mr. CONNOLLY. Giving up six days a week may be giving up a competitive advantage. Would you at least theoretically agree that is possible?

Mr. DEESE. Part of the Postal Service's plan would be to continue package delivery.

Mr. CONNOLLY. I am just citing parcels but there could be lots of other things as well. By the way, has the Postal Regulatory Commission looked at this new hybrid proposal, are you aware?

Mr. DEESE. I am not aware.

Mr. CONNOLLY. Don't you think OMB might want the PRC to look at it—that is their role—before you, in fact, embrace it?

Mr. DEESE. I think we are comfortable with the budget proposal as we have put forward. Certainly as we go forward, we would welcome input from various stakeholders.

Mr. CONNOLLY. You are the Office of Management and Budget. Have you done your own analysis to see whether there is a down side to going to six days, that the Postal Service might risk a whole line of business that drops because you are not delivering? For example, the greeting card industry has said that will happen to them. Have you looked at that to make sure the net savings is what they say it is?

Mr. DEESE. We have looked at this issue to try to understand it. I think one of the important things about the Administration's proposal is that it would——

Mr. CONNOLLY. Mr. Deese, forgive me for interrupting but I only have 17 seconds. Frankly, it does not look like you looked at it all. It looks like you accepted the Postal Service at its face value which is absent a PRC review. The last time they looked at it was 2011 but that was a different proposal.

There is no analysis showing well, we are looking at a static model, not a dynamic model in terms of potential growth for the Postal Service and if we look at it in the context and at least ask ourselves are we giving up a competitive advantage, that question never got asked. It is just an absolute, let us lock that off and call it net savings.

It troubles me to no end that this Administration has accepted that at face value absent any analysis.

Mr. DEESE. The one thing I would like to clarify is the Administration's proposal would provide the Postal Service with the authority to move to five day delivery in different business segments, but as circumstances change, as there are business opportunities, it does not mandate the conversion.

Mr. CONNOLLY. That sounds good, Mr. Deese. I know my time is up, Mr. Chairman, but we already have a Postmaster General who tried to assert the fact he had legal authority when he clearly did

not and had to be reined in on this very subject by his own postal governors because he asserted a legal authority that most certainly did not exist and flew in the face of the will of Congress.

It may or may not be a good public policy decision, but Congress has written into appropriations bills thou shall have six days a week. For the Postmaster General to defy that, which he did, absent any legal authority, frankly saying its authority is a nicety, but he has already clearly indicated he will use that authority.

The fact of the matter is, were he to get it, were your proposal to be adopted, we would go from six to five, is that not the case?

Mr. DEESE. In certain business segments, I believe that is the case. In others, I think they would retain six days a week.

Mr. CONNOLLY. Mr. Chairman, my time is up. Thank you for your indulgence.

Mr. MICA. I thank the gentleman.

I am pleased the next gentleman I am about to recognize is not from Connecticut. He is from the State next door. I would recognize, Mr. Tierney.

Mr. TIERNEY. Mr. Deese, thank you for being here today.

In the fiscal year 2015 budget, the Postal Service requested $162 million for services rendered but revenue foregone but the President's budget request is only $70 million. Can you explain the discrepancy there?

Mr. DEESE. I am sorry, can you clarify the question?

Mr. TIERNEY. The Postal Service asked for $162 million for services rendered but revenue foregone. The President only asked for $70 million. Why not ask for the $162 million?

Mr. DEESE. I would have to get back to you on the specific discrepancy. I know we are continuing to provide appropriated funding for those purposes but I would have to get back to you on the specifics.

Mr. TIERNEY. Would you do that, please.

Also, the Postal Service in the most recent quarterly filing shows about $3.8 billion in unrestricted cash. Do you consider that enough of a liquidity cushion for an agency this size?

Mr. DEESE. That cash position is not sufficient to meet their current obligations including the retiree health benefit payments, no.

Mr. TIERNEY. The Service also reached its $15 borrowing limit permitted under law. Do you think they ought to be extended additional borrowing power?

Mr. DEESE. Our view is that they need near term financial relief. We would not do it for additional borrowing authority, but instead by restructuring the fixed payments which are not tenable.

Mr. TIERNEY. The President's budget also has a request in it for the Office of Personnel Management to return to the Postal Service the surplus amount it paid into the FERS account, correct?

Mr. DEESE. Correct.

Mr. TIERNEY. The proposal also endorses the use of postal-specific demographics to estimate the Postal Service FERS liability. Why did you use the postal-specific demographics?

Mr. DEESE. Given the size of the postal workforce and the unique demographic characteristics, we believe it is actuarially sound and appropriate to take into account those specific factors when meas-

uring the liabilities in this instance that results in a surplus we would rebate back to the Postal Service.

Mr. TIERNEY. The Administration's budget also proposes that $5 million be returned to the Postal Service over the next two years. Why two years instead of one?

Mr. DEESE. It is part of the overall plan to try to provide sufficient liquidity in the short term so that the Postal Service can restructure. The retiree health benefit payment adjustments happen over that same period, so our goal was to provide sufficient liquidity over a multiyear period so that we didn't end up with a situation where the Postal Service was flush in one year and stuck in the next.

Mr. TIERNEY. Some of our colleagues have indicated a return of the FERS surplus is to be termed a bailout. Do you agree or disagree with that and why?

Mr. DEESE. We don't agree with that assessment. The calculation of the surplus based on postal-specific demographic factors is actuarially sound. If you look across the spectrum of the Postal Service's liabilities, there are places where they are adequately or over funded and other places where they are under funded.

Our approach seeks to address those in kind rather than having a one size fits all approach.

Mr. TIERNEY. Thank you very much.

I yield back, Mr. Chairman.

Mr. MICA. Thank you.

We will start a second round and yield to members first who may have additional questions.

First of all, when I left off, I talked about looking for areas where our losses are, where we could save money. I don't know if you have followed some of the things I have done. Most people in the Administration don't.

Having come from a developer/private sector background, it drives me crazy to see the Federal Government sitting on valuable assets. It drives me crazy to see the Post Office sitting on valuable assets.

I have not read all of the Administration's proposal about some alternatives for offices and locations. I know the Senate bill had a proposal that directed the Postal Service to examine the potential expansion of retail alternatives to post offices which have the potential to yield further operating savings.

I know they are selling off some of these vacant properties or empty buildings. What brought this back to light on the post office is I think it was last week I was home and I was asking my property appraiser about surplus or vacant property in central Florida and he showed me this list. Most of the vacant property that he had was owned by the Postal Service.

Tell me, first again, what you have in your proposal, I didn't see anything and secondly, where they should go and if it isn't in there, why was it ignored?

Mr. DEESE. To clarify, you are distinguishing between their property versus the post offices themselves or are you referencing both?

Mr. MICA. Both.

Mr. DEESE. With respect to post offices, our proposal would seek to codify the Postal Service's current plan which looks at leveraging

that network of physical locations by calibrating hours and by looking for co-location strategies rather than by down sizing the actual network itself. Our view is there are opportunities there.

Mr. MICA. There are probably a thousand opportunities to reconfigure based on the business. I come from the State of Florida. Arizona and Texas, some of the growth States, we will have needs in the future. There are also vacant properties all over. I have worked on some of them and some of them take years. The old post office downtown which went to GSA sat there half of it vacant for 15 years, half of it empty. We finally got that moving.

We are going from an $8 million loss to a $250,000 a year guarantee for the government plus a percentage of property. I can take you across my district and show you property that needs to be disposed or better utilized. I can show you my former district, St. Augustine, a huge building that Flagler College has been begging to get it. They don't need it, it has outlived its usefulness but there is nobody in the postal system who can think, they lack creativity.

I would have hoped the Administration would have proposed they at least get some professionals to help them do some of these things that need to be done and it is not there, is it?

Mr. DEESE. With respect to the Postal Service, outside of the post offices and other vacant property, warehouses, they have been looking at consolidation strategies.

We don't have a specific component in the President's plan on that. I would say analogously though there is a proposal in the President's budget to try to have a more aggressive strategy to dispose of federal property generally speaking.

Mr. MICA. But again, the Post Office is probably one of the biggest property owners in the United States. We have thousands of properties. I am disappointed to see that you don't have a specific proposal. I think working with the Congress, that would be something—if we ever pass a bill—we should include to give them the ability.

I am telling you, I have worked with the Post Office. I am probably one of the few members in Congress who has ever gone downtown and sat in the Postmaster General's office. When I went down there, he almost flipped out; they had never seen one before. He knew what I looked like, he knew descriptions of me but I actually appeared there and we could get some things done.

My point being they don't have the ability, the ingenuity to put these packages together and move forward and maximize the assets and cut the losses. Again, we have to look at where the losses are, where you have assets sitting there and can be turned into cash.

I took people up to Daytona Beach ten years ago and the second floor of the post office was vacant in downtown Daytona Beach for more than ten years—rent the thing. Again, I am disappointed. There is still an opportunity for redemption.

In any event, we want you to work with us to look at how this can be done. The Administration carries a big stick and you can have positive things come from working with Congress. Get these guys to vote for the five days and we will be set.

Do other members seek recognition?

Mr. LYNCH. Yes. Thank you, Mr. Chairman.

Mr. Deese, I realize you have suffered enough but I have one other question for you. The suggestion was made earlier about the relationship between the surplus and FERS, the Federal Employment Retirement System, which is an obligation of the Federal Government and the prior CSRS, which is the obligation of the prior Postal Service. I believe the transition happened in late 1983 if I am not mistaken.

I want to clarify something. Those are different sets of employees and different obligations, is that correct?

Mr. DEESE. That is correct.

Mr. LYNCH. The people who work under FERS, you cannot take their pension money and pay it over to another group of employees who worked under the postal department prior to 1983, is that correct?

Mr. DEESE. We certainly don't think that is a necessary or appropriate step to take.

Mr. LYNCH. I don't think it is possible. That is what I am getting at.

Mr. DEESE. They have that barrier as well.

The one note on the CSRS obligations is that under current law, the Postal Service will begin making pre-funding payments on a 25-year amortization schedule. The real challenge is to put the Postal Service on a more sound financial footing rather than to move resources into that space.

Mr. LYNCH. That would happen under PIEA in 2017, is that correct?

Mr. DEESE. I believe it was 2018.

Mr. LYNCH. You may be right. I may be off by a year.

PIEA does require them in 2017 to go back and look at their real obligations. Right now, we basically have this $19 billion hole that has been repeated for the past seven or eight years. In 2017, with all of these CSRS employees passing away, a lot of older employees, it is entirely likely in my estimate that is CSRS obligation will be much smaller than we believe it to be right now, is that your understanding?

Mr. DEESE. I don't have particular visibility into the actuarial dynamics in that pool. Obviously it is important to update those actuarial estimates as time goes on and as we know more about the demographic characteristics in those pools.

Mr. LYNCH. I don't have anything further. Thank you very much for your testimony.

Chairman ISSA. [presiding] Thank you.

Let me go through sort of a closing. My Ranking Member has had to step away and may come back.

The President's proposal is broadly consistent with many Democrats, obviously, and many Republicans. It is the intention of the Chair—and I have announced it to both sides—to embrace to the greatest extent possible the entire portion of the President's budget proposal.

I have serious concerns with mandating the exigent increase be made permanent rather than allowing an entity that finally took the initiative to recognize and codify it to continue doing so. That does not mean I would totally oppose it; it means that kind of look and say the process has worked, they put that in, but sans that,

the rest of the proposal I find to be a good starting point for legislation that hopefully the Administration would broadly push all parties to embrace.

As you heard today, you had a lot of people on both sides of the dais talking about take-withs and take-backs. In closing, what I would like to do is ask for a process, a short process over the next two weeks and that is that members of this committee would send a series of letters to OMB on various aspects.

The Ranking Member, for example, had the question on other enterprises and trying to define whether it is consistent with the Administration's proposal. Ms. Duckworth brought up a very good point which was the specifics of the disabled access if we go to clusters. I would recommend that our staff send excerpts from the earlier passed bill which specifically had some language for access to disabled to see whether that is consistent.

In using this dialogue, I don't want to artificially extend the President's budget, but I want to make sure that each item which is supported by the Administration and requested to be considered by either side of the dais gets back a letter in prompt fashion, a week or so whenever possible, so that after the break, we could hold a markup and those comments would then be available as part of our markup in support of specific amendments or additions to the bill. Is that something you are prepared to take back?

Mr. DEESE. I am happy to take that back and work wherever we can.

Chairman ISSA. We introduced you as the Honorable, so the question is, can you make it happen?

Mr. DEESE. I am happy to take that back and we will work diligently on any request from this committee.

Mr. LYNCH. Mr. Chairman?

Chairman ISSA. Yes.

Mr. LYNCH. I just want to be clear that there are some members on our side of the aisle and I suspect there may be members on your side of the aisle nevertheless that disagree with both you and the President, so we would want to be a part of that dialogue as well.

Chairman ISSA. Reclaiming my time, that is the reason for this closing statement. The Ranking Member and I agree on some things and we disagree on some things. The Ranking Member has some additional initiatives and also Ms. Duckworth. The questions related to the pre-funding versus FERS recapture, I know some of my folks are going to further ask it.

My goal is to only include in the markup, at least my vote would be to only include things in the markup in which the Administration has commented consistent with their view of the budget proposal.

In other words, if something were to hurt the Postal Service's ability to survive, they would likely respond they couldn't support it in light of the budget. It doesn't mean they wouldn't necessarily like it, it just means that this is a proposal to pass a bill as part of the budget process that would support postal reform consistent with the President's budget proposal.

In a sense, Mr. Lynch, what I am saying is if there are additional efficiencies, additional revenues or necessary changes such as Ms.

Duckworth's, the whole question of the civil rights of the disabled, I want to make sure those are considered but my goal is to pass a net cost reduction piece of legislation out of this committee to help ensure the survival of the Postal Service.

I will say on the record that I recognize and support the Administration's view that we need to find breathing room, dollars for these reforms to take hold which means that we do have to look at CSRS as a delayed recapture even though they are perhaps $20 billion in arrears.

We do have to look at the FERS windfall—I shouldn't say windfall, but the excess payment that can be a windfall to the Post Office, as revenue they can use as part of the conversion because I think the Administration has said very clearly they think the fiscally responsible thing to do is to give them breathing room while also mandating that they make reforms that have been tough to make, tough for both parties.

Do you have any further closing guidance?

Mr. LYNCH. I think what we are hitting on is that there are some things in your proposal and the President's proposal that I view and see as things that are indeed harmful to survival of the Post Office.

Chairman ISSA. I look forward to working with the gentleman on that. I think one thing you made very clear is the attrition rate and the incentives would hopefully be something on which we would come to an understanding with the Administration and needs to be in place, the ability to reduce the size of the workforce through voluntary programs should be part of any package to be sent forward. I think you made that point but I am sure there will be others.

Mr. Deese, I want to thank you for being here for this short hearing. By this committee's standards, this was quick but you were very helpful in your answers and your willingness to take back and receive over the next week a series of letters and, if at all possible, to respond to them over the next two weeks so that when we come back from the Easter district work period, we can proceed with a markup consistent with the President's budget which is the intent of the committee.

Mr. DEESE. Thank you.

Chairman ISSA. Thank you.

We stand adjourned.

[Whereupon, at 11:48 a.m., the committee was adjourned.]

○