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A PATH TO SUSTAINABILITY: RECOMMENDATIONS FROM THE PRESIDENT'S TASK FORCE ON THE UNITED STATES POSTAL SERVICE

HEARING

BEFORE THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED SIXTEENTH CONGRESS

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A PATH TO SUSTAINABILITY: RECOMMENDATIONS FROM THE PRESIDENT'S TASK FORCE ON THE UNITED STATES POSTAL SERVICE

TUESDAY, MARCH 12, 2019

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

The Committee met, pursuant to notice, at 3:14 p.m., in room SD–342, Dirksen Senate Office Building, Hon. Ron Johnson, Chairman of the Committee, presiding.

Present: Senators Johnson, Lankford, Scott, Enzi, Hawley, Peters, Carper, Hassan, and Sinema.

OPENING STATEMENT OF CHAIRMAN JOHNSON

Chairman JOHNSON. Good afternoon. This hearing will come to order.

I want to first apologize for starting this hearing late to the witnesses and to the audience. It is kind of nice to see interest in this hearing. It is an important issue. We have some people lined out here. So, if you are getting bored, somebody is going to take your place.

I want to welcome my old wingman. Perhaps it is wrong to call him "old wingman," but my former wingman, Senator Carper will be acting as Ranking for most of this hearing. But he will be doing it from his chair.

I would also ask consent that my written statement be entered into the record.[1]

I just want to make a couple opening comments.

We have some sheets in front of everybody as well as we got a chart that very few will be able to actually read this unless you have the sheet in front of you.

Two things I want to talk about is just the basic historical and projected financial condition of the United States Postal Service (USPS), which is what this hearing is all about, and what can we do to make it a sustainable entity.

I have a four-column income statement and cash-flow statement[2] showing performance 10 years ago, last year, cumulated 10 years,

[1] The prepared statement of Senator Johnson appears in the Appendix on page 47.
[2] The chart referenced by Senator Johnson appears in the Appendix on page 105.

last 10 years, and projected 10 years. The numbers I want to point out is the third column, the 10-year actual.

$682 billion worth of operating revenue, $2.7 billion of operating income, that is 0.4 percent. In business, I think Senator Scott and others will agree with me that is not an acceptable operating margin.

Throw on top of that, then, the pension and health care funding obligations it has. You end up with a $61.1 billion loss over 10 years.

Now, that was mitigated. Not all expenses are cash expenses, so we have adjustments to cash. You have depreciation less investments. It ends up being about $22 billion. So you end up with $39.3 billion of negative cash.

Then we defaulted on prefunding the retiree health benefits and the current retiree benefits as well. That is $48 billion of default over the last 10 years. So, magically, we end up with almost $9 billion in cash-flow, which still in an almost $700 billion 10-year entity is not even close to sustainable.

Looking to the future, the Post Office—and they have agreed to let us share these projections—projected about $724 billion worth of revenue in operating loss of $25 billion, loss after all the pension funding of $125 billion. Cash adjustments do not even begin—well, they do mitigate that quite a bit. We are still in a $40 billion negative cash situation over the next 40 years.

Obviously, this is not a financial viable entity in the long term or even the short term. Something has to be done, and we have been kicking this can down the road for quite some time. I know my Ranking Member has been working on this problem diligently.

Senator CARPER. Since birth. [Laughter.]

Chairman JOHNSON. He even gives me chocolates on Valentine's Day with little notes about we have to do something on Postal.

Senator CARPER. If we get this done, you will get a lot more than chocolates.

Chairman JOHNSON. So, anyway, something has to be done.

I just want to commend the Administration. In this Committee, we talk about the problem-solving process, gathering the information, defining the problem, root-cause analysis, then based on that gathering of information, setting achievable goals, then working on solutions.

From my standpoint, the task force went through exactly that process, diligently gather the information, talk to all the stakeholders, and I think they have put together a really solid report. Again, nothing is easy about this, but I think they have also made some pretty solid recommendations that do not include at this point in time any kind of taxpayer bailout, which I am also in support of.

Anyway, that is the situation, what this Administration has done with this Postal Task Force, which is what we will be talking about in this hearing.

The next chart[1] I want to put up is the next thing I want to talk about, which is the dysfunction and a lack of quorum in the Board of Governors. There is plenty of bipartisan blame to go around in

[1] The chart referenced by Senator Johnson appears in the Appendix on page 106.

terms of why are at what I would consider embarrassing situation right here, where we do not have a quorum of a Board of Governors.

You can take a look. I did not make my staff go all the way back to the establishment of the Board of Governors in 1970, but they went back far enough to show that from 1987 to about 2010, pretty good performance. There were a couple of years where we are missing a Governor or two, but we had a full and functioning Board of Governors for the Postal System, which is the main governing body.

But then 2011 occurred, and other than—both the Obama administration and Trump administration have both had two Governors confirmed. It is not even close to enough to make up for all the retirees due to the lapsing of their terms.

The low point, obviously, is in 2017 where we had zero Governors on the board, and right now, we have two. They can somewhat function, but it is two below a quorum. Ideally, you really want five. So we have actually got the capability of not having ties with votes, and we can break a tie. They can actually fully function as a Board of Governors. Obviously, it would be nice to have nine, but we are a long way from that right now.

I just want to point that out. I think Congress, I think the Administration, we ought to get their act together, get nominees, get them confirmed. Hopefully, we will not see the obstruction. Again, there has been bipartisan obstruction. I have my own opinions where there may have been more obstruction, but I will not even mention that right now.

I think this is a serious issue. The U.S. Postal Service deserves a Board of Governors so they can actually set the policy, set the direction, and hopefully implement some of the good ideas that the Administration has.

With that, I will turn it over to Senator Carper for his opening statement.

OPENING STATEMENT OF SENATOR CARPER[1]

Senator CARPER. Thanks. Thanks so much, Mr. Chairman. Thanks for the opportunity to sit in for a while until our Ranking Member gets here. This is an issue that I care about a whole lot. I know other Members of this Committee do. Clearly, the folks in the room do.

I will just play off of a couple of things that our Chairman has said. Imagine a Fortune 500, Fortune 100 company operating for a month without a Board of Governors or a Board of Directors, much less years. It is unacceptable.

The last Administration actually nominated, near the end of their tenure, three Democrats and I think three Republicans, and they came out of Committee.

We had them on the floor right through eleventh hour to finish up our session of the Congress. It was a time when one member could object and sadly did. So we ended up that Congress really with nobody, as I recall, and we went, as you suggested a year or

[1] The prepared statement of Senator Carper appears in the Appendix on page 49.

two without a single independent Governor serving. It is just an unacceptable situation.

I am happy to have two Governors now. Governor Williams said we are both Governors. I am former; he is a current. But we appreciate his service, but the two of you are doing the work of a whole lot more people, and I think the Administration has identified a couple of other folks to nominate. I look forward to working with Senator Peters and with our Chairman and our colleagues to move those names through the process.

Meanwhile, we have the Chairman of the Postal Regulatory Commission (PRC) with us here today. As I recall, there is a couple of positions on the PRC that might be about to expire, and I understand the Administration has identified at least one person to nominate to fill the Republican soon-to-be vacant seat, and that she might actually be sitting behind you over your left shoulder. I just want to say that would be great. We hope that is true and looking forward to working to make that nomination move smoothly.

Having said that, the other thing I would say, the Chairman has given us a fair amount of material here on this sheet. I have not had a chance to look at it closely, but I would certainly agree that these balance sheets are not acceptable. The Postal Services needs to be—I will use the word "reformed." It is probably used too much around here, but we need to stop the bleedings as well, and we need to pass a bill to give the Postal Service some breathing room, so we can better reform the business models that are before us.

But thank you. Thanks, Mr. Chairman. I am happy to be pinch-hitting, too, today for our Ranking Member for a while as we discuss one of my favorite subjects.

My wife asks me from time to time, more than you would believe, when she says, "What would you like on your tombstone when you die?"

I said, "Honey, I feel fine." [Laughter.]

She is always bugging me. We are going through getting our estate planning right now, and she asked me again last night. She said, "What do you want on your tombstone?" and I gave her the same answer I have always given her, "Return to Sender." [Laughter.]

She is looking for another husband, I think.

Chairman JOHNSON. By the way, now I really feel bad about calling you my "old wingman." [Laughter.]

Senator CARPER. Mr. Chairman, I want to thank you for having this hearing and giving us a chance to discuss the recommendations made by the President's Postal Service Task Force. We thank the task force for their attendance today and for Gary Grippo for his leadership.

We thank you all for being here. I like to say in adversity lies opportunity. There is plenty of adversity for the Postal Service. There has to be some opportunity here, and part of our challenge is to not just focus on the adversity but to also come up with some real opportunities. My gut says there has to be some.

For the last couple of years, the all-too-common headline regarding the Postal Service has been that it is in financial crisis, and I believe that it is, in no small part, due to our failure to act on significant legislative reforms that the Postal Service desperately needs to operate.

It is also partially due to the Senate's failure to confirm nominees to serve, as I said, on the Postal Board of Governors in a timely fashion.

One of my top goals since I joined this Committee, 18 years ago, has been to address these challenges and give the Postal Service the tools that it needs to improve service and thrive in the 21st Century.

The Postal Service operates, as we know, as the center of a $1.4 trillion mailing industry, $1.4 trillion mailing industry that employs about 7.5 million people across our country, accounting for 6 percent of our Nation's jobs. Think about that: 6 percent of our Nation's jobs are in the balance here. The Postal Service is a cornerstone of our economy and has been for a long time.

Companies large and small, urban and rural, and in every line of people depend on the Postal Service. It is a one-of-a-kind retail, processing, and delivery network.

Today, we are at a crossroads. There are real questions about what the future holds for the Postal Service.

I have some significant concerns with this report that we have received, particularly given the fact that our staff was told last week by representatives from the Treasury Department that the task force did not know "quantitative analysis" on its recommendations to reform the Postal Service's business model.

I would just ask for us to think about that for just a second: no quantitative analysis.

I believe that doing quantitative analysis means collecting and assessing data in order to evaluate a business performance or model.

Now we have learned that a task force charged with overhauling the Postal Service's business model apparently did not in fact conduct the data-driven analysis that would be required to provide sound recommendations on this agency's financial outlook.

I hope I am mistaken at that. We will find out if I am.

I, years ago, received an MBA from the University of Delaware after I had been in the Navy for a while, and I started my career as an elected official. My first job was State treasurer. Nobody wanted it. We had the worst credit rating in the Country. So I got to run because nobody wanted to.

But even with my humble credentials, going back all those years, I am still a little surprised with the part of the analysis I think might be missing here.

With that said, I think the report does outline a key notion that everyone can agree on, and that is the United States Postal Service is an essential linchpin to our economy, and it must evolve. And the question is how.

Despite having finished 2018 with cash on hand, which was due largely to a now-expired temporary rate increase, the Postal Service continues to report billions of dollars in losses, and its debt exceeds its revenue.

Postal Service has maxed out its $15 billion line of credit with the Treasury Department. This left Postal management with no choice but to continue to default on health care and pension payments. According to the Treasury Department, this puts the Postal Service at more than $60 billion in the hole.

Complicating matters, the Postal Service only has, as we said, two sitting Governors on its board who alone are charged with overseeing operations, approving major business decisions, and holding senior management accountable.

At a time when the Postal Service is in such desperate need of oversight and direction and fresh thinking, it is irresponsible for Congress not to act.

This report has some very sound points, and let me just say that again. This report has some very sound points, and I want to mention a couple that stand out.

One is that the Postal Service should be self-sustaining.

Two, the Postal Service should not be privatized.

Three, the Postal Service is still needed for broad swaths of America, particularly the rural parts of our Nation that we have in almost every State in the Country.

And, finally, the Postal Service's business model needs to be reformed.

But those points are just that, a series of bullet points in this report, and unfortunately, this report does not really come close to a real business plan. This report, while it is long overdue, is not what some of us has hoped it might be, and that would be a silver bullet. It is not that. This is especially concerning given the need to stabilize the Postal Service now.

I have been working with a bunch of folks on this Committee and people who used to be on this Committee for some time on bipartisan reforms with the Postal Service and stakeholders, as has the House Oversight and reform Committee over there, including Elijah Cummings and Mark Meadows. But time is running out to protect our ratepayers from losing an essential service. We no longer have the luxury of kicking the can any further down the road.

The Postal Service is as big as a Fortune 500 company in both size and scope. In fact, it is bigger in many ways, bigger than most Fortune 500 companies, but let us be clear. It is not a business in the classic sense of the word. It is a government agency with Federal mandates on pay, benefits, and service that must be taken into account.

I hope the discussion today will provide Members an opportunity to better understand the opportunities and the challenges of the Postal Service and help begin the process of addressing reform quickly this year.

We must help the Postal Service move in a more thoughtful direction and develop new ways to ensure that the Postal Service remains relevant in this digital age, and it is both a challenge and an opportunity.

I look forward to working with our witnesses and to a lot of folks in this audience and people in this panel to make sure that we do not let this challenge phase go by without finding the opportunity or two.

Thank you so much.

Chairman JOHNSON. Thanks, Senator Carper.

Senator Peters does intend to come here. He will not be able to stay real long, but he will make an opening statement when he comes. We will let him do that in between other testimony.

It is the tradition of this Committee to swear in witnesses. So if you all stand and raise your right hand.

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

Mr. TAUB. I do.

Mr. GRIPPO. Yes.

Mr. WILLIAMS. Yes.

Chairman JOHNSON. Please be seated.

Our first witness is the Hon. David Williams. Mr. Williams is the Vice Chairman of the Postal Service Board of Governors, following his confirmation last August. He has previously served as the Inspector General (IG) for the Postal Service, the Department of Housing and Urban Development (HUD), and the Internal Revenue Service (IRS), among other agencies. Mr. Williams.

TESTIMONY OF HON. DAVID C. WILLIAMS,[1] VICE CHAIRMAN, BOARD OF GOVERNORS, U.S. POSTAL SERVICE

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

During the tenure of the task force, their staff met with Postal Governors several times to discuss the ongoing progress. The effort, though very fast, was well done. The task force held an impressive number of stakeholder interviews and conducted complex analyses.

The work produced an econometric model that incorporate savings and revenue opportunities, featuring a sophisticated monetizing tool.

The task force recommendations represent an aggressive attempt to provide viable options and incorporate the voices of our stakeholders, even our competitors, who urged a major increase in parcel delivery prices. However, I believe the role of a public infrastructure is not to maximize profit, but to maximize value to our American supply chains and to citizens, especially those in rural and underserved urban areas.

High shipping prices steal from American supply chains, all the way from producers' assembly lines to the wallets of American citizens.

Also, reflecting our competitors' voices, the report called for the Postal Service to use a 100 percent cost attribution models.

The PRC and Federal Appellate Courts have joined leading economists for the last 50 years in dismissing that credited economic theory. So, here again, we have to be careful to avoid overcharging our customers.

The private shipping companies find value in using the cost attribution models to weed out unprofitable customers. In contrast, we deliver to each American doorway. And forcing the Postal Service to use a dissimilar industry's playbook would simply shelter private shipping companies from being subject to efficient market forces.

[1] The prepared statement of Mr. Williams appears in the Appendix on page 52.

The report introduced some important fresh ideas. The study suggested that essential mail prices should be reclassified and low priced, and were distinguished from market-priced mail used in normal commerce.

The report recommended that we explore new business lines and provide revenue to support the Universal Service Obligation (USO), as is done in most other world posts.

There is a very strong congressional demand for our Post Office network, which could be met in this manner.

The Task Force called for an Office of Personnel Management (OPM) recalculation of our historically overstated retiree health benefit fund liability, finally enabling accurate billing for us.

The recent introduction of Postal-specific assumptions alone lowered the pension liability by approximately $15 billion. Any recalculation should closely review OPM's liability assumptions.

Recent interest rates have been held low to stimulate the economy. If discount rates were assumed to be just 1.5 points higher, our pension funds in aggregate would be fully funded, and our health care liability would decline by approximately $23 billion additional.

Health care estimates are also notoriously impossible to estimate. I would also recommend that we look at our current fund investment vehicle. Our retirement funds were handed over to the Treasury to manage, with no representative named to speak for the Postal retirees. The Treasury immediately borrowed the entire $335 billion, at rates that are killing the fund. Had the funds been invested, even with the government's conservative Thrift Savings Plan (TSP) blue chip retirement fund, the accounts would now be fully funded.

I do believe that the task force's effort to identify cost savings and revenue-enhancing measures were sincere. Understandably, a substantial number of saving options were not identified during the brief review.

As a more complete list of options are integrated into the model, more solutions begin to appear that are less disruptive for our customers, America's supply chains, and for our employees.

The Postal Service also has much to do to remain modern and efficient also. We need to review a number of programs and recent actions. We need to look at pricing simplification, discount management, the middle mile of sorting and transportation, next-generation neighborhood delivery vehicles, store-to-door delivery, intelligent mailboxes, post office delivery towers, and post office services that expand citizen access to government.

All of the proposals must be aligned with the Postal Service's mission of binding the Nation through universal service to Americans, giving them level playing field, access to other Americans and to the world, providing affordable prices, providing reasonable rates and timely delivery, and respecting the sanctity of mail.

I thank the task force. It now falls to us to consider their sophisticated econometric model and fresh ideas for our emerging business plan. I believe that moderate adjustments to our numerous savings and revenue opportunities will enable the Postal Service to serve the current and emergent needs of American enterprise and citizens.

Thank you, sir.

Chairman JOHNSON. Thank you, Mr. Williams.

Our next witness is the Hon. Robert Taub. Mr. Taub is the Chairman of the Postal Regulatory Commission, the regulatory body for the United States Postal Service.

He previously served as chief of staff for Representative John M. McHugh, both when he served as Secretary of the Army and when he was on the House Government Reform Committee, including during passage of the 2006 Postal reform bill, the Postal Accountability and Enhancement Act (PAEA). Mr. Taub.

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

Mr. TAUB. Chairman Johnson, pinch-hitting Ranking Member Carper, Members of the Committee, good afternoon.

I will highlight a few key points from the Commission's written testimony.

Now much has changed from my last appearance here 28 months ago. In summary, the Postal Service still faces significant financial obstacles for the future. With its growing liability of retiree health benefits, the inability to borrow for needed capital investments and the continued loss of high-margin First-Class Mail, the important task of improving the financial condition of the Postal Service remains daunting. Its total liabilities exceed its total assets by $63 billion.

The fundamental problem is that the Postal Service cannot currently generate sufficient funds to cover its mandated expenses and invest in critically deferred capital needs, such as new delivery vehicles and package sorting equipment.

The pressing question is, what needs to be done to improve the financial condition of the Postal Service? The President's task force attempted to answer this critical question.

A few caveats before I proceed. While required to consult with me, I was not a member of the task force. So my fellow witnesses representing it are in a better position to elaborate on any specific recommendations.

Also, any decision taken by the Commission in furtherance of the task force's recommendations would require a majority vote of the commissioners in office, as is the case with all Commission decisions. Therefore, I cannot say for certain what the Commission's final outcome would be on any of the task force recommendations, yet regardless of whether any recommended actions are initiated by the Postal Service or the Commission, nearly all of the administrative recommendations would require open and transparent proceedings before the Commission.

That means public notice and comment proceedings in the light of day, in compliance with the Administrative Procedures Act (APA), before anything could be finalized.

Working with the Treasury Department and the Postal Service, we intend to further explore the task force suggestions.

I note that the task forced considered its recommendations to be "first steps" and would be options to consider "in whole or in part."

[1] The prepared statement of Mr. Taub appears in the Appendix on page 55.

Among the many task force recommendations, one of them in particular stands out to me and is consistent with the Commission's recommendations made to Congress in the past. I believe that the single most important thing that can be done is to clearly define the Postal Service's Universal Service Obligation. Only by defining the USO clearly can we begin to design a system that will fund the services required. It is our Nation's mission statement for the Postal Service, and it needs to be clear.

The Commission has significant experience exploring the question of the USO. Our 2006 law directed the Commission to annually estimate the USO costs and also to prepare a comprehensive report in 2008 on the USO. The Commission clearly estimates that the total cost of USO is more than $4.5 billion.

Unlike other countries, the USO within the United States is largely undefined and instead is comprised of a broad set of policy statements with only a few legislative prescriptions.

In the absence of a clear definition of the USO, particularly given the Postal Service's current financial challenges, each of us may have different views of what services and operations the Postal Service must provide to fulfill the USO, and all of our views will have different price tags.

As part of the financial pressure of generating sufficient funds to remain solvent, make capital investments, and pay retiree costs, the Postal Service must consider how to fund this $4.5 billion annual cost and universal service obligations. Given the Commission's substantial work on the USO, we can collaborate with this Committee on designing a solution.

Thank you, Mr. Chairman, for convening this hearing to shine a spotlight on this critical part of our Nation's infrastructure. I know you deeply appreciate the importance of these issues. There are no easy answers, but answer we must. The Commission stands ready to help in your search for solutions.

On behalf of all the commissioners and the entire hardworking agency staff, thank you for the opportunity to testify today.

Chairman JOHNSON. Well, thank you, Mr. Taub.

Our final witness is Gary Grippo. Mr. Grippo has served as the Deputy Assistant Secretary for Public Finance at the U.S. Department of Treasury since June 2011. He has previously served as the Deputy Fiscal Assistant Secretary at the Department of Treasury and Assistant Commissioner for Federal Finance at the Financial Management Service. Mr. Grippo.

TESTIMONY OF GARY GRIPPO,[1] DEPUTY ASSISTANT SECRETARY FOR PUBLIC FINANCE, U.S. DEPARTMENT OF TREASURY

Mr. GRIPPO. Chairman Johnson, Senator Carper, Members of the Committee, as was just stated, I am the Deputy Assistant Secretary for Public Finance at the Treasury Department.

I am a career Federal employee, and for the last 8 years, one of my responsibilities has been oversight of the Federal Financing Bank, which is an instrumentality of the Treasury.

[1] The prepared statement of Mr. Grippo appears in the Appendix on page 85.

The Federal Financing Bank is the Postal Service's lender and the sole holder of Postal Service debt. Treasury's role in the task force and its interest in a sustainable Postal Service is rooted in this financial relationship.

I was part of the team supporting the task force on the United States Postal System created by Executive Order (EO) of the President.

Let me start with the problem. The Postal Service has lost $69 billion in the last 12 years. The liabilities on its balance sheet exceed assets by $63 billion. Its unfunded liabilities for retiree benefits, workers' compensation, and debt have reached $140 billion.

In the face of this financial decline, over the last 7 years, the Postal Service has been able to preserve enough cash to continue operations only by failing to pay $48 billion in statutorily required payments to the Office of Personnel Management.

The causes of the Postal Service's financial problems are straightforward. First, use of mail is in permanent decline because citizens and businesses are increasingly communicating online. Between 2007 and 2018, the Postal Service's total mail volume declined 33 percent and its First-Class Mail volume declined 42 percent.

Second, under current rules, caps on mail postage rates prevent the Postal Service from raising prices on mail services in response to the volume declines.

Third, the Postal Service has suffered from a severe lack of institutional governance, which has prevented it from developing an appropriate business strategy in response to its deterioration.

From 2016 to 2018, the Postal Service had no Governors, and today, it only has two serving Governors out of nine positions.

Under its current business model, the Postal Service is not operationally viable. Its financial losses and its failure to pay intergovernmental obligations will continue to grow until it runs out of operating cash. If the Postal Service were to resume paying its statutorily required payments to OPM as and when due, the Postal Service is projected to run out of cash next year.

If it continues to fail to make those payments to OPM, as it has done in recent years to conserve operating cash, it may be able to function for an additional 2 to 3 years.

Without a significant change in its business model, therefore, the Postal Service will have insufficient cash to pay employees' salaries and vendors. The only way to continue Postal delivery of mail and packages in the United States and to avoid a disruption to the United States economy would be a taxpayer bailout of the Postal Service.

To prevent this outcome, the task force developed a series of administrative and legislative recommendations to reform the Postal Service's business model. These recommendations include strengthening governance, more clearly defining the universal service obligation, implementing new pricing and cost allocation models, controlling labor costs, and developing new sources of revenue that do not entail more balance sheet risk.

These recommendations are based on core principles the task force developed during its research, including, number one, the

Postal Service should continue as a government entity, and it should remain under a mandate for self-sustainability.

Two, saving the Postal Service requires a fundamentally new business model, not simply relief from financial liabilities.

Three, reform of the Postal Service should not shift costs or risks to the taxpayer or to the general fund of the Treasury.

Four, the Postal Service must distinguish between essential mail and packages and commercially oriented mail and packages. Essential mail and packages have a strong social or macroeconomic rationale for government protection in the form of price caps or subsidies. Mail and packages that are more commercial in nature do not have a basis for government price protection.

And, five, the Postal Service must price these commercially oriented mail and package to generate sufficient revenue to pay for its operating expenses, capital expenses, and long-term liabilities.

Finally, let me be clear about what the task force is not recommending. It is not recommending the closure of post offices. It is not recommending eliminating the requirement that the Postal Service serve all addresses in the country, and it is not recommending that small, rural, or remote areas pay more for service than urban areas.

Indeed, the task force strongly believes that any potential solution should not disadvantage rural or remote locations.

The task force further believes that the Postal Service's comprehensive uniform delivery network is a national asset and part of our Nation's critical infrastructure. The ultimate goal of the task force's recommendations is a sustainable Postal Service that preserves this asset.

Thank you, Mr. Chairman, for the opportunity to answer any questions.

Chairman JOHNSON. Thank you, Mr. Grippo.

Out of respect for our Members who showed up which I, by the way, appreciate their attendance, I will defer my questioning until later in the hearing.

Senator Carper, do you want to go?

Senator CARPER. I am happy to yield.

Chairman JOHNSON. Then it will be Senator Enzi.

OPENING STATEMENT OF SENATOR ENZI

Senator ENZI. Thank you, Mr. Chairman. I appreciate you holding this hearing, and I appreciate the information that should be available from these witnesses.

I was glad to hear Mr. Grippo say that they recommended no additional closures on post offices. I am from the least populated State in the Nation but people that still write letters and send package and rely on those for their pharmaceuticals. We have had some closures, and they have really hurt some people.

But our biggest thing was we had a sorting facility close down in Rock Springs, and they moved it to another State. So our mail does not get sorted in Wyoming, but the post office has a policy that if people do not want to move to the new jobs, then they get to do something in their present location.

I asked for an evaluation of that closure to see how much it saved, and because of the employees that would not move, there was not any savings for it. But now there is an extremely different time lag between it having to go from, say, Rock Springs over to Salt Lake and back again to be delivered.

There used to be local delivery boxes, but there are not anymore. Everything has to go to the sorting facility and come back again. So those do not make sense to my constituents.

My newspapers are upset because, again, the sorting thing, they have to sort theirs in order to get the rate they get, but it still has to go to the sorting facility out of State and come back again, which delays the newspaper. All of them are hoping that the people receive those when they are still news and not history. I am hoping some changes can be made there.

But the biggest thing that I get letters about has to do with nonprofit postage being so much less than regular mail. It seems like those have to be delivered the same way that the regular mail is delivered, and I suspect that the reason I am getting calls on it is because several of them have mentioned that they send a contribution and the next thing they do is get five more letters from the nonprofit they just sent them to. But they are sending those for a nickel as opposed to the 55 cents.

Can you give me any idea if that can be changed, should be changed, should not be changed, whatever?

I am not sure whose jurisdiction that would fall in.

Mr. TAUB. Senator, your last issue would fall at least in part within the jurisdiction of the Postal Regulatory Commission since we have final authority over the rates the Postal Service sets, and products they offer.

However, reduced-rate mailings are embodied in statute. They date, in some cases, back to Ben Franklin and before the Republic, when newspapers and others were able to be mailed for free. Their rates are codified. Reduced-rate mail is locked in at 60 percent of commercial rates. In fact, we estimate the costs for reduced rate mail as part of the universal service obligation.

I would observe that since the enactment of the 2006 law, the total cost of the Postal Service for providing reduced and preferential rates has been about $13 billion.

So, again, this goes to the idea of it being part of the law. Nonprofit mail is viewed as part of a universal service mission for the government, but you are highlighting an important point that it does create a revenue deficit for the Postal Service.

In terms of some of the operational perspective, I would defer to my colleague from the Postal Service.

Senator ENZI. Since my time is limited, I will move to a different question, and I will follow up with some ones in writing that ask for more specificity on it.

Mr. Grippo, you mentioned that there needed to be some changes in service for essential versus non-essential goods. I am kind of worrying and wondering what the circumstances would be surrounding those definitions. For example, delivering winter gloves to someone in Wyoming in January may be very essential but doing the same thing for Florida might not be. Is there a definition set up on this essential versus non-essential?

Mr. GRIPPO. The task force report lays out principles for defining what it calls "essential mail and packages" versus more commercial-oriented mail and packages.

Let me give you some examples to help define that principle. Examples of essential mail and packages might be the delivery of maintenance pharmaceuticals. That would be considered an essential use of the Postal Service to deliver a package like that.

Other essential mail and packages might be consumer notices, or person-to-person correspondence and package delivery. Most transactional mail, actual payments and billings, would also be considered essential.

Examples of more commercial-oriented mail and packages would be marketing mail, catalogs, and your typical e-commerce delivery of a package.

The distinction is that for essential mail and packages, we are trying to protect users who are captive to the Postal Service. They have few other options. Whereas, the more commercial-oriented users are using the Postal Service based upon some return on investment or some business proposition. That gives you an idea of the thinking of the task force's distinction.

Senator ENZI. Thank you.

I really appreciate the baseline forecast chart that you did. I assume that was you. A lot of good information there. I am going to ask for some further clarification on it, though, but since I am running out of time, I will not do that right now because I am interested in that volume, which is decreasing, and concerned about which classes of postage might be the ones that are decreasing.

I noticed a significant increase in delivery points. I assume that must be to houses, but I will ask some more questions about that in writing so that I can get more detailed answers.

I appreciate your testimony and your answers. Thank you.

Chairman JOHNSON. Senator Lankford.

OPENING STATEMENT OF SENATOR LANKFORD

Senator LANKFORD. Mr. Chairman, thank you.

I thank all of you, and to all of the Postal employees and staff and the people that surround them that work exceptionally hard, we really do appreciate it.

It is a long, cold winter in many parts of the Country, and we have had some folks that are both in the field and folks that have done incredible work in distribution centers and everything else around the country, and we are exceptionally grateful for their ongoing work and their dedication to it.

I hope this conversation continues a conversation toward an answer. That has been the unresolved issue for a very long time right now on the Postal Service.

This issue about a quorum for the Board of Governors, though, seems to be the first item for business to be able to try to get resolved.

How do we actually get that and the importance of that? What does that mean?

Mr. Williams, let me start with you on this. What is the importance of getting a quorum for the Board of Governors for USPS?

Mr. WILLIAMS. Thank you, Senator.

Probably a good place to begin is the mission of the Board of Governors, and that is to structure a strategy and oversee the execution of the strategy for the Postal Service and to deal with the problems that we have identified today and to provide guidance to the senior leadership of the Postal Service.

That is done through a number of committees that the Board of Governors has and with the direct communications with the Postmaster General and her staff. That is very difficult certainly when there were no Governors. A backlog began, and we have been trying to attack the backlog. We believe it is gone. We have dealt with a number of other things they could catch up on if that conversation turns that way.

The huge job before us is to construct the business plan of the future of the organization that will deal with the problems, clear out the ones that have accumulated, and look forward to serving emergent needs of customers and current needs of customers. I mentioned store-to-door and some other emerging issues and retail and other sectors of the economy.

So it has been very difficult.

Senator LANKFORD. How many Governors are we missing right now?

Mr. WILLIAMS. There are seven Governors missing, sir. There are two of us present, and I think before the Committee, there have been some names submitted for about three more of the positions.

Senator LANKFORD. Right. I would recommend to the White House they just continue to be able to nominate so we can actually get this resolved. Long term, we have to make the standard a full Board of Governors. Right now, we are fighting for a quorum.

Mr. WILLIAMS. Right.

Senator LANKFORD. That seems like an exceptionally low threshold to be able to fight for, just to be able to get enough to have a quorum. It would be better to go ahead and have a full contingency of our Governors.

I am going to run out of time, so I want to be able to identify several things.

Mr. Taub, I want to ask you about this conversation about specific lines of business that fit the profile, but they are lines of business that do not affect the balance sheet and put everything at risk as well. That has been thrown around. What lines of business do you anticipate that USPS could take on and that would be beneficial to actually help but are not necessarily a risk as well?

Mr. TAUB. Good question, Senator. I know that was a recommendation from the task force report.

Senator LANKFORD. Right.

Mr. TAUB. I would observe a couple things. The 2006 law drew a very bright line and said that the Postal Service can only offer Postal products.

Senator LANKFORD. Right.

Mr. TAUB. And so they are barred from getting into anything that is non-Postal.

I do think the Postal Service has tried to explore, to a large extent over the last several years, pushing that envelope a bit, but again, given the lack of Governors as we were just talking about, it is critical they have that top-level oversight and also leadership to maybe explore that further.

So when it comes to a Postal product or service, things that we could think of now or that we could not think of, the sky is the limit for the Postal Service. It simply would be regulated as competitive or market dominant, but as for non-Postal, unless the law changes, they are barred from getting into that.

Senator LANKFORD. Right.

Gary, what is the recommendation from the task force on that?

Mr. GRIPPO. Let me explain the recommendation and then perhaps give a few examples.

The recommendation is that the Postal Service has a large retail footprint. It has many excellent Federal employees.

Senator LANKFORD. Right.

Mr. GRIPPO. They have a competency to provide certain services. We think the Postal Service should explore using that footprint and those employees consistent with that competency.

Now, one example that I believe is in the report is the fact that the Postal Service provides services to the State Department for processing passports. So one conceivable new service within that competency would be to provide services to State, local, and Federal agencies that need access to the citizenry through retail offices.

I think the task force would caution about getting into anything that would entail a risk to Postal operations, and there are two types of risks I think the task force is concerned with. One is getting into something that is not currently in its core competency. Given the financial turnaround facing the Postal Service in the coming years, we do not believe that it is wise to take on new businesses that require it to develop new fundamental capabilities or new human capital. It should stick within the capabilities it has now.

Second, given its financial problems, these new businesses should not entail balance sheet risk, and so new services such as Postal banking would fall outside of what the task force believes would be a prudent activity for the Postal Service.

Senator LANKFORD. OK. There is also a recommendation on looking at the frequency of delivery and allowing greater flexibility on the Universal Service Obligation to also determine frequency. Talk to me a little bit about that.

Mr. GRIPPO. So, within the context of the Universal Service Obligation, Universal Service Obligation covers the geographic scope of delivery, the frequency of delivery, the mode of delivery. There are a lot of attributes to it.

To be clear, the task force is saying that the Postal Service as part of the Universal Service Obligation should visit all addresses in the Country. No one should be left out, and the network that enables that should be maintained.

Frequency goes to how many days of the week the Postal Service delivers. There is no specific recommendation to cut frequency. However, the task force recognizes that there are many things affecting how frequently mail and packages could be delivered.

For example, the trend in package delivery is toward more 7-day delivery. It is increasing delivery. As the Postal Service looks at implementing the Universal Service Obligation and hopefully distinguishing essential mail versus commercial mail, perhaps it could make distinctions on the frequency between essential mail delivery, which might be required more frequently on certain routes, or commercial mail delivery, where maybe it is not as frequent. That is just an example. The idea is to let the Postal Service, give the Postal Service flexibility to determine that on a financially sustainable basis.

Senator LANKFORD. OK. Thank you.

Chairman JOHNSON. Senator Peters.

OPENING STATEMENT OF SENATOR PETERS[1]

Senator PETERS. Thank you, Mr. Chairman.

Without objection, I would like to take a couple of minutes to give a short opening statement before my questions, if possible.

Chairman JOHNSON. No objection.

Senator PETERS. Thank you, Mr. Chairman, and thank you, Senator Carper. I am looking forward to partnering with you, with this Congress to address the Postal Service's significant financial challenges.

The Postal Service plays a vital role in our society and our economy by connecting every community, business, and household across the country.

The Postal Service has a public service mission to serve all Americans, regardless of where they live, providing equal service to people in rural, suburban, and urban communities.

The Postal Service's reach is unmatched in government or the private sector, and it employs more than 634,000 hardworking people to fulfill its mission of universal service.

About one out of every six of those employees are veterans, who are now committed to serving their hometown communities after serving their Nation in the armed forces. I highlighted the important role veterans play in the Postal Service when I introduced a bipartisan resolution with Senator Moran last week. This resolution recognizes the Postal Service's unique role and opposes any potential privatization of this vital institution.

No one disputes that the Postal Service is in an unsustainable financial condition, and we know what factors have exacerbated these challenges: the burdensome requirement to prefund retiree health benefits, the Great Recession, and changes in technology that have led to declining mail volumes.

Congress has been working for some time on solutions that are bipartisan, evidence-based, and have the support from stakeholders across the Postal community. I cannot say the same about the task force's proposals, unfortunately, especially since we have not yet seen all the evidence behind them.

The Postal Service is a public entity with a public mission. It has an obligation to provide universal service, and this must remain at the heart of its business model.

Congress must prioritize the Postal customer and get the Postal Service back on track as soon as possible.

So, with that, a few questions.

[1] The prepared statement of Senator Peters appears in the Appendix on page 48.

Mr. Grippo, my main concern, as evident by that opening statement, is to ensure that every area of the country has access to affordable and reliable Postal services consistent with the Postal Service's Universal Service Obligation. I appreciate Senator Lankford's questions related to that.

Individuals in every area of Michigan from St. Clair to Iron Mountain rely on this unique service to receive life-saving prescriptions, to pay bills, to vote, to communicate with loved ones, and even to get their local paper, when those exist.

And small businesses from the Upper Peninsula to Detroit rely on Postal services for billing, payroll, and affordably shipping their products to reach new customers across the country and around the world.

While the task force recognizes the importance of affordable services in rural communities, some of the recommendations seem to cut at the very heart of this service.

Mr. Grippo, did the task force conduct any economic analysis of how each of its recommendations would impact rural areas if implemented?

Mr. GRIPPO. The task force did do analysis on the Postal Service's economic effect on different areas of the Country. If you look at the Executive Order, that is one of the mandates of the task force's work.

There were several economists who were involved as part of the task force staff, and that was part of an economic and quantitative analysis that went into the basic research before we started developing recommendations.

Now, as you indicate, some of that research and analysis did not end up in the report, which focused on the recommendations, but that was a foundational part of the Executive Order. We did look at studies that were available from academics and looked at information that was available from the Postal Service to determine the economic value and footprint of the Postal Service in different communities.

Senator PETERS. Specifically, did you look at rural versus urban areas and the impact? Is that differentiated in some way? Did you do economic analysis to do that?

Mr. GRIPPO. We did general economic analysis.

Senator PETERS. What does "general" mean? General looking at rural versus suburban versus urban?

Mr. GRIPPO. Yes. Looking at the——

Senator PETERS. You actually differentiated those, and we will be able to see the data as to how the service will be impacted?

Mr. GRIPPO. Yes. There was considerable research on the question of how to define rural areas, the size of rural areas, the volume to rural areas, and the like.

Senator PETERS. Well, how to define rural areas is different than how the service is going to be impacted.

Mr. GRIPPO. Indeed. I mean, the definition is to determine the effect of potential policies.

Ultimately, as I have stated, the decision of the task force, the recommendation of the task force is that certain services need to be deemed essential in large part because rural areas are dependent on them.

I do not think there is anything in the task force's report that would disadvantage rural areas; in fact, the opposite. The task force report tries to make clear that access in rural areas in terms of the number of post offices, that delivery in rural areas in terms of the number of routes, and that the pricing in rural areas and the affordability of Postal services should remain consistent nationally so as not to disadvantage rural areas.

Senator PETERS. We will see the analysis as to the exact impact that it has had on rural areas. Is that what I am hearing from you?

Mr. GRIPPO. We can certainly show you the analysis that we used in formulating the recommendations.

Senator PETERS. OK.

Mr. Williams, I have concerns that the task force recommends removing collective bargaining for compensation. Collective bargaining is certainly, in my mind, an essential tool and one that works best when labor and management share the same goals.

The Postal Service and its workers are united in their commitment to providing service to all Americans, regardless of where they live, and I am not clear on how removing collective bargaining for compensation would help deliver quality services, while recruiting, we have to recruit and retain a quality workforce as well.

My question for you, Mr. Williams, there is broad consensus that the prefunding obligation is probably the most significant drain on Postal Service finances today. In your estimation, would removing employees' ability to collectively bargain over compensation solve this prefunding problem and lift this obligation?

Mr. WILLIAMS. I can think of no way in which it would impact it at all.

Senator PETERS. It is not addressing the most fundamental reason why we are here?

Mr. WILLIAMS. I agree with that, Senator.

Senator PETERS. Mr. Williams, issues with reliable mail service are undeniably connected to the financial challenge that we are discussing.

A Postal processing facility was closed in Kalamazoo, Michigan, in 2015 due to the Postal Service's realignment and its financial situation, and I have heard from Michiganders who have experienced service delays and other problems as a result of some of these decisions.

The Postal Service's financial challenges ultimately impact service. I think it is difficult to separate those two. You are going to have service delays as a result of these changes.

My question to you, Mr. Williams, is, how has the prefunding burden affected service in your mind, which is creating real challenges for customers as well as the overall spiral we are seeing in the Postal Service?

Mr. WILLIAMS. Thank you, sir.

It has been devastating. It wiped out our entire ability to make capital investments. It put a strain on all the adjacent budget areas. We are forced to do cutbacks, and we are forced to do cutbacks at a nearly reckless rate. We are having to cut back so fast, we cannot understand fully the impact of what it is we are doing. It has been very serious.

I agree with you that it is the number one problem for Postal operations. If you separate out our operational losses, which are small, from our prefunding aspirations, which are very large, it tells you a story of an agency that has done well since 1970 until this happened. At that point, it immediately fell into crisis. We were unable to even make the first payment of prefunding, and we have been unable since then.

Senator PETERS. Thank you.

Chairman JOHNSON. Senator Scott.

OPENING STATEMENT OF SENATOR SCOTT

Senator SCOTT. Thanks for your hard work trying to make the Postal Service profitable.

Can a consumer just make the decision, "I do not want to get any more mail"?

Mr. WILLIAMS. To my knowledge, they cannot. We delivery mail to—if a letter is addressed to that address, we will make every effort to deliver it to that address.

If the consumer makes that impossible, they will be held at the post office and then returned to the sender. I am not sure there is an option like that, but as a practical matter, you can make it impossible for us to deliver, at which point it would be returned to the sender.

Senator SCOTT. Has the post office ever asked consumers how often they want their mail? So I travel up here. I am up here Tuesday, Wednesday, Thursday. I travel up here Monday, get home Friday. What if I just said I wanted mail once a week? Can I do that?

Mr. WILLIAMS. That is not one of the options that I am familiar with. I hope I am corrected if I am wrong.

You would not have the option of having mail today sent from certain days to one address and certain days to another address.

We are working on what is called the "Smart Mailbox," which would allow you to do just that. You could reprogram where it is you would like mail and parcels sent.

Senator SCOTT. Do you think that if consumers said they only want mail once a week or if you just gave people an option that said I just want mail once a week or I do not want any more mail because I know I do not get anything positive, I just get a lot of ads, would that save money?

Mr. WILLIAMS. It is more driven by the mail that is coming than by the receiver. It would probably not save money. In fact, it would probably cause some additional cost in terms of returning it each day and holding it.

You can have it held at the post office and picked up there. So that would be an option that I am aware of, but until we introduce the next wave of technology, these Smart Mailboxes that are reprogrammable, it would not have that impact.

I do agree with you that we need to survey the public on how often they would like mail and how often they would like parcels. I am not sure we know the answer to that today, and we need the answer to that if we are to go forward and introduce a new business plan.

Senator SCOTT. So on package delivery, do you feel like you compete with Federal Express (FedEx) and United Parcel Service (UPS)?

Mr. WILLIAMS. Yes, sir. We represent the public option for the Nation in assuring that logistics delivery remains at an affordable price.

Senator SCOTT. Do you negotiate with Amazon on how you price for packaging?

Mr. WILLIAMS. Yes, sir, as well as UPS and FedEx. Those are all negotiated service agreements.

Senator SCOTT. Right. So you have to reduce your price to compete with UPS and FedEx.

Mr. WILLIAMS. Yes, sir.

Senator SCOTT. To get the business, right? OK.

Then on package delivery, from what I saw, it is not broken down by what you provide today, by package delivery. Then it is unprofitable, just like the rest of the business is unprofitable.

Mr. WILLIAMS. Well, actually, we go to every single address. We have a very complementary relationship with UPS and FedEx. We are going to that home, anyway, either with a full armload or with a partial armload. So we actually are able to make a profit, where they are not able to make a profit, because of our ability to mix mail and parcels.

Senator SCOTT. Then the way to think about it is taxpayers are subsidizing Amazon's ability to ship to every household? Because you are not getting—if you go to all areas, are you getting paid a price from Amazon that you can make money all across the country?

Mr. WILLIAMS. Yes, sir.

Senator SCOTT. Do you make money in the suburban area and downtown area and then lose money in the rural areas?

Mr. WILLIAMS. With regard to Amazon, we make money for each package that cover our costs, and then it also has a margin that allows us to contribute to the Universal Service Obligation. So we are making money, enough to cover the cost, and we are making money enough to contribute to USO.

With regard to the second part of the question, all of the mail from the cities, the high-density areas tend to also contribute to the USO for the less densely populated areas.

Senator SCOTT. You do not charge Amazon differently to deliver in a rural area than an urban area?

Mr. WILLIAMS. We do not charge anyone a difference. Our job is to bind the Nation. We care as much about the person that lives in a sparsely populated area as we do for someone that lives in a very wealthy, dense neighborhood.

Senator SCOTT. Is it by law that you could not charge more to Amazon, not necessarily to the consumer, but to Amazon? You could not charge them more to go to a rural area than to an urban area. Is that true, or do you know?

Mr. WILLIAMS. I am not certain if we can do that. I am not sure we ever would do that. All that would do is cause Amazon to charge people in rural and remote areas more money. It would be passed through to them, and we are really dedicated to supporting people in rural areas.

Senator SCOTT. We could pass a law that does not Internet, sales in Amazon or whatever, charge more for a rural area, then, just like you do not? We could do the same. We could do the same thing.

Mr. WILLIAMS. I believe that you could. All of the delivery——

Senator SCOTT. Right. Not that we should necessarily, but we could?

Mr. WILLIAMS. Correct.

I believe we are the only carrier that does not have a rural surcharge. All the private carriers charge that, except for us, and it is because of our mission.

Senator SCOTT. OK. Thank you.

Mr. WILLIAMS. Yes, sir.

Chairman JOHNSON. Before I turn it over to Senator Sinema, I do want a quick follow up on that because it is a very interesting line of questioning.

Mr. Williams, you talked about we made profit on all this, but I want to go to Mr. Grippo or Commissioner Taub. We do not have a very good cost allocation model here, right? Certainly not one that a private-sector business would use. Do you want to speak to the fact whether you believe we actually make money off of this or that we are now subsidizing Amazon for the delivery of that last model, particularly in rural areas?

Mr. WILLIAMS. I will, and Chairman Taub is quite an expert on this too.

We go to great lengths to avoid that as a possibility of ever occurring. The PRC instructs us how to submit the analysis and the data to assure that all of the products cover their costs and make a contribution to the USO.

If you would permit me, I really do think that Chairman Taub would have an important part of the answer here.

Chairman JOHNSON. Well, then Chairman Taub and then I will go to Mr. Grippo.

Mr. TAUB. Sure thing.

Under the law, as it exists since 1970, the Postal Service has to attribute its costs based on reliably identified causal relationships.

For the last 49 years, that has been built up under data systems that can show whether a particular product's costs are caused by its delivery, transportation, etc. If it cannot, it then gets allocated to institutional cost.

So, under that framework, frankly, parcels are the one bright spot remaining in the Postal Service. Under law, each of those products, even negotiated service agreements, have to cover their attributable cost. They do. Not only that, we have to ensure there is a floor to show that in the competitive marketplace, collectively, so they are not pricing everything at cost, they contribute a minimum to the overhead that would demonstrate that at least at that minimum, they are contributing an appropriate share.

That share is almost 10 percent. Last year, parcels contributed 30 percent. Although it is a huge part of their revenue, parcels are less than 4 percent of the volume, and yet they are contributing 30 percent to the institutional cost of the Postal Service.

Chairman JOHNSON. Volume by piece, not necessarily by weight?

Mr. TAUB. This is how the costing systems have been developed, indeed, and we can always improve them. We are looking to modify and improve.

In fact, a few years ago, to their credit, United Parcel Service came before the Commission and requested we revisit this issue of costing, and for the first time in 45 years, we redefined attributable cost and expanded it to include what we call "inframarginal cost."

Chairman JOHNSON. But a big old heavy package costs a lot more to deliver, but your cost allocation is based on per piece.

Mr. Grippo, why do not you just quickly chime in here, and then I will turn it over to Senator Sinema.

Mr. GRIPPO. Sure. Let me provide the task force's view of this.

Chairman Taub provided the regulatory definition and the regulatory manner in which costs need to be allocated.

The task force view was looking at this in terms of what would be business best practice, and the view of the task force is that on that basis, the cost allocation method is dated. It is 50 years old, and it has not significantly been updated as markets and technology and, indeed, the regulatory environment have changed.

Clearly, cost drivers are changing. The increase in the volume of packages changes, what is driving certain costs and certain cost decisions, and the task force believes that because of all that, management at the Postal Service probably is not getting the right information out of that cost allocation system to make proper decisions on investment, on determining the profitability of a given product, on resource allocation. That is a matter of best practice. That cost allocation method should be updated based upon business principles.

Chairman JOHNSON. OK, quickly.

Senator CARPER. I have not had my shot in asking questions. I may have to leave at 4:30.

Chairman JOHNSON. OK.

Senator CARPER. If it is OK, I would like to go ahead and ask a couple of questions, if I could.

Before Senator Scott leaves the room, I would just ask a question. My understanding——

Senator Scott, before you leave, let me just ask this quick question.

My understanding, I have been told repeatedly that the Postal Service in the last year earned from their package and parcels delivery $7 billion in profit. Is that a correct number or not?

Chairman Taub.

Mr. TAUB. Roughly, the Postal Service, above the costs, it is getting in about $7 billion, yes. It is roughly a third of the revenue; 30 percent of the revenue that they are achieving is based again on a small part of the volume. But the costs are being picked up.

For example, package delivery costs are six times higher than that for a market dominant product, a letter. So the system does acknowledge that. The Postal Service makes less profit per piece delivering a package, but that is the one bright spot for the Postal Service.

Senator CARPER. All right. Thanks so much. Thank you.

Thanks for staying, Senator Scott.

Last week, Mr. Grippo—again, I want to say to you, to the folks on the task force, thanks very much for the work that you did, that you have done, and continue to do. But last week, I understand that you said to our staff, Committee staff, that the report that you all have worked on did no quantitative analysis on the recommendations' impact on the financial condition of the Postal Service.

A few minutes ago, you told Senator Peters that analysis, that quantitative analysis was done, and they seem to be contradicting statements, what I am told that the staff heard and what you just said in response to a question from Senator Peters.

I would just ask for the record, would you just provide a full scope of documents, materials, and other items that were reviewed to this Committee so we can understand what was done. Would you do that for us?

Mr. GRIPPO. Consistent with approvals from the Postal Service, since much of this information is their information and we have it only under nondisclosure, yes.

Senator CARPER. Good. Thanks so much.

Let me just follow up with a second question. I think we can all agree that the long-term business model of the Postal Service needs to be reformed. The Postal Service, however, continues to have its hands tied, as you know, in a number of ways. The Postal Service is constrained in how it can raise its rates. The Postal Service has already cut its network to the bare bones, and you cannot get any more blood out of that turnip, or at least not much more.

The Postal Service is maxed out on its line of credit, and it is legally prohibited from accessing private capital markets, as has been mentioned here today.

The Postal Service has to deliver less mail in more homes, not fewer homes—less mail to more homes every year, and the Postal Service is saddled with huge liabilities, and no private company would ever agree to prefund.

To what extent do the recommendations address these concerns, recommendations of the Committee—task force?

Mr. GRIPPO. The recommendations are designed to help the Postal Service become financially sustainable, such that it is generating enough revenue to cover its operating costs, its long-term liabilities, and its capital expenditures. That is the purpose of the report.

Senator CARPER. All right.

Mr. Grippo, I am concerned that the task force may have ignored what I call the "elephant in the room," and that is a requirement of the Postal Service to set aside 100 percent of the cost to address its retiree health care liabilities.

I propose solving this liability, the way the private sector does it, and that is through Medicare integration. The prefunding liability is something that no private company is mandated to do, as far as I can tell, and in fact, almost no private company does it to a level that we are requesting the Postal Service to meet.

My staff and I looked at Fortune 100 companies, Fortune 500 companies, Fortune 1,000 companies. We also looked at State and local governments, and we did so to see if any of them were setting aside 100 percent of the retiree health care liability. Almost none were.

If a company does not prefund the set-aside, generally less than 30 percent of the cost, I am told, and in fact, we also looked at State governments, as I said, and we find that most State governments prefund very little in terms of the mandate to prefund for health care liabilities, of pensioners.

Further, the Postal Service, unlike States and private companies, is prohibited from mandating retirees, take Medicare as part of their retiree health care benefits.

So, given all of this and the recommendations the task force report made to change pricing to compete with private markets, why does the task force oppose Medicare integration to level the playing field? If the task force wants them to price like a business, should not they all be able to have the operating freedom of a private business?

Mr. GRIPPO. On the question of Medicare integration, I think there are two elements that the task force considered. One is sort of a practical consideration, and the other is the policy approach of the task force.

As a practical matter, the task force, in trying to develop a self-sustaining model, felt that Medicare integration, while it would provide relief, does not solve the underlying business problem. So it might buy a year or two of operations, but after that, the underlying problem with the business model would still be there, and the Postal Service would be facing the same problem.

In a sense, it does not go to the core of the problem. It just delays it. So that was the first issue, in practical terms.

In policy terms, the task force—this is in the Executive Order, and this was embodied in the task force's work—felt that under the self-sustaining mission of the Postal Service, costs should not be shifted to the general taxpayer or to another fund in the Treasury. So, after 50 years of being required to price its products in order to cover retiree health benefits, the task force did not feel that a change should be made in that self-sustaining mandate and take retiree health benefits out and shift them to the Medicare Trust Fund.

Senator CARPER. The truth of the matter is, colleagues, the Postal Service pays probably as much as just about any private employer in the Country into Medicare for their employees. They do not get fair value. Their employees can get Medicare Part A. They can get Medicare Part B but not Part D. They basically subsidize the cost of Medicare for their competitors, and that to me just does not make sense. There is a real inequity here, and it cries out to be addressed.

We do not have time to get into it any further here today, but this is a point.

And this by itself will not resolve the dilemma for the Postal Service, but a bunch of other—if you couple it with a lot of other issues, the question of whether the moneys that has been set aside to meet these liabilities, does it make sense that they can only draw interest as equal to the U.S. Treasury yield? Does that make sense?

There is a number of other questions, a whole host of questions and issues, which put together might actually help resolve this issue.

Thank you.

Chairman JOHNSON. I have been asking for 4 years how much the Postal system workers pay into Medicare and how much they use, and I cannot get the information. Senator Hawley.

OPENING STATEMENT OF SENATOR HAWLEY

Senator HAWLEY. Thank you, Mr. Chairman.

Thank you all for being here, and thank you for the work that went into the report that you have given us.

I want to go back to Senator Peters' questions about the effect of any reforms on rural areas. I represent the State of Missouri that has a substantial population of folks, including the place where I grew up, that relies on the rural services that the post office provides.

We have over 15,000 employees, Postal employees in the State of Missouri, and of course, many of those are in exurban and rural areas, again, like Lexington, Missouri, which is where I am from.

Mr. Grippo, if I could just go back to something you said to Senator Peters, you said that certain services need to be deemed essential because rural areas depend on them, and the Universal Service Obligation needs to be defined accordingly. Have I got that right?

Mr. GRIPPO. That is correct.

Senator HAWLEY. Can you just say something more about it? Explain what you mean by that.

Mr. GRIPPO. Right now, all mail operates under, in general, the same pricing regime, meaning price increases on all mail products are capped at Consumer Price Index (CPI). So there is an affordability component to all mail.

What the task force is suggesting for mail as well as for packages is that distinctions need to be drawn—that some mail is essential: a consumer notice, a tax notice, a small business payment, as I mentioned, the delivery of pharmaceuticals to a rural area.

We think there is a strong policy rationale to ensure that is affordable and should be subject to a price cap.

Other types of mail, regardless of where it is going, is really more commercially oriented, and the senders are using the Postal Service more based on a return on investment, based upon sending out a catalog or delivering a package. The task force is suggesting that that latter category, commercial-oriented mail, should have a different set of pricing rules, and that the Postal Service needs to price that based upon what the market will bear with profitability in mind, so that it can continue to deliver the other essential mail with price caps, where it cannot generate more revenue.

Senator HAWLEY. In the category of commercial mail, are we talking about potentially items that consumers living in rural areas order, they purchase online, and that are shipped to them? Is that the kind of thing that——

Mr. GRIPPO. It could. The principles, and these can be implemented in different ways. In general, if the user is captive and is really reliant on the Postal Service and does not have a viable alternative, in general, we would say that should be an essential product or service and should be protected.

If it is not a captive customer or if it is really just a commercially driven use of the Postal Service, we are saying it does not necessarily deserve those protections.

What products fall into which category would have to be figured out, but that is the principle to allow the Post to generate more revenue based upon what the market would bear on the more commercially oriented items.

Senator HAWLEY. Chairman Taub, do you want to weigh in on this?

Mr. TAUB. To the extent that there would be any change, it would go through the Postal Regulatory Commission process. In the light of day, notice and comment, we would take into account the users of the product in question, the impact on small business concerns.

As Mr. Grippo indicated, this is a notional idea. We certainly are going to be continuing dialogue with Treasury and the Postal Service to deep-dive a little more on these recommendations, but at this stage, anything that would—or we are a long way from anything being finalized, and a lot of these details would be hashed out in the light of day with all interested parties convening. Frankly, even if a majority of commissioners chose to do X or Y, like any agency decision, folks can take us to the D.C. Circuit. So we are a long way off.

But given the financial problems of the Postal Service, I think all ideas need to be on the table, and we really need to look at the fundamentals, which as I talked about in my opening statement, includes the USO. And this goes to one of the attributes of the USO itself.

Senator HAWLEY. Well, thanks very much for that.

I just want to say that, of course, as we move forward with Postal reform, which I think we agree is all necessary, I am keenly interested to see that it does not disadvantage in any way rural areas or draw back from the Postal Service's longtime commitment and laudable commitment to serving those areas and connecting them. I cannot tell you what a difference it makes for small towns, like the one that I am from, to be able to be connected to the outside world, and oftentimes, the post office is the only means of getting goods in the mail. They do not have viable alternatives, certainly not cost-effective alternatives.

The Postal Service and what those local post offices mean to small towns is crucially important and, therefore, crucially important to me.

Thank you so much.

Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you, Senator Hawley.

Because it is in front of me, let me quickly ask this question because I have the information.

I cannot remember which Senator was talking about collective bargaining, but in your report, Mr. Grippo—I believe it is in your report—you state that in the 10–K filings in 2017, the per-employee cost of the United States Postal System was $85,800 compared to UPS at $76,200. Now, UPS is a unionized organization, correct?

[No response.]

And then FedEx is $53,900. They are non-union.

Mr. GRIPPO. In terms of their delivery staff, I believe that is right.

Chairman JOHNSON. So define what we are talking. What do you mean in terms of their delivery staff?

Mr. GRIPPO. So you have staff that is running routes and doing deliveries. You have management. You have people working in processing plants. You have pilots.

Chairman JOHNSON. You are talking about FedEx now?

Mr. GRIPPO. Running the air network.

I think if you are just looking at delivery personnel, then, yes, FedEx is contracted, non-unionized, whereas the UPS is.

Chairman JOHNSON. OK. But, again, those are the correct numbers, right?

Mr. GRIPPO. Yes.

Chairman JOHNSON. So, again, USPS, $85,800. UPS is $76,200 per employees, and FedEx is $53,900. That kind of answers the question why we may want to take a look at the collective bargaining situation at USPS versus who they compete with, UPS, another union shop, and then FedEx, a non-union ship, correct?

Mr. Williams, do you want to pipe in on that?

Mr. WILLIAMS. Thanks, Senator.

We do not agree with that. We believe that conducting the analysis the way it was conducted caused all of the FedEx drivers to be omitted from the analysis, and they were, instead, put under a category of transportation because they are independent contractors.

In the case of UPS——

Chairman JOHNSON. Do you agree the cost of UPS is $76,200?

Mr. WILLIAMS. I think those averages had a—the methodology for computing those averages had problems, and we have asked the Treasury for additional figures on it.

Our analysis shows a very different picture, but with regard to——

Chairman JOHNSON. Do you think the U.S. Postal Service workers make less than UPS or FedEx? The cost is less?

Mr. WILLIAMS. For entry-level employees, I am going to try to omit naming FedEx and UPS, if I may. But one of them starts their employees at 40-to $45,000. Ours is $36,000.

The other analysis we have is an hourly. They begin their employees with $20. Our employees begin with about $17.

At the career level, it continues to parallel and track that. It takes our employees a much longer period, 12.5 years versus 48 months to drive——

Chairman JOHNSON. Again, we are trying to break, get rid of all the complexities and just kind of look at a basic number for comparison.

Again, according to the task force, it is about $85,000 to $86,000 for USPS, $76,000 for UPS, another union shop, and then $50-some for—again, I am just——

Mr. WILLIAMS. We are working with them to try to overcome very different outcomes.

Chairman JOHNSON. OK.

Mr. WILLIAMS. Something is wrong with the numbers.

Chairman JOHNSON. In terms of definition of the Universal Service Obligation, basically Congress would have to write that definition, correct?

Mr. TAUB. I would suggest that—well, first of all, it would take some legislative action. I think there is a model we can look at, which is the 1996 Telecommunications Act. As we are entering into the Internet age, Congress included a provision in there which mandated that the Federal Communications Commission (FCC) by regulation define universal service under a variety of criteria and guidelines that Congress put in place, and then, hence, it was a process that could be informed through regulation. It could be modified and updated, and I think that has worked generally pretty successful there.

So you could envision as one way to do this, Congress by legislation laying out guidelines and empowering the Postal Regulatory Commission to undertake a similar process that the FCC did.

Chairman JOHNSON. Mr. Grippo, is that your understanding as well?

Mr. GRIPPO. The task force view regarding the statutes that broadly define the USO is that, with one exception, everything that the task force is proposing could be done administratively without new legislation, meaning the Postal Service and the Postal Regulatory Commission through administrative or regulatory action could implement the concepts we have in the report.

Chairman JOHNSON. What is the one exception?

Mr. GRIPPO. Well, right now, of course, there is a rider that requires, in essence, 6-day delivery, and there is nothing in the report that says do not deliver 6 days. We are not recommending directly cutting that, but since that has been specified in statute, delivery frequency is the one thing that is in legislation. But we think everything else is very broadly defined in statute and would allow for the kind of implementation we are talking about.

Chairman JOHNSON. Mr. Taub, I think you said in your testimony, you gave the cost of Universal Service Obligation?

Mr. TAUB. Yes. The Commission annually estimates that as required by law.

Chairman JOHNSON. And that is?

Mr. TAUB. $4.53 billion. $2.2 billion of that is our estimate of the cost of providing 6-day delivery. Another $1.7 billion of that is for reduced and preferential rates, and then beyond that, you start getting into the cost of maintaining small post offices and some other areas.

Chairman JOHNSON. Included in that is the nonprofit discount, which I think——

Mr. TAUB. Correct. Yes. That would fall——

Chairman JOHNSON. That is $9 to $12 billion over 10 years? That is part of that Universal Service Obligation?

Mr. TAUB. Indeed, reduced-rate mail, we view in our annual estimate as a cost of universal service.

Chairman JOHNSON. Obviously, service to rural areas is a real sensitive topic, as you are hearing throughout. Has anybody broken down the cost of that rural subsidy? Would that be just wrapped into that cost of universal service? Is it broken down, urban universal service versus rural? Is there any kind of cost breakdown in terms of that subsidy?

Mr. TAUB. We have not recently done a deep dive on that.

Our 2008 report that was mandated by the 1906 law, looking at the USO and the monopoly, did observe that really it is not so much a subsidy of urban to rural as it is really a subsidy based on the amount of mail one gets each day, which might be correlated more to income. Higher income folks may be getting more mail delivered than those that are not.

It is an issue for the Postal Service of density, because they have to go to every door every day, whether they have nothing to deliver or one item versus someone getting 12 pieces. Certainly, geographically, when you are spread out in a rural area, there is a cost, but it actually could be higher where you are in an urban area and you have less delivery density where you are delivering.

There is clearly a subsidy that is inherent in the system, but it may be less urban rural, and more about how much mail a recipient is getting each day.

Chairman JOHNSON. Mr. Grippo, have you seen anything in terms of kind of what that cost might be?

Mr. GRIPPO. I do not know that I can provide you an estimate on that specific cost.

As a general proposition, the uniform pricing of Postal services in this country, in any country, would entail some subsidy of more dense areas where delivery costs are less to rural areas or less dense areas where delivery costs are higher. The uniformity of pricing would tend to deliver an appropriate subsidy on that basis.

Chairman JOHNSON. Senator Carper, I have a few more questions. Do you have more questions for this panel?

Senator CARPER. Thanks, Mr. Chairman.

Chairman has heard me say this before, but I want to say it again. When I was elected State treasurer, I was 29, and we had the worst credit rating in the Country. Basically, we were closed out of credit markets, not because of my election, I hope.

Fast forward, 20-some years later, I was Governor of Delaware, and we had had a series of good Governors, Pete du Pont and Mike Castle. I hope I was a pretty good one. But we went from the worst credit rating to the best. We ended up with AAA credit ratings, I think in 1999.

I remember when we got the call from Moody's, Standard and Poor (S&P), and Fitch with great news in 1 week. It was one of the best weeks, maybe my best week as Governor. And they said, "We are raising you to AAA." Well, that was great. We never had a AAA rating in the history of the State of Delaware.

But they also added this caveat. They said, "You have done a great job funding, fully funding your pension fund, your pension obligations. You have done a good job," and all kinds of great financial management and cash and stuff, the stuff we are doing in education. They said, "The one thing you have not done, you have not acknowledged that you have a liability for the cost of health care for your pensioners," funded our pensioners. We have not funded that—we have not even recognized that liability, and they said it is a real liability and we need to acknowledge it and begin to fund it.

We acknowledged it, and we began to fund it and still continue to fund it. I think today, this is like 20-some years later. I think the State of Delaware has funded it less than 10 percent of the obligation, less than 10 percent. My guess is, if you looked at other States, municipal governments, it is probably a very similar situation.

And you look at companies. This is one that they have actually recognized, this liability, their health care liability for their pensioners. My guess is it is probably pretty much the same.

I think we hold the Postal Service to a different standard here, and over the years, a lot of people talk about why do not we treat the Postal Service like a real business. Well, if we did, one, we would not tell them how to fund, within 10 years, this liability, and two, we would say if you set aside money to meet that liability and you could invest that money at a rate of return, it would be a whole lot better than the Treasury rate of return.

State of Delaware, we created a cash management system so that we did not just get the Treasury rate of return. We actually got a much better rate of return, and it helped us a whole lot with our bottom line.

Would you all react to that? Governor Williams, would you just react to those comments, just briefly, please?

Mr. WILLIAMS. I definitely agree that—we are a very odd candidate, but we actually have the best prefunding account in the world, as far as I know. It is thanks to Congress that we began it. It is huge now.

It has not matched 100 percent of the goal that we aspire to and that we want to move toward, but it greatly exceeds those of the Federal Government and of the private sector. I think it greatly exceeds the targets of those. We are going for 100 percent. I think they aspire in the private sector to reach 60 percent. The Federal Government for health care has zero percent. They pay as they go.

It is important to us. We value it. We appreciate the fact that we have that in there. It needs to be invested in a retirement fund.

Right now, we are killing the fund because of the way we have it invested. That is the last thing in the world we want to do.

I am also not sure the liability has ever been accurately assessed, and that needs to be done because we do not know what 100 percent is as long as we have continuously wrong estimates of the liability.

The $5 billion target contributing to that was a mistake. It was way too much than anyone could ever afford, and we had been structured very carefully to break even. We had no ability to pay any contribution because we had been disciplined to break even always.

So this did not always go well. There is still time to save it and to get the rest of the way. This represents the lion's share, more than the lion's share of our losses. Their operational losses were not $164 billion. They were about 3-last year, and they were $0.8 billion the year before. That directly tracks to the withdrawal of the exigent increase that was worth $4.2 billion. We could not make all that up. It was withdrawn.

I know that you are trying to restore it. Grateful to that.

So, operationally, I think I know what went wrong. With regard to the fund, we have the best in the world. I want it to be better, and I know that you want it to be better as well.

Senator CARPER. I would just say, Mr. Chairman, in closing, people say to me almost every day, going back and forth on the train to Delaware, "I would not want your job for all the tea in China. You must hate your job."

I say, "No. I like my job. I feel lucky. 1,900 people in the history of the Country got to do the job that we do, and it is a real privilege to serve."

Whenever I see a problem or a challenge, I do not run away from it. I know you do not either. I say how do we find opportunity here, how do we fix this problem, how do we put a team together and fix it.

A big part of that team—you have mentioned this already, and I would again—we need a fully operational Board of Governors, Democrat and Republican, people with the right kind of experience that can come in here and help move the needle on this organization. We need to make sure we have the right people and the right complement of people, Democrats and Republicans, on the PRC.

To the extent that Gary and folks that work with him on this task force, they have done good work, and we would be foolish to ignore it. To the extent we can work on it, we should.

I think I will just leave it here for now. We need to address this. We need to get it done, and as our leader, you have a key role, as you know. And given your experience in business, you certainly have the ability to help us get this done, and I want to be your partner—and also with Senator Peters, and other Senators on this Committee.

Thank you.

Chairman JOHNSON. I appreciate that, and I know how dedicated you have been to trying to fix this problem.

I have really got three lines of questioning. Let us start with the 800-pound gorilla, which really is the pension, those liabilities, the prefunding, those types of things.

Mr. Williams, you talked about—I think you said $335 billion.

Mr. WILLIAMS. Correct, sir.

Chairman JOHNSON. That is what has been set aside. Unfortunately paid to the Federal Government, money is fungible is they use the funds.

So there is no credit given for $335 billion worth of an asset in terms of the Postal Service's financial? Because then that is what I heard you say.

Mr. WILLIAMS. It is invested in Treasury bonds.

Chairman JOHNSON. So they do get the interest rate off of that?

Mr. WILLIAMS. Yes, sir, we do.

Chairman JOHNSON. OK.

Mr. WILLIAMS. It is a little over 2 percent.

Chairman JOHNSON. OK. So they are getting some, but your suggestion would be why not invest that like other pensions, where you might have long term if you actually—without stock market investments, over a long period of time? I know in the course, the reason they do not is there is investment risk, but over a long period of time, there is probably more of an average of 6 to 9 percent, correct?

Mr. WILLIAMS. That is correct.

I do not think there is a person in this room that would not fire a fund manager that said 2 percent was all they could do. They would be out the door.

Chairman JOHNSON. Well, again, that is dictated by law, right?

Mr. WILLIAMS. Yes, sir.

Chairman JOHNSON. That was the 535-member Board of Directors that dictated that, correct?

Mr. WILLIAMS. Correct, sir.

Chairman JOHNSON. OK.

The recalculation of the liability, I know that is part of the task force recommendation as well. Do we have any sense, any estimate in terms of what that would mean? How much do we have it overstated right now? Because I would imagine that is one of the reasons we are talking about recalculating because we probably think we have overestimated that cost.

Mr. GRIPPO. The task force is recommending that that liability, which would include the roughly $43 billion in defaulted prefunding payments to OPM as well as the actuarial unfunded liability, that that be refinanced and re-amortized over a new 40-year period.

So that goes back to this principle that the Postal Service should not be relieved of that liability. It should not be shifted anywhere else, but we think it needs to be refinanced and re-amortized.

If it is done on the basis that the task force is recommending, it would save the Postal Service in terms of long-term liability about $20 billion.

Now, it would increase annual contributions because there is $43 billion in defaulted payments that now have to be re-amortized.

On an annual basis, it would increase costs. On an overall basis, it would reduce the total liability, then unfunded liability, by $20 billion.

Chairman JOHNSON. We obviously cannot go back and reinvest $335 billion in a higher rate of return. Does anybody suggest should we invest them in something different now as part of this reevaluation? Probably not, correct?

Mr. WILLIAMS. Well, actually, I would suggest that, but the money is gone. It came. It has all been spent.

Chairman JOHNSON. That is what I have always said about Social Security too. The money is spent; it is gone, unfortunately.

Mr. WILLIAMS. But, as we have new investments, I think they should all be placed inside one of the government retirement funds. They are very conservative. They passed through, arguably, the worst financial downturn ever, and they still came out with these kinds of numbers and profits. So I think——

Chairman JOHNSON. What has been the rate of return of those other funds?

Mr. WILLIAMS. The one I mentioned in testimony was over 8 percent. I think the average in the Country is around 7 percent versus 2 percent.

Chairman JOHNSON. We have just come through a pretty dramatic increase since March 2009, the stock market, but those things happen. You have these long-term averages.

What is the most restrictive congressional mandate? We can take a look at that one. It has not been a real winning strategy, but what about other ones?Commissioner Taub.

Mr. TAUB. Where to begin? I think, to me, the biggest—I would not call it a restrictive mandate, but really, I go back again, is the fundamentals. I appreciate Mr. Grippo's suggestion that the Postal Service and the Commission have regulatory authority to look at these various attributes of universal service. While technically correct, I think that is too important an issue to leave to the regulatory process.

I do think there is some important guidance that the Congress could provide. Waiting for Congress to define it, I think was like waiting for Godot, but——

Chairman JOHNSON. Well, you are asking Congress to have a little courage to actually do something that might be a little difficult. It might produce some angst, but it might save the Postal Service.

Mr. TAUB. Having spent 15 years on the House side and realizing, look, folks got to run for reelection every 2 years or 6 years, I well understand the, small "p," political environment everyone works in. That is why my suggestion of looking at the Telecommunications Act model of 1996, where Congress put its guidance in place but left it to the regulator to sort out the details, I think is a possible way forward that could get those 218 votes in the House and 51 in the Senate and to me go to that most fundamental issue.

You talk about the restriction. The Postal Service and the good folks on the Board of Governors are flying right now without a clear mission statement. Why else is the United States Postal Service part of the United States Government? Well, it is to provide universal service. Well, what is it? And we have not specifically defined it in the United States, and therefore, my concern is we cannot be rest assured that when we are looking to fix the financials, we ensure that the financials are right to provide that universal service mission.

So we have to fix that, and to me, everything else can flow from that. But unless you have your mission statement right, we have 535 different views of what the USO should be, and all of them are correct.

Chairman JOHNSON. So, again, I said the most restrictive congressional mandate, and both of you agree with that, or do you have another one?

Mr. Grippo, do you want a quick chime-in?

Mr. GRIPPO. Well, among the task force recommendations, the ones that are clearly within Congress' realm relate to employee compensation and benefits, without judging those individual recommendations. The other recommendations on the Universal Service Obligation, on the approach to pricing, on the approach to strategy, we feel are administrative in nature.

On the cost side of the ledger—and labor costs are 76 percent of operating costs—statute governs. So in the mix of reforms, the benefits—the wages and compensation and benefits—would be within Congress' purview.

Chairman JOHNSON. Mr. Williams, did you want a quick chime-in?

Mr. WILLIAMS. Thanks, Senator.

I would add that post office network. Everybody wants that network. There are enormous reactions every time we try to trim it down, but they are not allowed to pay for themselves. Around the world, the post offices are allowed to diversity the products and services offered there, so that that can break even rather than be a loss.

Chairman JOHNSON. That actually leads into my next question. It was about the alternate products revenue sources.

I come from the position I really do not think we want the Postal Service, which to a certain extent is subsidized, competing with the private sector. So I am very sensitive about that.

Mr. Grippo, I think in your task force, you are not really recommending to go into things that they have no core competency in or that they do not have kind of a basic capital structure to actually provide.

Can you just quickly speak to that? Then we will have to move on to our next panel.

Mr. GRIPPO. That is correct. The task force is not recommending that the Post get into anything that is outside its current core competency.

The task force is not recommending that new commercially oriented activities are a wise idea. They would be too risky.

The post is a turnaround entity, and as such, the task force is not recommending getting into other lines of business.

Other national Postal services have done that, but they did that over many decades when Postal finances were healthy. Given where the post is now, we do not see a path or a reason to do that.

Chairman JOHNSON. Do you agree with that position of the task force, or do you disagree?

Mr. TAUB. To the extent of it all that the Postal Service would be empowered, there would have to be legislation to allow them to look into other areas. I think we have a mature regulator that can be counted on to call balls and strikes and be concerned about the competitive aspects.

I would concur given the financial house is on fire and I think the first order of business is looking at what is that core competency in stabilizing that fire, and to the extent of it all, broadening the aperture of what they get into. I would suggest the Commission could be one to help play that role of ensuring some balls and strikes and fair competition.

Chairman JOHNSON. Mr. Williams you brought up.

What is your comment?

Mr. WILLIAMS. I think there are a number of things we could do, services we could offer that would not compete with the local community but would strengthen the local community.

I also think——

Chairman JOHNSON. Can you quickly list them, for example?

Mr. WILLIAMS. We could do front-office services as we do for passports for a number of the government departments and local government and State government. We could equip our trucks with collection devices for the Internet of Things (IOT). We could provide broadband coverage for the community. None of those would even require—our employees would not even know they were being done. I think there are a large number of things that we could do.

We mentioned financial services. I know that for now, that is an area that is being debated, but banks are being—and they are on the front end of a major disruption. I think we could be of assistance to them, probably at their request, in helping to combat these growing bank deserts, where you cannot have any services whatsoever.

Money orders. I think we provide electronic money orders to Mexico. We should be expanding that to Asia and other—Southwest Asia and Southeast Asia and China.

There are a very long list of things that I think we could do, and we certainly have the expertise for this.

Chairman JOHNSON. I appreciate that. Senator Carper.

Senator CARPER. Mr. Chairman, I would just add to your line of questioning.

If we had a full complement of Governors on the Board of Governors, ideally they would serve, if they had the right kind of background, as a fount of ideas, a great source of ideas and some of—many of which may not be practical and not be acceptable, but some probably would. And that would be helpful.

So we need good names from the Administration, and we need to process them and get them done. Thank you.

I thank you very much for being here, all of you, for your service.

I am going to have to slip out and not be here for the rest of the next panel, but if I can get back before you leave, I certainly will do that.

Chairman JOHNSON. OK. Thank you, Senator Carper.

Again, I want to thank our witnesses, and you are dismissed.

We will call up Ms. Weichert.

[Pause.]

Ms. Weichert, it looks like you got me. Do not get too comfortable because you are going to have to stand up here pretty quick and get sworn in.

Ms. WEICHERT. Fantastic.

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

Ms. WEICHERT. I do.

Chairman JOHNSON. Thank you.

We have before us now the Hon. Margaret Weichert, and Ms. Weichert is the Deputy Director for Management at the Office of Management and Budget (OMB) and serves as the Acting Director of the Office of Personnel Management. Ms. Weichert began her career in public service last year after two decades of private sector experience in financial services and consulting. Ms. Weichert.

TESTIMONY OF MARGARET WEICHERT,[1] DEPUTY DIRECTOR OF MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET, AND ACTING DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

Ms. WEICHERT. Chairman Johnson, Ranking Member Peters, Members of the Committee, thank you for the invitation to discuss the future of the U.S. Postal Service.

This proud organization is the modern-day descendent of an institution established in 1775 with Ben Franklin as the first Postmaster General. Its importance was reinforced in Article I of the Constitution, which authorized Congress to establish post offices and post roads.

The Postal Service has played a critical role in every stage of our Country's development, and Postal employee commitment is memorialized in its unofficial motto, "Neither snow nor rain nor heat nor gloom of night, stays these couriers from the swift completion of their appointed rounds."

My own family is connected in a small way to this quintessentially American institution. My grandmother, Sarah Drury Morgan, was a proud Postal employee who emigrated from Ireland in the 1920s. For my dad's entire family, Postal employment was part of their American Dream story, enabling my grandmother to put two children through college while serving her country.

Unfortunately, due to declining mail volume and legacy structural costs, this cherished institution faces an unsustainable financial future. The Postal Service has run up billions in debt since 2010 and is behind on $43 billion in retiree health care payments, and owes an additional $5 billion in pension liability payments.

That is why last summer's Government Reform and Reorganization Plan recommended restructuring to achieve three objectives: better enable universal service obligations, establish a financially sustainable model that does not unduly burden taxpayers, and create a realistic path forward for Postal employee benefits.

The reorganization plan outlined a vision of fundamental Postal reform but deferred final recommendations to the Presidential task force on the U.S. Postal System. That task force report was issued in December 2018.

The task force analyzed structural reform opportunities giving particular attention to operational changes, cost allocation issues, and pricing flexibilities.

In addition, significant attention was given to the differentiation of essential or Universal Service Obligations from competitive market-driven services.

Although there are many perspectives on the task force recommendations, nearly everyone familiar with Postal financial woes agrees that the status quo is economically unsustainable.

The Postal Service must be restructured to preserve foundational infrastructure for our democracy and our economy, maintaining communication links for millions while serving as a bedrock distribution network for American commerce. From our oldest citizens to our youngest, our rural communities to our growing cities, all

[1] The prepared statement of Ms. Weichert appears in the Appendix on page 101.

Americans benefit from a revitalized, economically viable Postal system.

As Deputy Director for Management at the Office of Management and Budget, I lead a range of government modernization efforts to better meet mission, service, and stewardship realities in the 21st Century. As technology and customer needs evolve, our government institutions must also evolve, and the Postal Service should be no exception.

As the acting Director of the Office of Personnel Management, I am also keenly interested in structural reforms that resolve nearly $50 billion in Postal liabilities owed to the Office of Personnel Management. These unpaid liabilities place a burden on OPM and our mission of providing world-class benefits to all government employees, including 6 million Federal pension participants.

Without reform, these liabilities will grow, threatening the viability of OPM services, including health, retirement, and other benefits that are critical not only to Postal employees, but also to other public servants, including Members of Congress who participate in OPM-managed retirement programs.

Healthy organizations are designed to change and adapt. It is unacceptable that the Federal Government operates under a 20th Century paradigm, despite dramatic changes in technology, society, and the needs of the American people.

The Postal Service must pursue foundational, structural reform to preserve universal service, reestablish economic viability, and lead to a sustainable path for Postal benefits. To achieve these objectives, the task force identified operational, pricing, and cost-allocation changes to put the Postal Service on a sound footing.

This Administration looks forward to working with Congress to reenergize efforts to find solutions to historical challenges.

Finally, I would like to thank this Committee for recently confirming two members of the Postal Board of Governors. The Administration recognizes the importance of improved Postal governance and will continue to work with this Committee to that end.

We remain hopeful that a fully constituted board will drive a new strategic direction for the Postal Service adopting relevant recommendations and making tough reform choices.

Thank you again having me today. I look forward to your questions.

Chairman JOHNSON. Thank you, Ms. Weichert.

Yes, two down, seven to go, Board of Governors.

Mr. WEICHERT. Yes.

Chairman JOHNSON. First of all, let me apologize for this being so late.

Mr. WEICHERT. That is OK. Thank you for having me.

Chairman JOHNSON. So how long were you able to listen to the first panel?

Mr. WEICHERT. I listened intermittently for most of it.

Chairman JOHNSON. OK. I would just kind of like your reaction to that testimony, to their answers to our questions. Do you have any thoughts on that?

Mr. WEICHERT. I think it was a good coverage of a number of the core issues. I think the most fundamental issue is we need, first and foremost, agreement on what are the fundamental Universal

Service Obligations and get clarity around that because that is the piece that today is driving a huge amount of cost without clarity of exactly how that is going to be paid for.

I think the other thing that was critical was the notion of the economics needing to be self-sustaining, and I think there were a little bit of inherent comments made that might suggest that it was not necessary for the Postal Service to maintain itself as a fully funded capability. I want to say, categorically, that I think most American taxpayers and most Americans believe that the Postal Service should be self-funding.

Chairman JOHNSON. We are probably referring to "Medicare integration," which is a nice, little, sounding term.

Just confirm whether I have this correct. Medicare integration basically takes about $50 billion of retiree health benefit, pension liability off of the Postal Service's balance sheet, off of their liabilities, transfer that to the American taxpayer, but because that liability is stretched over many years, the supposedly 10-year cost is about, I think, $7 billion. Is that correct?

Mr. WEICHERT. Yes. So, basically, there is an annual cost, but what we have seen and part of why the challenges were not seen to be as great when the decision to prefund was initially made is the population is living longer and is sicker than was initially thought to be. So those costs continue to grow, and they are real liabilities. They are liabilities that I have to sign off on at the OPM financial statements to basically say I understand you are not going to pay me this year, but you are agreeing to pay me in the future, so that my books balance. It is a meaningful number. $50 billion is a pretty big number, and it is a real cost.

So just moving it from my books to someone else's books, first of all, does not make the cost any less, but second, it affects my books. If I have to write that of or move that, I have to really look at what does that do to my balance sheet.

Chairman JOHNSON. But, again, my concern is in the public sphere of debate. It only costs $7 billion, because we are always focusing on that, but it truly is a $50 billion cost.

You also mentioned—because I have been doing this now for a number of years. Often the argument is, well, one of the reasons you have to restate that liability—and this is not a good thing, but Postal workers actually do not live as long, and they really do not have as large a liability as normally calculated. But you are saying the exact opposite.

Mr. WEICHERT. So, basically, I think there were assumptions made to that end. I cannot speak to the actual detail of every assumption, but the notion is this is happening not just in the government context, but in all programs that are looking at long-term health and long-term health care delivery costs.

I would add that Postal Service is not the only entity, even in government, that prefunds some of its health care liabilities. So the Department of Defense (DOD) does the same thing around TriCare for active participants who are expected to be eligible.

Chairman JOHNSON. You mentioned universal service. One of the things we talked about is who is going to define that. Is it going to have to be done legislatively? Does Congress have to lay this out, or do we use a different model? Do you actually have the administrative capability?

One of the issues raised in your governmental reforms is what can you do administratively versus what is going to require legislation.

I do not know if you were kind of following that debate. Where do you come down on that issue when it comes—because I agree. I think we really do need to define universal service, what is essential. That they began doing that in 2006, but we need to further refine that if we are going to make the Postal Service sustainable.

Mr. WEICHERT. Well, I defer on the definitive answer to some of the folks who were on the earlier panel. I think particularly the PRC would have to weigh in on that according to the dictates of that governance body.

I think the further work that I mentioned that needs to happen between the Executive and the Legislative Branches is really to get clarity and then put proposals out there. To the extent that they have the agreement of that governance community, we could then determine does it need to be further codified in law.

Chairman JOHNSON. So one issue was collective bargaining.

Mr. WEICHERT. Yes.

Chairman JOHNSON. Could you explain what is different in terms of what USPS does in terms of treating its employees and bargaining with them versus the rest of Federal Government workers?

Also, in the task force, they laid out the difference between USPS, which is about $85,000 or $86,000, cost per employee. With UPS, it is around $76,000; FedEx, about $53,000. Can you make that comparison with other—again, how we treat Postal employees versus Federal Government employees in terms of the bargaining and wage and benefit calculations, that type of thing?

Mr. WEICHERT. Yes. I think that is a critical point.

While the Administration emphatically supports the ability of employees to collectively bargain, most of the unions in government are not collectively bargaining over salary. What you can see empirically is the annual raises and the annual salary considerations under a collective bargaining situation such as the Postal Service has, they rise faster than some of the other elements in government. I think that is the core difference that collective bargaining over environment and the nature of how employees are treated and what their work environment is like, that is absolutely something that continues to be in force in all of the government unions which support our employees. But the Postal Service stands out as unique in terms of the collective bargaining over salary.

Chairman JOHNSON. So you have said you can witness empirically a higher increase in wages in the Postal Service versus other Federal workers. Do you have a dollar number on that?

Mr. WEICHERT. I would have to get back to give you that exact figure.

Chairman JOHNSON. OK.

A big issue really is cost allocation. You come from the private sector.

Mr. WEICHERT. Yes.

Chairman JOHNSON. It is just crucial. Do you understand what your costs are, how they are changing? Allocation methods, just from when I had my big old cost accounting book, have changed dramatically in the last 50 years. If we are literally allocating cost based on a 50-year-old model, I would say something probably needs to change.

Can you talk about how significant that is to the Postal Service, how the lack of good information might be affecting how they are pricing products and how they are competing and what they are offering to the Amazons of the world?

Mr. WEICHERT. Absolutely.

I think the two areas that there is, I think, a pretty good understanding of what the cost to serve is in the private sector, the first mile, or how pickup words, if you think about models of pickup, whether it is UPS or FedEx, Kinko's, they have models of both retail drop-off and some pickup services for the first mile. They also really understand what their middle mile looks—moving things between cities. I think we do not have necessarily the same level of granularity, but we have some sense around that.

I think that the challenge in terms of where the model has shifted the most is that last mile. So what used to be a huge volume of First-Class Mail, interpersonal communication, and paper delivery of documents has fallen way down, and so our cost structure is heavily oriented, both in terms of labor and physical property, like vehicles, toward that last mile. That is a huge challenge when you have to spread the costs and particularly the variable costs around personnel on a much smaller basis of volume, and I think that is the real critical area for improvement.

It is frankly a place where there are opportunities, even as a couple of the earlier panel has mentioned, to think about how do we charge differently for others who want to leverage our last-mile capabilities. We do not have the flexibility to do that, nor do we really have an understanding of what costs we would need to cover there.

Chairman JOHNSON. Is it your belief that because the Postal system has that monopoly in First-Class Mail and really geared toward delivery of those letters that even to this day, they do not allocate properly between First-Class Mail and parcel?

Mr. WEICHERT. Absolutely.

Chairman JOHNSON. And under-allocate to parcel?

Mr. WEICHERT. Absolutely.

Chairman JOHNSON. Do you have any feel for how many billions that may be?

Mr. WEICHERT. Again, I defer to some of the more detailed experts, but I would be happy to get that specific number for the record.

Chairman JOHNSON. Because it did sound from both the Governor and the commissioner that they really felt they had a pretty good handle on that and that they were making money on parcel, which would indicate they seem to be allocating cost properly.

Mr. WEICHERT. I think making money and making enough money to meet that whole test of the self-sufficiency is the question, and as you know, if you do not actually factor in a cross-subsidy into your overall pricing model, then you can be in a situation where you have a declining part of your business that you feel you need to keep and, in this case, legally have to keep. But if you are not allocating the cost from that part of the business to the other part of the business, you are actually not at the macro level covering your cost.

Chairman JOHNSON. In our little sheet here, over 10 years, the way we figured out what operating income was, it is a 0.4 percent return on sales, which is completely inadequate for—no investor invests in a business that way.

Mr. WEICHERT. Well, nor would anyone, I am looking at a letter that I received from the Postal Service, came to OPM in September, that basically said if we were to pay OPM what was owed on September 30 for last fiscal year, our remaining liquidity reserves would only amount to about 23 days of operating expenses. So not only do they not have what you said, but also, just from a prudent reserve standpoint, even for a not-for-profit, that is not sufficient prudent reserves.

On a marginal cost basis, we may have a handle on our costs, but if we do not understand our semi-variable cost and our fixed cost for the whole enterprise and are not allocating to that, where the cost and the liability is and where the revenue is are not the same place.

Chairman JOHNSON. Again, my recommendation is do not be holding your breath, to getting those liabilities paid off.

Let us talk about that because that is, as I said earlier, the 800-pound gorilla.

Mr. Williams was talking about the fact—and this may be true—that the Postal system really as an entity has done a pretty good job at funding its overall pension liability. They still have unfunded, but overall, they have done a pretty good job. Can you comment on that?

Mr. WEICHERT. I cannot comment on—I have not done an extensive study about how the Postal system pension funding compares to either the private sector or every other entity.

I think the thing that is really different is the Postal has an obligation that the rest of government does not have to be self-sustaining. So all of the other parts of our government are, straight up, expected, transparently, to be funded through appropriations or other mechanisms that the folks who hold the purse here in Congress have established for us. Congress established for the Postal Service the notion of fully funding liabilities, and we know a number of private-sector companies, to the extent they have gotten it wrong, end up in real trouble and then looking to the American taxpayer for a bailout.

Chairman JOHNSON. What happens in the private sector is they go through a reorganization under the protection of bankruptcy.

Mr. WEICHERT. Chapter 11, yes.

Chairman JOHNSON. Where a judge who is experienced in this can take a look at contracts and union contracts and that type of thing——

Mr. WEICHERT. Yes. This entity would have gone there a long time ago.

Chairman JOHNSON [continuing]. And modify them to make sure that at the tail end of that process, you can come out as a viable economic entity——

Mr. WEICHERT. Correct.

Chairman JOHNSON [continuing]. Which, of course, the Postal system does not have that remedy available to them.

Mr. WEICHERT. Right.

Chairman JOHNSON. But Congress said, "We are going to set you free, and you have to fund your pension and health care liabilities yourself."

Mr. WEICHERT. Right.

Chairman JOHNSON. Anybody looking at the financial systems or financial statements back then would realize, well, they are not going to be able to do that, correct?

Mr. WEICHERT. Right.

Chairman JOHNSON. So you talked about restructuring these liabilities. You said we have to reform; we have to do certain reforms. What reforms? What are you suggesting here? What do we need to do in order to fund that excess liability or unfunded liability?

Mr. WEICHERT. I think we need to look at the structural reforms on all of the dimensions that I mentioned in my opening statement.

In terms of the operations, the actual cost drivers have to be looked at. So we do have to look at elements of days of service. We need to look at exactly how we structure the last mile. Does it all have to go to individual locations? There is already flexibility to deliver to hubs and other more centralized capabilities.

Chairman JOHNSON. In other words, they cannot be as they are right now, basically in a break-even footing. They actually have to be looking at themselves as what you would have to do in the private sector. You have to make a certain return on sales to fund all those things, correct?

Mr. WEICHERT. I characterized it as prudent reserves. So even a not-for-profit is not seeking to bank money to return to shareholders, but they maintain prudent reserves so that they are not using OPM and the rest of government as a line of credit, which is what they are doing today.

Chairman JOHNSON. Again, coming from the private sector, would not you be taking a look at this and go, OK, on $724 billion of sales over 10 years, I need to make a 10 percent return on that, operationally?

Mr. WEICHERT. Yes.

Chairman JOHNSON. I have to be making $72 billion, and that will fund X, Y, and Z. So then you take a look at your costs. Can I raise prices?

Mr. WEICHERT. Right.

Chairman JOHNSON. There is going to be a certain price elasticity. Sitting down and talking to the task force, they have a lot of those elasticities.

Mr. WEICHERT. Right

Chairman JOHNSON. I mean, they have really detailed models to——

Mr. WEICHERT. Right.

Chairman JOHNSON [continuing]. Take a look at it if we go up 10 percent, 20 percent, 5 percent, what that would do in terms of volume. That is what we have to do, right?

Mr. WEICHERT. Right. It involves even looking at how do you free up capital in order to invest in technology that will get you on a better future footing, and that is another critical element. Technology enhancement could help get them on a sustainable footing, but they would actually need capital to do that.

Chairman JOHNSON. If the Postal system really were a private-sector company with a Chief Executive Officer (CEO) and Board of Directors, they would be looking at this and go, "What do we need to do to get this rate of return on sales, so we can fund the capex? We need to be sustainable long term"?

Mr. WEICHERT. Right. And that is why—yes.

Chairman JOHNSON. But when you have a 535-member Board of Directors——

Mr. WEICHERT. Right.

Chairman JOHNSON [continuing]. That becomes——

Mr. WEICHERT. So pricing is another one of the things that absolutely needs to be looked at.

Chairman JOHNSON. We have to first allocate cost properly.

Mr. WEICHERT. Allocate cost, get a cost model that works.

Chairman JOHNSON. So you can look at pricing. Understand the price elasticity of your products.

Mr. WEICHERT. And then the operating opportunities to lower your expense base to meet your current revenues, but I think the third thing is pricing flexibilities that would actually allow you to look at places where there is that inelasticity.

And then I think the other really important one is new revenue models, and I think there was a lot of good discussion about new revenue models should be possible without requiring fundamentally orthogonal capabilities, and so I would look—and I think the task force was looking—at what are models that would use capabilities you already have today, including the passport services we provide to State. There is a lot of things that other entities provide on behalf of other administrative entities. That would be a real opportunity.

I think there are a whole lot of other things. That if you looked at a revenue per-square-foot model, which is what a lot of retailers would do, you would figure out how do I get more revenue, even without having to provide the service myself.

Chairman JOHNSON. My concern is competing with the private sector and looking at that as the machine of the gods. I mean, this is the salvation for the Postal system. We can get in these other lines of business and just magically have those things solve this entire problem.

I am really concerned that that is what people take a look at, and it is just another one of these projections. Based on these projections, we solve the problem, and we end up not doing the fundamental reforms——

Mr. WEICHERT. Fundamental reforms.

Chairman JOHNSON [continuing]. That you have to with an entity that in the private sector would be going through, again, that reorganization under the bankruptcy process, which is very powerful.

Mr. WEICHERT. Yes.

Chairman JOHNSON. It gives an organization the best chance of coming out the other end viable.

Mr. WEICHERT. Yes, absolutely agreed. I think that is why that new revenue models was sort of at the bottom of that list. You have to do that form operations component, the cost modeling, and then the pricing changes. Those are the most fundamental structural changes.

If you want to sell these things in the front of the store and have someone else bringing that in—I am not saying that is the right answer. I have not evaluated that.

Chairman JOHNSON. No, I understand.

Mr. WEICHERT. But that is how a lot of retailers look for new opportunities to get money out of their retail footprint.

Chairman JOHNSON. Right.

Well, again, the bottom line is you have to bring a private-sector mindset to this in terms of cost allocations so you know where to price the efficient use of what assets you have. That is what we need to do.

I have pretty well gone through the list of questions I had. Do you have anything else other than your testimony that you just have a burning desire to comment on?

Mr. WEICHERT. No. I thank you for the opportunity. I think this was a very productive conversation. I listened intently to the earlier panel, and I imagine there will be a lot more opportunity for dialogue. I appreciate the opportunity, and I think this is precisely the kind of thing the Administration was hoping to catalyze with the Government Reform and Reorganization Plan, is to put ideas out there, get people to drill down on them, get a fact base, get an evidence base, and then actually have discussions about what is the path forward.

So I thank you very much for this opportunity.

Chairman JOHNSON. Well, again, I thank you for taking the time, being patient with us.

One of the parts of our mission statement of this Committee is to promote more efficient and effective government, and we have somebody with your private-sector background and your experience. And we get to pay you one salary and have you do two jobs. [Laughter.]

It does not get more efficient than that.

Again, we certainly appreciate all that you do.

This hearing record will remain open for 15 days until March 27 at 5 p.m. for the submission of statements and questions for the record.

This hearing is adjourned.

Mr. WEICHERT. Thank you.

[Whereupon, at 5:34 p.m., the Committee was adjourned.]

APPENDIX

Opening Statement of Chairman Ron Johnson
"A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service"
March 12, 2019

Since becoming Chairman of this Committee, I have worked to gather information and define problems before advancing solutions. The financial crisis facing the United States Postal Service is a vexing one, and one that few truly understand. In 2018, the Postal Service reported its twelfth consecutive annual loss of $3.9 billion. To preserve liquidity, leadership chose to default on legally required payments for future liabilities. As a result, and in spite of the losses, the Postal Service has been able to add $8.9 billion to its cash on hand since 2009.

Last year, the President issued an Executive Order establishing the Task Force on the United States Postal System. The Task Force was co-chaired by the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Director of the Office of Personnel Management. They were charged with a critical assignment: to study how to return the United States Postal Service to a sustainable business model so that it can continue to carry out its mission to deliver service to all Americans.

The Task Force examined past financial records and future projections; studied independent literature reviews about postal business trends (including work from the Government Accountability Office and the Postal Service Office of the Inspector General); consulted with other federal agencies as well as local, state, and tribal governments; and met with a wide variety of stakeholders, including postal employee groups, commercial mailers, and Postal Service suppliers and competitors. The Task Force issued its report on December 4, 2018.

The Task Force conducted a robust and thorough review. Although its findings show the Post Office is facing serious and multi-faceted financial difficulties, it also identifies opportunities for the Postal Service to return to a more sustainable business model if its leadership and Congress have the will to act.

Our witnesses today include representatives from the Task Force and from the entities whose job it will be to take actions to turn the Postal Service around. We will hear from Margaret Weichert, the Deputy Director for Management at the Office of Management and Budget and the Acting Director of the Office of Personnel Management. We will also hear from Gary Grippo, the Deputy Assistant Secretary for Public Finance at the Department of Treasury, Robert Taub, the Chairman of the Postal Regulatory Commission - the entity responsible for regulating Postal Service rates and service – and David Williams, the Vice Chairman of the Postal Service Board of Governors. I am grateful to Secretary Mnuchin and the entire staff and leadership teams who worked on the Task Force. I am also grateful to our witnesses for being here today.

We are facing a critical time at the Postal Service. Without action, it will run out of money by 2020 if it makes all legally required retirement liability payments, or by 2024 if it continues to default on these payments. But we cannot hope to solve a problem that we do not fully understand. It is my hope that today's hearing helps shed light on the root causes of the Postal Service's poor financial condition and can help shape the actions that the administration and Congress take to address it.

OPENING STATEMENT OF SEN. PETERS
HSGAC HEARING - MARCH 12, 2019

Thank you, Chairman Johnson and Senator Carper. I am looking forward to partnering with you this Congress on addressing the Postal Service's financial challenges.

The Postal Service plays a vital role in our society and our economy by connecting every community, business, and household across the country.

The Postal Service has a public service mission to serve all Americans, regardless of where they live, providing equal service to people in rural, suburban, and urban communities.

The Postal Service's reach is unmatched in government or the private sector and it employs more than 634,000 hardworking people to fulfill its mission of universal service.

About one out of every six of these employees are veterans, who are now committed to serving their hometown communities after serving their nation in the armed forces.

I highlighted the important role veterans play in the Postal Service when I introduced a bipartisan resolution with Senator Moran last week.
This resolution recognizes the Postal Service's unique role and opposes any potential privatization of this vital institution.

No one disputes that the Postal Service is in an unsustainable financial condition. And we know what factors have exacerbated these challenges: the burdensome requirement to prefund retiree health benefits, the Great Recession and changes in technology that have led to declining mail volumes.

Congress has been working for some time on solutions that are bipartisan, evidence-based and have support from stakeholders across the postal community.

I cannot say the same about the Task Force's proposals, especially since we have not yet seen all the evidence behind them.

The Postal Service is a public entity with a public mission. It has an obligation to provide universal service, and this must remain at the heart of its business model.

Congress must prioritize the postal customer and get the Postal Service back on track as soon as possible.

Statement of Senator Carper
A PATH TO SUSTAINABILITY:
RECOMMENDATIONS FROM THE PRESIDENT'S TASK FORCE ON THE UNITED STATES POSTAL SERVICE
Tuesday, March 12, 2019

Thank you, Mr. Chairman. I am happy to be pinch hitting today for the first part of this hearing today until our Ranking Member is able to join us. Especially as we discuss one of my favorite subjects – the U.S. Postal Service.

Mr. Chairman, I want to thank you for having this hearing to discuss the recommendations made by the President's Postal Service Task Force. I also want to thank our witnesses for coming today to discuss the unique challenges – and opportunities – facing the Postal Service.

For the last few years, the all-too-common headline regarding the Postal Service has been that it is in a financial crisis. I believe that is, in large part, sue to Congress' failure to act on significant legislative reforms that the Postal Service desperately needs to operate. It is also partially due to the Senate's failure to confirm nominees to serve on the Postal Board of Governors in a timely fashion.

One of my top goals since I joined this Committee has been to address these challenges and give the Postal Service the tools it needs to improve service and thrive in the 21st Century. The Postal Service operates at the center of a $1.4 trillion mailing industry that employs 7.5 million people across our country – accounting for six percent of our nation's jobs. The Postal Service is a cornerstone of our economy. Companies large and small, urban and rural, and in every line of business depend on the Postal Service and its one-of-a-kind retail, processing, and delivery network.

Today, we are at a crossroads. There are real questions about what the future holds for the Postal Service. I have some significant concerns with this report, particularly given the fact that our staff was told last week by representatives from the Treasury Department that the task force did no "quantitative analysis" on its recommendations to reform the Postal Service's business model.

Let's think about that for a second.

Doing quantitative analysis means collecting and assessing hard data in order to evaluate a business' performance or model. But now, we've learned that a task force charged with overhauling the Postal Service's business model did not, in fact, conduct the data-driven analysis that would be required to provide sound recommendations on this agency's financial outlook.

I received my MBA from the University of Delaware, and I started my career in politics as Delaware's State Treasurer. That just doesn't add up. That said, I think the report outlines a key notion that everyone can agree on: The United States Postal Service is an essential lynch pin to our economy, and it must evolve. The question is how.

Despite having finished 2018 with cash on hand, which was due largely to a now-expired temporary rate increase, the Postal Service continues to report billions of dollars in losses, and its debt exceeds its revenue. The Postal Service has maxed out its $15 billion line of credit with the Treasury Department. This left postal management with no choice but to continue to default on health care and pension payments. According to the Treasury Department, this puts the Postal Service at more than $60 billion dollars in the hole.

Complicating matters, the Postal Service only has two sitting governors on its board, who alone are charged with overseeing operations, approving major business decisions, and holding senior management accountable. At a time when the Postal Service is in such desperate need of oversight and direction – and fresh thinking – it is irresponsible for Congress to not act.

This report has some very sound points. Here are the ones that stand out:

- The Postal Service should be self-sustaining.
- The Postal Service should not be privatized.
- The Postal Service is still needed for rural America.
- And, finally, the Postal Service business model must be reformed.

But those points are just that – a series of bullet points in this report. Unfortunately, this report is nothing close to a real business plan. This report was long overdue, but it is not what so many members hoped would be a "silver bullet." This is especially concerning given the need to stabilize the Postal Service ***now***.

I have consistently been working on bipartisan reforms with the Postal Service and stakeholders, as has House Oversight and Reform Chairman Elijah Cummings and his colleague Congressman Mark Meadows. But time is running out to protect the ratepayers from losing an essential service. We no longer have the luxury of kicking this can even further down the road.

The Postal Service is as big as a Fortune 500 company in both size and scope. But let's be clear – it is not a business. It is a government agency with federal mandates on pay, benefits, and service that must be taken into account.

I hope the discussion today will provide members an opportunity to better understand the opportunities and challenges of the Postal Service and help begin the process of addressing reform quickly this year.

We must help the Postal Service move in a more thoughtful direction and develop new ways to ensure that the Postal Service remains relevant in this digital age.

Again, thank you to our witnesses. I look forward to hearing from you.

BOARD OF GOVERNORS

STATEMENT OF
THE HONORABLE DAVID C. WILLIAMS, VICE CHAIRMAN,
U.S. POSTAL SERVICE BOARD OF GOVERNORS
before the
Senate Homeland Security and Governmental Affairs Committee Hearing
"A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service"
UNITED STATES SENATE
Tuesday, March 12, 2019

Mr. Chairman, Senator Peters, members of the Committee, during the tenure of the Task Force, their staff met with Postal Governors several times to discuss their ongoing progress. The effort, though very fast, was well done. The task force held an impressive number of stakeholder interviews and conducted complex analyses. The work produced an econometric model that incorporates savings and revenue opportunities, featuring a sophisticated monetizing tool.

The Task Force recommendations represent an aggressive attempt to provide viable options and incorporate the voices of our stakeholders and even competitors, who urged a major increase in parcel delivery prices. However, I believe the role of a public infrastructure is not to maximize profit, but to maximize value to our American supply chains and to citizens, especially those in rural and underserved urban areas. High shipping prices steal value from American supply chains, all the way from producers' assembly lines, to the wallets of American citizens.

Also, reflecting our competitors' voices, the report called for the Postal Service to use a 100% cost attribution model. The PRC and the Federal Appellate Courts have joined leading economists for the last 50 years in dismissing that discredited economic theory. So here we must exercise caution, also to avoid overcharging customers. Private shipping companies find value in using cost attribution models to weed out unprofitable customers. In contrast, we deliver to each American doorway. Forcing the Postal Service to use a dissimilar industry's playbook would simply shelter private shipping companies from being subject to efficient market forces.

The report introduced some important fresh new ideas. The study suggested that "Essential" mail prices should be reclassified and low priced, and were distinguished from market priced mail used in normal commerce. The report recommended that we explore new business lines to provide revenue to support the USO, as is done in most other world posts. There is a strong Congressional demand for our Post Office network, which could be met in this manner.

The Task Force called for an OPM recalculation of our historically overstated retiree health benefit fund liability, finally enabling accurate billing for us. The recent introduction of Postal specific assumptions alone lowered the pension liability by approximately $15 billion.

Any recalculation should closely review OPM's liability assumptions. Recent interest rates have been held at artificially low levels to stimulate the economy. If discount rates were assumed to be just 1 ½% higher, our pension funds in aggregate would be fully funded, and our RHB liability would decline by approximately $23 billion. Health care estimates are also notoriously impossible to estimate.

I would also recommend that we look at our current fund investment vehicle. Our retirement funds were handed over to the Treasury to manage, with no representative named to speak for Postal retiree interests. The Treasury immediately borrowed the entire $335 billion, at rates that are killing the fund. Had the funds been invested, even with the government's conservative TSP blue chip retirement plan, the accounts would now be fully funded.

I do believe that the Task Forces' effort to identify cost savings and revenue enhancing measures were sincere. Understandably, a substantial number of saving options were not identified, during the brief review. As a more complete list of options are integrated into the model, more solutions begin to appear that are less disruptive for our customers, America's supply chains and for our employees.

The Postal Service also has much to do to remain modern and efficient. We need to review a number of programs and actions to include;

-Pricing simplification
-Discounts management,
-The middle-mile sorting and transportation network,
-Next generation neighborhood delivery vehicles
-Store to door delivery,
-Intelligent mail boxes and postage,
-Post office delivery tower alternatives, that unlike mailboxes, could perhaps be securely shared with private delivery companies, and
-Post Office services that expand citizen access to government.

All of the proposals must be aligned with the Postal Service's mission of binding the nation through universal service to Americans, giving them level playing-field access to other Americans and to the world, providing affordable prices, providing reasonable access and timely delivery, while respecting the sanctity of mail.

I thank the Task Force. It now falls to us to consider their sophisticated econometric model and fresh ideas for our emerging business plan. I believe moderate adjustments to our numerous savings and revenue opportunities will enable the Postal Service to serve the current and emergent needs of American enterprise and citizens.

Testimony of

Robert G. Taub

Chairman

Postal Regulatory Commission

Before the

U.S. Senate Committee on Homeland Security and

Governmental Affairs

March 12, 2019

Introduction

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

Background

The Commission is an independent federal agency that is responsible for ensuring transparency and accountability of the U.S. Postal Service's $71 billion operations and finances.

As a separate and independent federal regulatory agency, the Commission determines the legality of the Postal Service's prices and products, adjudicates complaints and fair competition issues, and oversees the Postal Service's delivery performance consistent with statutory requirements. Its mission is to ensure transparency and accountability of the Postal Service and foster a vital and efficient universal mail system. The Commission is composed of five Commissioners, each appointed by the President and confirmed by the Senate.

The Commission carries out this work with a very small budget and staff. Its current year appropriation is $15.2 million, roughly 1/50th of 1 percent of the Postal Service's expenses. Commission funding comes entirely from the off-budget, permanently appropriated, Postal Service Fund, which is wholly comprised of ratepayer--not taxpayer--funds.

Task Force

In April of 2018, President Trump issued an executive order establishing the Task Force on the United States Postal System. To quote from the President's order, "The USPS is on an unsustainable financial path and must be restructured to prevent a taxpayer-funded bailout…" The order goes on to list a series of facts that support that claim, and further states that, "It shall be the policy of [the Trump] Administration that the United States postal system operate under a sustainable business model to provide necessary mail services to citizens and businesses, and to compete fairly in commercial markets." I fully agree.

The Postal Service faces significant financial obstacles for the future. Since FY 2008, the volume of Market Dominant mail has annually decreased, declining from 210.6 billion pieces to 140.7 billion pieces – **a 33 percent drop**. Years of net losses have resulted in Postal Service total liabilities exceeding total assets by $63 billion. With its growing liability for retiree health benefits, the inability to finance needed capital investments, and the continued loss of high-revenue First-Class Mail volume, the important task of improving the financial condition of the Postal Service is daunting. The attached document entitled *Preliminary Overview of U.S. Postal Service Finances for FY 2018* provides much greater detail, and is based upon financial results the Postal Service files quarterly with the Commission.

The fundamental problem is that the Postal Service cannot currently generate sufficient funds to cover its mandated expenses and also invest in critically deferred capital needs.

The President's Task Force brought together agency heads from the Department of Treasury, the Office of Management and Budget, and the Office of Personnel Management. The executive order establishing the Task Force directed that I be consulted with as Chairman of the Commission.

My invitation to today's hearing noted that many of the Task Force report recommendations pertain directly to the work of the Commission, including a recommendation that the Commission's role as regulator be strengthened. I was asked to focus my comments on the report's findings and recommendations, particularly those related to the Commission's obligations and its mission to foster a vital and efficient universal mail system, as well as on how the Commission might implement these recommendations and the potential impact of these recommendations on the Postal Service and its customers.

As always, the Commission stands ready to assist with whatever Congress may ask or require of us. However, as I mentioned, the Commission operates on a very lean budget. Already, under current funding, the Commission faces challenges meeting its demands. Should Congress seek to expand the Commission's authority, additional resources will be required. This point is significant, as our current funding model left the Postal Service without a regulator during the recent government shutdown.

Commission's Budget Process

For 38 years since its creation in 1970, the Commission requested and received its funding directly from the Postal Service out of the Postal Service Fund. Funding requests were deemed approved by the Postal Service's President-appointed-Senate-confirmed Governors unless adjusted by their unanimous written decision.

Passage of the Postal Accountability and Enhancement Act of 2006 (PAEA) transferred the Commission into the annual appropriations process. Congressional intent was to ensure the financial independence of the newly modified agency from the Postal Service. Despite now being part of the appropriations process, the Commission's budget continues to come solely from the off-budget Postal Service Fund.

While the theory behind transferring the Commission into the appropriations process was reasonable, the government shutdowns in 2013 and 2019 shuttered the Commission while the Postal Service remained open. This is a serious problem, impeding the Commission's critical postal oversight on behalf of the American public and directly impacting sorely needed Postal Service revenues. I therefore ask that Congress consider reverting the Commission's budget process to the 1970 language. Given that the Task Force recommends an enhanced regulator, I wanted to take the opportunity to highlight the Commission's funding dilemma.

Task Force Recommendations

Having not served directly on the Task Force, my remarks reflect Commission staff's best interpretation of the recommendations, and what actions we believe to be within the Commission's authority. My fellow witnesses representing the Task Force members may be able to further elaborate on the intent of the recommendations. Moreover, of course, any action taken by the Commission would require a majority vote of the Commissioners in office.

With respect to the Task Force recommendations, there are many legitimate suggestions provided in the Task Force report, and working with the Treasury Department and the Postal Service, we intend to further explore them where administratively possible. However, one of them in particular stands out to me and is consistent with the Commission's recommendations made to Congress in the past. I believe that the single most important thing that can be done for the Postal Service and the United States is to clearly define the Postal Service's Universal Service Obligation, or USO. Only by defining the USO clearly can we begin to design a system that will fund the services required. It is our Nation's mission statement for the Postal Service.

Task Force Recommendations Related to the Universal Service Obligation

The Task Force made six administrative recommendations related to the USO. I will discuss three of them in my statement. One was the recommendation that the USO be clearly defined. To understand what changes may be necessary to the USO to pursue the policies expressed by this Administration and the Task Force's recommendations, it is important to first understand how the USO is currently defined.

The Commission has significant experience exploring the question of the USO. The PAEA directed the Commission to annually estimate the costs of universal service and to submit to the President and Congress a comprehensive report[1] on universal postal service and the postal monopoly in the United States.[2] In the resulting 2008 USO report, the Commission determined that the USO has seven attributes: geography,

[1] Postal Regulatory Commission. Report on the Universal Postal Obligation and the Postal Monopoly. December 19, 2008.

[2] The Postal Accountability and Enhancement Act of 2006, 120 Stat. 3198, sec. 702.

range of products, access to facilities, delivery frequency, prices/affordability, quality of service, and users' rights (or enforcement).

Other nations have imposed universal service requirements directly on their postal operator by statute, regulation, licensing, or contract. Countries like Australia, Canada, and Germany – just to name a few – have a detailed definition of universal postal service, with specific standards for delivery and retail access. Unlike other countries, the USO within the United States is largely undefined and instead is comprised of a broad set of policy statements with only a few legislative proscriptions. Aside from the annual appropriations mandate for the past 36 years to provide 6 days of delivery, Congress has rarely established rigid, numerical standards of minimally acceptable service for any of the attributes identified by the Commission. Absent a specifically defined USO, the Postal Service has been expected to determine and meet the needs and expectations of the Nation on its own, while balancing the delivery of service against budgetary constraints.

In the absence of a clear definition of the USO, particularly given the Postal Service's current financial challenges, each of us may have a different view of what services and operations the Postal Service must provide to fulfill the USO, and all of our views will have different price tags. The Commission recommended in its 2008 report "that Congress consider and balance all the features of universal service as part of any review of changes necessary to preserve a financially viable Postal Service".

The Commission is required in its *Annual Report to the President and Congress* (Annual Report) to estimate the costs incurred by the Postal Service for three types of public services or USO activities: postal services to areas of the Nation the Postal Service would not otherwise serve; free or reduced rates for postal services as required by Title 39; and other public services or activities the Postal Service would not otherwise provide but for legal requirements. In the *Annual Report* issued in January 2018, the Commission estimated that the total cost of providing services for these three categories is $4.53 billion.

As part of the financial pressure of generating sufficient funds to remain solvent, the Postal Service must consider how to fund this $4.53 billion cost in universal service obligations. These obligations increase the amount of money required to undertake capital investments, and pay other multibillion dollar obligations such as retiree health and other benefit related costs.

As part of the recommendation to clearly define the USO, the Task Force stated "*Provide a targeted definition of minimum, essential postal services, that due to specific social and economic needs have a basis for government protection*." The Commission has the existing administrative authority to review and approve specific product eliminations, transfers, and introductions requested by the Postal Service within the context of the USO. In considering such requests, the Commission would give due regard to the following statutory factors in its determination: the availability and nature of private sector enterprises engaged in delivery of the product involved; the views of those who use the product on the appropriateness of the proposed action; and the likely impact of the proposed action on small business concerns.

Additionally, the Commission would evaluate any proposed changes to postal product offerings for consistency with the other overarching policies of Title 39, including the foundational tenets of universal service set forth in 39 U.S.C. § 101 and prohibition on undue discrimination between mail users under 39 U.S.C. § 403. It is important to note that the Postal Service, any user of the mails, or the Commission on its own initiative may request (or, in the Commission's case, begin) a proceeding under section 3642 to modify the product lists. Such a proceeding would evaluate those criteria set forth in section 3642 as discussed above.

A related USO Task Force recommendation was to "*Establish a rule that specifies that access to the postal system must only be sufficient to implement defined USO standards for delivery.*" The Task Force notes that the Postal Service should have flexibility to determine the number of access points (post offices, retail facilities, and collection boxes) as long as these meet the defined USO standard of delivery and are compatible with financial sustainability.

The Commission's 2008 USO Report sets forth that the access component of the USO is flexible to meet articulated policy goals, stating that the Postal Service "enjoys considerable discretion to determine the nature and location of postal facilities by which access will be provided." However, the report goes on to state that this discretion is curtailed by the statute in meaningful ways, such as the preclusion of closing a small post office solely because it operates at a deficit, the prohibition on unreasonable discrimination or undue preference, and preclusions in annual appropriations acts for closing specific facilities.

The Postal Service could administratively make significant changes to its retail and collection box network absent legislative change, and has done so in recent history (*See, e.g.,* Docket No. N009-1, Advisory Opinion Concerning the Process for Evaluating

Closings Stations and Branches, March 10, 2010; Docket No. N2011-1, Advisory Opinion on Retail Access Optimization Initiative, December 23, 2011; Docket No. N2012-1, Advisory Opinion on Mail Processing Network Rationalization Service Changes, September 28, 2012).

If the Postal Service were to begin a new initiative relating to its post office network on a nationwide basis, the Commission's administrative oversight role in such an initiative would be two-fold. If a proposal were to, at minimum, change postal services on a substantially nationwide scope, then prior to implementation the Postal Service would need to seek an advisory (non-binding) opinion from the Commission on whether the proposal was consistent with the policies of title 39 USC 3661. The Commission would issue its Opinion after the opportunity for a hearing on the record. After any proposed changes were implemented, the Commission also has jurisdiction to review appeals of post office closings or consolidations and may set aside the Postal Service determination to close or consolidate a post office if found to be arbitrary and capricious, made without observance of proper legal procedure, or unsupported by substantial evidence of the record. When the Postal Service begins the process of closing or consolidating a post office, it is required by statute to consider the effect on the community and on postal employees caused by the proposed closing or consolidation, as well as whether the action would be consistent with the policies of effective and regular postal services set forth in the PAEA.

Other Postal Service initiatives, such as the realignment of collection boxes, or mail processing facilities, if done in such a way as to constitute at minimum a substantially nationwide change in the nature of postal services, would also require an advisory opinion from the Commission. *See* 39 USC § 3661. In any of those instances, however, the Postal Service maintains broad discretion to adjust its network.

Another Task Force recommendation related to the USO was to "*Maintain current discretion to determine mode of delivery consistent with a financially sustainable business model.*" The Postal Service currently has flexibility to determine which mode of delivery optimizes a financially sustainable business model. The Task Force emphasizes that it should make the procedures and requirements for delivery modes transparent and public. The Postal Service has the ability to promulgate rules and standards that could provide transparent criteria by which mode of delivery is determined.

The Commission's role in implementing this type of Postal Service request would again be two-fold. In the case of a migration from one delivery mode to another for existing postal customers on at least a substantially nationwide basis, the Commission would prospectively offer an advisory opinion pursuant to 39 USC 3661 on whether the proposed change comports with the policies of title 39.

Additionally, the Commission may also review the effect of such implementation retrospectively, through the Commission's complaint process, to ensure the Postal Service does not exercise its discretion in an unduly discriminatory manner, or inconsistent with other tenets of title 39.

Other Task Force Recommendations

The Task Force made several recommendations regarding mail and package markets. The majority of these recommendations would require new administrative action by the Postal Service and the Commission. However, the Commission has already done substantial work regarding the Task Force's recommendations to: "*Develop a new model that can be used to both set rates and control costs to achieve sustainability*" and "*Require price increases, reduce service costs, or exit the business for any mail products that are not deemed an essential service and do not cover their direct costs.*"

With regards to those recommendations, the Commission recently issued its findings related to the system for regulating rates and classes first established in 2006 by the PAEA. The Commission determined that, 10 years after the passage of the PAEA, while some of the aspects of the prior system worked as planned, overall, the ratemaking system had not achieved the objectives of the PAEA.

As a result of these findings, the Commission is currently in the process of promulgating rules to modify existing regulations or adopt an alternative system that the Commission believes will achieve the objectives of 3622.

Conclusion

The Postal Service is the one government agency that touches every American on a daily basis; it is an organization that literally serves 159 million American households and businesses on a typical day. It facilitates trillions of dollars in commerce. It is a significant driver of the Nation's economic engine and an essential piece of its infrastructure.

Throughout its nearly 244-year history, the Postal Service has endured multiple economic recessions and a Great Depression. It has dealt with numerous disasters, which have interfered with mail delivery and strained the infrastructure. It has responded to these immense challenges by adapting, often despite predictions of failure or even its demise in the face of competition from new technologies.

With the inherent and underlying strength of the system, today's Postal Service can survive these challenges too. The fundamental problem is that the Postal Service cannot currently generate sufficient funds to cover its mandated expenses and also invest in critically deferred capital needs. Issuance of the Task Force report was an effort to address the financial dilemma problem, and help key stakeholders find a path forward.

I commend committee leadership for holding today's hearing. On behalf of the Commission and its hard working staff, thank you for the opportunity to testify today. I am happy to answer any questions.

Postal Regulatory Commission

Preliminary
Overview of U.S. Postal Service Finances for FY 2018

March 12, 2019

Commission Focus on Postal Service Financing

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

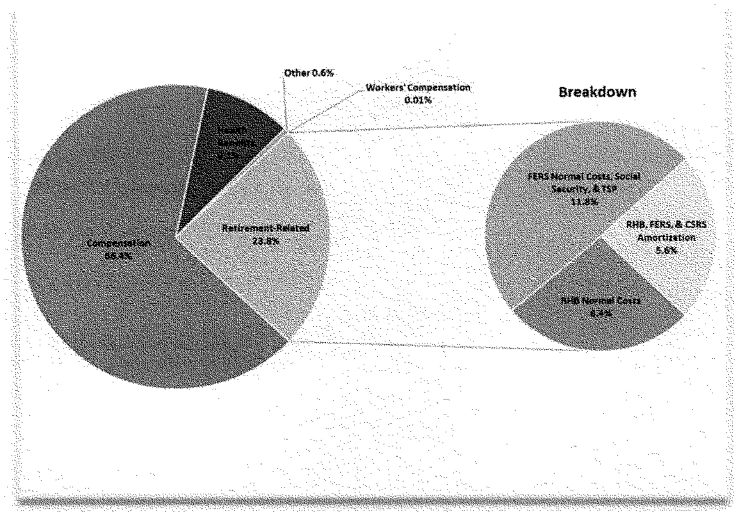
This year, the Commission will publish its sixth annual *Financial Analysis* report. The report not only reviews the overall financial position of the Postal Service, but also analyzes volumes, revenues, and costs of both Market Dominant and Competitive products. The Postal Service's financial position is analyzed in terms of profitability, solvency, activity, and stability using accounting ratios. Although the Commission is still preparing this year's report, I would like to highlight several preliminary observations and conclusions that may be drawn at this time. These preliminary observations and conclusions are subject to revision, with final observations and conclusions appearing in this year's *Financial Analysis* report expected to be issued in April.

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

In FY 2018, the Postal Service had a total net loss of $3.9 billion, which is a $1.2 billion deterioration from FY 2017. This decade of consecutive net losses posted since FY 2007 has increased the net deficit to $62.6 billion. These continuing losses have significantly affected the financial position of the Postal Service by negatively affecting liquidity, requiring the Postal Service to use $13.2 billion of its $15 billion statutory borrowing capacity, and causing total net liabilities to far exceed total net assets.

In FY 2018, total revenue increased by $1.1 billion. Market Dominant revenue decreased by $1.3 billion while Competitive products revenue increased by $2.4 billion. Competitive product volumes continued to increase significantly in FY 2018, growing 11 percent over last year. This higher volume coupled with a Competitive product price increase (effective January 21, 2018) contributed to the increase in total revenue. Total Market Dominant revenue declined 2.6 percent from the prior year. CPI based price increases were not enough to offset declining volumes and higher operating expenses primarily driven by increases in compensation and benefits and transportation costs. Total expenses increased 3.1 percent or $2.2 billion in FY 2018. This increase is largely a result of higher overall compensation and benefits costs of $1.2 billion and an increase in transportation expense of $0.6 billion. Compensation and benefits costs as a percent of total expenses remained almost the same as in the prior year at 76.4 percent. Compensation accounts for the largest portion of personnel expenses, representing 66.4 percent of total personnel costs. Retirement benefits are the next largest component of total personnel expenses at 23.8 percent. Retirement benefits are comprised of amortization of unfunded retirement liabilities and employer contributions to the Federal Employee Retirement System (FERS), the Postal Service Retiree Health Benefits Fund (PSRHBF), Thrift Savings Plan (TSP) and Social Security. Employer contributions to the FERS employees current year service account for 11.8 percent of total retirement related expenses.

Percentage Breakdown of Total Personnel Expenses, FY 2018



An increase in contractual pay and workhours increased compensation expenses by $0.8 billion. Retirement expenses also increased consistent with increases in contractual pay. Other benefits costs such as the normal costs for retiree health benefits and workers' compensation costs also contributed to the increase in compensation and benefits. The significantly lower pharmaceutical compounding costs[3] and discount rates during FY 2017 were not repeated at the same level in FY 2018, resulting in an increase of $0.8 billion in workers' compensation expense. Transportation expenses increased by $0.6 billion in FY 2018. Further data on personnel related costs are detailed later in this testimony.

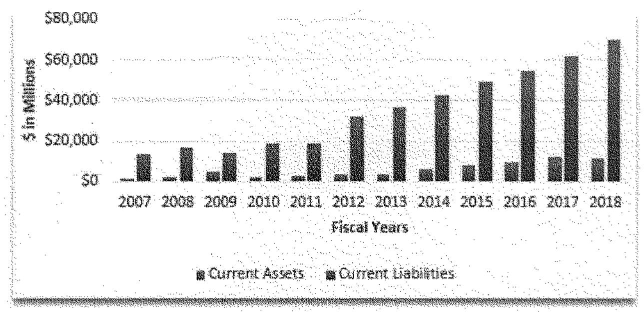
In the face of financial losses, since FY 2007, the Postal Service has reduced the size of its workforce by about 187,000 career employees, cut labor related costs, and increased its productivity. Today the Postal Service delivers roughly the same volume of

[3] In 2016, the Department of Labor (DOL) issued new rules for pharmaceutical compounding and for the year ended September 30, 2017, the Postal Service recorded a $549 million decrease from the prior year.

mail that it delivered in 1986, but with almost 160,000 fewer total employees. Yet even with these sizeable reductions, the Postal Service does not have the cash to pay down all of its debt or fully invest much needed capital in its operations.

The significant gap between the Postal Service's net current assets and net current liabilities is of particular concern. The Commission finds that despite an improvement in liquidity during FY 2018, current assets, consisting mostly of cash and cash equivalents, continue to be insufficient to meet the payment of current liabilities.

Postal Service Current Assets and Current Liabilities

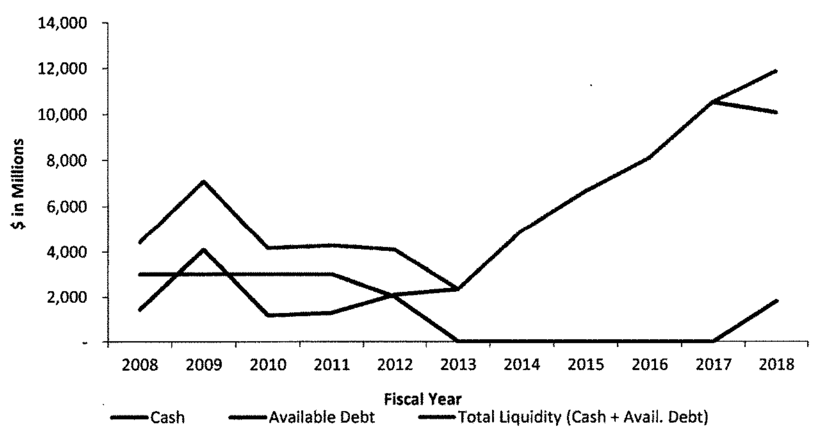


In FY 2018, total current liquid assets decreased by $0.5 billion from FY 2017 and the amount of current liabilities rose by $7.6 billion, worsening the overall financial situation. Most of the increase in the current liabilities is due to the fact that the Postal Service did not make the normal costs for RHB and the amortization payments on the unfunded retirement obligations. The total net current assets were $11.6 billion at the end of FY 2018, of which $10.3 billion was cash and cash equivalents. Net current liabilities at the end of this fiscal year were $69.5 billion, which included $42.6 billion in unpaid RHB accruals for FY 2012 through FY 2018 when the Postal Service was unable to pay down the obligation along with the amortization payments on the RHB unfunded obligation. Also included in net current liabilities is $11 billion of the total $13.2 billion owed to the Federal Financing Bank. Further data on the PSRHBF and pensions are detailed later in this testimony in the additional information on personnel related costs.

These low liquidity levels in recent years have impeded the Postal Service's ability to make capital investments in infrastructure and hindered the growth and productivity enhancements in key assets required for primary postal operations. As the Postal Service noted in the FY 2018 Form 10-K statement, it now operates an aging vehicle fleet, increasing the need, and consequently the cost, for maintenance and repair. Also unmet is the need to invest in sorting and handling equipment to fully capitalize on business opportunities in the growing package delivery markets.

According to the Postal Service's FY 2018 Form 10-K statement, "If our operations do not generate the liquidity we require, we may be forced to reduce, delay or cancel investments in technology, facilities, and/or transportation equipment, as we have done in the recent past.... Additionally, our aging facilities, equipment and transportation fleet could inhibit our ability to be competitive in the marketplace, deliver a high quality service and meet the needs of the American public.... An aging or potentially obsolete infrastructure could result in loss of business and increased costs."

Analysis of Available Liquidity



On an *operational* basis the Postal Service's net loss (i.e., before including the accruals for unfunded retirement health benefits, any non-cash adjustments to workers' compensation liability, supplemental contribution to CSRS Annuity and FERS Annuity) is $2.1 billion. Most of this operational net loss can be attributed to higher operating expenses primarily driven by increases in compensation and benefits and transportation costs. Higher operating revenue of approximately $1.0 billion was not enough to offset the increase in overall expenses.

Compared to FY 2017, the Postal Service current assets decreased by $0.5 billion, primarily from a decrease in its cash position by $0.5 billion. Aging capital assets and the continued restriction in capital investment resulted in a decline in net property plant and equipment of $0.3 billion. Yet, as noted, this decrease is concerning when coupled with the continuing increase in current liabilities, primarily due to the inability of the Postal Service to make the statutorily required retiree health and pension payments into the PSRHBF and CSRDF. Overall, according to the Postal Service, it has approximately 54 days of cash available to pay basic operating expenses. The current level of Postal Service reported liquidity has improved since its low point in FY 2013, but the percentage increase from the prior year in total cash on hand plus available debt is almost the same as the percentage increase in current liabilities arising from unpaid bills for the same period.

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

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

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

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

The ratios calculated by the Commission for FY 2018 show a slight deterioration compared to the previous year with the majority deviating greatly from the average of the last 10 years. The Commission's *Financial Analysis* report calculates "liquidity-related ratios" as well as "key ratios" related to sustainability.

Liquidity-related ratios are one of the most widespread indicators of an agency's solvency. Calculated using the Postal Service's financial results for FY 2018, they show a decline over the prior year with values close to the historic 10-year average. The following table details the three liquidity-related ratios:

Ratio Analysis of Postal Service Financial Statements

Ratios	9/30/2018 Value	9/30/2017 Value	Change	Description of ratio	Postal Service Historic 10-Year Average Value
Current Ratio	0.17	0.20	(0.03)	This ratio is calculated by dividing current assets by current liabilities. It indicates an entity's ability to meet short term debt obligations.	0.16
Quick Ratio	0.16	0.19	(0.03)	This ratio is calculated by dividing liquid assets (cash, cash equivalents and short term investments, current receivables) by current liabilities. It is a measure of an entity's ability to meet its short term obligations using its most liquid assets (near cash or quick assets).	0.16
Cash Ratio	0.15	0.17	(0.03)	This ratio is calculated by dividing absolute liquid assets (cash, cash equivalents and short-term investments) by current liabilities.	0.12

Source - USPS FY 2015 Form 10-K Statement, USPS FY 2014 Form 10-K Statement

The FY 2018 cash ratio was 0.15—a deterioration from FY 2017. This is an improvement from the 10-year historic average—but as with the current ratio and quick ratio, the cash ratio indicates that the Postal Service does not have enough cash and/or cash equivalents (the most liquid assets) to meet all current liabilities. Current liabilities increased by 12.4 percent mostly due to the accrual of the current fiscal year's defaulted payment for amortization of unfunded retirement obligations and the RHB normal cost. At the same time, the Postal Service's current assets decreased by 4.0 percent, primarily due to the decrease in cash and cash equivalents. The Postal Service had no working capital at the end of FY 2018. The Postal Service's FY 2018 working capital was negative $57.9 billion. The net deterioration of $8.1 billion in working capital from the prior fiscal year was largely due to the growth in employee-related liabilities, including the accruals for payments for retirement obligations.

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

Ratio Analysis of Postal Service Financial Statements

Ratios	9/30/2018 Value	9/30/2017 Value	Change	Description of ratio	Postal Service Historic 10-Year Average Value
Debt ratio (debt to assets ratio)	3.35	3.14	0.20	This ratio is calculated by dividing total liabilities (i.e. long-term and short-term liabilities) by total assets. It shows how much the company relies on debt to finance assets.	2.35
Fixed assets to Net worth ratio	(0.23)	(0.25)	0.02	This ratio indicates the extent to which the entity's cash is frozen in the form of fixed assets, such as property, plant, and equipment.	(2.29)
Current liability ratio	0.78	0.72	0.06	This ratio is calculated by dividing current liabilities by total (i.e. current and noncurrent) liabilities.	0.58

Source - USPS FY 2015 Form 10-K Statement, USPS FY 2014 Form 10-K Statement

The accruing nonpayment into the statutory unfunded retirement obligations and the current portion of debt have artificially skewed the Postal Service's current liabilities in relation to its assets. To reduce its debt ratio to historic averages, the Postal Service would have to significantly increase its current cash position or investments in capital assets and reduce its obligations.

The Postal Service's fixed assets to net worth ratio shows an insignificant improvement reflecting the slight increase in capital spending. However, the value remains at negative 0.23, a result of recurring net losses accumulated over the last decade. A negative fixed assets to net worth ratio indicates the erosion through depreciation of the entity's long term tangible business assets, a critical investment for a viable entity.

The current liability ratio reflects the Postal Service's share of short term liabilities to total liabilities at 78 percent, increasing six percentage points from the start of FY 2017. The accrual of the missed payments for retirement amortization, statutory RHBF prefunding, and RHB normal cost payments are included in current obligations, and account for the vast majority of current liabilities. An increasing current liability ratio indicates increasing obligations due to be paid within the current year. Understanding the Postal Service's liabilities is critical, especially as the cash flows generated from operations render the Postal Service unable to meet its current obligations.

Evaluating Financial Strength: Altman Z-Score

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

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

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

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

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

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

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

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

The Commission calculates that the Postal Service's Altman Z-Score was negative 6.8 on September 30, 2018. That means that there is a high probability that the Postal Service will go into financial distress. More commonly, a lower Altman Z-Score reflects higher odds of bankruptcy. This 2018 Altman Z-Score of negative 6.8 for the Postal Service is a setback from the FY 2017 score of negative 5.9, and it is a significant deterioration from the positive score 10 years ago for FY 2006 of 0.2. Lower cash balances and unfunded retirement-related expenses decreased total assets, total liabilities and earnings compared to the prior year, resulting in deterioration from FY 2017 of three of the four ratios. Despite the results obtained, it should be mentioned that the Altman Z-Score as a predictor of the Entity's bankruptcy probability is only relative, the structure of the Postal Service's rations may be atypical, and interpreting the significance of the Z-Score would require deeper analysis by Postal Service management.

Altman Z-Score, FY 2006

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

Source - Postal Service FY 2006 Form 10-K

Altman Z-Score, FY 2018

Ratio	Calculation	Ratio Value on 9/30/2018	Weighting Factor	Product (col. 3 * col. 4)
1	2	3	4	5
T1	Working Capital/Total Assets	(2.2)	1.2	(2.6)
T2	Retained Earnings/Total Assets	(2.3)	1.4	(3.3)
T3	Earnings/Total Assets	(0.1)	3.3	(0.5)
T4	Capital/Total Liabilities	(0.7)	0.6	(0.4)
Altman Z-Score				(6.8)

Source - Postal Service FY 2018 Form 10-K

The deterioration in the Postal Service's viability relates to the erosion of retained earnings caused by consecutive net losses, the statutory obligation to prefund PSRHBF benefits, the unfunded retirement-related expenses and decreasing Retained Earnings/Total Asset ratio. A comparatively lower Working Capital/Total Assets ratio results from the continued lag in replacement of its almost fully depreciated existing assets. The significant drop in these two measures causes the negative fluctuation to the Postal Service Altman Z-Score when comparing FY 2018 with FY 2006.

Total Mail Volume: Continuing Decline

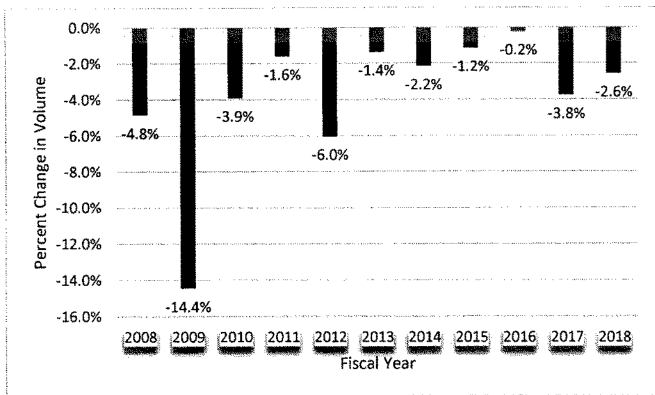
Total mail volume in 2018 dropped to levels not seen in more than 32 years, and the Postal Service anticipates further reductions in total volumes for 2019. The aggregate decline in mail volume is the result of the economic recession of 2007 along with the acceleration of a long-term trend of mail migrating to electronic media. According to the Postal Service, the volume lost to electronic alternatives is not expected to return because the movement constitutes a fundamental and permanent change in mail use by households and businesses.

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

Over the last decade, Market Dominant products volume declined by approximately 56 billion pieces. Approximately 42 percent of the volume decline occurred in FY 2009 when Market Dominant volume declined 12 percent.

For specific products within the Market Dominant category, volume declines at different rates. In FY 2018, First-Class Mail volume declined by approximately 2.3 billion pieces, or 3.9 percent of total First-Class Mail, and Marketing Mail volume decreased by 1.1 billion pieces, or 1.4 percent of total Marketing Mail. These classes constitute the bulk of the volume of Market Dominant products overall. In FY 2018, First-Class Mail and Marketing Mail accounted for 89 percent of the total mail volume. The decline in First-Class Mail is the most troubling as First-Class Mail contributes the most to the overhead costs of the Postal Service.

Percent Change in Market Dominant Volume



Competitive Products: continuing increases but lower margin

Volumes and revenues for Competitive products, which are mainly parcels, increased 10.8 percent and 12.2 percent, respectively, in FY 2018. While Competitive products volume and revenue have grown consistently in recent years, its volume only makes up 3.9 percent of the total mail volume of the Postal Service. In addition, the margin (i.e., the overall cost coverage) on Competitive products is lower than the margin for First-Class Mail. In other words, the Postal Service earns more money from First-Class Mail than it does from Marketing Mail or Competitive product parcels.

The continuous decline in First-Class Mail volume and revenue seriously jeopardizes the Postal Service's ability to cover its fixed overhead costs.

Personnel Related Costs

In FY 2018, total personnel related expenses, including the accrual for retirement related expenses and the non-cash adjustments to the workers' compensation, increased by $1.7 billion or 3 percent from the prior year. The Postal Service continues to expense the amount payable for amortization costs of the unfunded RHB, FERS and

CSRS liabilities and the RHB normal costs, although it remains unable to make the actual payment into the funds.

Beginning in 1989, the law required the Postal Service to pay the government's share of the premium for its own annuitants. In 2006, the Office of Personnel Management (OPM) estimated that the Postal Service needed to generate $75 billion to cover benefits for all its current and future retirees. The 2006 Postal Accountability and Enhancement Act (PAEA) established the PSRHBF to collect these payments from the Postal Service. Until 2006, the Postal Service had $0 (i.e., zero, nothing) set aside to pay for its future retiree health benefits. In addition to the initial amount transferred from the Civil Service Retirement and Disability Fund of $17 billion into the PSRHBF upon enactment, the Postal Service paid $20.9 billion during the first 5 years after enactment of the 2006 law to meet this overly ambitious statutory requirement to prefund much of its future retiree health benefits. Presently, even though the Postal Service has not made any of the required payments for the past 8 years, the prefunding payments, the amortization payments to liquidate the unfunded RHB liability, or the normal costs, there is $47.5 billion in contributions and interest receivable in the PSRHBF and a current unfunded amount of $66.5 billion (this is the portion that remains unpaid by the Postal Service).

Under current law, in addition to the Postal Service paying the normal cost amounts for retiree health benefits each year, the unfunded amount of $66.5 billion less the missed payments for prior years was amortized over 40 years beginning in FY 2017. Also, in FY 2017, the PSRHBF started to pay the current year health benefits premiums.

The Postal Service funding requirements for CSRS also changed significantly in FY 2017. The Postal Accountability and Enhancement Act (PAEA) suspended the Postal Service's contributions to the Civil Service Retirement System (CSRS) until after FY 2016. OPM notified the Postal Service that the CSRS annuity and FERS annuity accounts were underfunded by $24.2 billion and $17.1 billion as of the end of FY 2017. Under current law, the unfunded liability is to be amortized over 26 years and 30 years, and the annual payment due in FY 2018 was estimated by OPM to be $1.4 billion and $958 million.

During FY 2018, the Postal Service filed two requests in accordance with the PAEA requiring the Commission to procure actuarial services to review various OPM assumptions used in calculating Postal Service retirement related liabilities. In the first request filed pursuant to Section 802(c) of the PAEA, the Postal Service asks the Commission to conduct a review of OPM's determination regarding the CSRS liability.[4] In particular, the Postal Service asks whether it is appropriate for OPM to calculate the CSRS supplemental liability on the basis of government-wide demographic and salary-growth assumptions, rather than those specific to Postal Service CSRS employees and annuitants. The Postal Service indicates that OPM has already changed its rules going forward to use new postal-specific demographic assumptions.[5] Thus, the Postal Service is further asking whether it would be appropriate to re-determine the CSRS supplemental liability payment due on September 30, 2017, using the new assumptions.

The Commission entered into a contract with Segal Consulting to provide an independent actuarial analysis of the assumptions used by OPM. The analysis concludes that the current government-wide assumptions produce valuation results that are within the range of reasonable outcomes based on generally accepted actuarial principles. However, it would be more appropriate to use postal-specific assumptions.[6] Postal-specific demographic assumptions are reflected in the amortization payment due in FY 2018 to liquidate CSRS and FERS unfunded liabilities.

In the second request filed pursuant to 5 U.S.C. § 8909a(d)(5)(A), the Postal Service asks the Commission to conduct a review of OPM's determination regarding the RHB liability.[7] In particular, the Postal Service asks whether it is appropriate and consistent with the law for OPM to calculate RHB liabilities on the basis of government-wide assumptions, rather than those specific to Postal Service employees and annuitants.

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[4] Docket No. SS2018-1, Request of the United States Postal Service for Review of the Office of Personnel Management's Determination Regarding Civil Service Retirement System Liability, November 13, 2017.
[5] *See*, 5 C.F.R. § 831.117(a).
[6] Docket No. SS2018-1, Transmittal of the Civil Service Retirement System Demographic and Salary Assumptions Report, June 11, 2018.
[7] Docket No. SS2018-2, Request of the United States Postal Service for the Commission to Conduct a Review of the Office of Personnel Management's Determination Regarding Retiree Health Benefits Liability, January 30, 2018.

The Commission entered into a contract with Segal Consulting to provide an independent actuarial analysis of the assumptions used by OPM. The analysis concludes that it was appropriate to calculate RHB liabilities on the basis of government-wide assumptions. It also concludes that it also would be appropriate to use postal-specific assumptions in that this would provide a more accurate estimate of RHB liability.[8]

In response to the RHBF Report, OPM states that it will not be revising its calculations determined as of September 30, 2016, which use government-wide assumptions. OPM states that the actuarial and economic assumptions used in these calculations were consistent with the assumptions used to determine CSRS and FERS liabilities.[9] However, OPM has issued new pension regulations that became effective October 27, 2017, which direct use of postal-specific demographic assumptions going forward.[10]

From an operations standpoint, personnel costs increased by $1.2 billion in FY 2018 – a majority of which comprises compensation and retirement benefits. Compensation increased by $769 million while retirement benefits increased by $116 million and normal costs of RHB increased by $361 million. Compensation expenses grew over the previous year mainly due to obligated salary increases and the growth in Shipping and Package volumes, where, because of the size and shape of pieces, handling requires more workhours. As noted previously, retirement benefits expenses grew consistent with general salary increases.

Summary: Significant Financial Obstacles for the Future

In summary, the Postal Service still faces significant financial obstacles for the future. With the growing liability of unfunded retirement related obligations, the inability to borrow for needed capital investments, and the continued loss of high margin First-Class Mail revenues, the important task of improving the financial condition of the Postal Service is daunting. Total liabilities exceed total assets by $63 billion.

[8] Docket No. SS2018-2, Transmittal of the Retiree Health Benefit Fund Liability Examination Report, August 8, 2018 (RHBF Report).
[9] *See*, SFFAS 5, par. 83.
[10] Docket No. SS2018-2, Letter from OPM, February 20, 2019.

Statement of Gary Grippo
Deputy Assistant Secretary of the Treasury for Public Finance
before the Committee on Homeland Security and Government Affairs
United States Senate
March 12, 2019

I would like to thank Chairman Johnson and Ranking Member Peters for holding this important hearing and for inviting me to testify.

The USPS has been losing money for more than a decade and is on an unsustainable financial path. Moreover, the USPS is forecast to lose tens of billions of dollars over the next decade.

Task Force on the United States Postal System

With this in mind, on April 12, 2018, President Donald J. Trump created the Task Force on the United States Postal System. The Task Force is chaired by the Secretary of the Treasury and includes the Director of the Office of Management and Budget and the Director of the Office of Personnel Management. The Task Force was directed to evaluate the operations and finances of the United States Postal Service (USPS) and submit findings and recommendations to the President.

The Task Force conducted a robust analysis of the USPS's operations and finances, informed by an extensive review of information provided by the USPS, academic literature, and industry studies, as well as a review of legislative history, and meetings with members of Congress and the Congressional committees of jurisdiction.

In addition, the Task Force met with a wide range of stakeholders representing the USPS workforce, commercial, non-profit, and residential users of the USPS's services, and the USPS's suppliers and competitors. As directed by the Executive Order, the Task Force consulted with the Postmaster General, the Chairman of the Postal Regulatory Commission (PRC), the Attorney General on issues relating to government monopolies operating in the commercial marketplace, the Secretary of Labor on issues relating to workers' compensation programs, and state, local, and tribal officials. The Task Force also conducted a thorough review of quantitative data and research from public and private sources, including from the USPS, the U.S. Government Accountability Office (GAO), and the USPS Office of Inspector General (OIG).

In accordance with the Executive Order, the Task Force studied:

i. The expansion and pricing of the package delivery market and the USPS's role in competitive markets;
ii. The decline in mail volume and its implications for USPS self-financing and the USPS monopoly over letter delivery and mailboxes;
iii. The USPS's "universal service obligation" in light of changes in technology, e-commerce, marketing practices, and customer needs;
iv. The USPS's role in the U.S. economy and in rural areas, communities, and small towns; and
v. The state of the USPS business model, workforce, operations, costs, and pricing.

The Task Force released a report on December 4, 2018. The report, *United States Postal System: A Sustainable Path Forward*, provides a series of recommendations to overhaul the USPS's business model in order to return it to sustainability without shifting additional costs to taxpayers.

Scope of Work

The Task Force's review of the U.S. Postal System identified significant opportunities for reform that would enable the USPS to operate a sustainable business model and compete fairly in competitive markets. The Task Force considered both administrative and legislative reforms that take into account changes in the postal industry, the USPS's competitive advantages, and areas requiring improvement through either government or private sector-driven initiatives. The recommendations should be considered, in whole or in part, as the USPS and other stakeholders work to improve the USPS's business model and restore it to long-term sustainability.

A primary consideration for the Task Force was the USPS's importance to rural and remote locations within the United States, as both a service provider and employer in nearly every community in the country. The Task Force strongly believes that any potential postal reforms should not disadvantage those living in rural or remote locations.

Finally, as international mail and packages play a relatively small role in the overall economic performance of the USPS, representing 3.7 percent of total USPS revenue[1], the Task Force did not consider issues associated with the shipment and receipt of international mail and packages. However, the Task Force fully supports the August 23, 2018 Presidential Memorandum that instructed the Secretary of State to seek reforms to the Universal Postal Union (UPU) to achieve

[1] United States Postal Service, *Form 10-K for the Fiscal Year Ended September 30, 2018*, available at: *http://about.usps.com/who-we-are/financials/10k-reports/fy2018.pdf*

a system of fair and nondiscriminatory postal rates, and strongly supports the State Department's October 17, 2018, notice of denunciation that begins the year-long process of United States withdrawal from the UPU. The Task Force is also pleased with the October 24, 2018 passage of the STOP Act, which will require the USPS to adopt advance electronic data for international mail shipments in order to help stop the flow of fentanyl, and other illegal shipments, into the United States through the USPS.

Unsustainable Financial Path

The USPS is a $71 billion enterprise that collects, processes, transports, and delivers 146 billion pieces of mail and packages to nearly 159 million households and businesses annually.[2] The mission of the USPS is broadly defined through a "universal service obligation" (USO), which is intended to ensure that all citizens and businesses in the United States receive a minimum level of postal services at a reasonable price.

Over the last two hundred years, the USPS has provided "postal services to bind the Nation together through the ... correspondence of the people."[3] The nature of postal services in the United States has varied over time, but has trended towards higher levels of service.

In 2006, the Postal Accountability and Enhancement Act (PAEA) was signed into law and represented the first major postal reform legislation since 1970. The law's passage followed the July 2003 release of the report of the President's Commission on the United States Postal

[2] United States Postal Service, *Form 10-K for the Fiscal Year Ended September 30, 2018*, available at: *http://about.usps.com/who-we-are/financials/10k-reports/fy2018.pdf*

[3] 39 U.S.C. § 101(a)

Service, which contained a set of recommendations for modernizing the USPS and improving service quality.[4] Overall, the goal of PAEA was to begin managing the effects of an anticipated decline in mail volume due to the emergence of Internet communications. A key feature of the law was to place a cap on price increases for Market Dominant products to serve as a competition proxy to drive greater cost efficiency at the agency. Furthermore, the law required significant prefunding of retiree health care benefits.

The framing of PAEA was based on a projected levelling off and then a gradual decline in overall mail volume.[5] The expectation led to a belief that the USPS would have time to restructure and build savings for its long-term liabilities before mail volume began to decline. Unfortunately, instead of a gradual decline in the years ahead, mail volume peaked in FY 2006 and began to decline immediately after the implementation of the law. Over the next decade, from FY 2007-17, overall mail volume declined by 28 percent (to 149.5 billion pieces) and total revenue from first-class and marketing mail declined by 27 percent (37 percent when adjusted for inflation).

While the law intended to prepare the USPS for the eventual decline in mail volume, it did not provide the flexibility needed to handle the unanticipated rapid decline. The impact of the shift toward digital correspondence and the corresponding decline in USPS mail volumes have been compounded by caps on mail pricing, put in place by PAEA, leading to mail revenue declines of around 4 percent per year. Additionally, the USPS has not been able to sufficiently reduce costs

[4] "Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service," Report of the President's Commission on the United States Postal Service, 31 July 2003.

[5] "Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service," Report of the President's Commission on the United States Postal Service, 31 July 2003.

to offset declines in revenue, leading to net losses totaling $69 billion between FY 2007 and FY 2018. As a result, as of the end of FY 2018, the USPS balance sheet reflects $89 billion in liabilities against $27 billion in assets – a net deficiency of $62 billion.[6] For more information, see Appendix A.

Although package volumes are increasing due to the rise of e-commerce, package revenues alone cannot offset the decline in mail revenues. Additionally, as the USPS delivers more packages, it increasingly competes with private delivery companies and potentially distorts overall pricing in the package delivery market.

The USPS's business model – including its governance, product pricing, cost allocation, and labor practices – was sustainable in an era where mail revenues and volumes grew alongside population and economic growth. However, as the USPS's financial condition continues to deteriorate, standalone proposals, such as relieving the USPS of post-employment benefits liabilities, will be insufficient. The USPS's ability to achieve and maintain sustainability over the long-term is dependent upon formative reforms to its business model that will enable it to flexibly and swiftly adapt to the social, technological, and operational changes in the mail and package markets.

Recommendations of the Task Force

The Task Force's recommendations align with the following operating realities of the postal system:

[6] "Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service", Report of the President's Commission on the United States Postal Service, 31 July 2003.

- The volume of First-Class and other mail is in decline;
- Initiatives must be taken to address both the USPS's revenues and costs; and
- Optimizing the unique franchise and monopoly value of the system is necessary.

The Task Force recommends that the USPS and Congress work to overhaul the USPS's business model in order to return it to sustainability. Both administrative and legislative actions are needed to ensure that the USPS does not face a liquidity crisis, which could disrupt mail services and require an emergency infusion of taxpayer dollars.

The Task Force believes that the reformed USPS business model must embody a new public policy goal, recognizing that private products and competitive markets increasingly meet the country's communications and commerce needs. The new policy goal should have the more targeted function of correcting the failures and inefficiencies of these private markets.

Central to this new model is the idea that the USPS's comprehensive delivery network that covers every address in the country is a critical part of the nation's infrastructure that cannot be replicated by private actors or displaced by emerging delivery technologies. The Task Force believes that maintaining this critical infrastructure, allowing for and continuing to deliver to every address in the United States, should be a primary business objective of the USPS.

The following provides a summary of the Task Force's recommendations. A full list of recommendations can be found in Appendix B.

Governance

The USPS suffers from a lack of institutional governance. The USPS's Governors are considered the "head of the agency" and are responsible for directing and controlling the USPS. Between December 2016 and August 2018, the USPS Board of Governors (the Board) had no Governors. In August 2018, the Senate confirmed two Governors – the first Governors confirmed by the Senate since 2010. Without Governors, the Postmaster General managed the USPS's financial and operational challenges without strategic direction and guidance, exacerbating management's limited power to effect needed organizational change. The Board should move to create a new policy mandate that resets the USPS's organizational direction and develops financial targets for the USPS. Governance should be strengthened with expanded Board controls and increased accountability. Moreover, if the USPS is unable to achieve a sustainable business model and satisfy its financial commitments, including those to other federal agencies, the PRC should be given stronger regulatory authority to take necessary revenue and expense measures.

Universal Service Obligation

The USO is a public policy that defines what citizens and businesses need from a government provided postal service, representing a mission statement for a country's postal system. The generally accepted attributes for defining the USO include specifying the geographic coverage for postal delivery, frequency of delivery, processing standards, mode of delivery, range of required postal products, level of access to post offices, and rules for affordable postal rates. For the USPS to achieve a sustainable business model, a new pricing structure needs to be established. The Task Force believes that a distinction must be made between the types of mail and packages for which a strong social or macroeconomic rationale exists for government protection in the form of price caps, subsidies and mandated delivery standards ("essential services"), versus those types of mail and packages that are commercial in nature, and therefore would not have a basis for government protection. This distinction will provide the USPS and the PRC with a framework to sustainably manage pricing, costs, and products.

Pricing

With the rise of digital alternatives and the corresponding decline in mail volumes, across-the-board rate caps on mail products have become an obstacle to the USPS's financial sustainability. Although the USPS does have pricing flexibility within its package delivery segment, packages have not been priced with profitability in mind. The USPS should have greater flexibility to establish rates for mail items that are not deemed "essential services." This approach will allow the USPS to optimize its income in order to fund its operations, capital expenditures, and long-term liabilities.

Cost Allocation

The USPS's current cost allocation methodology is outdated, leading to distortions in investment and product pricing decisions. The USPS's current cost methodology does not take into account that market dominant and competitive products operate under different regulatory and market rules, nor does it capture the cost implications that the rapid decline in mail volume and the rapid rise of package volume have had on the USPS's cost structure. Modernizing the USPS's cost standards and allocation methodology is a key principle needed to reform the USPS. This modernization will provide the USPS the information it needs to inform critical management decisions, government policies, and regulatory reporting.

Operating Costs

In order to move towards sustainability, the USPS must also address its rising labor and operating costs, including capital expenditures. The USPS's operating costs are expected to continue to grow as the country's population expands, new delivery points are added, and as the requirements for package delivery increase. The USPS must pursue new cost-cutting strategies that will enable it to meet the changing realities of its business model. These strategies should include evaluating modifications to delivery processing standards, and the expanded use of private sector partners in areas such as processing and sortation.

Labor Model

In FY 2018, labor costs accounted for 76 percent of the USPS's overall operating costs.[7] Consistent with the President's Management Agenda to modernize the government workforce, the Task Force recommends that the USPS more closely align wages for both its career and non-career workers with the broader labor market.

Retiree Health Benefits

Congress requires the USPS to fund the retiree health benefits of its employees as part of a mandate for postal self-sustainability. The Task Force does not believe that this general policy should change or that the liability for USPS retiree health benefits should be shifted to the

[7] United States Postal Service, *Form 10-K for the Fiscal Year Ended September 30, 2018*, available at: *http://about.usps.com/who-we-are/financials/10k-reports/fy2018.pdf*

taxpayers. The Task Force believes that this obligation, including the $43 billion in pre-funding payments that the USPS failed to pay into the Postal Service Retiree Health Benefits Fund and the unfunded actuarial liability for retiree health benefits, must be restructured with the payments re-amortized with a new actuarial calculation based on the population of employees at or near retirement age.[8]

New Revenue Streams

The USPS should explore new business opportunities that will allow it to extract value from its existing assets and business lines. For example, the USPS should explore licensing access to the mailbox. The USPS could also capture additional value from its existing retail offices by converting post offices into contract post offices or by co-locating with or renting space to complementary retail establishments. However, given the USPS's narrow expertise and capital limitations, USPS should not pursue expanding into new business sectors, such as banking, where the USPS does not have a demonstrated competency or comparative advantage, or where balance sheet risk would be added.

Conclusion

The USPS is on an unsustainable financial path and is forecast to lose tens of billions of dollars over the next decade. Action is needed in order to return the USPS to financial health. The recommendations of the Task Force promote commerce and communications throughout the United States, without shifting additional costs to the taxpayer. The Task Force looks forward to

[8] United States Postal Service, *Form 10-K for the Fiscal Year Ended September 30, 2018*, available at: *http://about.usps.com/who-we-are/financials/10k-reports/fy2018.pdf*

working with the USPS, its Board of Governors, the PRC, and Congress to help implement the recommendations outlined in the report.

Appendix A: USPS Revenue, Expenditures, and Volume Trends

USPS Domestic Mail and Package Revenue and Volume Trends (in Billions)									
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Mail Revenue ($)	50.6	49.0	47.0	46.7	47.4	47.5	46.6	43.6	42.7
Mail Volume (pieces)	166.9	164.1	155.4	153.7	150.5	148.7	148.2	142.7	139.9
Package Revenue ($)	10.3	10.7	11.6	12.6	13.8	15.1	17.5	19.5	21.5
Package Volume (pieces)	3.1	3.3	3.5	3.7	4.0	4.5	5.2	5.7	6.2

USPS Revenue and Expenditures (Dollars in Billions)									
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Total Revenue	67.1	65.7	65.2	67.3	67.9	69.0	71.5	69.7	70.7
Expenses Excluding RHB	70.1	70.8	70.1	66.7	67.7	68.3	71.3	68.2	70.0
Operating Income (prior to RHB)	(3.0)	(5.1)	(4.8)	0.6	0.2	0.6	0.2	1.5	0.7
RHB (10-Year Prefunding)	5.5	0.0*	11.1*	5.6	5.7	5.7	5.8	-	-
RHB (40-Year Amortized Prefunding)	-	-	-	-	-	-	-	1.0	0.8
Annual Accrual of RHB	-	-	-	-	-	-	-	3.3	3.7
Net Income (Including RHB)	(8.5)	(5.1)	(15.9)	(5.0)	(5.5)	(5.1)	(5.6)	(2.8)	(3.9)

* The USPS failed to prefund its retiree health benefit (RHB) payments after 2010. Congress shifted the USPS's 2011 prefunding payment to 2012, resulting in an $11.1 billion liability in 2012.
Source: USPS 10-K Filings, 2007-2018

Appendix B: Task Force Recommendations

Recommendation	Policy Action
Universal Service Obligation (USO)	
Definition	
Clearly define the USO. Provide a targeted definition of minimum, essential postal services, that due to specific social and economic needs have a basis for government protection.	Administrative
Geographic Scope	
Keep current practice, which designates that the USO includes all addresses in the country covering "the United States, its territories and possessions,"[9] irrespective of population density.	Administrative
Number and Density of Post Offices and Collection Boxes	
Establish a rule that specifies that access to the postal system must only be sufficient to implement defined USO standards for delivery.	Administrative
Delivery Frequency	
Provide greater flexibility to determine mail and package delivery frequency.	Legislative
Mode of Delivery	
Maintain current discretion to determine mode of delivery consistent with a financially sustainable business model.	Administrative
Processing Standards	
Keep current practices, which allow the USPS to manage processing standards.	Administrative
USO Funding	
Review and determine if income generated by activities defined to be outside of the USO could be optimized to cover the costs of funding the USO.	Administrative

[9] 39 U.S.C. § 403. Section 403(a) provides that the USPS "shall serve as nearly as practicable the entire population of the United States."

Recommendation	Policy Action
Mail and Package Markets	
Business Model	
Develop a new model that can be used to both set rates and control costs to achieve sustainability.	Administrative
Require price increases, reduce service costs, or exit the business for any mail products that are not deemed an essential service and do not cover their direct costs.	Administrative
Product Classes	
Product Classes: Redefine mail classes by creating products defined by the type of sender and the declared purpose of the mail item.	Administrative
Tracking Data: Change USPS systems in order to track the purposes and uses of mail, to allow for better cost allocation, targeted pricing, and more business intelligence.	Administrative
Strategic Options	
Evaluate areas of USPS operations where the USPS could expand third party relationships in order to provide services in a more cost efficient manner (e.g., mid-stream logistics and processing).	Administrative
As a means of generating more income, the mailbox monopoly could be monetized.	Administrative
Price competitive products in a manner that maximizes revenues and generates income that can be used to fund capital expenditures and long-term liabilities.	Administrative
Costing Options	
Develop a new cost allocation model to establish full price transparency and fully distribute costs.	Administrative
Establish a separate balance sheet for packages to help prevent cross-subsidization between the mail and package business units.	Administrative

Recommendation	Policy Action
Operating Model	
Operations	
Align USPS employee rights with other federal employee rights by eliminating collective bargaining over compensation for USPS employees.	Legislative
Pursue reforms to USPS employee wages consistent with those proposed for the broader federal workforce in the President's Management Agenda.	Legislative
Explore and implement new business lines that generate revenue, and that present no balance sheet risk to the USPS.	Legislative
Governance and Oversight	
Strengthen the governance and regulatory oversight of USPS. This could be achieved through reforming, but maintaining, the existing institutional structures or by changing the institutional structures, which would require legislation.	Legislative
Institute a new policy mandate for management that sets organizational direction and financial targets, which align with a sustainable business model and establish an enforcement mechanism if the existing Board is unable to meet these targets.	Legislative
Strengthen the regulatory oversight role of the PRC, providing the PRC with expanded controls, imposing increased accountability on the USPS.	Legislative
Benefits	
Pursue reforms proposed to the Federal Employees' Compensation Act that are included in the President's FY 2019 Budget.	Legislative
Pursue reform of the Federal Employee Retirement System that would increase employee contributions and move toward a defined contribution system.	Legislative
Maintain but restructure the retiree health benefits liability, including the $43 billion in pre-funding payments that the USPS failed to pay into the Postal Service Retiree Health Benefits Fund and the unfunded actuarial liability, with the total liability re-amortized with a new actuarial calculation based on the population of employees at or near retirement age.	Legislative

TESTIMONY OF MARGARET WEICHERT
DEPUTY DIRECTOR FOR MANAGEMENT
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENT AFFAIRS
UNITED STATES SENATE

March 12, 2019

Chairman Johnson, Ranking Member Peters and Members of the Committee, thank you for the opportunity to appear today to discuss the future of the United States Postal Service. This proud institution is the modern-day descendant of an institution with origins in 1775, when Ben Franklin served as the first Postmaster General. The importance of this institution was reinforced in the Constitution insofar as Article I authorized Congress "To establish Post Offices and post Roads[1]."

The Postal Service has played a critical role throughout every stage of our country's development, and our Postal workforce's commitment to mission is memorialized in the USPS unofficial motto: "Neither snow nor rain nor heat nor gloom of night, stays these couriers from the swift completion of their appointed rounds." My own family history is connected in a small way to this quintessentially American institution. My paternal grandmother, Sarah Drury Morgan, was a proud Postal Service employee, who emigrated from Ireland in the early 20th Century. For her and my Dad's whole family, employment in the Postal Service was part of their own American Dream story, enabling my grandmother to put two children through college while serving her new country.

[1] US Constitution Article I, Section 8, Clause 7

Unfortunately, due to declining mail volume and legacy structural costs, this cherished American institution is currently on an unsustainable financial path. The Postal Service has run up billions of dollars of debt since 2010, and is behind on $43 billion in payments for postal worker retiree health care and owes an additional $5 billion in pension liability payments. That's why the Government-wide Reform and Reorganization recommendations issued by the Administration last summer[2] recommended restructuring the United States Postal System to achieve three key objectives: 1) better enable it to fulfill its universal service obligation to American citizens; 2) establish a financially sustainable model that doesn't unduly burden American taxpayers and 3) create a realistic path forward for postal employees.

The Reorganization plan outlined an overarching vision for fundamental reform of the postal system, but deferred final reform recommendations to the findings of the Presidential Task Force on the United States Postal System.[3] That Task Force issued its report and recommendations in December 2018.

The work of the Task Force was to drive concrete analysis of structural challenges to reform the Postal Service, and build on the vision outlined in the Reform and Reorganization Plan. As such, the Task Force focused on a range of specific ideas, with particular attention to operational changes, cost allocation issues and pricing flexibilities. In addition, significant attention was given to the important work of differentiating critical and essential services envisioned as part of the USPS universal service obligations from more competitive, market-driven offerings.

[2] Delivering Government Solutions in the 21st Century: Reform Plan and Reorganization Recommendations, Office of Management and Budget, June 2018.
[3] Executive Order 13829 – Executive Order on the Presidential Task Force on the United States Postal System, April 12, 2018. Task Force established the Treasury Secretary as Chair, and included the Director of the Office of Management and Budget and the Director of the Office of Personnel Management as members.

Although there are a range of perspectives on the Task Force recommendations, nearly everyone familiar with Postal Service financial woes will agree that the status quo is economically unsustainable. It is imperative that the Postal Service be structured to provide foundational infrastructure for our democracy and our economy, maintaining communication links for millions while serving as the bedrock distribution network for American commerce. From our oldest citizens to our youngest ones, our rural communities to our most populous cities, all Americans will benefit from a revitalized and economically viable Postal System.

In my role as Deputy Director for Management at the Office of Management and Budget, I am leading a range of efforts to modernize government capabilities to meet the mission, service and stewardship realities of the 21st Century. As technology, e-commerce, and customer needs have evolved, our government institutions must also evolve, and the Postal Service should be no exception. Moreover, as the Acting Director of the Office of Personnel Management (OPM), I am keenly interested in supporting needed structural reforms to the Postal Service that allow the USPS to resolve its nearly $50 Billion in financial liabilities owed to OPM, which place an added burden on OPM's ability to support our broader mission of providing world class benefits to all government employees, including our 6 million Federal Pension participants. Without Postal reform, these liabilities will continue to grow, further threatening the viability of other OPM services, including a broad range of health, retirement and other benefit programs that are critical not only to postal employees, but also to other public servants, including Members of this body who participate in OPM-managed retirement programs.

Healthy organizations are designed to change and adapt. It is unacceptable that the Federal Government still operates with many capabilities and processes established in the mid-20th

Century -- if not earlier -- despite dramatic changes in technology, society and the needs of the American people in the Digital Age.

As such, the Postal Service is challenged to pursue foundational, structural reform to ensure that universal service to all Americans can be maintained, economic viability can be reestablished, and a reasonable, sustainable plan for taking care of Postal employees can be established. To achieve these objectives, the Task Force outlined operational, pricing and cost-allocation changes that would put the Postal Service on a more sound footing. This Administration looks forward to working with Congress on legislation to move these objectives ahead and reenergize Executive and Legislative branch efforts to find solutions to historical challenges.

Finally, I would like to thank this Committee for confirming two members of the Postal Board of Governors last year. As part of our commitment to Postal reform, the Administration recognizes the importance of improved Postal Service governance and will continue to work with the Committee to nominate and confirm members of the Board. Ultimately we remain hopeful that a fully constituted Board will help craft a new strategic direction for the Postal Service that adopts relevant task force recommendations and begins making the tough choices needed to reform the USPS.

Thank you again for inviting me here today. I look forward to your questions.

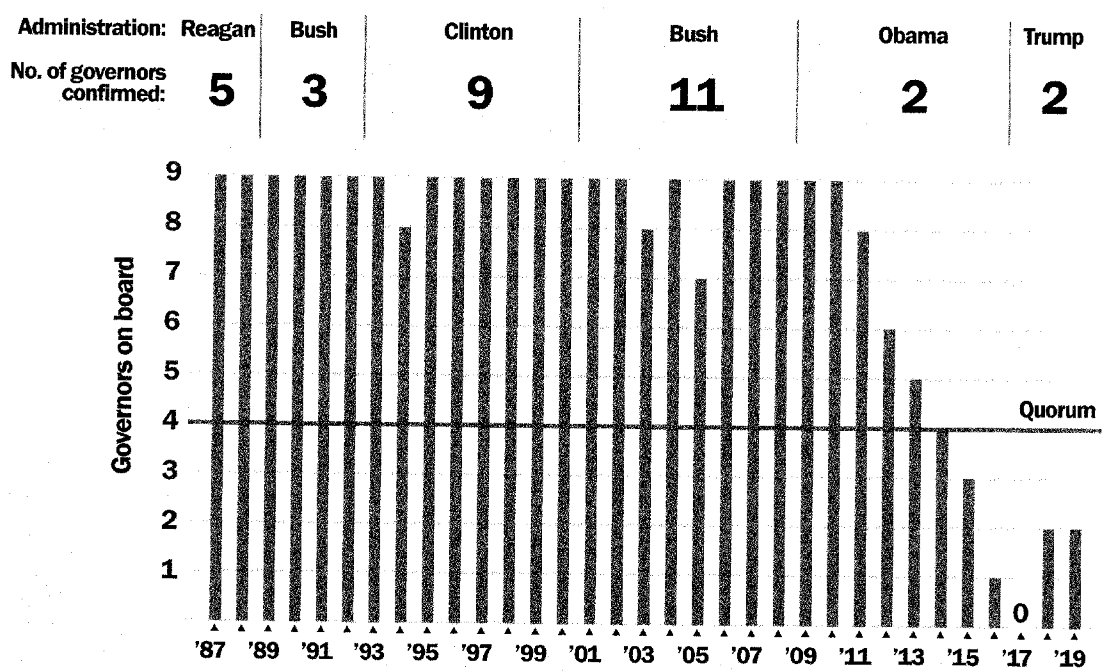
U.S. Postal Service

All figures in **billions of dollars**.

	FY 2009		FY 2018		Total: '09-'18		Projected: '19-'28	
Income statement								
Operating revenue		68.1		70.7		681.9		724.0
Cash operating expense	(58.0)		(59.2)		(563.7)		(636.5)	
Worker's comp (FECA)	(1.0)		(1.4)		(13.2)		(18.0)	
Retiree health annual	(2.0)		0.0		(21.6)		0.0	
Retiree pension annual	(5.9)		(6.7)		(61.0)		(73.2)	
Total operating expense		(67.0)		(67.3)		(659.5)		(727.7)
Operating income before deprec		1.1		3.4		22.5		(3.7)
Depreciation		(2.3)		(1.7)		(19.7)		(21.3)
Operating income (loss)		(1.2)		1.7		2.7		(25.0)
Health care prefunding	(1.4)		(4.5)		(49.5)		(62.2)	
Pension prefunding	-		(2.4)		(5.6)		(24.0)	
Total prefunding		(1.4)		(6.9)		(55.1)		(86.2)
Noncash part of FECA		(1.2)		1.4		(7.2)		0.0
Net Interest Income (Expense)		(0.1)		(0.1)		(1.5)		(13.6)
USPS reported income (loss)		(3.8)		(3.9)		(61.1)		(124.8)
Cash flow adjustments								
Non-cash adjustments	1.0		(0.5)		(0.1)		0.0	
Change in FECA liability	2.1		(1.4)		8.0		0.0	
Depreciation	2.3		1.7		19.7		21.3	
Net investments	(1.8)		(1.4)		(10.9)		(24.5)	
Net financing	2.9		(1.9)		5.0		1.8	
Subtotal non-cash adjustments		6.5		(3.4)		21.8		(1.4)
Cash flow before retiree default		2.7		(7.3)		(39.3)		(126.2)
Retiree prefunding default	-		3.2		41.2		38.6	
Retiree current default	-		3.7		7.0		47.6	
Total default		-		6.9		48.2		86.2
Increase (decrease) in cash		2.7		(0.5)		8.9		(40.0)

Source: **USPS annual 10-Ks**.

BOARD OF GOVERNORS



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RON JOHNSON U.S. SENATE

Written Statement of Robert M. "Mike" Duncan
United States Senate Homeland Security and Governmental Affairs Committee
March 27, 2019

Chairman Johnson, Ranking Member Peters, and Members of the Committee. Thank you for the opportunity to submit a written statement on the topic of "A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service," which was the subject of the Committee's hearing on March 12, 2019.

My name is Robert M. "Mike" Duncan and I serve as Chairman of the United States Postal Service Board of Governors. It is an honor to be part of an institution with over 600,000 dedicated men and women who provide postal services that bind the nation together through the personal, educational, literary, and business correspondence of the people. The Postal Service is an important part of our nation's critical infrastructure, and we are blessed with an organization that provides excellent service at competitive prices. At the same time, this iconic institution is confronted by long-standing, serious challenges that threaten its stability and effectiveness.

Governor David C. Williams and I were confirmed by the Senate in August of 2018, joining a Board that had been without any governors for almost two years. We have eagerly and diligently been addressing the Postal Service's numerous challenges. As one of our first actions, the Board approved a needed price adjustment for many of the Postal Service's products and services. This will help generate additional revenues while maintaining the Postal Service's competitiveness. In addition, we've studied the Postal Service's negotiated service agreement process and introduced new protocols to ensure the organization is getting agreements that are sustainable and fair. We also worked with Postal Service management on the implementation of the STOP Act (P.L. 115-271) – ensuring that the joint Office of Inspector General and Postal Inspection Service task force is making a coordinated response. Furthermore, the Board has been working closely with the Administration on the Postal Service's relationship with the Universal Postal Union and we fully support the President's decision to move to self-declared rates.

These important policy changes are helping to address some of the organization's urgent challenges. At the same time, we recognize that the Postal Service's long-term financial troubles will require more comprehensive solutions that must come at the direction of the United States Congress. Because of this, I applaud the Administration for taking a deep look at postal issues and creating The President's Task Force on the United States Postal Service.

The Board of Governors has closely reviewed the Task Force's final report, and I appreciate the work and analysis offered by the Treasury Department. Moreover, I look forward to identifying ways to implement many of the report's recommendations. For example, achievable, foundational steps forward include: (1) the recommendation to clearly define the universal service obligation for postal products and services; and (2) the recommendation to explore the implementation of new business lines within the Postal Service's core competencies to generate additional revenue.

I believe the opportunities ahead of us are bright if bold, decisive action is taken. As an entity that reaches every citizen in every town, we are strategically positioned to take advantage of our nationwide network by becoming a key partner to provide individuals with greater access to government services and programs. In addition, we have a world-class network of physical and digital assets that can be leveraged for new uses, should Congress provide such authorization. Furthermore, as we seek to invest in improving mail processing efficiency, we have the opportunity to ensure that customers across our nation, both rural and urban, receive their mail and package deliveries timely and at the high level of service that we have come to expect from the Postal Service.

Ultimately, however, the long-term success of the Postal Service will hinge on certain congressional actions. First, I urge the President to nominate and the Senate to quickly confirm governors to the Board so that we can provide proper oversight and governance, and once again reach a quorum, something that hasn't happened since 2014. Second, I recommend Congress re-examine the postal price cap that was imposed on the Postal Service as part of the Postal Accountability and Enhancement Act of 2006 (P.L. 109-435). This cap was mandated at a time when mail volumes were growing steadily. Since then, mail volumes have declined by more than 30%. As a result, last year's volumes equaled those of 1987. Going forward, we anticipate mail volumes will continue to decline. This steep drop in volume, coupled with the price cap, have limited the Postal Service's ability to address its shrinking revenues. Finally, the time is now for Congress to move forward on comprehensive postal reform legislation that includes Medicare integration, and that gives the Postal Service enhanced abilities to make necessary operational and financial decisions. Every month of delay worsens the problem.

At the same time, the Board of Governors cannot wait idly for broad reform packages. That is why the Board is working with management, stakeholders, and others toward implementing a new strategy for the Postal Service that will help put the organization on a more financially sustainable path.

The Postal Service Board of Governors and all of our stakeholders are intimately aware of the Postal Service's significant importance and its significant challenges. We know that there is important work to be done by all parties who value the organization's role in the American economy and with the American people.

We look forward to working with you and our stakeholders to create a strong and sustainable Postal Service. Thank you for the opportunity to submit this written statement for the record, and thank you for the committee's interest in these issues.

ROBERT M. "MIKE" DUNCAN

ACI
The American Consumer Institute
Center for Citizen Research

March 8, 2019

The Honorable Ron Johnson
Chairman, Committee on Homeland Security & Governmental Affairs
United States Senate
Washington, DC, 20510

The Honorable Gary Peters
Ranking Member, Committee on Homeland Security & Governmental Affairs
United States Senate
Washington, DC, 20510

Dear Chairman Johnson and Ranking Member Peters:

This letter respectfully seeks to provide information for the record in advance of the upcoming Full Committee Hearing, "A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service," scheduled for March 12, 2019.

The American Consumer Institute (ACI) is an independent organization founded in 2005. The Institute's mission is to identify, analyze and project the interests of consumers in selected legislative and rulemaking proceedings in information technology, health care, insurance, postal and other matters.

In numerous comments to the Postal Regulatory Commission, ACI has documented that the core mission of the USPS – to deliver mail – has become subordinated by delivery of its competitive services. This is a core matter that must be solved as consumer confidence further erodes due to diminishing efficiency and performance quality of the USPS' monopoly services.

With ACI's comments in mind, we present key questions for consideration during the hearing.

- Will the USPS leadership, regulators, and Members of Congress seek remedies for USPS' failure to meet on-time delivery goals for all segments of First-Class Mail?
  - Despite significant profits realized through letter mail services, USPS has not met delivery objectives on a continual basis. For what reasons are regulators abdicating enforcement responsibilities to assess appropriate penalties on the USPS? How can we ensure that letter mail revenues are being properly directed to address declining letter mail performance, instead being used to fund extraneous postal operations?

- What is preventing USPS from establishing a separate balance sheet for competitive market services to help prevent cross-subsidization between the mail and package business units?
  - USPS' leadership and regulators must be supplied with the correct information to judge the financial health of each of the numerous services provided by USPS in order to make determinations about whether such services should be discontinued or expanded. Why has the USPS failed to enable full cost and revenue transparency?

- How is the USPS justified in subverting the established rate cap mechanism?
    - Since 2016, USPS has obtained approval for three rounds of rate hikes on letter mail, amounting to a 17 percent increase overall (from 47 cents to 55 cents). Despite this price gouging of captive mail customers, the USPS financial position has not improved, in fact it has worsened. Allowing for rates to increase faster than inflation amounts to a negative productivity offset. Why is the USPS not focusing more appropriately on eliminating and reducing costs?

Overall, ACI concurs with the U.S. Treasury's Postal Task Force recommendation that the USPS and Congress must work together to overhaul the USPS's business model in order to return it to sustainability. Accompanying this letter, ACI provides additional areas of focus that were outlined for the Postal Regulatory Commission in response to the Postal Service's 2018 fiscal report. It is incumbent upon the PRC in its upcoming Compliance Determination to mandate, and outline where appropriate, measures to improve accountability and transparency on the part of the USPS.

Should the USPS ultimately prove unable to achieve remedies in service performance and pricing, Congress should aim to take matters into their own hands. This is consistent with the Task Force's recommendation to "strengthen the governance and regulatory oversight of USPS. This could be achieved through reforming, but maintaining, the existing institutional structures or by changing the institutional structures."

Ultimately, there are many ways in which Congress can help to achieve critical reforms to the U.S. Postal Service.

Respectfully submitted,

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The American Consumer Institute
Center for Citizen Research

Comments of American Consumer Institute Center for Citizen Research Regarding Docket No. ACR2018 Submitted to the United States Postal Regulatory Commission January 31, 2019

The American Consumer Institute ("ACI") hereby submits these comments to address the actions of USPS management and discuss reforms that best meet the public interest objectives for a modern postal system.

The culmination of the USPS' 2018 fiscal year, as detailed by the recent Annual Compliance Report (ACR), reveals a discouraging continuation of well-documented debt growth. Further, the agency's prevailing bureaucratic inertia has proven insufficient in identifying paths towards achieving fiscal competency and orienting its rulemaking to serve the interests of consumers.

In the past, ACI has documented that the core mission of the USPS – to deliver mail – has become subordinated by delivery of its competitive services. Despite a clear mandate to provide monopoly postal services universally throughout the country, private market initiatives have steadily accelerated in the form of noticeable shifts in labor utilization, capital expenditures, and neglect for previously held priorities.

Our organization has routinely monitored the efficiency and performance quality of the USPS' core monopoly services amidst eroding consumer confidence.[1] Previously discussed failures to realize goals in on-time delivery accelerated in 2018 as USPS fell short of objectives for all segments of First-Class Mail. Notably, the Commission, for reasons that are unclear, has abdicated enforcement responsibilities to assess appropriate penalties on the USPS, despite similarly observing the downward trend in service quality and performance.

ACI also acknowledges that the USPS' letter mail service deterioration has been, in part, intentional due to the implementation of the "Operational Window Change" initiatives. These efforts starting in 2015 involved slashing First-Class Mail performance standards and eliminating overnight mail in order to scale back costs and apply savings towards debt

[1] "Comments of American Consumer Institute, Center for Citizen Research," Docket No. ACR2017, submitted to the Postal Regulatory Commission, January 30, 2018.

reduction. During the same period, USPS established Sunday deliver services for packages only – a clear indication of its shift away from its core mission in support competitive services.

In 2018, an analysis by the USPS Office of the Inspector General (OIG) revealed that the Postal Service had failed to deliver on the vast majority of the savings that were promised.[2] Only 5 percent of $1.6 billion projected savings were achieved in (FY) 2016 and 2017. Further details of the OIG's findings include:

- $1.61 billion in projected savings, but only $90.65 million was achieved;
- $65.7 million in projected premium pay reductions, but only $15.5 million was achieved;
- $268 million in projected transportation savings, but $0 was achieved;
- $430 million in projected cost avoidance, but only $232.8 million was verified;
- In terms of on time performance, 2.5 billion pieces of mail was delayed in 2018; and
- As for operational efficiency of mail processing, productivity was 4 percent lower in 2018 compared to the start of OWC.

In place of accruing savings as planned, the USPS has sought alternative remedies to boost its revenue – predominantly by targeting the prices for monopoly letter mail services. Since 2016, the USPS has successfully obtained approval for three rounds of rate hikes, amounting to a 17 percent increase overall (47 cents to 55 cents).

The arguments previously put forth by ACI in comments to the Commission on the importance of maintaining the existing rate cap mechanism are equally applicable to the latest historic rate increase that went into effect on January 28, 2019:

> "Allowing for rates to increase faster than inflation amounts to a negative productivity offset, which eliminates incentives to reduce costs and undermines the first goal of the Act. The price cap mechanism has not failed; the USPS has failed. It has failed because it cannot properly evaluate the profitability for its lines of business. This deficiency invites cost, revenue, profit and risk shifting, effectively subjecting its dominant market services to prop up competitive activities."[3]

Our organization further maintains that the described cross-subsidization is implicit within the intertwined monopoly and competitive service lines. Because USPS does not use a full cost accounting method and does not disclose sufficient financial detail for the public to measure the full extent of the shift of cost from competitive services to market dominant services, examples clearly show this is occurring in violation of the Postal Act. Unlike many public utilities, the USPS does not have the same affiliate transaction rules in place to monitor the proper allocation of costs between competitive and monopoly services.

[2] "Operational Window Change Savings," United States Postal Service Office of Inspector General, October 15, 2018.
[3] "Comments of American Consumer Institute Center for Citizen Research," Docket No. RM2017-3, submitted to the Postal Regulatory Commission, February 23, 2018.

For example, the USPS financial results for 2018 report that packages now account for 50% of the delivery weight,[4] which means that packages (which are less dense than letters) now occupy the more area within delivery vehicles used in the last mile, compared to market dominant services. From this fact, we would expect the competitive services to financially support most of the capital expenditures and depreciation expenses associated with these last-mile delivery vehicles. In fact, with the additional of Sunday delivery for packages, competitive services should, in fact, be allocated a much greater share of these capital expenditures and depreciation expenses.

Yet, there is no data available to the public to demonstrate that competitive services carry the fair share of these and other expenses. By not allocating these costs appropriately, as our simple example shows, one can reasonably conclude that the USPS is clearly and unequivocally violating the Postal Accountability and Enhancement Act.[5]

Moreover, despite the of the Commission's assertion that USPS has held to the requirements of the statute, the U.S. Treasury Department's Postal Task Force has affirmed the presence of an inherent subsidy, while also providing a favored remedy to deter it: "The USPS should retain the package business but establish a separate balance sheet for packages to help prevent cross-subsidization between the mail and package business units."[6] The report further recommends "that the USPS and the PRC develop a new cost allocation model with fully distributed costs to all products, services, and activities."[7]

ACI concurs with this conclusion and reemphasizes its arguments on the appropriate share of USPS's institutional costs that its competitive products must bear.[8] With respect the Commission's Order No. 4963, our organization urges use of a full cost allocation model, which would provide leadership with the correct information to judge whether market dominant services need price increases or whether certain competitive services should be discontinued or expanded.

In addition to the stated adjustment needs in pricing and cost allocation, the Treasury Report further cites additional matters the Commission can explore to help revitalize the Postal Service's business model, including employing rigorous cost controls and leveraging the USPS monopoly mailbox access to generate added revenue.

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[4] "FY2018 Annual Report to Congress," USPS, December 12, 2018, http://about.usps.com/who-we-are/financials/annual-reports/fy2018.pdf.

[5] 39 U.S. Code § 3633.

[6] "United States Postal Service: A Sustainable Path Forward," United States Treasury, December 2018, p. 55, https://home.treasury.gov/system/files/136/USPS_A_Sustainable_Path_Forward_report_12-04-2018.pdf.

[7] Ibid.

[8] "Comments of American Consumer Institute Center for Citizen Research," Docket No. RM2017-1, submitted to the Postal Regulatory Commission, April 16, 2018.

As we pointed out before, the Commission's latest formula-based approach uses two components that are not relevant in explaining the variation in the appropriate share of institutional costs, as well as excluding more pertinent variables. Specifically, the formula is focused on deterring the USPS from setting prices that are too high, while the PAEA is focused on prohibiting the USPS from setting prices that are too low. As such the formula does not incorporate any component or factor that identifies institutional costs uniquely associated with competitive products, as required by the PAEA – specifically, "the degree to which any costs are uniquely or disproportionately associated with competitive products."

Despite the USPS' adherence to the formula's mechanisms, the agency's service costs still substantially outpace total service revenues. Such outcomes are not acceptable for a federally-affiliated institution.

Given the Postal Service's dire fiscal position and clear deterioration of core services – from both a performance and pricing standpoint – all options for reform must be on the table for consideration.

Respectfully submitted,

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APWU

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March 11, 2019

The Honorable Ron Johnson, Chairman
Homeland Security and Governmental Affairs
Washington, DC 20510

The Honorable Gary Peters, Ranking Member
Homeland Security and Governmental Affairs
Washington, DC 20510

Dear Chairman Johnson and Ranking Member Peters,

The American Postal Workers Union (APWU) represents over 200,000 United States Postal Service (USPS) active employees and retirees, as well as 2,000 private-sector mail workers. Following President Trump's Executive Order to examine the operations and finances of the USPS, APWU along with the other USPS unions met with members of the Task Force to discuss our concerns and how we see a sustainable path forward for the USPS.

APWU, the National Association of Letter Carriers, the National Rural Letter Carriers' Association, and the National Postal Mailhandlers' Union addressed the financial difficulties the USPS currently faces, and educated the Task Force on the true source of these problems. As you know, the 2006 Postal Accountability and Enhancement Act (P.L. 109-435) requires the USPS to pre-fund its retirement health insurance expenses. Prior to 2006, the Postal Service paid for retiree health care expenses as they were incurred, which is the accepted practice throughout the public and private sectors. Prefunding those expenses decades in advance like Congress required of the USPS now costs the USPS $5.5 billion a year. This unorthodox expense accounts for over 88 percent of the USPS reported losses in the past decade. Without that expense, postal finances have a lot of positives and show consistent growth as the economy's reliance on eCommerce continues to flourish.

Despite the APWU and its fellow unions' efforts to educate the Postal Task Force on the reality of USPS financial burdens and the common-sense solutions to fix them, the report the Task Force issued in December 2018 ignored the most obvious fixes for our public postal system in favor of changes that would undermine the service provided by the USPS as well as thousands of postal workers' rights.

The report recommends that the Postal Service "evaluate areas of USPS operations where the USPS could expand third party relationship in order to provide services in a more cost efficient manner." There is, however, no factual basis for concluding that private sector or third-party partners would be more effective service-providers or that their services would provide significant financial value either to the USPS or customers. This outsourcing of core postal services is already a widely unpopular option in both the House of Representatives and the Senate. By the close of the 115th Congress, 239 members of the House of Representatives signed onto an anti-privatization resolution, and 51 of your fellow Senators signed onto its companion resolution. The House and Senate introduced these same resolutions again in the 116th Congress.

Further undercutting services, the Task Force recommends shuttering thousands of post offices, reducing delivery, and increasing prices. While shuttering nonprofitable stores and facilities in the private sector may make sense to the Task Force, our experience directly serving those communities leads us to strongly disagree that cutting the availability of postal services is a viable way to improve those services. Recent USPS efforts to make these kinds of cuts has consistently hurt the bottom line by driving away business more than it saves on operational costs. A 2012 analysis done for the Postal Service by a market research firm found that eliminating Saturday delivery and other downsizing measures, such as closing small town post offices or reducing post office hours, would cut costs by $3.3 billion annually, but reduce revenue by even more -- $5.3 billion annually. Taking away public postal services also stands in stark contrast to the Postal Service's Constitutional obligation to serve all Americans and all communities, regardless of the financial sustainability of any particular post office. Federal law explicitly prohibits the USPS from closing rural post offices solely because they are operating with a deficit. The short-term gain of drastic cost cutting will cause long-term damage to both the USPS's bottom line and services Americans are legally entitled to through the USPS.

The Task Force also recommended USPS charge market-based prices in order to "optimize its income." This idea is a mandate to raise prices on the Americans who are the more costly to serve, hitting customers in rural and remote areas the hardest. Fundamentally, market-based pricing negates the USPS' universal service obligation. Fulfilling its mission enshrined in the U.S. Constitution, the Postal Service provides affordable, reliable, and timely mail service to all Americans regardless of their health or wealth, who they are, or where they live.

The Task Force report's recommendations do not only erode services to postal customers, they also threaten postal jobs that have been a consistent base to the U.S. economy. Postal jobs have always been a life line to blue collar workers and our nation's veterans. Indirectly, the Task Force's recommendation to close post offices would result in significant job loss of postal employees, a loss that would be felt throughout the economy. But the Task Force also makes a direct assault on secure postal employment by seeking to strip postal worker of their 50-year right to collectively bargain for their wages. The Task Force views such changes to workers' rights as an eventual path to cutting postal employee wages and benefits. The APWU rejects the Task Force's recommendation, not only because it is an outrageous attack on Americans' rights simply because they work for USPS, but because, taken together with other cuts to postal services, the recommendations doom the USPS to failure.

One valid recommendation in the Task Force's report is to decrease the USPS' financial burdens by re-amortizing the liability for retiree health benefits. The report recommends legislative action to restructure the retiree health benefits liability using new actuarial calculations based on a measurement of the population of employees at or near retirement eligibility. APWU supports this recommendation, and has promoted the same concept to members of Congress for a number of years.

The APWU believes the Task Force's report represents the first stage of getting the USPS ready for full privatization, the clear goal of the current White House. The failure of a public postal system and its replacement by for-profit business will have reverberations throughout the economy in a multitude of ways that should give pause to any proponent of a sound and growing economy that serves all Americans. Over the past eight years, the Senate and the House of Representatives introduced legislation that addresses the financial liabilities the USPS faces. In the 115th Congress, the Senate introduced bipartisan legislation with real solutions to the Postal Service's financial problems. The postal unions worked with members of Congress on this legislation, and expect it to be introduced again in the 116th Congress.

APWU recognizes the need for financial sustainability for the USPS. As the Pew Research Center found, the United States Postal Service is the most trusted federal agency among Americans. It is vital that its services remain available to every citizen, regardless of location or income, and that it be given the freedom to grow and support the eCommerce economy. We look forward to working with you, Chairman Johnson and Ranking Member Peters, on how to achieve these goals and promote a robust public Postal Service that maintains the rights of the hundreds of thousands of dedicated public servants in your communities who move the mail every day.

Sincerely,

Mark Dimondstein
National President

Judy Beard
Director of Legislative & Political Affairs

ebay

March 12, 2019

Chairman Johnson
Chairman
Senate Committee on Homeland Security
And Government Affairs
340 Dirksen Senate Office Building
Washington, DC 20510

Ranking Member Peters
Ranking Member
Senate Committee on Homeland Security
And Government Affairs
724 Hart Senate Office Building
Washington, DC, 20510

Dear Chairman Johnson and Ranking Member Peters,

Thank you for your continued leadership and efforts to ensure the long-term viability of the U.S. Postal Service (USPS).

As you continue preparations for the March 12, 2019 hearing on "A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service," I would like to share with you the enclosed letter which Scott Cutler, the former head of eBay's Americas business, sent to Secretary Mnuchin in August of last year. Mr. Cutler's comments expressed expectations for the President's Task Force and our interests in the success of USPS – sentiments eBay holds just as true today.

Please let me know if there is anything I can do to be of assistance in addressing critical postal reforms going forward. USPS is the backbone of e-commerce and its success will be the success of entrepreneurs, small businesses and consumers across the country.

Sincerely,

Michael Dabbs
Senior Director Government Relations
eBay

ebay

August 24, 2018

The Honorable Steven T. Mnuchin
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Mnuchin,

I write regarding the ongoing work of the "Task Force on the United State Postal System" to evaluate the operations and finances of the United States Postal Service (USPS). As you know, eBay supports one of the world's largest and most vibrant online marketplaces. We connect buyers and sellers around the world, empowering entrepreneurship and independent small businesses. A strong and vibrant USPS is critical to eBay and the hundreds of thousands of US small businesses that use eBay to reach customers throughout the US and around the world.

eBay has long been a partner to the USPS, and is heavily invested in its future stability and viability. eBay empowers over 171 million buyers globally on our marketplaces and hosts approximately 1.1 billion listings at any given time. To reach these buyers, the independent US small businesses that use our platform rely on the USPS for affordable, reliable service, and consumers in every corner of the country depend upon the USPS for last mile delivery. On behalf of those small businesses and their customers, I ask that you carefully consider the impacts of any proposed changes on small Internet-enabled businesses and those living in rural areas of our country.

Access to a range of reliable and affordable delivery options is critical for small businesses to compete and to reach a global customer base and grow. Small businesses lack the complex shipping, logistics, and fulfillment resources available to larger companies, and many rely on the USPS to reach their customers. Managing and operating a small business is hard work, and many small business owners operate on slim margins. Higher prices for package delivery will disproportionately affect these small businesses relative to larger companies who can better absorb increased operating costs.

In addition to potential impacts on small businesses, we ask that you consider the impacts of any proposed changes in USPS operations would have on Americans living in rural areas of our country. Thirty six percent of eBay's sellers come from small towns or rural areas.[1] "Last mile" delivery service and the availability of USPS retail locations in these areas are critical for rural buyers and sellers alike. One example is Clark Taylor, a small business owner who lives in a rural part of Louisiana and sells on eBay. Clark says "I consider the USPS to be a vital partner in my business. They provide consistent and competent service in virtually every location. All in all, I cannot imagine how I would have been able to grow my business without the USPS." We hear Clark's sentiments consistently as we talk with thousands of our small business partners across the country.

[1] The eBay Economy in the U.S.

ebay

As a longtime partner to the USPS, eBay is committed to the long-term viability of the postal service and its role in ecommerce and the American economy. As you evaluate recommendations to improve the USPS, we hope that you will strongly consider the unique needs and challenges of small businesses and rural Americans in any proposal.

Sincerely,

Scott Cutler
Senior Vice President, Americas
eBay, Inc.

STATEMENT OF THE GREETING CARD ASSOCIATION

BEFORE THE U.S. SENATE HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS COMMITTEE

A PATH TO SUSTAINABILITY: RECOMMENDATIONS FROM THE PRESIDENT'S TASK FORCE ON THE UNITED STATES POSTAL SERVICE

MARCH 12, 2019

The Greeting Card Association (GCA) respectfully offers comment for the record for the Homeland Security and Governmental Affairs Committee's examination of the President's Task Force on the United States Postal Service. While the GCA is pleased that the issue of Postal Service financial stability has received such attention, we are concerned that the Task Force process delayed action by Congress on legislation that has garnered widespread stakeholder support. Moreover, most of the task force recommendations are unlikely to receive broad consensus, raising the prospect that action by Congress on critically needed legislation may be further delayed. GCA offers the following commentary on the task force recommendations in the hope that the Committee will move forward with legislation based on the consensus package combining modest additional rate authority with integration of Postal Service retirees into Medicare and a re-amortization of its obligation for retiree healthcare to provide a sustainable payment schedule while it debates the complex issues raised in the report.

If there is one overarching idea in the Task Force's report, it is that the Postal Service is on an "unsustainable financial path." We may agree, to a considerable extent, but still find that this concept influences the report to prioritize financial recovery over public service. It points, correctly, to the drastic erosion of letter mail due to e-media substitution, but does not always consider that budget-driven reductions in public service are likely to exacerbate that erosion.

The Task Force's report offers a number of novel ideas. Some of these are problematic, and the report is not always ideally helpful for understanding them, or for seeing how they might be put to use.

Essential and commercial products – governmental protection. One of the most challenging ideas the report propounds is its division of postal products into "essential" and "commercial" categories.

"Essential" products, according to the Task Force, would be those for which "a strong social or macroeconomic rationale exists for government protection in the form of price caps and mandated delivery standards." All others would be "commercial" and would not be entitled to those governmental protections. While the essential/commercial dichotomy presents some difficulties, the Task Force is clearly right in recognizing the major positive social benefits which some types of mail – like personal correspondence – provide to our society.

The report does not tell us what would constitute a macroeconomic rationale. The simplest answer would be that any industry which is significant in the general economy would have such a rationale. But this would mean that every product used by the entire mailing industry, which, according to a 2015 study by the Envelope Manufacturers Association, incorporates six percent of the Nation's jobs (7.5 million) and $1.4 trillion in revenue (4.6 percent of the Nation's output), would have to be classed as "essential."

On this view, however, there would be few if any "commercial" services. Much of the mailing industry's vast output is advertising mail, but the report (p. 51) states that "commercial marketing solicitations" should *not* enjoy the government protections it would maintain for "essential" products. Perhaps, therefore, the macroeconomic rationale the Task Force has in mind should be based on structure, not just on dollar and job statistics. Doing so might eliminate the confusing overlap in the Task Force's categories.

If so, it would be hard to find a better starting point than the existing statute. The Postal Accountability and Enhancement Act of 2006 ("PAEA") starts by classifying as competitive those products which were generally recognized, at the time of enactment, as subject to competition. It also provides rules for transferring products from the market-dominant sector to the competitive side. The PAEA rules would strike most students of monopoly and competition as embodying mainstream ideas. A competitive product is one over which the Postal Service does not enjoy market power, defined as the ability to set prices substantially above cost, or raise them, or decrease quality or output, without significant loss of traffic to other enterprises offering a similar product. Products covered by the statutory letter monopoly also may not be transferred to the competitive side – an unusual feature only in that statutory monopolies are unusual.

The report would deny "government protections" to commercial products; but the price cap already does not extend to Postal Service competitive products. "Mandated delivery standards," under PAEA, likewise exist only for market-dominant products.[1]

In short, if "essential" and "competitive" products are to be distinguished for purposes of providing or withholding governmental protections, present law is the best basis for doing so – in fact, arguably, present law already does this quite adequately.

"Commercial" products and the monopoly. The report also could be clearer in some respects regarding the relationship between its essential/commercial distinction and the Private Express Statutes. Under present law, letters – as defined in Postal Service regulations now embodied in 39 U.S.C. sec. 601(b) – are subject to the monopoly. Yet the report recommends "market prices" for commercial products, and states (p. 51) that the price cap could be eliminated or relaxed for Marketing Mail so that it could be "appropriately price[d]." Doing so, the Task Force states, would "increase[e] the USPS's net income in order to compensate for losses associated with other products, deemed essential services[.]"

USPS Marketing Mail is largely covered by the letter monopoly, so that "market prices" for it have, to that extent, only a theoretical existence. Eliminating the price cap for Marketing

[1] They are "mandated" in the sense that the statute requires them – not that the regulator sets them. Section 3691(a) directs that they be set by the Postal Service, in consultation with the PRC.

Mail would not change this, but it is not clear how an "appropriate" price for it would be determined if it can be offered only by the Postal Service: to have "market prices," there must be a market. The report does not call for removing Marketing Mail from the scope of the Private Express Statutes. If it were, however, competing carriers would cream-skim the lowest-cost or most profitable submarkets, leaving the Postal Service to serve the less productive areas, at increased unit cost. This situation, in turn, would likely *decrease* the Postal Service's net income – the opposite of the result the Task Force contemplates.

The universal service obligation: extent and scope. The Task Force rightly recognizes that "universal" means just that, at least as regards geographic scope. It recommends keeping the present obligation to serve all addresses in "the United States, its territories and possession." Applying its essential/commercial dichotomy, the Task Force even advocates – for essential services – uniform "cost" regardless of origin or destination. (We must assume that by "cost" the report means cost to the customer, since cost to serve clearly does vary with distance.) The Task Force is certainly right to insist on the existing uniform rate for letter mail, and the Postal Service's experience shows that some flat-rate package products can succeed also.

On the other hand, it is hard to agree with the Task Force's proposal that for essential products, days of delivery per week should be decided by reference to the "social and economic needs specified" – the report does not say by whom – "for those items."

The report (p. 43) recommends also that "[f]or items not deemed essential services, the USPS should determine a delivery frequency that optimizes the generation of net income, while still achieving customer expectations." The risk here is that the social and economic needs for essential services will be "specified" with an eye to optimizing net income from the competitive ones. The result could be a return to the notion of five-day delivery for mail and seven-day delivery for packages. This, as the PRC found a few years ago, would result in substantial loss of volume and revenue in those services whose delivery had been curtailed.

Later in the report (p. 62), the Task Force seems to suggest that PRC authority to require – not merely consult about – service standards would be a useful reform. We agree. Existing law (39 U.S.C. sec. 3661) requires the Postal Service to seek an advisory opinion concerning major changes in the nature of service, and provides for elaborate fact-finding procedures. In several important nature-of-service cases, the PRC has conscientiously carried out this mandate, but its recommendations had no direct effect on what the Postal Service did. The Task Force's sharp distinction between the "essential" and "commercial" service obligations makes it even more important to have independent – and effective – oversight.

Competition and monopoly. The Task Force report emphasizes the statutory letter and mailbox monopolies – in our view, too heavily and too exclusively. For example, it does not adequately consider whether the Postal Service's scale and scope economies make it a natural monopoly in the delivery function. Some current market facts indicate that they do. The substantial, and growing, volume of Parcel Select indicates that large private-sector carriers such as UPS and FedEx find the Postal Service's last-mile delivery less costly than they could provide for themselves. Periodicals are not subject to the letter monopoly, but the Postal Service is still the dominant carrier. It is true that declining mail volume reduces the Postal Service's scale advantage, but it still exists and should have been recognized.

We would argue that the main benefit of the letter monopoly is preservation for the Postal Service of the profitable segments of the letter delivery market. Just as with packages, private-sector carriers, if free to do so, could choose to deliver letters only in central business districts and denser residential and suburban areas. The Postal Service would be left with the thinner delivery areas, entailing higher per-piece delivery costs. This would lead to higher unit postage rates, and as postal products exhibit some price sensitivity, lower volumes and, predictably, increased unit costs.

In this connection, we suggest caution in assuming that because Postal Service volume models – whose reliability has been seriously challenged – show that most products are technically price-inelastic, raising rates will always produce a net gain despite the price-driven decline in volume. There may be a gain in *revenue* – but since 43 percent of all Postal Service costs are not volume-variable, the reduction in volume will drive unit costs upward. The great bulk of these costs are fixed, and would have to be recovered from fewer mailpieces. The hoped-for bottom-line gain from price increases could turn out to be largely an illusion.

The report's treatment of the mailbox monopoly established by 18 U.S.C. sec. 1625 is even more disturbing. The Task Force suggests that it be "monetized," by having the Postal Service sell licenses to other carriers to make delivery through customer mailboxes.

This recommendation ignores the operating cost effect of de-monopolizing the mailbox. Customers leave substantial volumes of originating mail for collection from their mailboxes, and carriers would have to sort through mail delivered by other carriers to identify and collect it. Here again, the Task Force has concentrated on revenue-raising without considering that the Postal Service's financial health depends on costs as well as income.

It also largely fails to consider privacy and mail security issues. Some of these are obvious; others are more abstruse, but possibly substantial. For example, would Postal Inspectors' responsibility for protecting the mailbox create a conflict of interest if Postal Service competitors were also subject to it? Would other carriers "monetize" the commercially valuable information available to them through their ability to see what customers receive and send through the Postal Service?

It would be more realistic to treat the mailbox monopoly as a resource for cost containment and mail security, and not an unexploited revenue source. Where a Postal Service resource can be licensed to others without hampering postal operations or raising their cost – as with some types of intellectual property – the Service does so. The mailbox monopoly is not such a case.

Costing and pricing. Costing and pricing of postal products is perhaps the area in which the Task Force report is least convincing.

With respect to costing, the report seems to advocate a fully-distributed-cost (FDC) approach in place of the existing statutory and administrative rules. This ignores the generally accepted principle – recognized by the PRC since the 1980s – that FDC systems are arbitrary and yield economically inefficient rates. The PRC exhaustively analyzed this issue when United Parcel Service proposed drastic changes in costing methods – which, by the way, would have raised costs for market-dominant products even more than for the competitive sector.

The report also states that "[t]he USPS's ability to price last mile delivery and the delivery of small packages below those of private sector competitors distorts package markets." We suspect it would be news to most economists that utilizing one's advantages in scale and scope "distorts" the market. The Postal Service has this ability because of those advantages. To view this fact as a distortion of the market is possible only by assuming that the Postal Service's costs are "not really" as low as the established, economically sound costing system reports them. The statute requires that costs be attributed to products only on the basis of reliably identified causal relationships. The PRC and the Postal Service use the incremental cost of a product – that is, the amount that would be saved if the product were to disappear entirely – as establishing such a relationship. An FDC approach would benefit only the Postal Service's competitors; and since the Service's competitive products are quite profitable, the result would be a worsening of its financial position – precisely the wrong answer, in light of the Task Force's overarching emphasis on the Service's "unsustainable financial path."

Responsibility for Postal Service Health Costs. One Task Force recommendation with which GCA generally agrees is that Postal Service healthcare costs should be the responsibility of rate payers, not tax payers. GCA believes that the best option is for the Postal Service to fund its obligations through revenue generated from its products and services rather than through a direct appropriation from Congress. At the same time, we believe the Postal Service should not be subject to the unsustainable and unique obligations imposed under PAEA. We concur with the Task Force recommendation that the Postal Service's "PSRHBF and the unfunded actuarial liability, must be restructured with the payments re-amortized with a new actuarial calculation based on the population of employees at or near retirement age."

One idea that was suggested by the National Association of Letter Carriers at the end of last year is to re-calculate Postal Service retiree healthcare obligations on the basis of the accumulated postretirement benefit obligation (APBO) or vested liability. The vested liability is a company's liability for retiree health in the event that the benefit plan is terminated or the company ceases operations. It is the cost of retiree health for existing retirees and any employees immediately eligible to retire with continued health benefits.

Of course, in the private sector, companies are not required to prefund retiree health benefits at all. But they are required to report the vested liability (i.e., the accumulated postretirement benefit obligation or APBO) for such benefits – as required by Standard No. 158 of the Financial Accounting Standards Board. This represents a much more reasonable prefunding target for USPS retiree health. We encourage the Committee to explore this approach and believe it is consistent with the Task Force recommendation for a new actuarial calculation.

The Postal Service's finances. The Task Force recommendation quoted above brings us back full circle to our starting point; the Task Force's conclusion that the Postal Service cannot survive financially under present arrangements. Unfortunately, its report falls short in two respects:

- It fails to distinguish the Postal Service's *operating* results – which are far more promising than it suggests – from its *overall* financial picture, which is severely distorted by its unworkable retiree health prefunding obligation, and

- It does not recognize that pending legislation would largely cure the latter problem.

The Postal Service uses a non-GAAP financial measure called "controllable income" to report results for those factors it can control. In some recent years, this metric has shown an operating profit even when the Service's overall results showed a large deficit. This fact suggests that correcting *structural* obstacles to sound finances should be the first priority: specifically, the impracticable retiree health prefunding requirement and a health-benefit system which does not capture the savings available through integration with Medicare.

Last year Senator Tom Carper introduced S. 2629, The Postal Service Reform Act of 2018. This legislation, introduced on a bipartisan basis, provided a responsible approach to the issues of prefunding and retiree healthcare obligations by providing for the full integration of Postal Service retirees into Medicare consistent with common practice in the private sector. The bill also provided for an offset to the small increase to the Medicare budget that would result. Vested liability could provide an opportunity to further mitigate the impact to Medicare. Also included were a re-amortized payment schedule for the remaining Postal Service healthcare obligation and a one-time 2.15% increase in Postal Service rate setting authority. This combination of reforms reflects an extensive effort among postal stakeholders to reach consensus on a reform package and was supported by a broad range of union and private sector organizations. While GCA recognizes that S. 2629 does not completely solve the Postal Service's financial challenges, we believe that enactment of such legislation would provide a valuable period of financial stability for Postal Service customers and time for Congress to debate further reforms.

GCA strongly supports a stable and efficient United States Postal Service that can provide affordable and reliable universal mail service six days a week. Our customers rely on the Postal Service to deliver more than half of the six billion greeting cards sold each year and contribute highly desirable content to the mail stream that leverages many other mail products. We look forward to working with the Committee and other stakeholders to advance legislation that will ensure the success of our nation's postal system.

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National Association of Federally-Insured Credit Unions

March 11, 2019

The Honorable Ron Johnson
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate
Washington, D.C. 20510

The Honorable Gary C. Peters
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate
Washington, D.C. 20510

Re: Tomorrow's Hearing on "A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service"

Dear Chairman Johnson and Ranking Member Peters:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in conjunction with tomorrow's hearing entitled "A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service." NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 115 million consumers with personal and small business financial service products.

NAFCU strongly supports the important work of the U.S. Postal Service, which credit unions across the nation and of all sizes use to communicate with their members, to send statements and receive payments, and to market new products or services to their members. For these reasons, credit unions are committed to identifying long-term solutions to ensure an efficient, self-sustaining, and affordable U.S. postal system. However, postal banking is not one of those solutions.

Although there have been a number of proposals over the past few years to turn the U.S. Postal Service into the world's largest shadow banking system, NAFCU and our member credit unions are very concerned that allowing the U.S. Postal Service to provide banking services will be beyond its core competencies, will raise a number of serious regulatory and consumer protection questions, and will present significant competitive issues for private sector entities. We are pleased to see that the President's Task Force agrees with NAFCU, concluding that "given the USPS's narrow expertise and capital limitations, USPS should not pursue expanding into new sectors, such as postal banking, where the USPS does not have a demonstrated competency or comparative advantage, or where balance sheet risk would be added." Moreover, the U.S. Postal Service also opposes the authority to provide banking services, as expanding into this area would almost certainly not help its financial situation.

NAFCU encourages Congress to focus on reducing costs and increasing efficiencies to put the U.S. Postal Service on a sound and sustainable financial path over the long run. Postal banking legislation would do just the opposite. Therefore, NAFCU urges the Committee to encourage the U.S. Postal Service to focus on its core business of physical mail delivery, and not be distracted by expanding its mission to businesses outside its area of expertise.

On behalf of our nation's credit unions and their more than 115 million members, we thank you for your attention to this important matter. Should you have any questions or require any additional information, please contact me or Alex Gleason, NAFCU's Associate Director of Legislative Affairs, at 703-842-2237 or agleason@nafcu.org.

Sincerely,

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the U.S. Senate Committee on Homeland Security and Governmental Affairs

National Association of Letter Carriers
Fredric V. Rolando, President

100 Indiana Ave. NW
Washington, DC 20001-2144
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March 21, 2019

The Honorable Ron Johnson	The Honorable Gary Peters
Chairman	Ranking Member
Senate Homeland Security and	Senate Homeland Security and
Governmental Affairs Committee	Governmental Affairs Committee
340 Dirksen Senate Office Building	340 Dirksen Senate Office Building
Washington, D.C. 20510	Washington, D.C. 20510

Chairman Johnson and Ranking Member Peters:

On behalf of the 289,000 active and retired letter carriers represented by the National Association of Letter Carriers, I write to request the inclusion of the attached materials in the record for the March 12, 2019 Homeland Security and Government Affairs (HSGAC) hearing titled "A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service."
Since the hearing dealt with the recommendations of the White House Task Force on the U.S. Postal System, NALC believes it is important that HSGAC members be made aware of the serious flaws contained in the Task Force's report. Unfortunately, the report suffers from misleading data and faulty analysis, which calls into question virtually all its findings – on issues ranging from the USPS's sustainability, to postal labor costs, to the pricing of competitive products.

In our view, the Task Force has misdiagnosed the Postal Service's primary problem. The Postal Service is not unsustainable and does not need a new business model; it needs relief from the crushing burden to massively prefund future retiree health benefits, a burden that no other enterprise in America faces. In fact, in the absence of the prefunding burden, the Postal Service would have recorded profits in each of the past six fiscal years.

As we note in the conclusion of our review, we agree with Chairman Johnson's previous observation from a January 2016 hearing titled "Laying Out the Reality of the United States Postal Service," where Chairman Johnson contended that "... we passed the 2006 law that reclassified a long-term liability into a short-term liability which created a real pinch on the Postal Service that never should have occurred."

Our review identifies a variety of fundamental flaws in the Task Force report, explores the unexamined consequences of its misguided recommendations, and outlines alternative reforms that would embrace best practices in the private sector and position the Postal Service to thrive in the future.

Thank you for your consideration of this request.

Sincerely,

Fredric V. Rolando
President

Attachment

National Association of Letter Carriers
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Misdiagnosis: A Review of the Report of the White House Task Force on the Postal Service

In April 2018, President Trump issued an executive order creating a task force to evaluate the operations and finances of the U.S. Postal Service and to make recommendations for policy changes to ensure a sustainable future for the agency. The White House Task Force, comprised of the Secretary of Treasury and the Directors of the Office of Management and Budget and the Office of Personnel Management, reported its findings to the President on August 10 after just 120 days -- and then issued a public report in December 2018.

Regrettably, that report, United State Postal Service: A Sustainable Path Forward, fundamentally misdiagnoses the operational and financial condition of the Postal Service, and as a result offers recommendations that would seriously weaken if not destroy USPS, a national treasure and vital part of our nation's economic infrastructure.

The principle recommendations would dramatically raise mailing costs for "commercial mailers" and shippers, slash the frequency and quality of delivery, and gut the standard of living of postal employees by outsourcing their jobs, stripping them of collective bargaining rights and reducing their retirement and workers' compensation benefits. These recommendations would weaken, not strengthen the Postal Service – and threaten the most efficient and affordable universal postal system in the world.

The public report, the result of a rushed process conducted behind closed doors without public hearings or a stakeholder comment process, is deeply flawed. Its three major findings about the Postal Service – regarding its current sustainability, its labor costs and its impact on competition in the delivery industry – are fundamentally wrong. They are based on incomplete data, faulty analysis and misleading evidence.

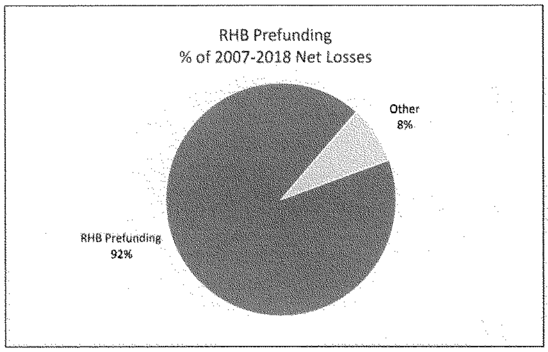
The National Association of Letter Carriers (NALC) can support some of the report's recommendations – such as maintaining the geographic scope of the Universal Service Obligation (USO), reducing the burden of the prefunding mandate and exploring the addition of new services outside the current USO to help fund the agency. But we oppose the bulk of the Task Force's recommendations and hope to advance more productive and effective reform ideas as the legislative debate unfolds. Indeed, we prepared this review of the Task Force report to advance that debate.

In sections below, we analyze the faulty foundations of the Task Force's findings, explain the unexamined consequences of its recommendations and summarize an alternative reform agenda that will position the Postal Service to thrive in the 21st Century.

Misdiagnosing the Crisis

The Postal Service recorded losses of some $69 billion between 2007 and 2018, the years following the enactment of the Postal Accountability and Enhancement Act (PAEA) of 2006. Although the negative impact of the Great Recession of 2008-2010 certainly had a devastating impact on mail volume and postal finances, and while significant electronic substitution of First Class Mail volume due to the internet made things worse, the financial crisis of the past 12 years was largely manufactured by Congressional policy.

The PAEA's mandate requiring the Postal Service – uniquely among all American enterprises -- to prefund decades of future retiree health benefit costs in advance accounts for 92% of the $69 billion in losses:



The PAEA also imposed a strict cap on postage rate increases (tied to the Consumer Price Index), making the prefunding mandate totally unaffordable. Yet, remarkably, the White House Task Force report mentions these key policy drivers only in passing. Indeed, the Task Force chose to largely ignore the elephant in the room – prefunding – in its three most important findings:

1) The Postal Service is on a financially unsustainable path and therefore requires a new business model with a downsized universal service obligation.

2) The Postal Service's labor costs are excessively high and therefore must be dramatically cut by stripping hundreds of thousands of postal employees of their collective bargaining rights and by gutting postal employee pension and workers' compensation benefits.

3) The Postal Service's strong growth in the delivery of packages and other competitive products is improperly distorting the market for such delivery to the detriment of private competitors -- and therefore requires a radical restructuring of the current system of regulating and pricing of postal products.

None of these basic findings hold up to scrutiny, making the policy recommendations that arise from them nonsensical. Let's look at each in turn.

Is the Postal Service on an Unsustainable Path?

The Task Force relies on two primary arguments to make the case that the Postal Service is on an unsustainable path. First, it cites operational and financial trends, focusing on the decline in First Class Mail volume and revenue and the heavy financial losses reported by the Postal Service in recent years. Second, it points to weaknesses in the Postal Service's balance sheet – the excess of liabilities over assets. In both cases, the Task Force has misread the Postal Service's financial condition.

Table 2: USPS Revenue, Expenditures, and Volume Trends

USPS Domestic Mail and Package Revenue and Volume Trends *(in Billions)*									
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Mail Revenue ($)	50.6	49.0	47.0	46.7	47.4	47.5	46.6	43.6	42.7
Mail Volume (pieces)	166.9	164.1	155.4	153.7	150.5	148.7	148.2	142.7	139.9
Package Revenue ($)	10.3	10.7	11.6	12.6	13.8	15.1	17.5	19.5	21.5
Package Volume (pieces)	3.1	3.3	3.5	3.7	4.0	4.5	5.2	5.7	6.2

USPS Revenue and Expenditures *(Dollars in Billions)*									
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Total Revenue	67.1	65.7	65.2	67.3	67.9	69.0	71.5	69.7	70.7
Expenses Excluding RHB	70.1	70.8	70.1	66.7	67.7	68.3	71.3	68.2	70.0
Operating Income (prior to RHB)	(3.0)	(5.1)	(4.8)	0.6	0.2	0.6	0.2	1.5	0.7
RHB (10-Year Prefunding)	5.5	0.0*	11.1*	5.6	5.7	5.7	5.8	-	-
RHB (40-Year Amortized Prefunding)	-	-	-	-	-	-	-	1.0	0.8
Annual Accrual of RHB	-	-	-	-	-	-	-	3.3	3.7
Net Income (Including RHB)	(8.5)	(5.1)	(15.9)	(5.0)	(5.5)	(5.1)	(5.6)	(2.8)	(3.9)

** The USPS failed to prefund its retiree health benefit (RHB) payments after 2010. Congress shifted the USPS's 2011 prefunding payment to 2012, resulting in an $11.1 billion liability in 2012. Source: USPS 10-K Filings, 2007-2018*

Financial and operational trends. On the previous page, we've recreated Table 2 from the Task Force report (page 19 in the published document). Although it is true that mail volume (meaning letters- only in the chart) and revenue declined in the years after the Great Recession, there has been strong growth in package revenue and volume. As the top half of Table 2 shows, the loss in revenue from letter mail between 2010 and 2018 ($7.9 billion) has been more than offset by the increase in package revenue ($11.2 billion). Yes, First Class Mail volume has declined sharply, but Marketing Mail volume has been relatively stable and the overall rate of decline in total mail volume (letters and packages) has been fairly moderate. Total mail volume (including packages) declined from 170 billion in 2010 to 146 billion pieces in 2018, an average decline of 1.8% annually over that eight-year period.

What Table 2 does not fully convey, however, is that over that same period, the Postal Service restructured itself in response to lower mail volume, reducing its workforce by hundreds of thousands and its costs by billions annually (which will be discussed further in the next section).

Thanks to the hard work of postal employees, the Postal Service recovered from the Great Recession. Indeed, as the lower half of the chart shows in the "Operating Income" line, USPS turned massive losses into solid surpluses. Of course, as the label in that line indicates, that was the result of operations before factoring in the cost of prefunding retiree health benefits (RHB). Indeed, for the past six years running, the Postal Service's "Operating Income (prior to RHB)" has been positive – totaling $3.8 billion. As the table shows, Operating Income (before RHB) was $1.5 billion in 2017 and $700 million in 2018. If not for the PRC's mistaken decision to repeal the 4.3% "exigent increase" in postage rates in 2016 (implemented during the Great Recession), those surpluses in 2017 and 2018 would have been approximately $1.5 billion per year higher. That was the first roll-back in rates since 1919.

In short, the Congressional mandate to make the Postal Service do what no other business in America is required to do – massively prefund future retiree health benefits – accounts for 100% of the Postal Service's losses since 2013. Instead of suggesting the Postal Service is on an unsustainable financial path, Table 2 proves the opposite. If not for the misguided prefunding policy, the Postal Service, under its current business model, would be adapting quite well to technological and economic change.

A simple repeal of the prefunding mandate (which NALC supports) may not solve all challenges facing the Postal Service – the mix of mail will continue to evolve as some forms of traditional letter mail decline. However, without the mandate, the Postal Service would be positioned to thrive in the future with much more sensible and moderate reforms than the ones being pushed by the Task Force.

Balance sheet issues. The Task Force's second major argument to support its conclusion that the Postal Service is on an unsustainable path is weaknesses on its balance sheet. It reports: ". . . as of FY 2018, the USPS balance sheet reflects $89 billion in liabilities against $27 billion in assets – a net deficiency of $62 billion." (See page 2 of the published report.) And it highlights the Postal Service's long- term liabilities for retirement benefits and other programs in Table 3 of the report (found on page 26), which is recreated below.

As with its finances, the source of the Postal Service's balance sheet weakness is the misguided Congressional policy, not a problem with its business model. In addition, the report's discussion of liabilities lacks important context.

First, with respect to the balance sheet, here is the data cited by the Task Force, which is presented on page 16 of the Postal Service's 10-K report for 2018:

Selected Financial Data for 2018 (in $millions)

Assets:	
Cash and cash equivalents	$10,061
Property and equipment, net	14,616
All other assets	2,011
Total assets	**$26,688**
Liabilities:	
Retiree health benefits	$42,641
Workers compensation costs	16,409
Debt	13,200
All other liabilities	17,075
Total liabilities	**$89,325**
Total net deficiency	**$(62,637)**

This 10-K breakout of assets and liabilities provides important context that the Task Report does not, which undermines the report's dire conclusions about the balance sheet.

On the asset side, the Postal Service has a strong cash position -- $10.1 billion is double the nearly $5 billion in cash recorded at the end of FY 2014. In addition, it is important to note that the Postal Service's property and equipment is carried at book value, not market value. The USPS Office of Inspector General has estimated that the Postal Service's huge real estate holdings may be worth up to $85 billion at market value. (See: https://www.uspsoig.gov/sites/default/files/document-library-files/2015/ft-wp-15-003_0.pdf.)

On the liability side, the most important thing to remember is that the $42.6 billion in retiree health liabilities listed here is, once again, the negative results of the misguided prefunding policy adopted by Congress in 2006. This is the amount of the prefunding payments that the Postal Service has not been able to make since 2011 – the driving force behind the reported net losses discussed above. In other words, more than two-thirds of the "net deficiency" between assets and liabilities is directly due to the prefunding mandate. And when you note that the Postal Service had to use its borrowing authority to cover the cost of prefunding payments it made between 2007 and 2009, an even greater percentage of the net deficiency is due to Congressional policy.

Second, the Task Force's discussion of long-term liabilities again shows the negative impact of the prefunding policy – it accounts for almost half (47.6%) of the $139 billion in liabilities. (See Table 3 on the next page.) But even including the retiree health liability, this number is not particularly alarming when you consider the size of the Postal Service (635,000 employees and $70 billion in annual sales) and the fact that it is a projection covering a very long period into the future – 75 years for the pensions and even more for retiree health benefits.

Of course, liabilities measured over such long periods of time are very sensitive to interest rate movements. Indeed, the increases in these liabilities over the past 12 years were artificially inflated by declining interest rates resulting from the recession. As interest rates rise in the future, these liabilities (for pensions, retiree health and workers' compensation) will fall significantly.

Table 3 from the Task Force report is misleading since it fails to provide data on retirement assets as well as retirement liabilities:

Table 3: Postal Service Long-Term Liabilities, FY 2018 ($ Billions)

Long-Term Liability	Amount
Unfunded Pension Liabilities	
Civil Service Retirement System (CSRS)	$25.1
Federal Employees Retirement System (FERS)	$18.4
Total Unfunded Pension Liabilities	**$43.5**
Other Long-Term Liabilities	
Retiree Health Benefits (RHB)	$66.5
Workers' Compensation	$16.4
Debt to Federal Financing Bank	$13.2
Total Long-Term Liabilities	**$139.6**

Source: USPS 10-K Filing 2018

In fact, contrary to the implications of Table 3, the funding of retirement benefits is an area of strength for the Postal Service. The chart above indicates a $43.5 billion unfunded liability for CSRS and FERS pensions. But according to the Postal Service's 2018 10-K report (p.31), that reflects the difference between $322.7 billion in liabilities and the $281.6 billion in assets. That means that the Postal Service has funded 87% of its pension liabilities – which would place it well into the "green zone" under pension funding rules for the private sector. This is especially remarkable when you consider that the Postal Service is required to invest its CSRS and FERS pension assets in low-yielding Treasury bonds instead of a well-diversified portfolio of stocks and bonds that would provide greater returns.

Similarly, the task report does not report on the $47.5 billion in assets (again invested in low-yielding treasury securities) held by the Postal Retiree Health Benefit Fund, only the unfunded liability.

In the absence of the Congressional prefunding mandate, the Postal Service's balance sheet would be much stronger and the long-term outlook on liabilities would be significantly better than portrayed by the Task Force report. As with dire claims about the Postal Service's financial performance in recent years, the White House Task Force findings in this area are deeply flawed. They cannot and should not be used to radically transform the Postal Service's business model or the public interest system of regulation that governs it.

Are the Postal Service's Labor Costs Excessive?

The conclusions of the Task Force on Postal Service labor costs are based on little or no evidence. This is surprising given the radical reforms it proposes – stripping postal employees of their collective bargaining rights and ending their defined benefit pensions (which are extremely well-funded, as we just showed above). Indeed, the topic of labor costs is handled with a series of non-sequitur statements and dubious assertions scattered throughout the report. A good example of this comes in the section on the *Role of the Postal Service in the Economy*:

> The typical postal service worker earns a higher wage than the average U.S. worker. However, postal workers note that their salaries must be compared to those of their major competitors, UPS and FedEx, rather than the typical U.S. worker. This calculation is difficult given the need to adjust for similar experience, duties, and location as well as the lack of detailed data on wages and benefits within these companies. Based on Treasury staff analysis of 10-K filings, in 2017, total per-employee cost at the USPS was $85,800, compared to $76,200 and $53,900 at UPS and FedEx, respectively. (See pp. 13-14.)

It is not at all surprising that the typical postal worker earns more than the average American worker given that they work for one of the largest employers in America in an industry that pays above-average wages. Meanwhile, the "Treasury staff analysis" is ludicrous. The method used -- dividing the three companies' total labor costs by the number of employees (as reported in the 10-K reports) -- is downright silly. It does not control for even the most basic relevant factors – hours worked, tenure, executive status, etc. For example, virtually all postal employees work full-time schedules (even the non-career staff according to their 10-K reports) while the private companies have huge part-time workforces (47% at UPS and 41% at FedEx) due to major differences in work flow among the three delivery firms. (Many of their workers work 2-4 hours a day.) Part-time workers earn substantially lower wages than full-time workers in virtually every industry -- and they usually do not receive non-wage benefits. Nor did the Treasury staff consider the fact that FedEx uses independent contractors for most of their delivery work, labor costs that are reported as "purchased transportation."

The quality of the analysis does not improve in later sections of the report. A section entitled *Current State of the USPS (p 24.)* offers this skimpy take on labor costs:

> *Labor Costs*
>
> Employee compensation and benefits accounts for around 76 percent of the USPS's total expenses. These costs represent a much higher share of the USPS's overall costs when compared against other private courier companies. Between 2014 and 2017, the USPS's total workforce increased by 26,247 employees (14,803 career and 11,444 non-career) – in sharp contrast to the decrease of over 53,973 employees between 2010 and 2013. The increase was due in large part to the increase in work hours associated with the increases in package deliveries. This resulted in an increase of $3.1 billion in personnel costs (not counting required Postal Service Retiree Health Benefits Fund contributions). Contractual wage and Cost of Living Allowance (COLA) raises also contributed to the increase. In addition to and independent of COLA, postal workers receive a 1 to 1.5 percent increase in wages each year, increasing hourly

wages at a faster rate than other federal government employees and at a faster rate than the pricing rate caps on many of their products.

This paragraph is filled with nonsense:

- The fact that the Postal Service's compensation and benefits comprise a larger share of total costs compared to its private competitors is not at all surprising or problematic. The Postal Service delivers mail and small parcels to 159 million homes and businesses each day, six days a week. Meanwhile, the private companies serve a much smaller number of delivery points (an estimated 20-30 million), often just five days a week. The work of processing and delivering mostly letters is far more labor-intensive than delivering primarily packages – as the private companies do. As mentioned earlier, FedEx and UPS employ many more part-timers (who typically earn much less than full-timers). And the private firms operate huge shipping divisions, complete with fleets of airplanes and long-haul trucks (capital costs) that the Postal Service does not. Of course, the USPS spends more on labor as a percentage of total costs, but that does not mean its compensation costs are excessive.

- The modest growth in employment associated with the Postal Service's growing package delivery business is a good thing, not a bad thing – and does not change the fact that overall USPS employment is down by 33% from its peak level of 906,000 (as noted on page 57 of the Task Force report).

- The discussion of wage increases received by postal employees between 2010 and 2013 tells us nothing about whether labor costs are excessive. Comparing postal wage increases to federal employee wage increases is irrelevant – though it is not a surprising result given that Congress froze the pay of federal employees for much of this period. The key issue is overall labor costs, which is also impacted by productivity growth and the structure of the workforce -- not the size of any individual wage increase. Indeed, productivity growth has been strong in recent years (see page 30 of the USPS Annual Report to Congress for 2018 (https://about.usps.com/who-we-are/financials/annual-reports/fy2018.pdf).

- And the report is simply wrong to suggest that USPS labor costs rose faster than the rate of inflation. In view of major changes made in the Postal Service's labor contracts (allowing more non-career workers as well as restructured wage schedules), the opposite is true. Indeed, although the labor contracts we've negotiated have provided the COLAs and wage hikes cited by the Task Force report, the average straight-time wage of all city letter carriers is less in 2019 ($25.59) than it was in 2010 ($26.64) because of these and other contractual changes. In inflation-adjusted terms, wage costs have declined significantly.

- Postal employees earn living wages, not excessive wages, for difficult and useful public service jobs. This should be a point of pride for the U.S. government, not a problem.

The only other references to labor costs in the report come in the final section, *Operational Structure, Governance, and Long-term Liabilities.* In this section, the Task Force seems to object to postal employees having the same collective bargaining rights as private sector workers: "They can bargain for wages and benefits as private sector unions do, without the same level of risk that their company will go out of business." (p. 57)

The Task Force seems to think collective bargaining rights should be contingent on the risk of permanent job loss. Instead of treating collective bargaining as the basic human right it is under U.S. and international law, the report suggests that it is an undeserved privilege for postal employees – bizarrely calling it a "dual-labor model."

On the same page, again citing no evidence, the report asserts that 'no lay-off' clauses in the USPS's collective bargaining agreements "limit[ing] management's ability to adapt the USPS's business model." This is simply not true. The USPS has been able to adjust the size of its workforce and has never had to resort to established procedures for Reductions in Force over its 50-year history. Major downsizing has been achieved through attrition and the limited use of early-out incentives.

The final evidence-free assertion on labor costs comes in the Task Force's outrageous recommendation to strip postal employees of the right to collectively bargain their wages on page 61. It states that "USPS employees enjoy a pay and benefits premium over their private sector counterparts, although the size of this premium is likely falling." It is a ludicrous claim offered without any supporting facts or analysis. In fact, the evidence shows that postal employees earn pay and benefits comparable to other large, national employers in the delivery industry.

Congress should reject the mean-spirited and insulting recommendation to repeal collective bargaining rights for America's postal employees. Even if the report proved that postal employee pay and benefits are objectively excessive – which it clearly has not – nothing can justify stripping basic workplace rights from American workers.

Does the USPS Distort the Package Delivery Industry?

The final major conclusion by the Task Force report is that the Postal Service is somehow disrupting the package delivery market and that the increasing role of the Postal Service in competitive services calls for a radical restructuring of the way the agency is regulated.

The report offers virtually no evidence in support of this conclusion. It simply asserts that: "Although the USPS does have pricing flexibility within its package delivery segment, packages have not been priced with profitably in mind" (see p. 5). In fact, according to the Postal Regulatory Commission (PRC), competitive products generate $7.6 billion annually in "profits" – i.e., revenues above and beyond the costs of package delivery. This helps fund the institutional costs of affordable universal service. Yet based on the unsupported claim that packages are underpriced, the Task Force argues for radical reform of all postal products.

Under current law, the PRC regulates products in which the Postal Service is the dominant provider (letter mail, magazines, catalogues, etc.) differently than the way it regulates competitive products. Under this system, market-dominant product prices are subject to regulation (a price cap based on the Consumer Price Index) while USPS is free to price competitive products as it wishes, subject to market forces and fair competition rules. (One such rule requires USPS competitive products to contribute an "appropriate share" to USPS overhead costs.)

The report calls for a new system that would distinguish between vaguely defined "essential services" and "commercial services." Personal letters, invoices, government mail and prescription drugs are examples of "essential services" while marketing mail, catalogues and packages are examples of "commercial mail." Essential service prices would be strictly regulated while commercial services should be offered at "market rates."

The Task Force believes the universal service obligation should be limited to "essential services" and focus on last mile delivery. And it calls on the USPS and the PRC to pursue a strategy of raising prices on commercial services (the vast majority of current mail volume) to pay for universal service for "essential services." The Task Force specifically calls for "commercial services" to subsidize "essential services," replacing the historical conception of universal service by which high-density urban areas subsidize low-density rural areas. This shift poses a dire threat to Rural America.

In addition, the USPS would be freed to decide on the frequency and mode of delivery – not Congress -- and the PRC would be allowed to downsize the definition of universal service (to the minimum level necessary) with respect to retail access and other services.

Most controversially, given serious trust, privacy and accountability concerns, the report supports giving the Postal Service the right to sell access to Americans' mail boxes to competitors as a revenue source. This proposal to let the USPS "monetize" its own customers' mailboxes, would apparently give such access to any company, trustworthy or not, willing to pay for it.

NALC has no special expertise on the issues of costing methodologies and competitive pricing. But we do offer two observations.

First, the Task Force's views on regulation and business model reforms appear to be based on two false assumptions.

- It believes that the Postal Service should no longer be thought of as a public good or as a public utility (see p. 33). With the decline of First Class Mail, which has provided universal communications and played a crucial role in our system of financial payments, a growing share of the Postal Service's business comes from package delivery. Since there are private companies that provide such services, the Task Force suggests the need for a public utility in mail and package delivery is no longer necessary.

  This is wrong. In an age of e-commerce, and with the loss of retail options in rural areas and economically distressed urban areas, affordable universal delivery is more important than ever. Private companies would either not serve these areas at all, or they would charge exorbitant prices for the service.

  But more importantly, contrary to what the Task Force suggests, the letter mail business remains vital – 96% of the Postal Service's volume and 70% of its revenue come from letter mail. To this day, the Postal Service still provides the only truly universal communications system in America – tens of millions of Americans don't have access to the internet. Millions of small businesses rely on the USPS for invoicing and bill payments. An institution dedicated to the public interest – not simply the interests of shareholders – remains essential.

- The Task Force also appears to believe that the growth in the Postal Service's package delivery business has unfairly hurt private competitors – and therefore calls for the adoption of cost allocation policies (fully distributed costs) that will force USPS to raise its package prices.

> But, in fact, the Postal Service's competitors are among the greatest beneficiaries of the Postal Service's low-cost delivery services – FedEx and UPS are two of the Postal Service's biggest customers with the Parcel Select last-mile delivery service. (The companies drop ship to USPS delivery units for final delivery.) The presence of economies of scope (delivering multiple products through USPS networks) in USPS delivery is a positive economic good, not an unfair subsidy. The American economy and, especially, businesses that ship products, are the beneficiaries of having a public utility that helps keep costs down.

Second, the Task Force appears to have ignored the evidence and expertise that is readily available from the Postal Regulatory Commission on the market for competitive services. That evidence and expertise disproves the conclusion that the Postal Service is disrupting the market for package delivery. And the federal courts have repeatedly affirmed the conclusions of the PRC.

Indeed, within weeks of the publication of the Task Force's report, the PRC issued a decision on competitive pricing that rejected the approach recommended by the Task Force – basing its decision on hard evidence and expertise. In fact, it significantly raised the minimum "appropriate share" of institutional costs to be paid for by competitive services. Had the Task Force respected this expertise, it would not have proposed the radical, risky and ill-defined business model it is recommending.

Unexamined Consequences

The Task Force makes 25 administrative and legislative recommendations in its final report. NALC can support some of these recommendations, such as defining the geographical scope of the Universal Service Obligation (USO) as broadly as under current law and allowing the Postal Service to offer new services. But given the serious flaws in the work of the Task Force highlighted in this review, we cannot support most of the recommendations in the final report.

The Appendix of this review provides the NALC's views on each of the specific recommendations. But in general, we oppose the overall approach, which aims to downsize the current USO to cover only vaguely defined "essential services" while empowering the Postal Service to reduce the quality and frequency of service and urging Congress to launch an all-out assault on the rights, jobs and living standards of America's 630,000 postal employees.

This is not a plan to save the Postal Service, but a plan to dismantle it.

Oddly, for a "pro-business" administration that allegedly favors deregulation and market competition, the Task Force calls for giving the PRC even more power to regulate the Postal Service while rewriting the regulatory rules in ways that will dramatically increase the cost of shipping and "commercial" mail service (most mail volume) for millions of businesses. If enacted, these recommendations might even force the Postal Service out of the package delivery business, the fastest-growing part of the industry. This would leave a virtual duopoly of FedEx and UPS to raise prices and maximize profits and seriously damage the U.S. economy.

Perhaps the biggest failure of the Task Force is the lack of analysis of the potential impacts of the recommendations it has made for administrative and legislative changes in postal policy. It offers no data on the likely effects of these recommendations on the Postal Service's finances and operations or on the quality and affordability of postal services in America. It also fails to consider what impact these changes would have on the $1.4 trillion mailing industry and the 7.5 million American workers who rely on it for jobs and incomes.

But it is not difficult to predict what would happen if the Task Force's recommendations were enacted. The effects would mostly be negative:

- With outsourcing and the loss of collective bargaining, the quality of the Postal Service's workforce would rapidly decline, driving turnover up and productivity down.
- Postage rates in the U.S., now among the lowest in the world for industrialized countries, would rise dramatically.
- Mail volume would therefore fall even faster, especially for commercial mailers, the heart of the mailing industry; this would cause the whole industry to shrink, including the paper, printing, publishing, advertising, and e-commerce sectors.
- The quality of service would decline – door delivery would be curtailed, weakening the Postal Service's last-mile advantage – and USPS would likely eliminate days of delivery in low-density delivery areas, in rural America and in economically-disadvantaged urban communities.
- The American public, which currently gives the Postal Service an 83% approval rating, would lose trust in the Postal Service.
- Postal Service financial losses would likely mount, leading to even higher prices and deeper service cuts – all of which could tip the Postal Service into a death spiral.

Finally, the Task Force failed to consider the likely impact of the PRC's 10-Year Review of the rate-setting system, which will strengthen the Postal Service's financial stability in the months to come, another reason to forgo radical reforms.

In fact, the draconian reforms proposed by the Task Force are reckless and risky. To promote the common good and to preserve the Postal Service, a valuable part of our nation's economic infrastructure, Congress should explore more sensible and moderate reforms.

An Alternative Reform Agenda

Appendix II of this document presents the submission the NALC and the other three postal unions (APWU, NPMHU and NRLCA) made to the White House Task Force on the Postal System last year. It provides details on sensible reforms that can strengthen the Postal Service to meet the evolving needs of the country in the decades to come. Here we will briefly summarize this alternative agenda.

Elements for sensible reform

1) **Address the retiree health benefits prefunding burden.** Congress should either repeal or reform the prefunding mandate to reduce its burden on the Postal Service. It can do the latter by adopting the private sector best practices:

- **Prefund only the vested liability.** Private sector companies are not required to prefund retiree health benefits at all, but they are required to report the future cost of vested benefits for employees eligible for retiree coverage. About 40 percent of Fortune 1000 companies choose to partially prefund such benefits – at an average level of 60 percent. Congress should adopt this "best practice" and reduce USPS' prefunding target from 100 percent of the "total projected liability" to 60 percent of the "vested liability" for retiree health benefits – that is, only for employees who are retiree-eligible and who qualify for such benefits. This would reduce the retiree health funding burden for future retiree health by at least $35 billion.

- **Medicare Part D integration.** Congress should reform the way the Federal Employee Health Benefits Program (FEHBP) covers postal employees and postal annuitants by authorizing postal-only plans within FEHBP to take advantage of the prescription drug savings offered private sector health plans by the Medicare Part D law. This reform would reduce the Postal Service's liability for retiree health by at least $25 billion.

- **Prospective integration with Medicare Parts A and B.** Congress should apply a requirement to enroll in Parts A and B of Medicare at age 65 -- which is standard practice among private company health plans with retiree coverage -- to the postal-only FEHBP plans, with appropriate exceptions for VA-covered retirees and others who cannot benefit from Medicare Part B. To avoid the need for offsets to reimburse the Medicare Trust Funds over the CBO's 10-year budget scoring window, this requirement should be applied on a prospective basis – for active employees under the age of 55 on the date of enactment. This reform would reduce future retiree health costs by tens of billions of dollars.

- **Properly invest the PSRHBF.** To further reduce the prefunding burden, Congress should authorize the Postal Service to safely invest future retiree health contributions in low-cost index funds like those offered by the federal Thrift Savings Plan. Despite the 2008 crash, the TSP's common stock fund (C Fund) returned an average of 8.8 percent since the Postal Retiree Health Benefits Fund (PSRHBF) was created in 2007. Nonsensically, current law requires the PSRHBF to be invested in low-yielding Treasury securities instead of diversified portfolio of stocks and bonds, the best practice of private sector companies. Since annual medical inflation is much higher than Treasury returns (2-3 percent in recent years), this investment policy guarantees that the unfunded liability for retiree health will increase without end. Investing the PSRHBF properly would avoid this while generating billions of dollars in additional returns for the PSRHBF, lowering the unfunded liability.

- **Adopt fair pension responsibility methods**. A final option could be achieved via legislation or an executive order – requiring the OPM to adopt private sector best practice in the valuation of the Postal Service's CSRS pension account. Such a valuation is done annually and requires OPM to allocate responsibility for pension costs for postal employees between two accounts, the federal (taxpayer) account for service before 1971 (when the USPS was created) and a postal (USPS) account for benefits associated with service in 1971 or later, after postal reorganization.

  A 2010 PRC report prepared by the Segal Company called for the OPM to adopt private sector best practice in its annual valuation of the Postal Service's CSRS pension account – a step that would have created a $50-$55 billion surplus in the account. Since any surplus in that account, by law, is to be transferred at designated intervals to the PSRHBF and could largely eliminate the prefunding burden, this idea was included in a bill (H.R. 1351) that attracted majority bipartisan support in Congress in 2011-2012. Unfortunately, the bill did not advance.

Adding to the attraction of this idea is a more recent report (issued May 7, 2018) from the USPS Office of Inspector General. It updates the analysis of the 2010 PRC/Segal report and found that the postal surplus, fairly calculated, now stands at least $80 billion.

If the actuarial methods used in the private sector were adopted by law or executive order, the Postal Service's liabilities under CSRS would be fully funded; those of the PSRHBF would be nearly or fully funded. This would save the Postal Service billions annually in normal cost and amortization payments.

2) **Allow new products and innovation.** The services USPS can provide are strictly limited by current law. It therefore cannot maximize the value of its unique retail, processing and delivery networks. To innovate and remain healthy, USPS must be allowed to develop new ways to serve the public and to offer new services. For example, Congress could use the Postal Service to strengthen our democracy by promoting mail-in balloting at all levels of government and improve access to government services by encouraging partnerships between USPS and federal, state and local government agencies. It could also permit USPS to deliver beer, wine and distilled spirits (consistent with state laws).

3) **Adopt measures to track and improve service.** Congress should adopt the reforms aimed at improving service standards and performance, especially in rural America, that were included in the Postal Service Reform Act of 2018 (Senate bill S. 2629).

In combination with an improved system of postage rate regulation – which will emerge in 2019 from on ongoing proceeding at the Postal Regulatory Commission – these three reform approaches would stabilize the Postal Service and create the conditions for it to thrive in the 21st Century.

Conclusion

The report of the White House Task Force is a fatally flawed analysis of the Postal Service and its future. As described in this review, the recommendations are the product of erroneous findings resting on faulty data and reasoning. On page 2 of the report, the Task Force states:

> "The USPS's business model -- including its governance, product pricing, cost allocation, and labor practices – was sustainable in an era where mail revenues and volumes grew along population and economic growth. However, as the Postal Service's financial condition continues to deteriorate, standalone proposals, such as forgiving the prefunding of post-employment benefits or renegotiating labor contacts, will be insufficient."

Yet on Table 2 from page 19, reproduced on page 3 of this document, the Task Force's own data shows this conclusion to be wrong. The Postal Service earned Operating Income (before the RHB prefunding expense) in each of the last six years – for a total of $3.8 billion between 2013 and 2018. Over that period, the four postal unions and the USPS renegotiated their contracts twice and did just fine adapting to the changing mix of mail.

The problem is not the Postal Service's business model; it's the misguided prefunding policy. Senator Ron Johnson (R-WI), the Chairman of the Senate Homeland Security and Governmental Affairs Committee, was right when he observed at a committee hearing in January 2016: "There is just so much confusion on this issue, and yet we . . . passed the 2006 law that reclassified a long-term liability into a short-term liability that created a real pinch on the Postal Service that never should have occurred." (See p. 16, S. Hrg. 114-579).

We don't need to dismantle the Postal Service to save it, and we certainly do not have to weaken its networks or attack its hard-working employees to make it sustainable.

If Congress finally addresses the prefunding policy debacle and the PRC adopts a more sensible rate-setting regime in 2019, the Postal Service and its employees have all the tools we need to adapt to the challenges of the 21st Century. So long as postal reform is based on the facts and so long as we act wisely in response to these facts, the future of the Postal Service will be bright.

Appendix: NALC Positions on Task Recommendations

	Policy Action	NALC Position
Universal Service Obligation (USO)		
Definition		
Clearly define the USO. Provide a targeted definition of minimum, essential postal services that due to specific social and economic needs have a basis for government protection.	Administrative	**NALC opposes.** Redefining the USO would require legislative action. There is no statutory authority for the PRC to define "essential" services. Under current law, all products (Market Dominant or Competitive) are rightly covered by the USO.
Geographic Scope		
Keep current practice, which designates that the USO includes all addresses in the country covering "the United States, its territories and possessions," irrespective of population density.	Administrative	**NALC supports** this recommendation, but notes that the Task Force's recommendation to segment "essential" and "commercial" products would undermine the ability to serve all Americans regardless of geography.
Number and Density of Post Offices and Collection Boxes		
Establish a rule that specifies that access to the postal system must only be sufficient to implement defined USO standards for delivery.	Administrative	**NALC opposes** the recommendation because it would harm Americans living in rural areas as well as residents of economically distressed urban communities. We believe this proposal would require legislation
Deliver Frequency		
Provide greater flexibility to determine mail and package delivery frequency.	Legislative	**NALC opposes.** Reducing delivery days is contrary to the need for seven-day delivery in the age of e-commerce and would reduce the value of mail and the Postal Service to its customers.
Mode of Delivery		
Maintain current discretion to determine mode of delivery consistent with a financially sustainable business model.	Administrative	**NALC notes:** Door delivery is preferred by the American people, especially the surging number who engage in e-commerce. USPS should expand door delivery to retain the value of marketing mail and to cement the agency's status as the lowest cost provider of last mile delivery services.
Processing Standards		
Keep current practices, which allow the USPS to manage processing standards.	Administrative	**NALC opposes.** Postal management cannot be trusted to set its own service standard as demonstrated by its failed network downsizing plan between 2012-2015 which reduced the quality of service and failed to generate 90% of the predicted savings. (See USPS OIG report at

		https://www.uspsoig.gov/comment/56419.) Congress and the PRC should uphold high quality service standards.
USO Funding		
Review and determine if income generated by activities defined to be outside of the USO could be optimized to cover the costs of funding the USO.	Administrative	**NALC notes:** This recommendation would require legislative action. Offering new services to meet unmet needs makes sense. This should include delivering beer and wine, basic banking services partnerships with state and local governments to serve the public interest.

Recommendation	Policy Action	NALC Position
Mail and Package Markets		
Business Model		
Develop a new model that can be used to both set rates and control costs to achieve sustainability.	Administrative	**NALC opposes.** The current business model will work with a new price-setting regime (forthcoming from the PRC) and modest legislative reforms. Only Congress can adopt a new business model.
Require price increases, reduce service costs, or exit the business for any mail products that are not deemed an essential service and do not cover their direct costs.	Administrative	**NALC opposes.** All mail is "essential" to the mailers that send it and most products already cover their direct costs. This recommendation would require legislative authorization.
Product Classes		
Redefine mail classes by creating products defined by the type of sender and the declared purpose of the mail item.	Administrative	**NALC opposes.** Regulating mail by type of sender and the "purpose" of the mail is overly complicated and administratively impractical. This recommendation would require legislative authorization.
Change USPS systems in order to track the purposes and uses of mail, to allow for better cost allocation, targeted pricing, and more business intelligence.	Administrative	**NALC opposes.** This recommendation would be costly and require a massive new bureaucracy.
Strategic Options		
Evaluate areas of USPS operations where the USPS could expand third party relationships in order to provide services in a more cost efficient manner (e.g., mid-stream logistics and processing).	Administrative	**NALC opposes.** The USPS already uses cost-sharing incentives to leverage partnerships with private partners; outsourcing its core functions would reduce quality and lose business while turning decent jobs over to low-wage, high-turnover contingent workers. This recommendation would require changes in the USPS labor contracts.
As a means of generating more income, the mailbox monopoly could be monetized.	Administrative	**NALC opposes.** The USPS must protect the sanctity of the mail and the privacy of American's mail boxes should not be sold by the highest bidder. This recommendation would require legislative authorization.
Price competitive products in a manner that maximizes revenues and generates income that can be used to fund capital expenditures and long-term liabilities.	Administrative	**NALC notes:** The competitive products contribute $7.6 billion to USPS overhead costs. We support this recommendation, but we do not support the adoption of pricing

		models (such as "fully distributed costing") that have been repeatedly rejected as inefficient or contrary to law by the PRC and the federal courts.
Costing Options		
Develop a new cost allocation model to establish full price transparency and fully distribute costs.	Administrative	**NALC opposes.** This recommendation would require legislative action. We support PRC oversight of competitive pricing as provided by current law, but we do not support "fully distributed costing," which has been repeatedly rejected as inefficient by the PRC.
Establish a separate balance sheet for packages to help prevent cross-subsidization between the mail and package business units.	Administrative	**NALC opposes.** This recommendation is neither necessary nor practical. The Postal Service provides a unique processing and delivery network that makes affordable universal service possible through economies of scale and scope. As such, the shared network benefits all mailers and the public interest – by providing affordable service to every address in America. Private competitors also benefit from the shared network through Parcel Select – and the ability to leave high-cost deliveries in certain areas (rural and urban) to the Postal Service.

Recommendation	Policy Action	NALC Position
Operating Model		
Operations		
Align USPS employee rights with other federal employee rights by eliminating collective bargaining over compensation for USPS employees.	Legislative	**NALC opposes.** There is no justification for stripping postal employees of their collective bargaining rights under the law. This would politicize postal labor relations and subject the Postal Service and its customers to the same dysfunctional appropriations process that has led to repeated government shutdowns – exposing the country and the $1.4 trillion mailing industry to job-killing suspensions of service.
Pursue reforms to USPS employee wages consistent with those proposed for the broader federal workforce in the President's Management Agenda.	Legislative	**NALC opposes.** Returning postal labor relations back into an untested and bureaucratic, one-size-fits all federal system makes no sense. The current law has provided decent jobs to postal workers, affordable and reliable service for mailers and safe and secure delivery for the American people.
Explore and implement new business lines that generate revenue, and that present no balance sheet risk to the USPS.	Legislative	**NALC notes:** Greater commercial freedom to meet the evolving needs of the country makes sense: delivering beer, wine and spirits; partnering with state and federal agencies to provide public services; and basic banking for unserved populations.
Governance and Oversight		
Strengthen the governance and regulatory oversight of USPS. This could be achieved through reforming, but maintaining, the existing institutional structures or by changing the institutional structures, which would require legislation.	Legislative	**NALC notes:** Improved governance should begin with a fully staffed Board of Governors with the requisite experience directing large-scale enterprises.
Institute a new policy mandate for management that sets organizational direction and financial targets, which align with a sustainable business model and establish an enforcement mechanism if the existing Board is unable to meet these targets.	Legislative	**NALC opposes:** Congress should remain the primary oversight authority for the Postal Service; empowering an unaccountable regulator to oversee the Board and management of the Postal Service does not make sense.

Strengthen the regulatory oversight role of the PRC, providing the PRC with expanded controls, imposing increased accountability on the USPS.	Legislative	**NALC opposes:** Congress should remain the primary oversight authority for the Postal Service; empowering an unaccountable regulator to oversee the Board and management of the Postal Service does not make sense.
Benefits		
Pursue reforms proposed to the Federal Employees Compensation Act that are included in the President's FY 2019 Budget.	Legislative	**NALC opposes:** The proposed FECA reforms are grossly unfair to injured federal workers.
Pursue reform of the Federal Employee Retirement System that would increase employee contributions and move toward a defined contribution system.	Legislative	**NALC opposes**: There is no justification for reducing the retirement security of postal employees by moving to a defined contribution plan. The FERS plan is a model plan that has both defined benefit and defined contribution components (in addition to Social Security). The FERS postal fund is very well funded and there is no justification for cutting postal employee pay by increasing employee contributions.
Maintain but restructure the retiree health benefits liability, including the $43 billion in pre-funding payments that the USPS failed to pay into the Postal Service Retiree Health Benefits Fund and the unfunded actuarial liability, with the total liability re-amortized with a new actuarial calculation based on the population of employees at or near retirement age.	Legislative	**NALC notes:** Reforming the existing prefunding mandate is the most important way to strengthen the Postal Service. Repealing the mandate (which accounts for 92% of USPS losses since 2007 and which no other enterprise in the U.S. faces) is the preferred policy, but adopting a "vested liability" funding target makes sense as an alternative.

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Statement of

Ivan D. Butts, Executive Vice President

Hearing Before

Senate Committee on Homeland Security and

Governmental Affairs

Recommendations from the President's Task Force

on the Postal Service

March 12, 2019

Chairman Johnson, Ranking Democrat Peters, and member of the Homeland Security and Governmental Affairs Committee, thank you for permitting me to provide the views of the National Association of Postal Supervisors (NAPS) on the *President's Task Force on the U.S. Postal System*. My name is Ivan Butts. I have the honor of serving as the Executive Vice President of NAPS, representing approximately 26,000 postal supervisors, mid-level postal managers, and postmasters who are employed by and retired from the U.S. Postal Service. Our members help to ensure the high quality of the postal services American citizens expect and deserve.

Thank you for holding today's hearing to provide review of the recommendations of the President's Task Force on the Postal Service and their contribution to a universal, accessible and affordable postal system.

Today and tomorrow, over 500 NAPS delegates are meeting with their Senators and Representatives to advocate for a sustainable and vibrant Postal Service. Their meetings are intended to impress upon members of Congress the importance of enacting consequential and constructive postal legislation. NAPS members have an intimate and abiding reverence for the Postal Service, including the important role the federal agency plays in the U.S. economy and our nation's social fabric.

As the committee has noted in the past, our nation's postal system was established by the founders of this nation as a Constitutionally-enshrined and Congressionally-authorized government function. Indeed, binding our nation together remains the core mission of the American postal system. Consequently, any attempt to privatize the U.S. Postal Service, which strays from these roots of American exceptionalism, should be met with firm resistance.

American commerce relies on the strength of a universal mail system that does not discriminate on the basis of the geographic location of the sender or recipient, or the distance between the two. The President's Task Force on the Postal System recognized the reach of the postal service and the uniqueness of its mission in noting:

> "In FY 2018, the U.S. Postal Service delivered 146 billion pieces of mail to 159 million delivery points, including to rural and remote locations. Private carriers

> charge many of these locations a delivery surcharge, limit the services offered to these locations, and in a few cases, offer no service at all."

Indeed, our national postal system is distinctive and valued. That stature, the Task Force noted, continues into the digital age. The Task Force recognized, although it was unable to quantify the economic impact of postal commerce, that "the USPS's economic impact is substantial in both its direct activities and in the broader economic activity that it enables."

The economic footprint of the Postal Service is comprised of an irreplaceable network of post offices, processing facilitates, transport vehicles and delivery routes, staffed by expert, efficient and dedicated employees. The reliability and integrity of the postal network enables our Postal Service to be ranked as the most trusted and approved federal agency. That trust is irreplaceable. As Congress and the White House strive to equip the Postal Service with the tools necessary to preserve its future, let it be based upon that trust and the expectations of Americans that the value of its postal system be preserved.

NAPS believes that the legislation introduced in the 115th Congress should serve as the foundation of action in this, the 116th Congress. The bipartisan measure considered and advanced in the House of Representatives was a legislative product endorsed by multiple postal stakeholders, including the National Association of Postal Supervisors. The House Oversight and Government Reform Committee voted overwhelmingly to favorably report H.R. 756 for floor action. The bill was subsequently reintroduced by Reps. Mark Meadows and Elijah Cummings as H.R. 6076, subsequent to the retirement of the bill's author, former committee Chair Jason Chaffetz. In the Senate, bipartisan Senate legislation, S. 2629, introduced by Senators Tom Carper and Jerry Moran, provided a firm foundation for postal reform. The Senate bill reinforced the importance of postal service standards, especially for rural America. NAPS understands that there needs to be modifications to both bills to garner broader support and to better address the unique interaction between the Federal Employees Health Benefits Program (FEHBP) and Medicare.

The authors of last Congress' legislation and NAPS believes that three factors conspired to undermine the finances and operations of the Postal Service: the evolving composition of the mail mix; the debilitating impact of the 2006 congressional requirement to prefund future retiree health benefits; and the lingering after-effect of the 2007-2008 recession. The Task Force correctly diagnosed some of the problems and proposed remedies for a number of governance issues that can be resolved fairly quickly. However, certain operational and fiscal recommendations offered by the Task Force would irreparably harm the postal system.

NAPS commends that Task Force for its acknowledgement that current vacancies on the Postal Board of Governors pose a huge obstacle to the formulation of a strategic plan to achieve postal sustainability. The current absence of a board quorum precludes the Postal Service from providing the Postmaster General and senior postal staff with the requisite guidance to respond to evolving market condition. It hinders the agency's ability to make critical policy decisions that, when necessary could be reviewed by the Postal Regulatory Commission and then implemented. This especially applies to the introduction of innovative products and services to the American public.

Consistent with the Task Force recommendation, the Postal Service needs to articulate how its core competencies will enhance opportunities to generate revenue and increase foot traffic into postal retail facilities. Partnering with other federal agencies, as well as state, county and local governments, the Postal Service should be encouraged to identify for-fee-service products that require identity or address verification and constitute eligible sources of revenue. In addition, Postal Service acceptance, processing and delivery of alcoholic products provide significant potential for added postal revenue.

While NAPS appreciates the Task Force not sanctioning privatization of the Postal Service, we would welcome clarification relating to the report's apparent variance with the June 2018 White House Office of Management and Budget proposal to reorganize the federal government, "Delivering Government Solutions in the 21st Century: Reform Plan and Reorganization Recommendation." Two Task Force members took part in drafting the June 2018 document, which, in part, suggested postal privatization, akin to foreign postal privatization efforts. NAPS would hope that the committee and the White House appreciates how foreign and radical postal changes could inflate postage rates and eviscerate universal postal operations.

Finally, NAPS applauds the Task Force for its endorsement of revising calculation of the postal health liability to include only those employees nearing retirement. Taking into account only the financial liability of postal employees statutorily entitled to FEHBP coverage (i.e., employees within 5 years of retirement with 5 years of uninterrupted health coverage) would significantly reduce the Postal Service's health insurance liability. However, NAPS advises the committee to take the Task Force recommendation one step further. We recommend that the Postal Retiree Health Benefits Trust Fund be invested in conservative vehicles that historically have a better rate of return than the Treasury obligations in which the funds are presently invested. A long-term vehicle, structured consistent with the goals of the long-term Thrift Savings Plan L-Fund would represent a sound step. A percentage point increase in the rate-of-return, accomplished through the L-Fund, could yield an almost $20 billion reduction in the health liability.

Despite some positive recommendation, a number of Task Force recommendations are problematic. They would clash with the Committee's attentiveness to rural mail service, destabilize postal rate-setting and reduce mail volume. The Task Force proposes to dramatically narrow the scope of the universal service obligation to include mail and postal services deemed to be "essential." Generally, "essential" mail is defined by the Task Force as being products and services for which there is no "nationwide, private" substitute. Consequently, the Task Force suggests that uniform service standards or pricing should only apply to correspondence, transactional mail, drug prescriptions, government mail and recall notices. Everything else would be profit-driven. Therefore, so-called non-essential products, including small parcels from home-based business or non-residence-to-residence packages addressed to rural areas or originating there, would be destination-priced and delivery-saturation scheduled. Under this flawed approach, mailing products to rural and low-density areas would become more expensive and delivery frequency would be slashed.

The Task Force recommendations also seek to constrict the universal obligation. The Task Force proposes to sell mailbox access to private sector postal competitors, which will compromise the historic sanctity of the residential and business mail box. It will expose mail recipients to breaches of privacy and undermine the trust of Americans in the Postal Service. The committee should assure all Americans that only a government-employed postal designee will have access to the mailbox. Vacation stops and mail forwarding services provided by the Postal Service should not be delegated to private messengers to avoid risk to the integrity of the mail box. The combination of universal service obligation reduction and opening the mail box will devalue the mail and the stability of the Postal Service.

Finally, NAPS strongly objects to the Task Force recommendations to increase Federal Employee Retirement System contributions and to eliminate FERS coverage for future Postal Service employees. Our opposition applies to this proposal, as well as a similar proposal in the the President's Fiscal Year 2020 budget proposal. For current postal employees, this proposal would be tantamount to a $4,000-plus pay cut, annually after six years. Increasing the employee contribution, absent an increase in pension value, is punitive and unfair.

In conclusion, NAPS encourages the Committee to move ahead toward approval of a postal reform measure that reflects the Postal Service's statutory responsibility to bind the nation through universal service to our citizens and ensuring postal accessibility, security and reliability. The Task Force made a meaningful contribution to the discussion, but the Congress should move ahead, consistent with its Constitutional authority to establish post offices and post roads, to assure the long-term vitality of the nation's postal system.

NAPS looks forward to working with you, Mr. Chairman, and the members of this committee to drafting the legislative framework for a vital, sustainable and vibrant Postal Service.

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The Honorable Ron Johnson, Chairman
The Honorable Gary Peters, Ranking Member
U.S. Senate Committee on Homeland Security & Governmental Affairs
340 Dirksen Senate Office Building
Washington, DC 20590

Dear Chairman Johnson and Ranking Member Peters,

On behalf of the members of the Association for Postal Commerce (PostCom), we wish to express our appreciation for furthering discussion on the issues facing the US Postal System. The Administration has rightly focused attention on the uncertain future of the Postal Service and its continuing importance to the economy and citizens of the United States of America. The recent hearing on "A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service" was instructive and shone a light on some unarguable truths about the nation's postal system. As Senator Carper (D-DE) noted, the Postal Service is part of a larger mailing industry that includes mailers, printers, advertisers, and mail service providers, among others; that employs more than seven million Americans; and that contributes a substantial share of US GDP. As the Task Force report made clear, the future of this industry is at risk if the challenges facing the Postal Service are not addressed.

As the Committee further pursues these topics, we ask that it be mindful of a critical point of view: that of the mailers who – more than any other constituency – fund the provision of universal service as we know it. The members of PostCom spend billions of dollars annually on postage, using all postal products and employing US citizens in all fifty states. It is through the postage paid by these mailers that the Postal Service is able to operate without reliance on taxpayer dollars.

Increasingly, however, our members have been paying more for less. A recent US Postal Service Office of the Inspector General Report found that in 2015, when the Postal Service lowered service standards, of the $1.6 Billion dollars in savings expected to result, less than six percent – less than $110 million – were actually achieved. As a result, our members and other users of the system have been paying nearly $1 billion in excess postage annually ever since. Unfortunately, the Task Force report contains recommendations that would make an unacceptable situation far worse. Most troubling, it recommends the radical step of endowing a Government monopoly with unchecked power to set prices on products deemed, through some unexplained process, to be "commercial" rather than "essential," upending the current distinction between market dominant and competitive products and encouraging the Postal Service to exploit its market power. The postal monopoly would remain; it would simply be unregulated. If this system were to lead to a bifurcated delivery system or significant volume losses, the postal system could be irreparably harmed.

PostCom's members are committed to working with other stakeholders to ensure the continued viability of the nation's postal system. Toward that end we urge the Committee to consider several important principles:

- Any reform of the Postal Service should account for and protect the interests of the mailers who fund universal service.
- Allowing the Postal Service unconstrained pricing flexibility without addressing the Postal Service's ongoing inability to manage costs and service will do more harm than good.
- A fully functioning Board of Governors is critically important for effective governance and oversight of the Postal Service.

Once again, we thank the Committee and its leadership for their ongoing efforts to improve the postal system and express commitment and willingness to further discussion.

Michael Plunkett
President & CEO

CC: The Honorable Thomas R. Carper

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March 25, 2019

The Honorable Ron Johnson
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The Honorable Gary C. Peters
Ranking Member
Committee Homeland Security and Governmental Affairs
United States Senate
340 Dirksen Senate Office Building
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Dear Chairman Johnson and Ranking Member Peters:

On behalf of the Parcel Shippers Association I write to request inclusion of the attached Statement in the record for the March 12, 2019 Committee on Homeland Security and Government Affairs hearing titled "A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service."

As Senator Carper noted, the Postal Service is part of a larger mailing industry that includes not just the Postal Service but also shippers, rural newspapers, financial institutions, printers, advertisers, and mail service providers, among others. It employs more than seven million Americans and contributes a large share to GDP. It is critical to the Nation's economy. It is a key component of the eCommerce boom.

We were encouraged when the President appointed the Task Force and charged it with examining the challenges facing the Postal Service. Your hearing brought needed attention to the Report helping clear the way for Committee consideration of needed legislation.

In the attached Statement we discuss what we see as the good and the bad in the Report. We stand ready to support you and your staffs as you address the Nation's postal needs.

Sincerely,

Pierce Myers

Pierce Myers
Executive Vice President & Counsel

cc: Senator Tom Carper

STATEMENT FOR THE RECORD

of the

PARCEL SHIPPERS ASSOCIATION

submitted to the

Committee on Homeland Security and Governmental Affairs
UNITED STATES SENATE

hearing on the

Report of the President's Task Force on the United States Postal Service (Report)

March 15, 2019

Founded in 1953, the Parcel Shippers Association (PSA) represents firms that sell, ship, transport, and deliver goods to consumers and businesses. A list of PSA members is available at www.parcelshippers.org. PSA's mission is to foster competition in the parcel delivery market. It creates value for its members and encourages commerce by promoting the best possible service at the lowest possible costs. We appreciate the opportunity to submit this Statement for the Record.

The President's Executive Order creating the Task Force on the Postal Service said: "The USPS is on an unsustainable financial path and must be restructured to prevent a tax-payer funded bailout." It further stated that "It shall be the policy of the Trump Administration that the U.S. postal system operate under a sustainable business model to provide necessary mail services to citizens and businesses. And to compete fairly in commercial markets." We agree. The Task Force Report (Report) suggested adopting a "vested liability" approach with respect retiree benefit liabilities. Others have outlined the need to adopt private sector best practices for retiree health benefit funding (such as Medicare integration), use reasonable actuarial assumptions, set prefunding requirements at less than 100 percent, and invest Postal Service trust fund assets prudently. We agree with all. And we welcome the Report's calling for the continuation of a public postal service and its rejecting privatization. However, we reject its suggestion to spin off Postal Service package delivery into a new company, a move that would inevitably result in higher rates for both package *and* non-package mail, especially for rural customers.

But even short of a spin-off, some of the recommendations in the Report would increase package delivery prices for Americans, again especially for those who live in rural areas. We certainly oppose this. Postal Governor Williams testified that "[h]igh shipping prices steal value from American supply chains, all the way from producers' assembly lines, to the wallets of American citizens." He is correct.

Further, these recommendations would impair the viability and the overall finances of the Postal Service, leaving it less able to invest in infrastructure, to compete and to supply the services the Nation expects and deserves. This would be counter to the intent of the Report and might make Universal Service beyond reach.

This Statement addresses two issues:

(a) the Report's assertion that Postal Service package prices should be pushed higher, and

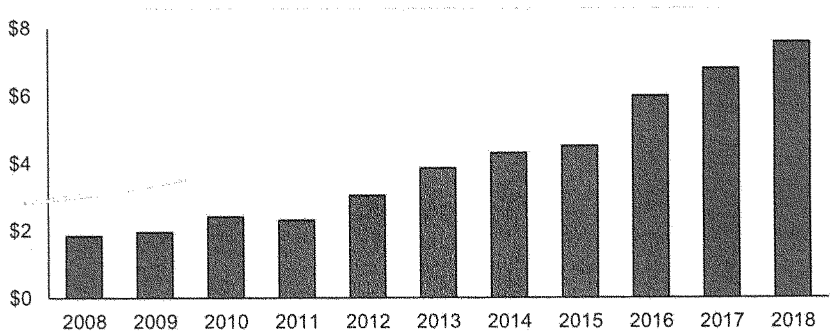
(b) the Report's call for the application of arbitrary costing procedures – referred to variously as Fully Distributed Costing (FDC), Fully Allocated Costing, or 100% cost attribution – where all costs are allocated to products regardless of causality.

Assertions that Postal Service Package Prices Should Be Pushed Higher Are Wrong.

Some readers cite the Report's statement that the Postal Service is pricing to maximize volume instead of profit. But the data included in the Report directly contradict this claim, showing that the Postal Service has experienced sustained growth in volume *as well as* revenue, and contribution (profit) from its package delivery business. It has done this by increasing prices on growing package volumes. The Report ignores this fact.

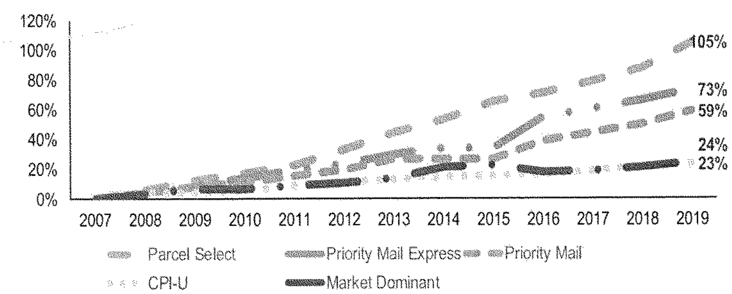
Nor does the Report explain how reconcile a scale-maximizing hypothesis with the fact that in Fiscal Year 2018 package services generated contribution (profit) levels about three times the regulatory minimum now required by the Commission.

Figure 1. Competitive Products Contribution ($ in Billions)



If the Postal Service wanted to maximize scale, rather than contribution, it would cut prices to the minimum levels allowed by the Commission. Instead it increased prices. In comments to the Commission recently, Stamps.com is a company that works directly with a range of mailers. In Commission comments it called profit maximization a "balancing act" that focuses on marginal costs and elasticities. It said: "[I]t is our observation that the Postal Service is thinking about, and is performing, the balancing act just described, an act that includes adjustments in product definitions and recognition of relations among its products." Comments of Stamps.com, Docket No. RM2017-1 (January 23, 2017), at 3. It is PSA's view that this balancing act is best done by practitioners who have a feel for the market; it cannot be done reliably by outside observers sitting in an office. But the Postal Service has not hewn, or tended to hew, to the Commission's minimum, choosing instead, as shown by Figure 2, to increase package product prices at rates well above inflation and well above the rates of increase for its Market Dominant monopoly products. It has chosen profit over volume.

Figure 2. Select POSTAL SERVICE Price Increases vs. Inflation



The competitive products have been a clear success story for the Postal Service, helping mailers, recipients, and the Postal Service itself. Without the substantial contribution of competitive products, the Postal Service's FY 2018 loss would have been $7.6 billion more, as shown in Table 1.

Table 1. POSTAL SERVICE FY 2018 PROFIT & LOSS ANALYSIS

($ Billions)	Actual	w/o Competitive Products
Revenue	$70.8	$47.7
Expenses	$74.7	$59.2
Net Profit / (Loss)	($3.9)	($11.5)
Source: Docket No. ACR2018, POSTAL SERVICE-FY18-1		

The Report's Call for Fully Distributed Cost Procedures (FDC) Has No Merit; FDC Has Been Recently and Repeatedly Rejected.

We are particularly dismayed by the Report's' unsupported call for the use of FDC procedures to allocate postal costs. Managerial economics and business practice textbooks have warned against such procedures for over 75 years. No firm wanting to understand the behavior of its costs, whether to help it compete, help it make a profit, or help it set rational prices would use FDC.

Recently, as part of its evaluation of a procedure of that kind, the Commission recognized that those procedures are arbitrary and inaccurate.

> . . . [the] attributable cost shares proposal is tantamount to fully-allocated costing. Such an approach, which would allocate institutional costs to products based on those products' relative shares of total attributable costs, has long been rejected by the Commission and by economists in general as being inherently arbitrary. Assigning costs in that manner does not reasonably reflect causation and can lead to widely different results depending on whether total volume or total attributable cost shares are used.

Docket No. RM2017-1, PRC Order No. 4402, at 81 (footnotes omitted).

The U.S. Court of Appeals for the D.C. Circuit recently denied a petition challenging the Commission's decision. *UPS v. PRC*, No 16-1354 (D.C. Cir, 2018). If adopted, FDC would lead to inappropriately high price floors and price increases for package delivery services to the detriment of the Postal Service, its customers, and consumers in general. The only beneficiaries would be Postal Service competitors, who would be able to charge even higher prices and take Postal Service business.

Again, quoting Governor Williams's testimony, "reflecting our competitors' voices, the Report called for the Postal Service to use a 100% cost attribution model. The PRC and the Federal Appellate Courts have joined leading economists for the last 50 years in dismissing that discredited economic theory."" Yes, they have. But the "competitors voices" are not surprising. When an outside, independent regulator imposes costing procedures, as is not uncommon in network industries, competitors often advocate for FDC to disadvantage the regulated firm in the marketplace. So too have competitors advocated for discredited costing and pricing approaches, such as FDC, to undermine the Postal Service's ability to compete.

Like other network industries such as railroads and telecommunications, a portion of Postal Service costs have the character of common or fixed costs. No individual product causes these common and fixed costs and they would not disappear if the Postal Service withdrew any one or all, or them. Thus, these costs cannot be allocated to individual products on any causal, non-arbitrary basis. Further, allocation done without a link to causation would be deprived of guidance from economic theory and notions of causation, and contrary to applicable law as most recently affirmed by Congress in the 2006 Postal Accountability and Enforcement Act (PAEA). *See* 36 U.S.C. 3622(c)(2).

However, the attribution of costs has not ended here. The Commission has recognized that notions of cross-subsidy argue that products should not only cover their volume-variable costs, but should also cover all of the costs that would be saved if the product were to be withdrawn entirely. These costs are called incremental costs. Following through, then, the Commission has defined attributable costs to include incremental costs.

The products at issue in the Report are in the Postal Service's stable of "competitive products." For these products, Congress took the additional step of requiring that (a) each of them must cover its incremental cost and (b) all of them as a group must cover their incremental cost. This does several things:

(1) it prohibits subsidies at the product level,

(2) it prohibits subsidies at the group level, and

(3) it constrains the Postal Service from pricing strategies, including loss leaders, that might be available to its competitors.

In these respects, the Postal Service is on a less-than-equal footing. Finally, adherence to these requirements is reviewed by an independent regulator, another thing its competitors do not have.

And beyond cost, *pricing* recognizes that for long run financial viability, total costs *do* need to be covered by total revenues. On this matter *see*: *Economic Foundations for 21st Century Freight Rail Rate Regulation,* John W. Mayo & Robert D. Willig (Nov 2018); *Seven Years after Kahn and Shew: Lingering Myths on Costs and Pricing Telephone Service,* Steve G. Parsons, Yale Journal on Regulation, Vol. 11, No. 1 (1994). U.S. Postal Service Office of Inspector General, *A Primer on Costing Issues,* pp. 3-4, Report No. RARC-WP-12-008, March 20, 2012.

The Institutional Integrity of the Existing Costing System

The Postal Service's cost system has enormous institutional integrity. In 1962, William J. Baumol and 8 other prominent economists laid out the basics in the Chicago Business Journal and more publications have followed to this very day. *The Role of Cost in the Minimum Pricing of Railroad Services*, The Journal of Business, The University of Chicago Press, Vol. 35, No. 4 (Oct 1962); *Costs for Better Management Decisions: CRA Versus Fully Distributed Costs*, U.S. Postal Service Office of Inspector General, Report Number: RARC-WP-12-016 (Sep 2012); *An Analysis of Fully Distributed Cost Pricing in Regulated Industries*, Ronald R. Braeutigam, California Institute of Technology (June 1979).

An economist who later won the Nobel Prize formulated the model for the current system. The Commission implemented that system in the 1970s. Since then, the Commission has refined the product costing system repeatedly and often, both before and after the enactment of the 2006 PAEA.

Since the enactment of the PAEA, all changes to costing and pricing requirements for the Postal Service have been developed with complete transparency, full knowledge of the state of the art, and with input from leading academics and practitioners. All refinements to costing procedures are developed in on-the-record hearings and are evaluated by the Commission. Any interested party – including the Postal Service, its customers, and its competitors -- can petition the Commission to open a cost rulemaking and the Commission initiates others on its own. Since 2007, the Commission has held 61 rulemakings on costing topics. Those unhappy with the outcome and who took part in the rulemaking can appeal the Commission's decision to the United States Court of Appeals and, from there, to the U.S. Supreme Court.

Each year, the Postal Service also must submit an Annual Compliance Report to the Commission, using Commission-prescribed costing procedures, with the intent to show that it was in full compliance with all the requirements of the law. Among other material, the Postal Service must provide its audited total accrued costs by account, a diaggregation of these costs to functional cost segments, a disaggregation of the segments to incremental and "institutional" costs, and a further disaggregation to postal products. All methods are also described, documented, and fully traceable. This year the report was accompanied by 88 supporting folders, providing additional detail relating to compliance. The Commission scrutinizes the report and its supporting detail, and asks clarifying questions that it has developed and that interested parties have asked it to propound.

Interested parties may and do comment on the Postal Service Compliance Report, and submit replies to the comments of others. Following this, the Commission issues its Compliance Determination, which, in the overwhelming majority of cases, finds full compliance with its cost reporting requirements.

There is even more review. An independent private-sector, certified accounting firm audits the Postal Service financial results, including costs. Plus, the Postal Service Office of Inspector General periodically audits the costs distributed to products.

Finally, a point often missed is that even when a costing procedure remains static, its cost allocations will change due to, for example, year-to-year changes in the various cost causative inputs (like factor prices and cost by Postal Service cost segment), sampling results, mail volumes and weights by class and product, trucking costs and distances, presort levels, mail entry points. Within this mix, costs *are* influenced by volumes, but also recognize the ongoing realities of operations.

All of this produces a fully transparent, modern, and intellectually sound costing system, fully compliant with both the PAEA and modern economic thought. We suspect no company reporting to the U.S. Securities and Exchange Commission is as transparent, subject of as much oversight, and as open to improvement.

The Parcel Shippers Association thanks you for the opportunity to contribute to the hearing record.

TAXPAYERS
PROTECTION
ALLIANCE

U.S. Senate Committee on Homeland Security & Governmental Affairs
340 Dirksen Senate Office Building
Washington, DC, 20510

Re: Full Committee Hearing, March 12, 2019: A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service

To the attention of the Committee Members and Staff,

On behalf of millions of taxpayers and consumers, the Taxpayers Protection Alliance (TPA), a non-partisan, non-profit organization dedicated to protecting and educating taxpayers, hereby submits information for consideration on the matters governing the U.S. Postal Service (USPS).

The USPS's fiscal calamities are undoubtedly well-documented with $69.0 billion in losses over the past 11 fiscal years, in addition to a budgeted net loss of $6.6 billion for the current fiscal year. The USPS has been plagued by systematic mismanagement, flawed pricing schemes, and failures to root out fraudulent activities and achieve necessary cost savings.

In light of this, TPA released a report identifying more than $3.3 billion in common-sense savings that the agency can achieve without relying on Congressional reforms and/or taxpayer-funded bailouts. The report's recommendations are actionable by the agency itself, however TPA recognizes the desirability and necessity of congressional action in order to facilitate reforms with immediate benefits for consumers and taxpayers.

Further, TPA's recommendations align closely with the U.S. Treasury's Task Force findings on the operating realities of the postal system, which emphasize that, "initiatives must be taken to address both the USPS's revenues and costs."

TPA's recommended pricing changes and spending adjustments can help to restore stability to the USPS's balance sheet. We believe it is important for Congress to take a leadership role in fixing the USPS to help ward off, rather than enable bailouts by taxpayers.

A copy of TPA's recommendations is included with this report for your consideration.

Sincerely,

David Williams, President
davidwilliams@protectingtaxpayers.org

Ross Marchand, Director of Policy
Ross@protectingtaxpayers.org

Taxpayers Protection Alliance, 1401 K Street, NW., Suite 502, Washington, D.C. 20005 (202) 930-1716
www.protectingtaxpayers.org

TAXPAYERS
PROTECTION
ALLIANCE

POSTAL PERILS AND PROMISE:
A primer on reform

Taxpayers Protection Alliance
1401 K Street NW, Suite 502
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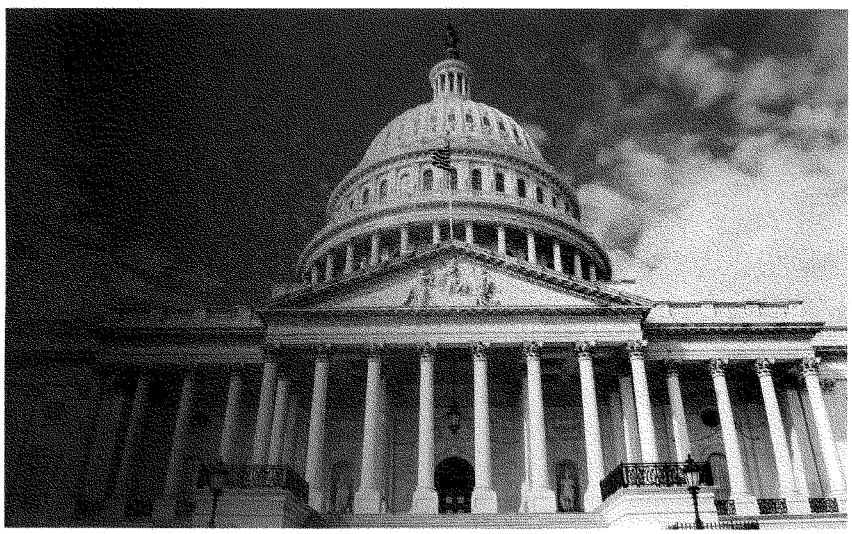
TAXPAYERS PROTECTION ALLIANCE

TPA is a rapid response taxpayer group dedicated to analyzing and researching the consequences of government intervention in the economy. TPA examines public policy proposals through a non-partisan focus, identifying how government waste and overreach impacts taxpayers and consumers regardless of the political party responsible. TPA holds government officials in the United States, and around the world, accountable through editorials, statements, coalition letters, public interest comments, and radio and television interviews. TPA recognizes the importance of reaching out to concerned citizens through traditional and new media, and utilizes blogs, videos, and social media to connect with taxpayers and government officials. While TPA regularly publishes exposés and criticisms of politicians of all political stripes, TPA also provides constructive criticism and reform proposals based on market principles and a federalist philosophy. TPA empowers taxpayers and consumers to make their opinions known to their elected and non-elected officials and embraces bold solutions to hold an ever-growing government in check.

Ross A. Marchand, *Director of Policy*
David E. Williams, *President*



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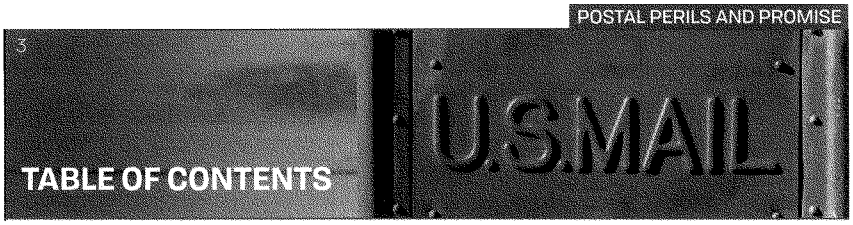

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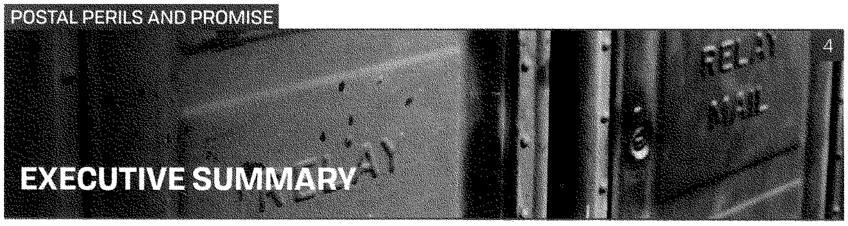


EXECUTIVE SUMMARY

The United States Postal Service (USPS) faces growing problems in managing essential services and keeping costs under control, amidst shifting consumer preferences, flawed management, and outdated pricing models leading to staggering losses of nearly $4 billion annually. Unfortunately USPS leadership has so far refused to enact any fundamental structural reform, preferring price increases such as the January 27 rate hike - the largest increase since the Civil War.

In this report, the Taxpayers Protection Alliance (TPA) identifies some of the largest cost drivers faced by the USPS, which lead to large annual losses despite the USPS's approximate $3.7 billion in taxpayer subsidies identified in this report. Cost drivers include:

- ***Highway Contract Rate (HCR) Inflation:*** Despite spending more than $3.6 billion for in excess of 8,000 HCR contracts, the USPS demonstrated little oversight over these agreements. Contractors often failed to satisfactorily perform a service requested by the USPS due to easily avoidable mistakes, costing the agency more than **$1 billion** annually.

- ***Inconsistent Use of Scheduler Tools:*** To determine which workers will do which tasks at which locations, the USPS has created a "F1" Scheduling tool, which relies on inputs such as productivity, mail volume, and mail processing machine availability to solve the jigsaw puzzle of employee assignment and roles. However many facilities simply do not use their F1 Scheduler to determine workhour budgets, costing the agency **$420 million** annually in labor costs.

- ***Unnecessary Vehicle Purchase Preferences:*** USPS will soon need to replace the majority of its aging fleet, and is currently in the midst of deciding amongst competing bids for new truck designs. Unfortunately, the stated choice to prefer "green vehicles" and domestic manufacturers will cost the agency more than **$220 million** over and above the $821 million annual increase in capital spending to purchase the new fleet.

- ***Redundant Facilities Still Open:*** Thousands of Post Offices operate at a loss and remain open despite being within 10 miles of another Post Office. The slowed pace of closures cost the agency more than **$20 million** annually.

- ***Outdated Pricing Formulas and Flawed Reselling Program:*** The USPS chronically underestimates how much package deliveries contribute to agency costs, to the tune of nearly $1.50 per package. The agency also allows small Postage buyers access to discounts reserved for bulk buyers. These flawed pricing systems cost the agency at least **$1.6 billion** annually.

- ***Total Potential Savings for Reform:*** If the USPS follows the recommendations of this report to reign in wasteful spending and reform its pricing systems, the agency can save a total of at least **$3.2 billion** annually averting the need for any future taxpayer bailout.

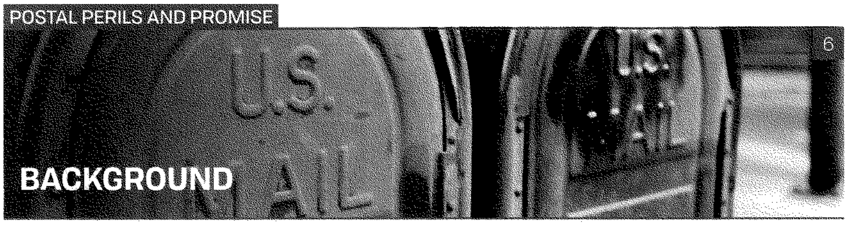
INTRODUCTION

There has never been an agency quite as troubled and defensive about their problems as the United States Postal Service (USPS). The Taxpayers Protection Alliance (TPA) has examined the USPS during all the key junctures throughout its recent history, ranging from the USPS's creation of an internet website in 1994 and the passage of the Postal Accountability and Enhancement Act of 2006 to the release of the Task Force report on the United States Postal System in 2018.

Unfortunately, at all these key moments in USPS history, policymakers and agency officials have refused to use these critical opportunities for genuine reform, and instead opted to kick the can down the road and blame others for the agency's issues. Meanwhile, any attempt to point out problems at the USPS and identify potential reforms are met with fierce blowback by the USPS' Public Relations staff.

Hopefully, this time may be different. With the current Administration calling for large changes at USPS, including more realistic pricing formulas and stronger bilateral negotiations, a critical mass of citizens, federal officials, and lawmakers are demanding a more transparent, responsible agency. The Task Force report, released in November of 2018, provides a myriad of reform options, but many recommendations require Congressional action. As many taxpayers know all too well, little gets done in Congress, and the possibility of genuine and meaningful Congressional reform of the USPS in the foreseeable future is slim. Furthermore, putting the onus of action on Congress sets the stage for the troubling possibility of taxpayer bailouts despite the report's warning against this policy move.

While TPA recognizes the desirability and necessity of congressional action (and the consequences of congressional inaction), the report's recommendations are actionable by the agency itself, as opposed to requiring outside intervention. The recommendations are designed to be quickly implemented with rapid benefits for consumers and taxpayers. Efficiency and pricing reforms, coupled with a widespread effort to root out waste, can put the USPS on a firmer fiscal footing while protecting taxpayers from further exposure and turmoil. The recommendations outlined could save the USPS more than $3 billion a year.



BACKGROUND

Established in 1971 as the successor organization to the United States Postal Department (USPD), the United States Postal Service (USPS) is an independent agency of the US federal government. The USPD, which had been in existence since 1792, did not permit postal workers to engage in collective bargaining, a key point of contention between federal management and workers that felt they were undercompensated and forced to work in substandard conditions. This tension culminated in the US postal strike of 1970, which became the largest "wildcat" (i.e. not led by a national union) strike in American history.[1] As the result, workers attained higher wages and working standards and the Nixon Administration saw the need to make large-scale structural reforms to the mail delivery system. Collective bargaining rights for federal workers were enshrined in the Postal Reorganization Act of 1970 which transformed the USPD into the USPS.[2]

Like its predecessor, the USPS has a monopoly on first-class mail (defined as letters weighing under thirteen ounces) in addition to standard mail (bulk advertising items). But since the 1970 Postal reorganization, significant legislative changes have altered the way that the USPS delivers mail and interacts with its employees. Most significantly, the Postal Accountability and Enhancement Act of 2006 (PAEA) separated Postal products into two broad categories: market-dominant and competitive.[3]

Policy makers were concerned that the USPS' entry into the package business, in which it had to compete with private providers (hence the term "competitive"), was interfering with providing traditional (i.e. market-dominant) products such as letters where it possessed a monopoly. The act stipulated that the USPS could no longer increase rates on market-dominant products above the rate of inflation and forced the USPS to price competitive products high enough to offset "attributable" (i.e. marginal) costs.

Therefore, USPS in theory was barred from undercutting shipping competitors from uneconomically low rates and cross-subsidizing this through increasing monopoly rates on letters. Additionally, the USPS was required to fund retirees' financial benefits ahead of time, ending the previous practice of funding obligations out-of-pocket in real time.[4]

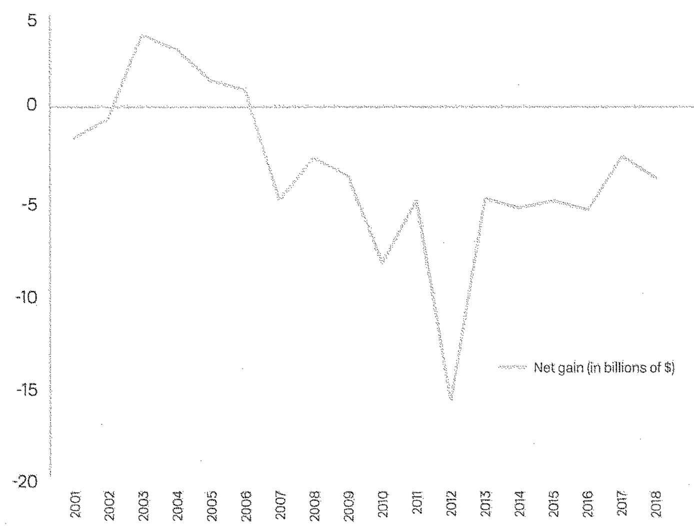
This change, heralded by then-Chief Financial Officer and Executive Vice President H. Glen Walker as "a far-sighted and responsible action that places the Postal Service in the vanguard of both the public and private sectors in providing future security for its employees,"[5] has since been made into a scapegoat by Postal leadership for the agency's fiscal troubles.

Indeed, while the PAEA mandated the most significant, promising reforms for the USPS since the Postal Reorganization Act of 1970, these promises were not fulfilled. To the contrary, a "perfect storm" of inept leadership and unfavorable economic trends have left the USPS in dire fiscal straits. Rather than use the opportunities presented by the 1970 Act to reinvigorate the USPS, USPS leaders have continually neglected to employ sound financial management, which has resulted in more than $70 billion in losses and more than $125 billion in un-

[1] Eidlin, Barry. "Unions struggle in the courts, but they have a fighting chance in the streets." *The Washington Post.* August 31, 2018.
[2] "Public Law 91-375, An act to improve and modernize the postal service, to reorganize the Post Office Department, and for other purposes." *Government Publishing Office.* August 12, 1970.
[3] "Public Law 109-435, An act to reform the postal laws of the United States." *Government Publishing Office.* December 20, 2006.
[4] Ibid.
[5] United States Postal Service. "Annual Report 2007: A Message from the Chief Financial Officer and Executive Vice President."

funded liabilities for the USPS since PAEA's enactment. As Chart 1 shows, every year since 2006 has seen the USPS record net losses in the billions of dollars.

Chart 1
Net gain or loss by the USPS, 2001-2018

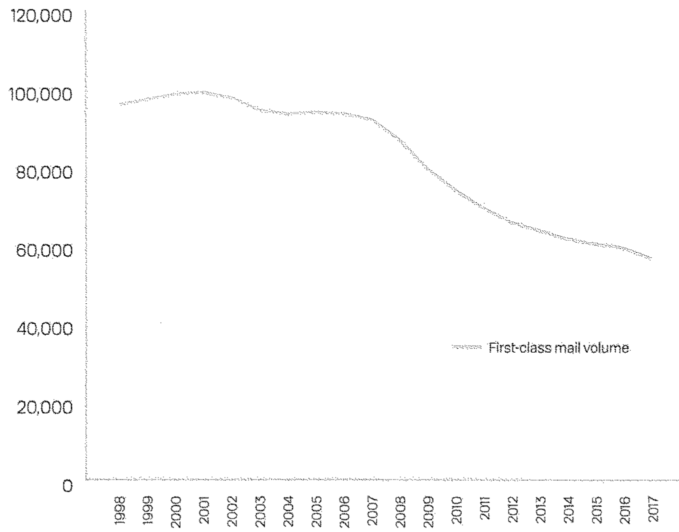


Source: *United States Postal Service. "Fiscal Year (2001-2018) Results."*

A key issue underpinning these losses have been USPS's refusal to adequately adapt to the rise of the internet and a corresponding decline in traditional mail. A 2018 Pew Research Center analysis found that, from 2005 to 2018, the number of Americans adults offline has declined from 32 percent to 11 percent.[6] This has contributed to the mass replacement of letters with emails resulting in billions of dollars of annual revenue losses for the USPS. As Chart 2 documents, first-class mail (letters, postcards or packages up to 13 ounces) volume has nearly halved over the past twenty years, with declines particularly significant over the past decade or so.

[6] Anderson, Monica, Jiang, JingJing, and Andrew Perrin. "11% of Americans don't use the internet. Who are they?" *Pew Research Center.* March 5, 2018.

Chart 2
USPS First-class mail volume, 1998-2017



Source: *United States Postal Service. "First-Class Mail Volume Since 1926." March, 2018.*

For FY 2018, the USPS reported first-class mail revenues of $25 billion, down from $25.7 billion the previous year and $28.2 billion five years prior (FY 2013). These losses have been blunted somewhat by the rise of competitive products, such as packages produced by e-commerce giants. Shipping revenue continues to climb higher; the shipping and package business experienced a $2 billion (10.1 percent) increase from FY 2017 to 2018 (from $19.5 billion to $21.5 billion).[7] However USPS's actions regarding treatment of e-commerce packages has resulted in significantly less revenue than should have been collected, and as such they have been unable to adequately mitigate these losses.

As a result of increase in shipping costs, higher package volumes are driving record operating costs that far exceed revenue. As discussed in this report, the outdated way that the USPS calculates costs for packages is leading to uneconomically-low prices, leading to lower-than-necessary revenue and undermining the goal of PAEA to prevent competitive products from subsidizing market-dominant products.

PAEA's allowance of Negotiated Service Agreements (NSAs), or special, largely-classified contracts between the USPS and large merchants to facilitate mass shipping at discounted rates, has contributed to the problem of artificially-low prices. For example, a 2013 NSA granting Amazon the exclusive benefit of Sunday delivery led

[7] United States Postal Service. "Fiscal Year 2018 Results." November 14, 2018.

Amazon to have exclusive access to low postage rates for one day each week.[8] Furthermore, as the Washington, DC-based think-tank Capitol Forum has repeatedly pointed out, the "postage reselling" program allows for artificially-low rates for small postage buyers that likely equate to hundreds of millions of dollars of forgone revenue each year.[9]

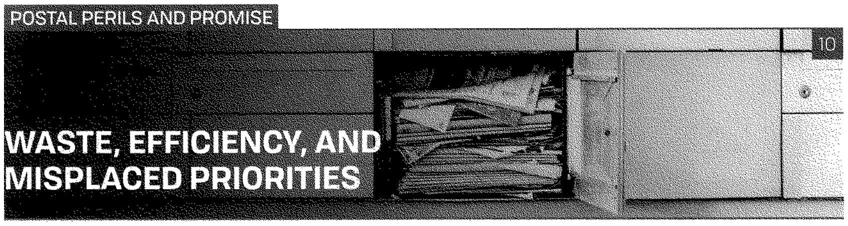
In addition to these contract-related issues, clear instances of financial mismanagement regularly plague the Postal Service, preventing the agency from regaining a firmer fiscal footing.

As a part of their fleet acquisition process, the USPS has stated that replacement vehicles will "feature hybrid and new technologies, including alternative fuel capabilities." Despite the rationale of minimizing the environmental effects of its fleet, phasing in expensive and inefficient "low carbon" technology will only balloon the service's already-large debt. Examining global adaptation costs, *Bloomberg* New Energy Finance analysts found last year that electric fleets will remain more expensive than their conventional counterparts until at least 2024, even after taxpayer subsidies are taken into account.[10]

Some USPS expenditures have little to do with actual operations. Since 2014, for instance, the USPS has wasted more than $16 million (taken from asset forfeiture and consumer fraud awareness funds) to finance the production of a TV crime drama called "The Inspectors" focusing on postal inspectors.[11] Rather unsurprisingly, the drama was a complete failure, yet this spending continues despite repeated claims by agency officials that the USPS lacks sufficient funds to comply with the universal service obligation.

While a wide range of reports have focused on particular issues related to USPS management, few have undertaken a comprehensive accounting of USPS's issues. Additionally, few comprehensive attempts have been made to discuss potential steps forward to mitigate the USPS's fiscal problems. This report discusses the wide-range of problems facing the agency and recommends changes that the USPS can make to shore up their finances and return to their core mission of "to bind the Nation together through the personal, educational, literary, and business correspondence of the people." In the first section, the report discusses current efforts to monitor waste and efficiency and how these efforts more often than not come up short. The second section focuses on the complex landscape of mandates and subsidies that accrue to, and flow from the Postal Service. The third section concludes the report and presents common sense, practical recommendations to keep the USPS a viable institution.

[8] Bensinger, Greg and Laura Stevens. "A Peek at Amazon's Contract with the Postal Service." *The Wall Street Journal*. November 25, 2013.
[9] Bill McAllister. "USPS 'postage reselling' program scrutinized." *Linn's Stamp News*. August 1, 2017.
[10] Bloomberg New Energy Finance. "Electric Vehicle Outlook 2018."
[11] Deirdre Shesgreen. "Stamping out crime: Postal Service spends millions on TV show about its crime-fighting inspectors." *USA Today*. February 21, 2018.



10

WASTE, EFFICIENCY, AND MISPLACED PRIORITIES

Most citizens have a positive opinion of the USPS, but the agency's image has been declining over the years. According to the Inspector General (IG), public perceptions of delivery accuracy, overall delivery performance, and carrier courtesy have all declined over the FY 2015-2017 period.[12] Part of the traditional appeal of USPS was the idea of a lean, mean postal processing machine. Americans could expect to drop off a piece of mail with little to no hassle at minimal expense, and wait only a few days (sooner with expedited shipping options) for the mail to arrive at the recipient's address.

But inefficiencies and shortcomings behind the scenes are complicating that task, at substantial costs to the agency and taxpayers.

INCONSISTENT USE OF SCHEDULER TOOLS

The USPS has a significant problem determining which workers will do which tasks at which locations. The USPS uses something known as an F1 Scheduler, which relies on inputs such as productivity, mail volume, and mail processing machine availability to solve the jigsaw puzzle of employee assignment and roles. While theoretically such a program should result in the efficient allocation of human capital, and the USPS uses this efficiency tool at 265 processing facilities nationwide, an audit by the IG in March of 2018 found widespread inconsistencies in implementation that were reducing efficiency at considerable cost.[13]

Reviewing the staffing situations at these processing facilities, the IG found that a plurality (109, or 41 percent) of facilities had staffing levels at least 5 percent *above* what the Scheduler would predict. An additional 60 facilities (23 percent of the total) were at least 5 percent *below* optimal staff levels, which may counterintuitively increase costs if a backlog forces the facility to have employees work overtime at increased pay rates. In fact, "facilities with complements under F1 Scheduler results incurred about 18 percent more overtime."[14]

Nationally, the USPS does not use their F1 Scheduler to determine workhour budgets for their processing facilities. Rather, USPS national management makes these budgetary determinations based on the status-quo, plus consideration of mail volume changes, operational factors, and new initiatives in a separate process from the F1 Scheduler (despite overlap in some input functions). This results in a mismatch of workhour budgets and staff level/assignment determinations at a more local level, creating a confused environment not conducive to efficient mail handling.

It isn't always the case that scheduling tools produce the "optimal" result. In both the public and private sectors,management must repeatedly review and assess not only adherence to existing standards, but how well standards predict productivity and labor costs. To these ends, best practices call for management to undertake a Verification, Validation, and Accreditation (VV&A) process to see how well standards are measuring up to reality. Management at these facilities failed to complete a VV&A analysis, due to a lack of awareness of such a process.

[12] United States Postal Service, Office of Inspector General. "Spring 2018 Semiannual Report to Congress." May 31, 2018.
[13] United States Postal Service, Office of Inspector General. "Audit Report: Mail Processing Facilities Staffing." Report Number: NO-AR-18-004. May 30, 2018.
[14] Ibid.

IG estimates that, if budgeted workhours were consistently placed in alignment with F1 Scheduler modeling results, the USPS could save **$420.1 million** in annual labor costs (based on FY 2018 data).[15]

HIGHWAY CONTRACT RATE INFLATION

In their FY 2018 financials, the USPS attempts to excuse cost escalations that contributed to the $3.9 billion net loss incurred through the year. According to the USPS, "Operating expenses for the year were $74.4 billion, an increase of $2.2 billion, or 3.1 percent, compared to the prior year. This was driven by an increase in compensation and benefits of $896 million due to contractual wage increases and increased transportation expenses of $623 million primarily due to higher package volume, increases in fuel prices and **higher highway contract rates**." [16](emphasis ours).

Of these listed factors, highway contract rates (HCRs) are the most prone to abuse. Despite spending more than $3.6 billion for more than 8,000 HCR contracts, the USPS conducted little oversight over these agreements. Too often, contractors fail to satisfactorily perform a service requested by the USPS due to avoidable mistakes on the part of the contractor. The IG explains that irregularities "commonly include missed, late arriving, and late departing trips." Network Distribution Centers can detect problems by using "scanning to track HCR vehicles entering the facility yard, docking at the facility, or leaving for another facility."[17] Once a chargeable irregularity is documented, it's up to administrative officials to pursue the offenders and request reimbursements from them.

Therefore, these "chargeable irregularities" should result in the USPS recouping funds from contractors. In reality, however, this does not happen. In fact, the IG found that officials did not pursue reimbursement requests for *any* of the 22,225 chargeable irregularities documented between FYs 2016 and 2017. Officials failed to review PS Forms 5500, which document irregularities found during the aforementioned scanning process.[18]

Even if management was committed to undertaking complete reviews, they have a shortage of necessary information for a variety of reasons. For example, PS Forms 5500 for trips that *did not* originate at the officials' assigned Distribution Center will typically not be available for the official to inspect; an official at the departure Center would have to send over the documentation, which frequently does not occur. Additionally, PS Forms 5500 are only required to be retained for one year, which creates serious accounting issues given that typical HCR contracts run from 2 to 4 years.

For the Chicago Network Distribution Center, the IG estimates that $7 million is at risk for a mere 11 contracts renewed during the FYs 2016 and 2017.[19] In September of 2017, the IG performed a similar analysis of the Jacksonville Network Distribution Center, using irregularities data for FY 2015 and 2017. The IG found similar deficiencies in collecting data and creating reimbursement requests and estimated that $17.3 million was at risk for the 45 contracts renewed over the FY 2015 to 2016 period.[20]

[15] Ibid.
[16] United States Postal Service. "Fiscal Year 2018 Results." November 14, 2018.
[17] United States Postal Service, Office of Inspector General. "Audit Report: Highway Contract Route Irregularity Reporting – Chicago Network Distribution Center." Report Number: NL-AR-18-005. February 22, 2018.
[18] Ibid.
[19] Ibid.
[20] United States Postal Service, Office of Inspector General. "Audit Report: Highway Contract Route Irregularity Reporting – Jacksonville Network Distribution Center." Report Number: NL-AR-17-010. September 7, 2017.

While the IG is likely in the process of securing estimates for the 19 other NDCs, it is possible to roughly estimate annualized national costs for unreimbursed HCR chargeable irregularities. Averaging Chicago and Jacksonville's excess cost per contract yields a midpoint estimate of $510,000 of fraud per contract over a two to four-year period. Even under the conservative assumption that all HCR contracts last for four years, the annualized cost of fraud per contract is $127,500. The USPS has 8,000 contracts nationwide, implying that national annualized costs of HCR irregularities is **$1.02 billion**.

VEHICLE PURCHASES

One of the most recognizable features of the USPS is its delivery fleet. The design of mail delivery trucks have shown little change over the past few decades. But, this is becoming a major issue for the USPS, as more than half of all trucks are older than 20 years. This issue has become increasingly visible as an uptick in fires has compromised the operation of Grumman Long Life Vehicles (LLVs) purchased by the USPS.[21] Nearly 100 truck fires in fiscal year 2017 alone have underscored the desperate need to replace the aging fleet, as the USPS deliberates on the best truck vendor for the job. With depleted capital resources due to decades of financial mismanagement, the USPS has limited options in choosing the truck of the future.

Despite the agency recording large fiscal losses for twelve years straight, it has little choice but to increase capital spending to facilitate a large-scale fleet replacement to prevent even further losses in the future. According to a Government Accountability Office (GAO) report released in June, "USPS projects average annual capital-spending cash outlays of $2.4 billion from fiscal years 2018 through 2028—about 70 percent more than the average of $1.4 billion from fiscal years 2007 through 2017." [22]

While information technology and mail processing spending will get a boost, the primary driver for the increase in capital outlays will be fleet acquisition. Commencing in fiscal year 2019, the USPS plans to spend an annual average of $821 million on new vehicles purchases.[23]

The USPS is still in the process of deciding which vehicle model to choose with competing bids from five different vendors. The agency has, however, stated that it will prioritize prototypes with "hybrid and new technologies, including alternative fuel capabilities."[24] With few exceptions, hybrids are more expensive than their conventional counterparts even taking into account the better fuel mileage. According to a study by consulting firm Vincentric LLC, 22 of 29 top hybrid vehicle models were more expensive over a lifecycle basis than comparable regular vehicles.[25] *Bloomberg* projects that, even if lithium prices fall and remain steady, electric vehicles will remain considerably more expensive than the fossil fuel fleet until at least 2024.[26] But rising prices of key electric battery inputs such as cobalt and lithium are putting upward pressure on battery prices and global demand pressures show no sign of abating anytime soon. The USPS tilt against a conventional fleet is a costly bet predicated on a price plunge of metals with soaring popularity and rising prices and is unlikely to be successful.

Due to rapidly-changing market variables and a focus on more popular vehicles such as cars and larger-haul trucks, attempts to estimate the lifetime-cost of electric delivery vehicles and diesel-run delivery vehicles (which make up USPS' current fleet) have been few and far-between. Yang et al discuss the tradeoffs that governments and companies face in delivery truck procurement and estimate corresponding costs over the life-

[21] Cyndia Zwahlen. "Mail Truck Fires Persist in Aging Fleet Tagged for Replacement." *Trucks.com*. November 7, 2018.
[22] United States Government Accountability Office. "U.S. Postal Service: Projected Capital Spending and Processes for Addressing Uncertainties and Risks." GAO-18-515. June 28, 2018.
[23] Ibid.
[24] United States Postal Service. "USPS Statement on Next Generation Delivery Vehicles Prototype Selection and Request for Proposal for Commercial Off-the-Shelf Delivery Vehicles." September 16, 2016.
[25] Paul A. Eisenstein. "Do Your Math Carefully to Figure Out if Hybrids Are Worth the Added Cost." *NBC News*. September 3, 2016.
[26] Bloomberg New Energy Finance. "Electric Vehicle Outlook 2018."

time of competing vehicles. A further problem arises in that "a truck needs to wait from four up to 8 hours to be fully charged," and as such vehicle charging "may not be able to meet the needs of vehicles in time, especially for vehicles which require more daily mileage and higher punctuality, such as taxis, buses, and delivery trucks."[27]

Therefore, entities such as the USPS seeking to purchase electric vehicles may need to opt for "battery swap," in which fleet purchasers' contract with battery rental companies to charge and provide batteries which can then be put into the vehicle on a frequent basis. Yang et al estimate that light-duty battery-swap trucks cost over 21 percent more than conventional diesel trucks over the lifetime of the vehicles, due to high upfront acquisition costs, continued battery rental and charging costs, and maintenance.[28] Other analyses show higher upfront costs with "alternative" vehicles but fail to track lifetime costs. *Reuters* cited figures in 2017 showing, "A typical 40-foot electric bus costs around $750,000, compared with about $435,000 for a diesel bus." [29] This amounts to a 72 percent cost difference, although taking into account continued fuel versus battery charging costs as Yang et al did leads to an even more accurate estimate.

Using Yang et al's conservative estimates (and assuming that the USPS' preference for "hybrid and new technologies), including alternative fuel capabilities" amounts to electric vehicle purchases, choosing a vehicle vendor based on this preference would cost the agency an addition **$172.41 million** per year over its slated $821 million annual expenditure over the next decade to acquire new vehicles.

The USPS is considering two foreign-origin bids (from Indian and Turkish manufacturers), but will likely be steered toward domestic bids due to the sway of "Buy American" provisions. [30] While the USPS isn't subject to the Buy American Act, it does have an acquisition provision for considering domestic suppliers first and their stated preference for domestic-origin assets makes it likely that they will follow its guidelines. [31] Therefore, the USPS may pay an even more unnecessarily-high price for its fleet over the next decade.

Despite some methodological constraints, and uncertainty regarding the policy options available to the USPS, it is possible to broadly estimate the unnecessary costs these provisions will add if followed. With the statute permitting agencies buying lower-priced goods from a foreign producer if the procurement is greater than 6 percent when compared to the corresponding domestic offer[32], if it assumed conservatively that foreign bids will be chosen if more than a 6 percent discount applies, then a rough differential can be estimated.

As the USPS projects spending $821 million annually over the next decade to acquire new vehicles, voluntarily adhering to "Buy American" provisions at the 6 percent handicap level would add **$49.26 million** per year onto purchase costs.

Adding the "Buy American" total to the alternate vehicle procurement costs yields an annual total of **$221.67 million** in increased costs to the agency as the result of these priorities. This would add an additional $2.3 billion to the cost of fleet acquisition over the course of the decade.

[27] Yang, Lei, Caixia Hao, and Yina Chai. "Life Cycle Assessment of Commercial Delivery Trucks: Diesel, Plug-In Electric, and Battery-Swap Electric." *Sustainability* 10, no. 12 (2018).
[28] Ibid.
[29] Nichola Groom. "U.S. transit agencies cautious on electric buses despite bold forecasts." *Reuters*. December 12, 2017.
[30] Jerry Hirsch. "Oshkosh Teams With Ford On $6-Billion USPS Mail Truck Bid." *Trucks.com*. March 6, 2018.
[31] United States Postal Service, Office of Inspector General. "Audit Report: Domestic Preference in Vehicle Contracts." Report Number: SM-AR-18-004. June 7, 2018.
[32] It should be noted that this percentage handicap applies only to bids by large businesses; small domestic companies enjoy a 12 percent price-handicap. As the USPS is dealing with primarily large bidders, the conservative assumption of a 6 percent handicap will be used in this analysis.

CONTINUED OPERATION OF REDUNDANT "LOW WORKLOAD" RETAIL FACILITIES

A "low workload" facility (which the USPS defines as a facility which claims a walk-in revenue of less than $27,500 (or $10,000 in Alaska) and earned workload of less than two hours per day[33]) may prove necessary to serve a remote area many miles away from another retail facility. One notable example is the Post Office in Barrow, Alaska, one of the northernmost towns in the United States with a population of roughly 4,500.[34] Regardless of revenue performance, the closure of such a remote Post Office would require residents to travel around 60 miles to Atqasuk, a path not traversable by road. According to data from 2011, more than 200 "low workload" post offices across the country are more than 20 miles from the nearest Post Office.[35] Closing these facilities could cause substantial harm to isolated communities and undercut the Postal Service's Universal Service Obligation.

The vast majority of "low workload" facilities, however, are 10 miles or less from the nearest alternate Post Office, and the continued operation of these redundant offices costs the USPS hundreds of millions of dollars annually. In 2011, USPS identified 1,801 such Post Offices, as a part of a larger effort to identify unnecessary facilities that could be closed as a part of the Retail Access Optimization Initiative (RAOI). While not all facilities listed by the USPS under the RAOI are low workload, low workload facilities comprised 77 percent of all Post Offices identified for closure or consolidation. [36]

After the USPS announced its RAOI plan in July 2011, the Postal Regulatory Commission (PRC) spent several months reviewing the comprehensive proposal. Finally, in December 2011, the PRC issued a unanimous opinion rejecting the plan and questioning the underlying logic of the initiative. The PRC, citing a lack of screening of the socioeconomic status of populations vulnerable to RAOI closures and the lack of "clear, tangible, measurable goals for future nationwide service changes," advised that the USPS go back to the drawing board and devise new proposals using more comprehensive modeling of facility-specific data. [37]

In response, USPS released an alternative Post Office Structure Plan in May of 2012, which aimed to "keep the nation's smallest Post Offices open for business, while providing a framework to achieve significant cost savings as part of the plan to return the organization to financial stability." The most significant announced change was "modified retail window hours to match customer use," resulting in the reduction in operating hours for thousands of rural facilities from 8 hours to 6 hours (or in many cases, 4 or 2 hours). [38]

Postmasters around the country were given early retirement incentives in order to reduce labor costs in areas that saw little Postal business. While this change initially went hand-in-hand with the discontinuation (i.e. closure) of a record number of postal retail facilities, the adaption of a "kinder, gentler" approach meant that discontinuation could only remain a viable strategy for so long. As Table 1 shows, the FY 2011 through FY 2013 period saw a historic number of temporary "suspensions" turn into permanent "discontinuations" as a part of an aggressive closure policy coinciding with the RAOI plan. During the FY 2011 through FY 2013, the USPS was averaging 111 suspensions a year. Discontinuations per year averaged 197, as the USPS cleared previous suspensions *and* discontinued newly-suspended facilities. From FY 2014 through FY 2017, suspensions slowed down to an average of 56.5 per year.

[33] United States Postal Regulatory Commission. "Advisory Opinion on Retail Access Optimization Initiative (Docket No. N2011-1)." Filing ID: 78971. December 23, 2011.
[34] "Barrow, AK post office locations." *Post Office Finder.*
[35] United States Postal Regulatory Commission. "Direct Testimony of John P Klingenberg on Behalf of the Public Representative PR-T-2." Docket No. N2011-1. October 4, 2011.
[36] Ibid.
[37] United States Postal Regulatory Commission. "Advisory Opinion on Retail Access Optimization Initiative (Docket No. N2011-1)." Filing ID: 78971. December 23, 2011.
[38] United States Postal Service. "New Strategy to Preserve the Nation's Smallest Post Offices." Release No. 12-054. May 9, 2012.

Table 1: Suspensions and discontinuances of post offices, 2008-2019

Fiscal year	Discontinuances	Suspensions
Pre 2008		194
2008	99	40
2009	129	53
2010	107	35
2011	360	108
2012	162	119
2013	68	106
2014	0	59
2015	0	57
2016	0	56
2017	304	54
2018	171	
2019	200	
No date provided		106
Total	1600	987
Annual average	133	69

Source: *"Post Office discontinuances and suspensions: A decade in review." Save the Post Office. February 26, 2018.*

During this period, the USPS did not convert any suspensions into discontinuations. In its 2016 Annual Compliance Report, USPS stated, *"confusion can arise whenever a large scale effort to discontinue retail units, even those that are in longstanding suspended status, are announced. Further, clearing the backlog of suspensions could have* ***complicated efforts*** *at the federal level to* ***secure necessary consensus on ongoing legislative reforms under consideration****."*[39] (emphasis ours)

[39] United States Postal Regulatory Commission. "United States Postal Service FY 2016 Annual Compliance Report." Docket No. ACR2016. December 29, 2016.

The USPS finally succeeded in clearing a significant proportion of this backlog in FY 2017, turning 304 suspensions that had been lingering for the past three years into discontinuations.[40] Allowing a backlog of suspensions to accumulate over a multi-year period creates considerable uncertainty for consumers of suspended facilities and gives the impression that the USPS is using sleight of hand to close facilities without public input (as communities are unable to appeal such suspensions).

A slowdown of suspensions coupled with an even-greater slowdown of discontinuations may therefore be the worst possible combination of policies, as the USPS fails to make significant inroads closing redundant facilities while keeping the process closed from the public.

By suspending roughly 54.5 fewer redundant facilities per year than the peak FY 2011 though FY 2013 period, the USPS is forgoing significant savings. The USPS's fiscal analysis of its unprofitable, "low workload" facilities revealed that each facility on average has a net operating loss of $60,974. [41] As this figure was published in FY 2011, the inflation-adjusted figure in 2018 is $68,101. Multiplying this sum by 54.5 and taking into account the cumulative foregone cost of not closing these facilities, yields an average annual foregone cost figure of **$20.41 million** over the next decade.

[40] "Post Office discontinuances and suspensions: A decade in review." *Save the Post Office*. February 26, 2018.
[41] United States Postal Regulatory Commission. "Advisory Opinion on Retail Access Optimization Initiative (Docket No. N2011-1)." Filing ID: 78971. December 23, 2011.

17

SUBSIDIES FLOWING TO AND FROM THE POSTAL SERVICE

THE "POSTAL RESELLING" PROGRAM

As a quasi-business, the USPS often tries pricing strategies common across for-profit sectors. One pricing practice commonly seen in the private sector is that of bulk discounts. The USPS gives discounts to large companies that regularly use a large volume of postage and come to special pricing agreements via NSAs. If a large company seeks to get preferential pricing treatment from the USPS, they must show the "ability to make and present in an acceptable format accurate forecasts of future mail volumes for USPS products," as well as establish thorough documentation of historical and current mail volumes and quality control management. Should the applicant company's application be approved, the USPS begins a negotiation process, which if successful, results in an NSA. [42]

While large volume discounts make sense from a fiscal and economic perspective, extending discounts to businesses without significant volume results in unsound and preventable losses. This discounting of postage without taking into account vendor size regularly happens due to USPS' "postal reselling" program allowing approved vendors to resell postage at deeply discounted rates. As such, companies can take advantage of these steeply discounted rates to purchase in bulk, then resell at an inflated rate (yet cheaper than the retail price) to consumers who do not purchase in bulk.

USPS states that "Registered end-users of USPS-approved PC Postage products" are among those eligible for "Commercial Plus pricing [which] is available to customers whose cumulative account volume exceeds 5,000 pieces in the previous four quarters and who have a customer commitment agreement with USPS." [43] Agreements with individually-approved PC approved vendors suggests that the USPS tries to limit discounted postage to high-volume consumers. One (heavily redacted) NSA, for instance, contains a clause stipulating that, "applicable discounted prices will be based on Customer's volume of Contract Packages shipped during the previous full Contract Quarter." [44] But in practice, PC approved vendors have been found to grant buyers Commercial Plus pricing regardless of the volume requirements identified by the Postal Service.

In June 2017, Capitol Forum released the results of investigation into postage rates encountered by low-volume shippers that purchased postage from a variety of approved PC vendors such as Stamps.com and Pitney Bowes, as well as software liaisons between consumers and PC vendors (ie. EasyPost, Ordoro, ShippingEasy). [45] As a part of their investigation, Capitol Forum sought to purchase and print labels for mail to be sent between either Washington, D.C. and Manhattan, New York (Zone 3) or Washington, D.C. and El Segundo, California (Zone 8). Using barcode decoding technology that uses Information-Based Indicia (ICI), Capitol Forum was able to determine how much the software platforms (via the PC vendors) spent to acquire the labels in the first place.

[42] United States Postal Service. "Negotiated Service Agreements." *Mailing Standards of the United States Postal Service- Domestic Mail Manual.*
[43] United States Postal Service. "Priority Mail Express: Prices and Eligibility." *Mailing Standards of the United States Postal Service- Domestic Mail Manual.*
[44] United States Postal Regulatory Commission. "Notice of United States Postal Service of Change in Prices Pursuant to Amendment to Priority Mail Contract 146." Docket No. CP2016-3. February 12, 2016.
[45] *The Capitol Forum.* "Stamps.com: Barcode Inspector Software Provides Insight into Reseller Spread Magnitude and USPS Per Package Revenue Loss." Vol. 5, No. 207. June 26, 2017.

Take, for instance, Ordoro, a software platform which implores potential consumers to "Get access to our Commercial Plus Pricing and Dimensional Rates...Our USPS accounts get discounted rates that are only available to high volume shippers and is likely to meet or beat the current rates that you get from your other postage accounts." If a low-volume company walked into a Post Office in 2017 and sought to mail a 3 lb. parcel from Washington, DC to El Segundo (Los Angeles), California, they'd pay $14.90 in postage. Capitol Forum was able to accomplish the same shipping transaction via Ordoro for just $7.32. Capitol Forum's barcode decoding software revealed that Ordoro paid the USPS just $7.04 for the label that they ultimately purchased. If the USPS had refused to sell discounted postage to Ordoro for reselling, USPS would have collected $7.86 more from the low-volume shipper. [46]

As Tables 2 and 3 demonstrate, significant disparities exist between what low-volume shippers pay at the USPS versus PC-approved vendors, at significant cost to the USPS. Both Ordoro and ShippingEasy are software platforms that operate as middle-men between consumers and PC-approved vendors such as Stamps.com. Based on this data, the Postal Service loses anywhere from 12.9 percent to a staggering 52.8 percent from postal resales going to low-volume postage buyers via these software platforms. Unfortunately, it is not possible to estimate the size and extent of subsidies flowing to low-volume buyers, as firms such as Ordoro and Stamps.com do not provide detailed-enough financial information to the public to create an estimate.

The USPS itself refuses to divulge revenue impacts, "Due to concerns with the commercial sensitivity of competitive product pricing strategy that may be protected from disclosure under 39 USC 410(c)(2),..." [47] This fits into a broader pattern of the USPS not disclosing information about its reselling program, or competitive product dealings in general. The IG notes, "In response to certain requests for information related to our work on the Postal Partnerships and PC Postage projects, the Postal Service was slow to respond, sometimes taking more than a month to fulfill our requests. In some instances, the Postal Service initially told us that documents we requested did not exist. After we discovered additional evidence of the documents, we pressed the Postal Service further and they eventually divulged more records."[48]

[46] Ibid.
[47] United States Postal Service, Office of Inspector General. "Fall 2018 Semiannual Report to Congress." November 30, 2018.
[48] Ibid.

Table 2: Postal reselling discounts given to ordoro consumers

Mail categories	Ordinary (commercial base) postage	Paid to USPS	Loss to USPS	
			$	%
Flat rate envelope	5.95	4.94	-1.01	-17.00%
Small flat rate box	6.45	5.19	-1.26	-19.50%
Medium flat rate box	12.4	10.61	-1.79	-14.40%
Large flat rate box	17.05	14.74	-2.31	-13.50%
Parcel, 3 lbs, zone 3	7.38	5.56	-1.82	-24.70%

Source: *The Capitol Forum. "Stamps.com: Barcode Inspector Software Provides Insight into Reseller Spread Magnitude and USPS Per Package Revenue Loss." Vol. 5, No. 207. June 26, 2017.*

Table 3: Postal reselling discounts given to shipping easy consumers

Mail categories	Ordinary (commercial base) postage	Paid to USPS	Loss to USPS	
			$	%
Flat rate envelope	5.95	5.18	-0.77	-12.90%
Small flat rate box	6.45	5.63	-0.82	-12.70%
Medium flat rate box	12.4	10.85	-1.55	-12.50%
Large flat rate box	17.05	14.9	-2.15	-12.60%
Parcel, 3 lbs, zone 3	7.38	6.5	-0.88	-11.90%
Parcel, 3 lbs, zone 8	14.9	13.12	-1.78	-11.90%

Source: *The Capitol Forum. "Stamps.com: Barcode Inspector Software Provides Insight into Reseller Spread Magnitude and USPS Per Package Revenue Loss." Vol. 5, No. 207. June 26, 2017.*

While the IG has not issued a public report on low-volume discounts, it has reported on mislabeling of postage through PC-approved resellers. If, for example, "claimed weight by mailer does not match actual weight," or "claimed zone does not match actual," the USPS the mail to be "shortpaid."[49]

After first pointing out the issue in 2013, the IG recommended substantial corrective actions to USPS, including improved controls and automated systems. Disappointingly, the USPS opted for a significantly more limited course of action, primarily involving increased information-sharing between the agency and approved PC resellers, as well as some increased auditing. Unsurprisingly, these limited measures proved to be insufficient in stopping mislabeling and fraudulent PC postage with USPS estimating a FY 2016 shortpaid total of $235 million.[50]

In response to continued scrutiny by the IG, the USPS unveiled an Automated Package Verification (APV) system in August 2017. The system, which is designed to "automate identification and recovery of shortpaid PC Postage parcels," has an unproven track record and remains unevaluated by the IG. The IG did note in May of 2017, however, that software issues remain and collection and payment systems remain incomplete. Additionally, 17 percent of parcels will fall outside the scope of the APV system, and the presumed cost of shortpaid postage from these parcels will likely continue without further significant action by the USPS.[51]

Finally, there is a cost to implementing the new automated system, although this dollar figure is not available to the public. Until the APV is demonstrated to have made inroads in reducing mislabeling, this report considers the PC reselling program to cost the USPS at least **$235 million** annually. This is a conservative estimate, because, as previously noted, the subsidy to low-volume postage buyers remains unquantifiable, with the true total likely significantly higher.

SUNDAY DEAL, MISCELLANEOUS PILOT PROGRAMS WITH AMAZON

An exclusive 2013 deal to deliver Amazon parcels on Sundays has led to rapid cost escalation for USPS. While any "mail matter" can be delivered by USPS on Sunday, customers have to go through Priority Mail Express at a far higher price than ordinary shipping. That's why, in describing the Sunday deal with Amazon back in 2013, USPS' IG argued that, "what's really new is the low cost of the service...Utilizing the Postal Service's ubiquitous delivery network Amazon.com is able to keep its costs down and, for example, give its Amazon Prime members who get unlimited, free two-day shipping the flexibility to get packages on Sundays." [52]

But in the five years since the approval of the deal, Sunday-related parcel delivery costs have risen rapidly. Since Sunday operations are dictated by the deal granting Amazon exclusive Sunday access, the result is hardly an efficient operation. The IG finds that, in the San Francisco District, "the increased use of higher cost full-time city carriers and scheduling uncertainty" has resulted in more than $2 million in additional quarterly operating costs. Additionally, parcel volume uncertainty leads to overstaffing with employees paid at the overtime rate.[53]

Similarly, if Amazon wants to test out a new delivery service concept, they can rely on special USPS agreements to get privileged access to thousands of households that their competitors are unable to obtain. Before any other player had a opportunity in the grocery delivery market, the USPS penned a trial arrangement with Amazon in 2014 for the San Francisco market. The USPS agreed to make same-day deliveries of AmazonFresh

[49] United States Postal Service, Office of Inspector General. "Audit Report: Shortpaid PC Postage Parcels." Report Number: MS-AR-17-007. May 9, 2017.
[50] Ibid.
[51] Ibid.
[52] United States Postal Service, Office of Inspector General. "No More Day of Rest for Postal Package Delivery." November 13, 2013.
[53] United States Postal Service, Office of Inspector General. "Audit Report: Sunday Operations- San Francisco District." Report Number: DR-AR-18-003. May 1, 2018.

groceries, allowing the company unique access to Postal vehicles for drop-offs between 3 a.m. and 7 a.m.[54] (not a very convenient time for consumers). By exclusively offering Amazon the opportunity to establish itself as the first major e-grocer, the USPS gave the multi-billion corporation a major leg-up over any potential competitor. By the time that the USPS's delivery offerings were extended to other retailers after that initial test, Amazon already had a reputation for being the first company in an innovative and highly lucrative market.

The market has been flooded with similar services since the pilot program's inception in 2014, showing that the USPS arbitrarily intervened into a market where their services were far from necessary. Shipt, for instance, which delivers groceries, home goods, clothes, and other items from Target via tens of thousands of personal shoppers, will offer same-day shipping on "all major product categories" by the end of 2019. Unlike USPS's non-public grocery arrangement (which was hampered by late and missed delivers according to a Recode report) , Target's acquisition of Shipt and Shipt's arrangements with shippers are subject to market conditions in the public's eye.

The USPS maintains that, even though there are significant costs associated with the Sunday deal and pilot arrangements, the revenue is greater than the costs and therefore there is no cause for concern. The agency, however, overlooks the revenue forgone by giving preferential rates to one company. If the USPS decided to immediately charge Amazon Priority Mail Express rates for its Sunday deliveries, the company would unlikely respond by ending its two-day Prime option, which allows it to maintain significant market-share.

Similarly, it is unlikely to significantly change its logistical strategy; Amazon is actively building its own logistics network regardless of USPS posting policies. Amazon's current Delivery Service Partner program, which allows individuals to set up their own delivery business with a $10,000 investment and a vehicle leasing agreement with the company, already reflects an aggressive pivot toward self-delivery. Logistics roles are unlikely to be filled at a fast rate, given the tightness of the American labor market. [55]

For these reasons it is likely that, if USPS ended its preferential pricing treatment toward Amazon, the agency could recoup significant additional revenue. Unfortunately, the amount of revenue remains impossible to estimate, since there is no available public price data.

But, allowing Amazon packages exclusive access to Sunday delivery means more to Amazon than simply avoiding Priority Mail Express. Due to an outdated parcel pricing formula agreed to by USPS and its regulator more than a decade ago, all packages are priced in a way that severely underestimates their contribution to wear-and-tear.

The agency, for instance, assumes, under a formula born out of the 2006 Act which directed the PRC to establish various financial controls, that "competitive products" such as packages are responsible for less than 15 percent of wear-and-tear costs for newly acquired trucks.[56] [57] Considering, however, that the USPS's new trucks are designed specifically to carry more packages, and packages make up a considerable part of the USPS's activities, such an assumption seems grossly inaccurate.

These assumptions are the result of a 2007 PRC ruling in which the Commission mandated that "competitive products" were to be priced under the assumption that they were responsible for 5.5 percent of institutional costs.[58] On January 3, 2019, the PRC adopted a final rule increasing that minimum share to 8.8 percent of min-

[54] Emily King. "Postal Service hopes to expand grocery delivery service." *The Sacramento Bee*. July 21, 2016.
[55] Ali Montag. "Amazon says this business opportunity could make you up to $300K a year — here's how to get into the program." *CNBC*. September 6, 2018.
[56] "Public Law 109-435, An act to reform the postal laws of the United States." Government Publishing Office. December 20, 2006.
[57] United States Postal Regulatory Commission. "Annual Compliance Review 2017: Responses of the United States Postal Service to Questions 1-15 of Chairman's Information Request No. 8." Docket No. ACR2017. January 29, 2018.
[58] United States Postal Regulatory Commission. "Administrative Practice and Procedure, Postal Service." Docket No. RM2007-1. November 9, 2007.

imum costs,[59] but this total is still significantly lower than the actual share of costs that competitive products are responsible for. Today, competitive products are responsible for more than 30 percent of USPS total attributable costs, meaning that the USPS is chronically underestimating packages' impact on wear-and-tear. [60] Therefore, arrangements such as Sunday delivery may be deemed as profitable by Postal regulators, but only under outdated and inaccurate assumptions.

ESTIMATING FEDERAL, STATE, AND LOCAL SUBSIDIES TO THE UNITED STATES POSTAL SERVICE

In response to multiple reports, analyses, and op-eds criticizing the financial management of the USPS, the public relations arm of the USPS typically responds by citing the difficulties that come with "self-financing." The claim that "The Postal Service receives NO tax dollars for operating expenses and relies on the sale of postage, products and services to fund its operations" appears on the USPS's website, and is frequently repeated in statements, opinion articles, and various media appearances by USPS staff.[61]

This, however, is a strongly misleading statement, even if there is no Congressional line-item devoted to the USPS. As detailed in a number of reports through the years, USPS enjoys exemptions from many taxes on the federal, state, and local level, and enjoys special loan arrangements with the US Treasury which, given projected unending deficits that are unlikely to be repaid, constitute de facto taxpayer funded bailouts. In this research analysis, we aim to examine the extent of subsidies flowing from taxpayers at all levels of government to the USPS. To arrive at an estimate, this report examines previous analyses, and update presented calculations. Additionally, new data is used to arrive at new estimates in several areas.

BACKGROUND ON PREVIOUS ANALYSES

A number of studies over the past decade have attempted to quantify the total yearly value of taxpayer subsidies received by the USPS. In 2008, the PRC estimated that indirect subsidies to the USPS totaled $4.9 billion annually ($5.83 billion adjusting for inflation)[62] The analysis attempted to quantify the economic advantage accruing from the USPS's first class monopoly. Additionally, the PRC produced estimates of the value of state and local tax exemptions on business income, property, fuel, vehicle registration, and other levies.

The PRC estimate, however, significantly understated the value of the subsidy by excluding a number of relevant factors. A 2015 study by Robert J. Shapiro of Sonecon revisited the assumptions used by the PRC with a more comprehensive investigation of all subsidies enjoyed.[63] Shapiro argued that the 2008 PRC study failed to take into account several federal benefits enjoyed by the USPS, including subsidized loans from the Treasury and revolving corporate tax payments. Additionally, Shapiro found that the PRC underestimated the value of state and local tax exemptions and general monopoly benefits. For instance, the PRC failed to take into account the benefits of monopoly access to business and personal mailboxes when competing with private businesses in delivering packages and urgent mail. Incorporating revised tax expenditure estimates, monopoly access benefits, and other federal benefits, as well as the implicit value of the monopoly on First Class Mail and subsidized loans from the Treasury, Shapiro concludes that the total Postal Service subsidy exceeds $18 billion. [64]

[59] United States Postal Regulatory Commission. "Order Adopting Final Rules Relating to the Institutional Cost COntribution Requirement for Competitive Products." Docket No. RM2017-1. January 3, 2019.
[60] United States Postal Regulatory Commission. "Financial Analysis of United States Postal Service Financial Results and 10-K Statement (Fiscal Year 2018)." Filing ID: 104498. April 5, 2018.
[61] United States Postal Service. "About the United States Postal Service."
[62] United States Postal Regulatory Commission. "Report on Universal Postal Service and the Postal Monopoly." December 19, 2008.
[63] Robert J. Shapiro. "The Basis and Extent of the Monopoly Rights and Subsidies Claimed by the United States Postal Service." *Sonecon*. March, 2015.
[64] Ibid.

Below, TPA seeks to provide updated subsidies enjoyed by the USPS. Additionally, costs arising from the organization's unique funding requirements and other legal obligations are quantified and compared to estimated subsidies.

SUBSIDIES

FEDERAL SUBSIDIES

• *Corporate Income Tax*

Private companies are ordinarily required to pay a 35 percent corporate tax rate, which was lowered to 21 percent at the beginning of the year due to the implementation of the Tax Cuts and Jobs Act (TCJA). [65] While the USPS is required to estimate their taxable income and resulting tax liability based on statutory rates, funds are not paid to the Internal Revenue Service. Rather, funds are transferred to the "Postal Service Fund" in the Treasury Department, which is designed to collect proceeds from USPS operations. But since the USPS is allowed to draw on said funds for legal functions, the organization has free reign in taking from the PSF to fund ordinary operations. Thus, USPS payments into the PSF are counted as subsidies for the purpose of the analysis.

In a filing submitted to the PRC in February of 2018, "The Postal Service reports a taxable competitive products income of $5.454 billion. Multiplying its taxable income by a tax rate of 35 percent, the Postal Service calculates a FY 2017 assumed Federal income tax on competitive products income of $1.909 billion." [66] To provide a figure incorporating the latest tax changes, the taxable income of $5.454 billion is multiplied to the new corporate tax rate of 21 percent, resulting in an alternative assumed tax total of **$1.15 billion.**

• *Treasury loans*

Unlike its private competitors, the USPS has the ability to obtain subsidized loans from the Federal Financing Bank (FFB) run by the US Treasury Department. In their FY 2017 financial statements, FFB summed up the current financing situation: "The USPS has a total borrowing authority of $15 billion. The USPS borrowed up to this debt ceiling on September 30, 2017. The USPS repaid $4 billion of the outstanding amount on October 2, 2017. The USPS can be expected to borrow up to the ceiling amount at different times in the coming year." [67]

Based on the USPS's FY 2017 10-K (the organization's annual financial filing), the organization paid $226 million in interest in FY 2017, implying an average effective interest rate of around 1.5 percent.[68] In contrast, Fedex and UPS reported effective interest rates of 3.57 percent and 2.24 percent respectively for FY 2017. [69] [70]Using a weighted average based on the respective interest expenses and outstanding debt for the two companies results in a weighted average interest rate of 2.79 percent. If the USPS was required to service its debts at the constructed, higher interest rate, interest expenses would be approximately $418.5 million. Subtracting the USPS's $226 million in interest expenses from this hypothetical figure yields a subsidy total of **$192.5 million**.

[65] "Public Law 115-97, An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018." *Government Publishing Office*. December 22, 2017.
[66] United States Postal Regulatory Commission. "Order approving the Calculation of the FY 2017 Assumed Federal Income Tax on Competitive Products." Order No. 4401. February 7, 2018.
[67] United States Treasury, Office of the Inspector General. "Audit of the Federal Financing Bank's Fiscal Years 2017 and 2016 Financial Statements." OIG-18-012. November 9, 2017.
[68] United States Postal Regulatory Commission. "United States Postal Service FY 2017 Report on Form 10-K." November 14, 2017.
[69] United States Securities and Exchange Commission. "Fedex Corporation FY 2017 Report on Form 10-Q." December 18, 2017.
[70] United States Securities and Exchange Commission. "United Parcel Service, Inc. FY 2017 Report on Form 10-K." December 31, 2017.

• *Total Federal Subsidies/Benefits*

Table 4 summarizes the federal benefits afforded to the Postal Service in 2018. This total of **$1.34 billion** excludes benefits associated with the economic benefit of monopoly, since monopoly benefits do not directly cause the federal government to forgo revenue or expend resources. If, however, Sonecon's inflation-adjusted estimate of mailbox monopoly ($15.1 billion) is taken into account, federal benefits would total over **$16.4 billion**.

Table 4: Postal reselling discounts given to shipping easy consumers

Benefit/Exemption	Subsidy Value
Corporate Income Tax	$1,150
Treasury Loan Subsidy	$193
TOTAL	$1,343

STATE AND LOCAL SUBSIDIES

• *Property Tax*

The USPS is exempt from direct state and local levies, including property taxes, sales taxes, business taxes, and vehicle registration fees. Given the USPS's extensive land holdings, the lack of property taxation is one of the largest governmental benefits bestowed on the organization. The IG found that, in 2012, the fair market value of the USPS's land holdings exceeded $85 billion. [71] Since then, there has been no further attempt to quantify aggregate property holdings.

The current value of holdings can be estimated using commercial real estate price data from the International Monetary Fund.[72] Adjusting the 2012 figure for year-over-year percentage increases in prices, and subtracting out proceeds from annual property sales, TPA estimates 2018 aggregate property holdings by the USPS to be valued at $125.65 billion. This, multiplied to the latest available estimate of average property tax rate across the United States (1.15 percent),[73] results in an implied property tax subsidy of **$1.45 billion**.

[71] United States Postal Service, Office of Inspector General. "Management Advisory Report: Pension and Retiree Health Care Funding Levels." Report Number: FT-MA-12-002. June 18, 2012.
[72] International Monetary Fund. "Commercial Real Estate Prices for United States." retrieved from FRED, Federal Reserve Bank of St. Louis. April 27, 2017.
[73] Constance Brinkley-Badgett. "Comparing average property taxes for all 50 states and D.C." *USA Today*. April 16, 2017.

• *Business Income/Corporate Tax*

In a filing submitted to the PRC in February of 2018, "The Postal Service reports a taxable competitive products income of $5.454 billion." [74] According to the Organisation for Economic Co-operation and Development (OECD), American states and localities reported an effective weighted corporate tax rate of 6.01 percent in 2017.[75] Multiplying this average rate to taxable competitive products income results in an implied annual subsidy of **$328 million**.

• *Fuel Tax Exemption*

The USPS has not released information as to state fuel taxes paid, and state-by-state policies are not consistently published online. A 2002 IG report states that Postal operations in 45 states and the District of Columbia are exempted from state fuel taxes. [76] A 2007 survey by the Institute for Research on the Economics of Taxation found that, of the 19 states that responded to the query, 15 allowed the USPS a complete exemption of fuel taxes. [77] In lieu of more recent data, a conservative assumption is used that half of all fuel tax payments in the US are successfully avoided by the USPS.

The American Petroleum institute (2018) reports the weighted average of state taxes/fees and diesel as 33.56 and 35.35 cents per gallon, respectively. [78] The USPS has most recently (FY 2016) reported fuel usage for gasoline and diesel as 150.3 and 31.8 million gallons respectively. [79] Based on these estimates and applying the assumption that 50 percent nationwide tax payment assumption, the USPS's fuel tax exemptions save them **$30.84 million** annually.

• *Misc. Benefits*

In addition to corporate, property, and fuel taxes, states and localities exempt the USPS from an array of other taxes and fees. These include: parking tickets, sales taxes, vehicle registration fees, tolls, business licensing fees, and state franchise taxes. There is insufficient data to make independent estimates for these items and rely on inflation-adjusted PRC reported figures from 2006 (included in the aforementioned 2008 report) to arrive at 2017 subsidy estimates. These figures are listed below in Table 5.

[74] United States Postal Regulatory Commission. "Order approving the Calculation of the FY 2017 Assumed Federal Income Tax on Competitive Products." Order No. 4401. February 7, 2018.

[75] Organization for Economic Co-operation and Development. "Public Sector, Taxation, and Market Regulation: Statutory Corporate Income Tax Rate." *OECD.Stat*. December 31, 2018.

[76] United States Postal Service, Office of Inspector General. "Delivery Vehicle Gasoline." Report Number: TD-AR-02-005. September 30, 2002.

[77] Institute for Research on the Economics of Taxation. "Government-Imposed Advantages and Burdens on the Postal Service's Competitive Products: Two Wrongs do not Make a Right." *IRET Policy Bulletin* (No. 91). July 30, 2007.

[78] American Petroleum Institute. "Gasoline Tax (by state)." April 30, 2018.

[79] United States Postal Service. "Fiscal Year 2017 Fleet Alternative Fuel Vehicle Program Report." February 15, 2018.

Table 5: Value of miscellaneous USPS exemptions from state and local taxes and fees ($ millions)

	2006	2017
Sales and Use Taxes	$200	$244
Vehicle Registration Fees	$115	$140
Tolls	$77	$94
Parking Tickets	$31	$38
State Franchise Fees	$15	$18
TOTAL	**$438**	**$534**

Source: *United States Postal Regulatory Commission. "Report on Universal Postal Service and the Postal Monopoly." December 19, 2008.*

· *Total State and Local Benefits*

Table 6 summarizes the value of each state and local tax/fee exemption afforded to the USPS. This report finds that, for 2017, state and local exemptions totaled **$2.34 billion**. In contrast to the PRC's (2007) analysis and Son-econ's (2015) study, this analysis omitted the value of tax compliance costs. While the USPS does benefit from avoiding these costs, they cannot be considered a subsidy. Avoided compliance costs do not cause states and localities to forgo revenue or expend resources.

Table 6: Value of USPS exemptions from state and local taxes and fees in 2017 ($ millions)

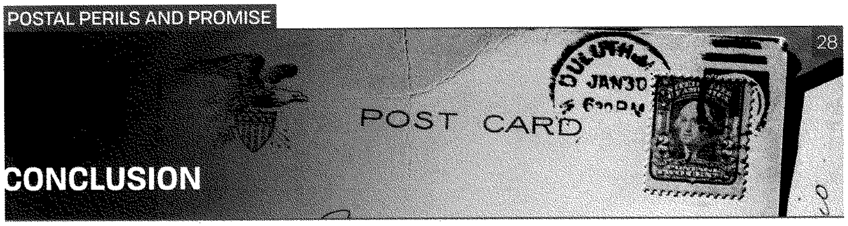
Benefit/Exemption	Subsidy Value
Exemption	Subsidy Value
Property Taxes	$1,450
Misc. Taxes	$534
Business Income Taxes	$328
Fuel Taxes	$31
TOTAL	**$2,343**

Table 7: Value of USPS exemptions from federal, state, and local taxes and fees in 2017 ($ billions)

Level of Exemption	Subsidy Value
State and Local	$2.34
Federal	$1.34
TOTAL	**$3.68**

Estimating the total implicit subsidization of USPS is no easy task and requires multiple assumptions due to gaps in the data. The USPS, for instance, has not updated their tally of states that tax the fuel purchased for deliveries. Additionally, the "market interest rate" that the USPS would have to pay if it did not have access to subsidized Treasury loans can only be roughly estimated. Using conservative assumptions and defining "subsidy" as funds forgone by federal, state, and local governments, this study finds that subsidies totaled **$3.68 billion** in 2017. However, using a broader category of "benefits" would include quantified estimates of the USPS's mailbox monopoly. Adding Sonecon's inflation-adjusted estimate of the mailbox monopoly benefits to our measured subsidies results in an expanded figure of **$18.78 billion**.

Sonecon's analysis presents a more plausible estimate of benefits than the 2008 PRC estimate, BECA because of the former's inclusion of competitive products into the equation. Even if we take the PRC's contention at face value that the monopoly benefit is roughly cancelled out by legal requirements (ie. the universal service obligation), the Postal Service is still netting a governmental subsidy of nearly $4 billion a year. Given this significant advantage bestowed on the Postal Service, lawmakers have a responsibility to hold the USPS to a high standard of fiscal responsibility.



CONCLUSION

The USPS is hemorrhaging resources that could be better used in serving consumers and furthering the agency's mission to "provide prompt reliable, and efficient services to patrons in all areas and...render postal services to all communities." Instead of addressing the IG's many recommendations, USPS leadership continues to pursue half-measures and take a defensive posture that does the agency little good over the long-run. In response to legitimate questions posed by TPA about the USPS package pricing in *The Hill* in January 2018, USPS Public Relations Manager Dave Partenheimer argued that the agency, "conducts rigorous analysis regarding the price sensitivity of our package delivery offerings," despite the aforementioned pricing of packages at a share of institutional costs that no longer reflects actual costs.

The agency's pricing problem is two-fold: it lacks the appropriate methodology for determining how much packages contribute to the wear-and-tear of Postal infrastructure and fails to consider the opportunity costs of its pricing strategies. Even if legal requirements "guarantee that the prices that the Postal Service charges for our package products are appropriate," the assumption that packages contribute to less than 15 percent of trucks' depreciations comes from an outdated methodology and ensures that delivery package costs and corresponding pricing will be lower than any "appropriate" level.

Even if the USPS' pricing methodology still manages to net the agency a profit, revenues versus costs should not be the only consideration. As mentioned before, it's likely that ending the Sunday deal would result in increased revenues to the USPS. The IG has noted previously, however, that research about Postal price elasticity is sorely lacking, and any research conducted into the issue is not public information. Additionally, in a disturbing lack of transparency, the agency refuses to comment on the costs of the postage reselling program, despite the high opportunity costs that almost certainly come with the program. The small-volume shippers inappropriately receiving CPP pricing instead of CBP pricing would likely still find the USPS to be the cheapest shipping, and the agency would likely save hundreds of millions of dollars per year by cutting out the middleman and decreasing the prevalence of shortpaid postage.

In addition to flawed pricing approaches, the USPS suffers from inefficiencies and skewed spending practices that needlessly take away from revenues. Despite the USPS's mission to provide universal service, duplicate or overlapping operations in many areas leads to red ink, and consequently less comprehensive, broad-based services over the long-run. The agency has proven unable to close redundant offices that are close to other offices, yet costing more resources than they bring in.

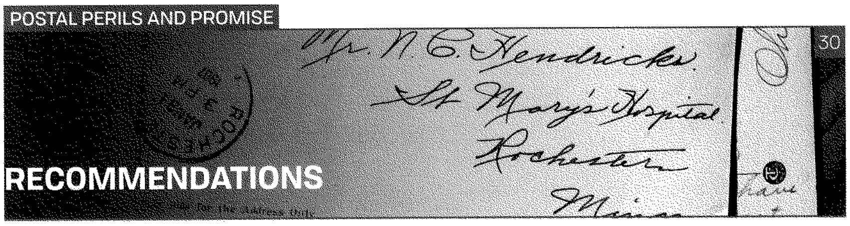
Staffing levels remain inefficient across the country due to the inconsistent use of the F1 scheduling tool. Simply being more consistent in F1 usage could save the USPS nearly $500 million per year. Highway contracts are needlessly inflated, as contractors fail to satisfactorily perform their duties. USPS' failure to hold contractors accountable, coupled with systemic accounting issues, likely cost the agency more than $1 billion annually.

In addition to these present issues, the USPS faces large, unnecessary increases in future capital spending absent reforms. The USPS is expected to spend $5 billion on the replacement of more than half of its truck fleet. Yet, stated preferences for American-made trucks and alternate fuel systems will likely cost the agency more than $220 million each year over the next decade (approximately 20 percent higher than necessary spending).

As the USPS continues to hemorrhage money unnecessarily, the USPS alleges that its hands are tied and until Congress enacts significant reforms, the agency will continue to lose money year-in-year-out. In an inappropriate piece personally attacking *Forbes* Contributor Steve Pociask, USPS alleges that "high fixed costs due to factors such as our Universal Service Obligation to deliver to more than 155 million delivery points up to six days a week, and the fact that we are required to participate in federal pension, health benefits, and worker's compensation programs" while can only be fixed via statutory reform.

Yet the agency's Public Relations team repeatedly neglects to mention that it receives billions of dollars in taxpayer subsidies. This analysis finds that, via exemptions to various taxes and low-interest Treasury loans, the USPS enjoys $3.6 billion in government funds each year not available to its private competitors. This falls short of "prefunding" costs for workers' future retirement liabilities; the USPS is expected to pay up to $5.8 billion per year in funding future workers' retirement liabilities, which is not expected of its private competitors. Private shippers, however, would likely be penalized via stock market valuations for pension underfunding and poor fiscal management in general. This is not something the USPS has to worry about, since they are insulated from bankruptcy and going out of business.

The USPS's financial advantages given to it by federal, state, and local governments, combined with long-overdue efficiency and pricing improvements, give the agency fiscal space to pay off its Treasury debts and avert a bailout without Congress having to step in.



1. *Make more consistent use of FI Scheduler.* Reducing the mismatch of workhour budgets and staff level/assignment determinations and corresponding, unnecessary overtime hours can save the USPS **$420 million in costs per year**.

2. *Reign in on highway contract "chargeable irregularities."* Increasing oversight over the more than 8,000 HCR contracts would stem the rising tide of irregularities, described by the IG as "commonly include missed, late arriving, and late departing trips." If management made more complete reviews of HCR contracts, and endeavored to more completely share paperwork with managers at other facilities, the USPS could save **$1.02 billion in costs per year**.

3. *Proceed with vehicle purchases without "Buy American" and "alternate fuels" preferences.* The USPS can voluntarily choose to forgo their stated preferences for American-made trucks and trucks reliant on alternative energy sources, at significant savings to the agency. By choosing a conventional fleet offered by the lowest bidder, the USPS can save **$222 million in costs per year**.

4. *Close redundant, "low workload" Post Offices.* Suspending 54 more "low workload" facilities per year would put the USPS on par with previous suspension rates, and result in savings for the agency. To ensure that consumers are not significantly inconvenienced and the USPS continues to make good on its Universal Service Obligation, the agency should limit closures to Post Offices within 10 miles of another Office. This strategy would save the USPS **$20.41 million per year** over the next decade.

5. *End the Postage reselling program.* Companies such as Stamps.com cost the USPS hundreds of millions of dollars per year by purchasing postage at steeply discounted rates, and using the rates to secure discounts (at Commercial Plus Pricing) for low-volume shippers that would ordinarily have to pay higher rates (Commercial Base Pricing rates). Ending this middleman discount and reducing corresponding incentives for shortpaid postage would save the USPS **$235 million per year**.

6. *Readjust the portion of institutional costs attributable to package deliveries.* While the Postal Regulatory Commission is currently evaluating the idea of raising postage costs for packages, they will likely refrain due to pressure from shippers and fears about e-commerce sellers switching to alternatives. If the PRC decides to reassign package costs to 25 percent of institutional costs, prices would rise commensurate with the true impact of packages on USPS infrastructure. Even taking price elasticities into account (ie. the ability of e-commerce firms to rely less on USPS after price hikes), the USPS would likely save **$1.40 billion per year** via realigned package pricing.

Recommendation	Annual Savings ($ billions)
Readjust institutional costs	$1.40
Reign in highway contract waste	$1.02
Consistently use F1 scheduler	$.42
End the Postage reselling program	$.24
End stated vehicle purchase preferences	$.22
Close redundant facilities	$.02
TOTAL	**$3.32**

Should the USPS follow these recommendations, the agency would save $3.32 billion per year, allowing management to more than offset controllable losses each year and a majority of total net losses. Congressional action could add to savings, by allowing the USPS to pursue innovative arrangements that would likely save additional billions of dollars per year.

Allowing the agency to expand their use of public-private partnerships, for instance, could lead to less expensive, dedicated post offices and more kiosks at stores such as Staples, CVS, and Rite Aid. Additionally, allowing the agency to leverage its mailbox monopoly by selling access to mailboxes across the country to private shippers would likely amount to billions of dollars in new revenue. While these benefits have not yet been quantified, it is likely that associated Congressional reforms in conjunction with management reforms identified in this report would allow the agency to offset its total net losses in any given year and allow the USPS to pay back its debts to the US Treasury more quickly.

As this report demonstrates, USPS management has it within their power to overcome the majority of losses it faces in any given year. Should Postal leaders focus on process and pricing reforms, the agency will finally begin to see positive performance results and less red ink. Blaming a dysfunctional Congress is a convenient excuse for inaction. The USPS has the ability to make the necessary changes to be financially stable.

TAXPAYERS PROTECTION ALLIANCE

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Senate Homeland Security and Governmental Affairs Committee
A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service
March 12, 2019
Testimony Submitted for the Record
Daniel Heins, President
United Postmasters and Managers of America

Chairman Johnson, Senator Peters, I am Daniel Heins, President of the United Postmasters and Managers of America (UPMA). UPMA represents more than 24,000 active and retired postmasters and senior managers for the United States Postal Service (USPS). We are in every state and every Congressional district, including 618 members each in Wisconsin and Michigan.

UPMA applauds the Committee for holding this hearing to begin the 116th Congress's discussion of the issues facing the United States Postal Service. It is not hyperbole to say that the USPS touches every single American and that it serves an irreplaceable role that is as critical today as it was at the founding of our country.

UPMA members help supervise the delivery of over 500 million pieces of mail every day to 159 million households and small, medium and large businesses in the United States, and that number continues to grow. We are a direct link, and the Postmaster General has called our members "the chief marketing officers" of the USPS.

Over the history of the USPS we have witnessed major changes in how Americans communicate and in what they expect of their Postal Service. In the past, letters were the primary form of communication between people, bills were sent through the mail, and receiving a package likely meant you were getting a gift. Today, much of the nation's communication is via email or text, many of our bills are paid electronically, and the package you are expecting is more likely than not a household staple ordered from a private company on the internet, not a cherished gift.

The USPS and the employees who have worked for the USPS throughout its history have always managed change. From stagecoaches to planes to automated sorting and being "the last mile delivery" for many other shipping companies, the Postal Service has adapted to serve American businesses and consumers. As a Postmaster I can tell you that I like a challenge, and I know the folks at L'Enfant Plaza can adapt to almost anything. But the challenge the Postal Service is facing now is unprecedented.

A world of email, online retail and online bill payment would be challenging enough, but the United States Postal Service is facing those marketplace challenges while also facing severe economic demands.

It is not the requirement that the USPS be self-sustaining that has caused this economic distress, but additional requirements that Congress has imposed, most importantly the requirement that the USPS pre-fund its retiree health benefits.

The 2006 Postal Accountability and Enhancement Act (PAEA) required that the USPS pre-fund the entire sum of its future retiree health benefits. Congress imposed this requirement solely on the USPS and not on any other Federal agency or private companies. This requirement is the leading cause of the fiscal challenges faced by the USPS today. Without this requirement, the Postal Service would operate at even or a small net loss, rather than the record losses we have been seeing every year.

The USPS is required to pay $5.4 billion annually to pre-fund future retiree healthcare costs, and this sum comprises more than 90 percent of the Postal Service's annual loss.

The Postal Service's ability to move forward and thrive in a changing marketplace requires that this albatross be removed from its neck. We must think strategically and creatively about how current and future retirees access health benefits, and modify the prefunding mandate.

A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service

I want to speak specifically about the President's Task Force report. UPMA applauds President Trump and Secretary Mnuchin for the thoughtful analysis and stakeholder engagement that they brought to the challenges of the USPS. To right the ship and get the USPS on a solid, sustainable course will require the kind of strategic thinking laid out in the Secretary's report.

The report includes a number of provisions to applaud. First and foremost is that the Task Force did <u>not</u> recommend privatization of the USPS. This is worth noting, because while the USPS has a monopoly on first class mail, the USPS competes on package delivery with FedEx, UPS, and a host of other companies. While privatization has its advocates, it would come at a cost—a cost in the price to mail a letter and a cost to the universal service requirement that Americans have come to expect. UPMA and our allies in the postal and federal community strongly oppose privatization. We are glad to see that the report agreed with us and did not recommend privatization as a path forward.

The report also highlighted challenges USPS faces in responding to delivery trends and customer needs and opportunities for streamlining. No one wants to see a post office closed, especially a Member of Congress. But the USPS is sitting on a large property portfolio that can be better managed and right-sized. These improvements would reduce costs and improve efficiency, creating a real estate footprint more appropriate for our Postal Service in the 21st century.

The report also discusses potential ancillary services and new products that the Postal Service might offer. UPMA believes Secretary Munchin got this part right. While many people talk about the Post Office doing everything from offering retail banking services to being a quasi-community center, the report states that the Postal Service should not expand into areas where they do not have a competitive advantage or an inherent awareness of the business model. UPMA agrees with this. The USPS does one thing well—exceptionally well, we would say—and that is delivering mail and packages to American households and businesses. The USPS should look first to enhancing performance in areas where it already has a competitive advantage. An easy first step would be to allow the USPS to deliver beer and wine through the US mail system, which federal law does not currently permit. This would not only generate additional revenue for the USPS, but would also provide micro-breweries in Wisconsin and elsewhere with access to a national market.

I want to be clear: mail delivery is already a net revenue generator for the USPS. Our core business, which is delivering letters and packages, is already efficient, effective, and profitable. Expanding the markets in which the USPS can provide these services would generate new revenue without creating any significant new risks. This type of change is preferable to authorizing entirely new services, such as banking, that would require the USPS to create new infrastructures before generating any new net revenues.

UPMA is concerned about the report's recommendation that the USPS should continue its pre-funding mandate and its conclusion that while payments should be re-amortized, the USPS should pay a further $43 billion to pre-fund benefits. $43 billion is an obligation so large it is bound to shape the USPS's path forward. At a minimum, we recommend a new accounting of the USPS's current and future obligations for pre-funding retiree health benefits, and the creation of a realistic payment schedule that extends any outstanding obligation over a longer period of time, as proposed by HR 6076.

The bipartisan path forward

Last Congress, the House Government Reform and Oversight Committee passed bipartisan Postal Reform legislation that would address key principles of the Task Force Report. This legislation was not perfect, and everyone had to give up something. UPMA and our colleagues in the postal community recognized that a severe operation had to be performed to save the patient. We compromised, and I can honestly tell you a number of my members didn't like it, especially when it came to healthcare retiree benefits. But UPMA's members do feel passionately about the USPS and the careers it provides. We want to ensure that the Postal Service remains viable and we were willing to give something up to see it succeed.

The plan outlined by now-Chairman Cummings and Congressman Meadows would make much-needed reforms that would dramatically change the fiscal outlook for the USPS, including retiree and health benefit changes for current and future postal retirees, innovations in delivery service, and fundamental changes in the USPS's business practices.

UPMA was a proud supporter of the Postal Reform Act of 2018. We are working closely with Chairman Cummings and Congressman Meadows on its reintroduction and hope to see its passage in the United States House of Representatives. On the Senate side, we are working with Senators Tom Carper and Jerry Moran, who continue to lead this chamber's effort on comprehensive postal reform.

UPMA wants to be a partner in reform

Chairman Johnson, UPMA recognizes your skepticism about the approach proposed by Chairman Cummings and Senator Carper, and we commend both your business acumen and your stewardship of the public's purse. That said, we urge you not to let the perfect be the enemy of the good.

The USPS is in not only a critical time but also a historic time. Last year the House Government Reform Committee made significant progress by winning agreement from all stakeholders. December's Treasury report made important recommendations about the framework for reform and highlighted the thinking of the President and his advisors. Momentum for postal reform is building as shippers, advertisers, large companies, and others have joined the group of advocates for change.

Chairman Johnson, Senator Peters and other members of the Committee, on behalf of the United Postmasters and Managers of America, I look forward to working with you to forge compromise and consensus so that we do not miss this opportunity to see postal reform signed into law by President Donald J. Trump.

The history of the Postal Service is the history of the United States. We have the opportunity to preserve and improve this fundamental national service. The time for reform is now, and we believe that this can be done. We urge you and the Committee to take up the postal reform legislation being led by Senators Carper and Moran and help develop the sustainable business plan that the USPS needs.

Thank you for this opportunity to testify. I would be happy to answer any questions the Committee may have.

Post-Hearing Questions for the Record
Submitted to Hon. David Williams
From Senator Michael B. Enzi

"A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service"

Tuesday, March 12th

QUESTION 1:
I know that the Postal Service is working hard to address the needs of rural customers, particularly rural small businesses that are shipping packages to their customers across the country. What is the Postal Service's long term plan for supporting small businesses that rely on package delivery in general, and how is the Postal Service specifically planning to ensure reliable service for rural small businesses?

RESPONSE:

The U.S. Postal Service is committed to the long-term success of small business in rural America. As we strive to support continuously changing commerce and eCommerce environments, it is critical to engage, support, and educate small businesses on our products and services. The following briefing provides an overview of initiatives designed to address the needs of rural small business.

Customer Engagement

The U.S. Postal Service is actively engaged in community outreach activities to educate our rural small businesses on our products and services, and provide support through hands-on marketing and social events.

- **Business Connect:** Business Connect® was launched in May 2005 as an initiative for Postmasters, Station/Branch Managers, and Supervisors to initiate discussions with customers about U.S. Postal Service products and services. The program is designed to engage Postmasters in generating revenue and strengthening customer relationships. The Postmaster position/title weighs heavily in the community and is seen as a valued resource to assist customers with their shipping needs.

- **Rural Reach program:** A strategy that equips rural carriers to better serve their customers while growing revenue in the small to mid-sized customer base. With Rural Reach, rural carriers can initiate customer discussions about our shipping products and services, share product information with customers, and submit sales leads for our Sales team to follow-up with professional guidance and assistance.

- **Postal Customer Council (PCC):** Postal Customer Councils are made up of Postal Service leaders and business mailers who work together to promote the value of mail, address shipping and mailing concerns, and exchange ideas to maximize the benefits of the U.S. Postal Service's products, programs, services, and procedures. Through regular meetings, educational programs, mailer clinics, and seminars, PCC members learn about the latest postal products and services that will help them grow their business.

- **Grow Your Business Days:** A series of quarterly initiatives hosted by Postmasters to help educate and grow small businesses, particularly in the shipping community. Postmasters nationwide host Grow Your Business Day events inviting local small business to their post offices to learn about shipping products and services that support small business.

- **Small Business Symposium:** The U.S. Postal Service will host its third Small Business Symposium in conjunction with the National Postal Forum. This symposium provides an opportunity for business owners to learn about shipping and marketing strategies, including how the U.S. Postal Service's shipping products can help meet their business needs.

Rural Access

The U.S. Postal Service transportation network extends across rural communities nationwide. In fact, our competition relies upon our services to perform last mile delivery in rural areas. We offer a number of services that are provided via our carriers to make our services available to customers at their homes when their mail is delivered, including Carrier Pickup, which allows customers anywhere to schedule a free pickup of certain prepaid packages (e.g., Express Mail, Priority Mail, Merchandise Return Service, and Parcel Return Service). In addition to this, we play a critical role in the success of rural small business' inbound and outbound shipping needs. The following services were designed to enhance and support the small business customer:

- Free Priority Mail shipping supplies may be ordered by small businesses online at USPS.com and carriers will drop-off these supplies free of charge.

- Retail footprint in every community.

- USPS Mobile App - With the free USPS® mobile app, small businesses can find a Post Office, purchase Stamps, calculate shipping prices, track packages, and more.

- Small businesses can get information on products and services by calling 1-USPS-4-SMBIZ (1-877-747-6249) or visiting www.USPS.com/smallbusiness.

QUESTION 2:
The Report states, "The Task Force strongly believes that any potential solutions considered should not disadvantage those living in rural or remote locations." Would proposals that raise shipping costs make it harder on businesses in rural locations?

RESPONSE:

The Postal Service does not have any current plans to change its custom of not accessing surcharges for delivery or pickup in rural areas. Some legislative or regulatory changes that have been proposed by our competitors – such as returning to a 100% cost attribution model that we abandoned, at Congress's urging, in 1970 and that has been dismissed by the PRC, appellate courts, and economists as a discredited economic theory – could have the practical effect of forcing the Postal Service to increase published shipping prices in rural areas and elsewhere. As I stated in my earlier testimony, I believe the role of our public network infrastructure is to maximize value to our American supply chains and our citizens, especially those in rural and underserved urban areas. While we must seek to maximize revenue to support universal service, that service, by definition, must fundamentally remain universal and affordable.

QUESTION 3:
For rural states like mine, there are often delivery surcharges with private carriers for my constituents who live far away from major urban centers. However, USPS does not have those charges. In your opinion, would changing the pricing structure on package delivery to include increased delivery fees based on service areas hurt the USPS's ability to compete or place an undue burden on rural consumers? My concern is that it would affect rural communities negatively.

RESPONSE:

As you note, the Postal Service's published rates, unlike those of its private competitors, do not impose surcharges on delivery or pickup in rural areas. The Postal Service is not actively planning to adopt such surcharges. The Postal Service is aware of its mission to offer affordable, reliable service to all Americans and to bind the nation together, and we take that mission seriously. Any move to change our practice regarding surcharges would need to be carefully considered, in consultation with a broad spectrum of stakeholders.

QUESTION 4:
You provided a baseline forecast on the USPS's 10-year financial outlook. Can you make a distinction between the volume and delivery points data figures for not-for-profit versus first class delivery and how much revenue does the USPS lose due to this rate?

RESPONSE:

Although a nonprofit organization could choose to use First-Class Mail, most nonprofit mail is sent via USPS Marketing Mail, which includes many price categories for which there are directly comparable "Commercial" and "Nonprofit" prices. For this reason, a comparison of volumes and revenues between Commercial and Nonprofit USPS Marketing Mail is appropriate.

In Fiscal Year 2018, 65.3 billion USPS Marketing Mail pieces were Commercial, and 11.9 billion pieces were Nonprofit. As such, Commercial revenue was $15.0 billion and Nonprofit revenue was $1.6 billion. If Nonprofit mail pieces had been assessed the Commercial prices rather than the statutorily mandated preferred-rate Nonprofit prices, the Postal Service would have generated an additional $1.4 billion in revenue (assuming no loss of volume).

Post-Hearing Questions for the Record
Submitted to the Honorable David C. Williams
From Ranking Member Gary C. Peters

"A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service"

March 12, 2019

1. Business considerations drive decisions on which communities have access to rural broadband, where grocery stores and restaurants are built, and even where Americans have access to health clinics. In contrast, the Postal Service's "universal service obligation" levels the playing field for access to postal services in all communities. Please elaborate on the unique role the Postal Service plays in serving all Americans.

Response:

The Postal Service's universal service obligation requires the provision of high-quality service to every American in all areas of the country, six days a week, at affordable, and in some cases uniform, rates. Absent a legal mandate, a profit-seeking competitor would not provide this combination of service and price. To fulfill that universal service mandate, the Postal Service must maintain an extensive network which ensures that the mail can be accepted, processed, and delivered throughout the country. As a critical part of the Nation's public infrastructure, the Postal Service maximizes value to our American supply chains, serves as a foundation for major job-creating industries, and binds our nation together.

The Postal Service's unique role is particularly illustrated by its position as an affordable and universal "public option" for package delivery. In that capacity, the Postal Service connects businesses with consumers in all corners of the country, and it helps to ensure that the overall shipping market is efficient and fair to consumers. These functions were important when Congress created Parcel Post in 1912 as a response to the abuses of railroad express cartels. The boom of mail-order businesses that Parcel Post created gave millions of rural and small-town Americans access to goods and services that private shipping companies had left out of reach. The same public benefits of affordable, universal postal package delivery remain relevant in today's e-commerce marketplace. Meanwhile, the postal revenues raised from package delivery defray a substantial portion of the cost of the universal service network, thereby helping to sustain mail service to all parts of the Nation as well.

2. Please describe how the Postal Service protects rural communities when developing rates for parcel delivery.

Response:

Unlike its private competitors' prices, the Postal Service's published prices do not currently require the payment of a surcharge for delivery or pickup in rural areas. Packages to rural locations simply pay published prices with no surcharges added. The Postal Service does apply zone-based pricing to some of its competitive products, such as Priority Mail. With zone-based pricing, a package that is traveling a longer distance will generally pay a somewhat higher rate than a package that is traveling a shorter distance, regardless of whether the package originates from or is delivered to a rural area. For example, a package traveling between two urban areas may pay the same zone-rated price as a package going a comparable distance between rural areas, or between a rural area and a city. This pricing difference, based on distance traveled rather than the nature of the origin or destination, helps ensure that our competitive products cover their costs without imposing unnecessary additional costs on rural customers. In addition, the Postal Service offers a unique suite of flat-rated products that benefit rural and urban customers who ship across long distances, including those in Alaska and Hawaii. When negotiating contracts with customers based on large volumes or workshare arrangements, however, rates me by differentiated by ZIP Code.

3. Regarding the prefunding obligation Congress imposed on the Postal Service in the 2006 Postal Accountability and Enhancement Act, you testified that it "wiped out our entire ability to make capital investments, it put a strain on all the adjacent budget areas, we are forced to do cutbacks, and we're forced to do cutbacks at a nearly reckless rate. We're having to cut back so fast we can't understand fully the impact of what we're doing. It's been very serious, and I agree with you it's the number one problem for postal operations. If you separate out our operational losses, which are small, from our prefunding aspirations, which are very large, it tells you a story of an agency that's done well since 1970, until this happened." Do you consider it urgent to address the prefunding burden? Please explain.

Response:

Yes, it is imperative that the RHB prefunding burden be addressed very soon. Since 2006, the Postal Service has recorded net losses of $69.0 billion. RHB prefunding (lump sums prior to 2017 and normal cost and amortization in 2017 and 2018) accounted for $57.2 billion, or 83%, of those losses. These multi-billion dollar losses are not only unsustainable financially, but also result in adverse publicity, which is detrimental to our brand. From 2007 through 2010, the Postal Service paid $20.9 billion into the Postal Service Retirement Health Benefits Fund (PSRHBF), increasing its outstanding debt from zero to $13.2 billion in the process. These are funds that otherwise could have been invested in updating our technology and infrastructure, including our aging vehicle fleet, which in turn could have improved our competitiveness and service levels. For approximately three years, capital investments were limited to only those projects necessary for the health and safety of our employees and customers, or which promised a large and rapid financial return. Even in 2019, 12 years after the prefunding requirement was introduced, capital spending was only 52 percent of the 2007 level.

4. Do you believe on-time service in rural areas differs from that in urban and suburban areas? Please explain the Postal Service data that supports your conclusion. How has rural service performance changed since 2006, and what do you believe are the main drivers behind changes in service performance?

Response:

No, I do not believe that on-time service performance in rural areas currently differs from on-time performance in urban and suburban areas. Indeed, our quarterly data indicates that, since FY2017 Q4, Rural-to-Rural and Urban-to-Rural on-time performance was slightly better than Rural-to-Urban and Urban-to-Urban on-time performance. The legacy Service Performance Measurement system did not have Urban/Rural breakdown data prior to FY2017 Q4. Definitions of "Urban" and "Rural" are provided by the U.S. Census Bureau.

However, without necessary legislative and regulatory reforms that provide the Postal Service with a sustainable business model, the Postal Service will not be able to make the capital investments that are necessary to ensure that all Americans continue to receive acceptable levels of on-time performance.

5. The Task Force recommended the Postal Service more closely align its employee compensation with peers in the broader labor market, and also recommended it eliminate collective bargaining over compensation for postal employees. The Task Force bases these recommendations to cut labor costs partly on its calculations that "total per-employee cost at the USPS was $85,800, compared to $76,200 and $53,900 at UPS and FedEx, respectively. You testified, "I think the methodology for computing those averages had problems, and we've asked Treasury for additional figures on it. Our analysis shows a very different picture." Please explain the factors you believe should be accounted for in an accurate analysis of per-employee costs.

Response:

An accurate analysis of per-employee costs includes straight-time salary, premium pay (overtime, Sunday premium, night shift differential, etc.), paid leave (sick, annual, holiday, etc.), and benefits, including health benefits, life insurance, retirement benefits, Social Security, Medicare, and any uniform allowance.

It is important to note that a large component of the Postal Service's labor costs (namely, its health benefits and retirement costs) are prescribed by law and are not subject to collective bargaining. As such, the Postal Service faces legal constraints not encountered by its private sector competitors when it comes to controlling this portion of the "per-employee" cost. Statutory benefits make up almost 24% of the Postal Service's total labor costs and 19% of its total operating costs. Any modification to these benefits (such as integration of retiree health benefits with Medicare, which is supported by the Postal Service, major mailers, and postal unions) must be accomplished through legislation.

a. In your testimony, you also began to list comparative wages for Postal Service employees and comparable private sector employees, saying one private company "starts their employees at $40-45,000, ours is $36,000. The other analysis we have is an hourly: they begin their employees with $20, our employees begin with about $17." However, your testimony on the subject was cut short. Please provide additional examples and data on comparative employee wages that you had prepared to share with the Committee.

Response:

The Postal Service has been successful in controlling its labor costs relative to the rest of the private sector. From 2011 to 2018, private sector wages increased almost 20%, while Postal Service average career salaries have grown approximately 5.5%. This reflects the comprehensive total labor cost strategy that the Postal Service has pursued and implemented for over a decade. Over the past decade, the Postal Service has achieved necessary cost savings by pursuing a right-sized workforce, a modified pay structure for new career employees, and an increased mix of less expensive non-career employees.

Specifically, during the 2010-2011 round of bargaining, the Postal Service significantly restructured its labor costs by negotiating 1) a new, less expensive non-career employee category and significantly increasing both the number of non-career employees on the rolls and our flexibility to utilize them; 2) introducing a two-tier (i.e., lower) wage schedule for new career hires; and 3) lowering the employer contribution for health benefits. These changes continue to provide necessary cost relief; since these provisions were enacted, the Postal Service has saved over $17 billion in labor costs.

Moreover, the Postal Service has restrained its labor costs responsibly, without negatively impacting our existing career workforce. The two-tier pay structure for new career hires did not impact existing career employees, and while we increased the number of our non-career employee category, we did so by creating a career path for these employees.

Post-Hearing Questions for the Record
Submitted to Hon. David Williams
From Senator Maggie Hassan

"A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service"

March 12, 2019

1. Last December, Congress passed and the President signed a comprehensive piece of legislation to strengthen the federal government's response to this crisis. That legislation included the "Synthetics Trafficking and Overdose Protection Act" (STOP Act). The Postal Service's obligations under the STOP Act are critically important to help mitigate the effects of the opioid crisis. Please provide my office with an update on the U.S. Postal Service's implementation of the STOP Act. I am particularly interested in (a) barriers to implementation; and (b) coordination with the Department of Homeland Security.

Response:

In January, the Postal Service collaborated with Customs and Border Protection (CBP) to put the postal operators of China, Macau, and Hong Kong on notice that all China-origin postal shipments containing goods are now required to be accompanied by advance electronic data (AED). The notice provided that if a container of postal shipments containing goods is sent to the United States without AED for each and every item in the container, then the entire container may be returned to origin. CBP has sent similar notices to air and ocean carriers, advising them to refuse any container of postal shipments containing goods from China to the United States unless every shipment in the container is accompanied by AED.

The Postal Service has also collaborated in other ways with the Department of Homeland Security, including CBP, to implement the STOP Act. These efforts have included the creation of our Joint Strategic Plan, which was required by the STOP Act and was submitted to Congress, and the development of our Joint Report on Compliance, due to Congress under the STOP Act in late April. Other collaborative efforts have included our ongoing communications with CBP to increase the quantity and quality of AED and to increase the presentation of mail targeted by CBP for inspection ("holds"), including through consistent performance measures.

Currently, the Postal Service is working through several bilateral and multilateral channels to increase AED from foreign postal operators. The Postal Service has included AED requirements in its bilateral agreements with two key postal partners, Canada Post and Australia Post. We communicate on a consistent basis with the highest-volume foreign postal operators regarding the importance of AED and the requirements of U.S. law. We also continue to emphasize the importance of AED in our multilateral partnerships. The Postal Service has conducted technical meetings with foreign postal operators to analyze and review error messages, monitor incoming and outgoing data volume failures, and take corrective actions.

In terms of barriers to implementation, foreign postal operators have varying levels of capability to capture AED (particularly from retail customers) to transmit and to meet our quantity and quality standards. In addition to technical, resource, and personnel-related challenges, some foreign postal operators have raised concerns about privacy and data protection, which we have tried to address through data-sharing agreements to protect personal and other sensitive data associated with international mail flowing both into and out of the United States. In addition, the "do not load" orders to air and ocean carriers are not mandated by the statute, and are difficult to enforce.

Post-Hearing Questions for the Record
Submitted to Hon. David C. Williams
From Senator Kamala Harris

"A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service"

March 12, 2019

Providing Financial Services

The Task Force – without doing any quantitative financial analysis – rejected exploring revenue streams from offering expanded financial services on the basis that the Postal Service lacks "a comparative advantage in banking."

When you were the USPS Inspector General, you published a White Paper in January 2014 arguing that expanding financial services offerings could benefit not just the Postal Service but also the financial services community and the American public. Based upon this research,

1. **What financial services does the Postal Service currently offer or has offered in the past?**

Response:

The Postal Service currently offers hardcopy money orders, both domestically and internationally, as well as international electronic money-transfer services. To the extent that a retail office has the requisite cash available, the Postal Service will cash postal money orders and Treasury checks. The Postal Service also sells both "open-loop" and "closed-loop" stored-value gift cards in its retail facilities. In support of some of these financial services, particularly money orders and money-transfer services, the Postal Service already files Bank Secrecy Act reports with the Treasury Department.

In the past, the Postal Service sold prepaid phone cards (1997-2006) and a stored-value card for purchases of Postal Service products and services (1996-2003). Additionally, in 1910, Congress created a savings bank within the former Post Office Department. In response to concerns that the postal savings bank would unduly disrupt the private banking system, Congress required and restricted postal accounts' interest rates and maximum balances. Further, funds could be withdrawn only from an account at the office of deposit. Despite these restrictions, the postal savings bank flourished into the 1940s, but it fell into disuse after World War Two. Congress ultimately concluded that the system had achieved its aims and terminated it in 1966. For a short but thorough treatment of the system's history, *see* Richard B. Kielbowicz, Postal Enterprise: Post Office Innovations with Congressional Constraints, 1789-1970 (prepared for the Postal Rate Commission in 2000), available at https://go.usa.gov/xmcs5. To my knowledge, that is the extent of financial services that the Postal Service currently offers or has offered in the past.

2. Have other countries' postal services successfully offered additional types of financial services?

Response:

I understand that many foreign postal operators offer a range of financial services, and that those financial services play varying roles in their financial structures. Those foreign postal operators' experiences may hold lessons that could be applied to our postal system. Any analysis of foreign postal operators' experiences offering financial services would have to take careful account of similarities and differences between the Postal Service and each relevant operator in terms of markets, governing laws, taxpayer support, and financial condition, both now and at the time when each foreign postal operator invested in expanding its financial-services portfolio.

3. What additional types of financial services could the Postal Service offer?

Response:

Under current law, there could be some opportunities to expand the range of services that the Postal Service currently offers. However, the Postal Service's governing statute generally confines it to offering services that have some nexus to use of the mails; services that are offered in partnership with another Federal entity; and nonpostal services that were grandfathered as of 2006, such as leasing and licensing. It is not clear how these sources of authority would allow the Postal Service to provide broader payment, savings, or credit services, in which funds are deposited into an account or loaned to customers. If the Postal Service were to offer these or other new nonpostal services, or to partner with other types of non-federal governmental agencies (state, local, or tribal agencies), it is likely that legislative changes would be required.

4. Why is the Postal Service well positioned to provide expanded financial services?

Response:

Without legislative or regulatory changes, the U.S. Postal Service is restricted from offering financial services beyond our current offerings. Even if the U.S. Postal Service was authorized to offer expanded services, careful business analyses would be required to ensure that such new services (including new financial services) would be offered profitably. The Postal Service's comparative advantages and challenges to profitably offer financial services vary significantly depending on the specific service being discussed, but generally include the following:

Advantages

- Nationwide presence (offices in every community across the country and on-line)
- Trusted and well-liked brand

Challenges

- Legal/regulatory barriers to entry

- Limited capital to finance startup costs
- Very low foot traffic in a high percentage of locations
- Labor costs

5. **Could offering these services advance economic justice for non-banked and under-banked Americans who currently spend tens of billions each year on fees for alternative financial services such as payday loans?**

Response:

I believe that the benefits of offering additional financial services to the non-banked and under-banked are well documented in the USPS OIG's two white papers on this subject; (1) Providing Non-Bank Financial Services for the Underserved, issued on January 27, 2014; and (2) The Road Ahead for Postal Financial Services, issued on May 21, 2015.

Post-Hearing Questions for the Record
Submitted to Hon. David Williams
From Senator Kyrsten Sinema

"A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service"

Tuesday, March 12th

1) The city of Tucson and other communities in southern Arizona face significant uncertainty and diminished postal service due to ongoing efforts by the U.S. Postal Service (USPS) to close the Cherrybell mail processing plant. In 2012, the Postal Service announced it would close the Cherrybell plant in Tucson and merge all its operations into the Phoenix plant. USPS began reducing operations at Cherrybell in 2013 but paused further consolidation later that year. That pause continues today, but the plant has never formally been taken off the consolidation list. When an individual mails a letter across town in Tucson, it is first trucked up to Phoenix for processing. Then, the letter has to be driven back to Tucson for delivery. City officials and business leaders report it can take up to a week for a letter mailed across town to arrive. This situation has a negative impact on families and seniors in Arizona and on the economic growth of my state.

   - As someone who oversees USPS on a daily basis, what solutions does the Task Force Report provide to meet the type of postal service problem that I just described?

   Response:

   The Task Force Report does not address the specific concern you have outlined above. However, it does reference the fact that, prior to deciding to close a facility, the Postal Service must evaluate a set of criteria including the impact on the community, local business, and facility employees. The Postal Service also must perform a thorough assessment of potential impacts to service standards and the cost savings associated with moving mail operations. Furthermore, the PAEA provides affected persons with ample opportunity to provide input on the proposed decision. In reference to your concern above, the USPS has local, District, Area, and HQ personnel that monitor and evaluate service performance and take necessary actions required to maintain high levels of service performance.

   - How should USPS work to solve the type of service challenges that are occurring in Tucson and southern Arizona today?

   Response:

   The Postal Service has specific initiatives targeted towards service excellence. In particular, our new Informed Visibility Tools, which use sophisticated diagnostic technology, give us detailed data on mail flows, processing and transit times, and collection and delivery performance. These tools are helping us to identify and solve problems throughout our processing and delivery networks, in near real time, in order to drive service excellence.

- USPS has specific service standards that dictate how long it should take for mail to reach its destination. Another factor to consider when judging USPS operations is its service performance, which generally refers to how often USPS delivers mail within the designated service standards for a region.

    - Over the past 10 years, when USPS has closed or partially-closed processing plants, what has the general impact been on service standards and service performance in the regions served by those plants?

    Response:

    To my knowledge, over the past 10 years, service performance in regions served by consolidated plants has not been materially different from service performance in other parts of the country.

        - How much more difficult is it to improve service standards or service performance in a region where a processing plant has been closed?

        Response:

        To my knowledge, maintaining service standards and service performance has not proven to be more or less difficult in regions where consolidations have occurred.

2) This Administration and Congress needs to work together to pass bipartisan reform legislation to improve the Postal Service's financial situation – so it can better tackle the service challenges that I hear about from my constituents. Many of my constituents rely on the Postal Service every single day, and, even though overall mail volumes continue to fall, that reliance is not going to change any time soon. However, I am concerned that this Task Force Report does not provide a workable path forward or help advance the cause of postal reform. It has some interesting ideas, but is lacking in analysis regarding the feasibility of its recommendation and the long-term consequences these recommendations would have for consumers and businesses.

    - How can Congress properly evaluate this report when it contains no detailed economic analysis, no consideration of the most recent versions of bipartisan postal reform legislation, and no specific analysis of the long-term impact on rural America?

Response:

I believe the Task Force's effort was sincere, albeit incomplete, given time constraints and the terms of the Executive Order under which the Task Force operated. I also believe that the Board of Governors, Congress, and all stakeholders should take a balanced view of the Task Force's recommendations, treating the Task Force report as a potential source of some fresh ideas that require further examination.

- How should Congress use the Task Force findings and recommendations to advance the cause of postal reform?

Response:

As I stated in my testimony, the Task Force report features some fresh ideas that might merit consideration, alongside other important ideas, including those that have been presented in bipartisan postal reform bills. For example, allowing new revenue-generating lines of business could help to finance our continued provision of universal service, and it would align with the practice among most other world posts.

I also agree with recalculation of our retiree health benefits liability, although, as Mr. Grippo testified, the Task Force proposal alone would actually raise, not lower, our annual expense. Therefore, that proposal should be combined with other reforms, such as full Medicare integration and smarter investment of plan assets, which would substantially reduce both the total liability and the annual expense.

That said, there are some Task Force recommendations that I do not believe would benefit the Postal Service or the American people. In particular, several recommendations appear to be aimed at artificially raising prices for our package-delivery products, which has been a goal of our competitors ever since Congress created Parcel Post as a low-cost "public option" for package delivery in 1912. These recommendations would deprive individual and business consumers of the benefit of our natural cost advantages, while distorting the market in our competitors' favor. If implemented, these recommendations would force consumers to pay higher prices than would be economically justified, and would shift business away from us, thereby reducing the revenues that support universal service. Everyone would lose, except for our competitors.

Post-Hearing Questions for the Record
Submitted to Hon. Robert Taub
From Senator Michael B. Enzi

"A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service"

Tuesday, March 12th

QUESTION 1:
The Report states, "The Task Force strongly believes that any potential solutions considered should not disadvantage those living in rural or remote locations." Would proposals that raise shipping costs make it harder on businesses in rural locations?

We don't have data on the extent to which businesses in rural locations rely on the Postal Service as opposed to private carriers for shipping. Nevertheless, because private carriers often impose surcharges for deliveries to remote locations, it is likely that the Postal Service is a more affordable option for these businesses. The location of the customers to whom a business is shipping its products is even more important for determining the impact of higher shipping costs to rural locations. Due to private carriers' rural and residential surcharges, the Postal Service is often the lowest cost option for shipping to rural customers. Therefore any increases in the Postal Service's parcel rates are likely to have a disproportionate impact on rural customers and the businesses who ship goods to them.

QUESTION 2:
For rural states like mine, there are often delivery surcharges with private carriers for my constituents who live far away from major urban centers. However, USPS does not have those charges. In your opinion, would changing the pricing structure on package delivery to include increased delivery fees based on service areas hurt the USPS's ability to compete or place an undue burden on rural consumers? My concern is that it would affect rural communities negatively.

The Postal Regulatory Commission has not performed, and is not aware of, an analysis of the impact of Postal Service's prices for competitive products in urban and rural areas. The Postal Service currently engages in industry-specific co-opetition with other private carriers, many of whom use the Postal Service as a last-mile delivery service, especially to rural areas. While the Commission cannot publically provide the volume, revenue, cost and contribution of the agreements the Postal Service has with private carriers for last mile delivery, it can confirm that the Postal Service has last mile agreements with several private shippers. Presumably, these private shippers find it more economical to pay the Postal Service to deliver their packages, especially in rural areas. The PAEA tasks the USPS Board of Governors with analyzing how Postal Service pricing strategy affects its ability to compete. However, the statue also tasks the Postal Regulatory Commission with ensuring its prices to not unduly discriminate between users of the mail. If the Postal Service implemented rural surcharges, affected users of the mail would have the ability to request the Commission review such surcharges for undue discrimination.

QUESTION 3:
Please provide specific data on how much of the volume is made up of not for profit mail and how much money does the USPS lose when delivering not for profit mail to the same delivery point as regular mail?

39 U.S.C. § 3626 identifies preferred rate (not for profit) requirements applicable to Periodicals, USPS Marketing Mail, and Package Services prices. For Periodicals and Package Services, the statute requires rates for not for profit mail be set, as nearly as practicable, 5 percent lower than the postage for a comparable regular rate mailing. In addition to nonprofit rates, Periodicals class includes preferred rates for Classroom Mail. Within Package Services, the not for profit equivalent to Media Mail is Library Mail. For USPS Marketing Mail the statute requires that rates for not for profit mail be set so that average revenue per piece equals, as nearly as practicable, 60 percent of average revenue per piece of regular rate mail. In FY 2017, there were 13.6 billion not for profit, or preferred rate, pieces. The majority of that mail, approximately 90 percent, was nonprofit Marketing Mail, approximately 10 percent was nonprofit Periodicals, and a very small amount was Classroom and Library Rate. Table 1 provides volume for Commercial and Nonprofit Marketing Mail from fiscal year 2008 to fiscal year 2018 as well as the percent of Marketing Mail that is comprised of nonprofit mail pieces.

Table 1
Volume for Commercial and Nonprofit Marketing Mail FY 2008-FY 2018

Fiscal Year	Marketing Mail Commercial	Marketing Mail Nonprofit	Percent of Marketing Mail that is Nonprofit
2008	84,256,317.66	14,827,837.28	15.0%
2009	69,174,508.96	13,531,052.73	16.4%
2010	69,415,820.54	13,107,926.62	15.9%
2011	71,300,401.00	13,390,858.15	15.8%
2012	66,692,584.67	13,107,079.32	16.4%
2013	67,604,138.46	13,316,442.41	16.5%
2014	67,024,504.33	12,786,642.94	16.0%
2015	67,463,338.60	12,626,938.50	15.8%
2016	68,656,094.79	12,273,838.51	15.2%
2017	66,037,044.90	12,332,797.86	15.7%
2018	65,356,629.46	11,946,727.20	15.5%

Source: USPS RPW Reports

As part of its *Annual Report to Congress*, the Commission estimates the cost to the Postal Service of the Universal Service Obligation. One component of that estimate is an estimate of the revenue not received due to the preferred rates. Table 2 shows the estimated loss from not for profit mail since the first year after PAEA (2007), which totals approximately $14 billion.

Table 2
Estimated Revenue Not Received Due to Preferred Rate Discounts
Net of Costs, in $ Billions

FY 2007	1.2
FY 2008	1.2
FY 2009	1.3
FY 2010	1.3
FY 2011	1.3
FY 2012	1.0
FY 2013	1.1
FY 2014	1.1
FY 2015	1.1
FY 2016	1.1
FY 2017	1.1
FY 2018*	1.1
Total Since PAEA	**14.0**

***FY 2018 estimate not yet available, so average of past five years used.**

Post-Hearing Questions for the Record
Submitted to the Honorable Robert Taub
From Ranking Member Gary C. Peters

"A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service"

March 12, 2019

1. Rates for market-dominant postal products, or mailing products, are limited by price caps. However, the Postal Service must price competitive products, or shipping products, based on the market and profit potential. Rates for competitive products must cover the costs of offering each product, contribute a proportionate share of revenue to overhead, and raise sufficient revenue to ensure market-dominant products do not subsidize competitive products, among other requirements.

    a. Please describe recent increases in market-based rates for packages, as well as trends in package volume, and how these relate to Postal Service revenues.

As shown in Table 1, between 2008 and 2019 the price increases for Competitive products has averaged slightly over 5 percent each year, with a high of 9.5 percent in 2016 and a low of 2.4 percent in 2014.

Table 1
Average Price Increases for Competitive Products 2008-2019

Calendar Year	Average Competitive Products Price Increase
2008	5.79%
2009	5.00%
2010	3.30%
2011	3.60%
2012	4.60%
2013	8.10%
2014	2.40%
2015	3.50%
2016	9.50%
2017	3.90%
2018	4.10%
2019	7.40%

Volume of Competitive products has grown substantially, from 1.6 billion pieces in FY 2007 to 5.1 billion pieces in FY 2017. This growth in volume, coupled with rate increases, has resulted in a significant increase in revenue from Competitive products; from $7.9 billion in FY 2007 to $20.7 billion in FY 2017. The contribution to institutional costs from Competitive products has also increased substantially; from $1.8 billion in 2007 to $6.8 billion in FY 20107. Table 2 illustrates these trends.

Table 2
Volume, Revenue, Attributable Costs and Contribution from Competitive Products FY 2007- FY 2017

		Competitive Products				
Fiscal Year	Institutional Costs (Millions)	Volume (Millions)	Revenue (Millions)	Attributable Costs (Millions)	Contribution (Millions)	% of Institutional Costs Covered by Competitve Products
	(1)	(2)	(3)	(4)	(5)	(6)
2007	$31,577.2	1,631	$7,909	$6,123	$1,786	5.7%
2008	$32,136.4	1,575	$8,382	$6,600	$1,782	5.5%
2009	$28,905.4	1,381	$8,132	$6,172	$1,961	6.8%
2010	$34,005.7	1,420	$8,677	$6,257	$2,420	7.1%
2011	$29,553.8	1,473	$8,990	$6,680	$2,310	7.8%
2012	$40,625.2	2,533	$11,426	$8,383	$3,043	7.5%
2013	$33,089.4	3,108	$13,741	$9,881	$3,860	11.7%
2014	$34,126.9	3,448	$15,280	$10,970	$4,310	12.6%
2015	$33,759.9	3,959	$16,428	$11,913	$4,514	13.4%
2016	$36,305.3	4,499	$18,495	$12,490	$6,005	16.5%
2017	$29,700.3	5,103	$20,690	$13,884	$6,806	22.9%

Source: PRC-LR-ACR/1, FY 2007 – FY 2012, PRC-FinRpt13-LR1, PRC-LR-ACR/1, FY 2014 – FY 2017
1 – 4
5 (3) – (4)
6 (5) / (1)

b. Please describe the role of competitive and market-based products in allowing the Postal Service to maintain its network and affordably deliver to all addresses.

The Postal Service's Competitive products produce revenues greater than their associated (attributable) costs, and therefore generate substantial contribution toward paying for the institutional costs. Without the contribution from Competitive products, the Postal Service's net loss would have been about $7.6 billion larger than it was in FY 2018, and it would have been unable to pay its operating expenses. While the growth in the contribution from Competitive products has not been sufficient to completely offset the reductions in contribution from Market Dominant products, it has prevented the Postal Service's financial situation from reaching the point where it would be unable to continue operating the network.

2. The Postal Regulatory Commission (PRC) conducts an annual review to ensure the Postal Service is complying with the statutory requirements that every competitive package product must cover its costs and that collectively all competitive package products must contribute what the PRC determines to be an appropriate share of the Postal Service's institutional costs.

    c. In each year since 2006, when Congress passed the Postal Accountability and Enhancement Act (PAEA), has the PRC found that the Postal Service is complying with these statutory requirements?

    Pursuant to 39 U.S.C. § 3653, as part of each *Annual Compliance Determination* (ACD), most recently issued on April 12, 2019, the Commission determines whether any rates or fees in effect during the previous fiscal year (FY) were not in compliance with the 3 requirements of 39 U.S.C. § 3633(a).

    Section 3633(a)(1) prohibits cross-subsidization of the Postal Service's Competitive products by its Market Dominant products. In each ACD since FY 2008, the Commission found that competitive products were not subsidized by Market dominant products, and therefore that the Postal Service complied with section 3633(a)(1). For FY 2007 (the first year subjected to annual compliance review), the Commission could not determine compliance with section 3633(a)(1) due to lack of available data.

    Section 3633(a)(2) requires that each Postal Service Competitive product cover its costs attributable. In each ACD since FY 2007, the Commission has identified each product that failed to cover its attributable costs and ordered an appropriate remedy.

    Section 3633(a)(3) requires that the Postal Service's Competitive products collectively cover a Commission-determined appropriate share of the Postal Service's institutional costs. In each ACD since FY 2007, the Commission has determined that the Postal Service complied with section 3633(a)(3). Since FY 2007, the appropriate share has been set at 5.5 percent. In each fiscal year since 2007, competitive products have collectively contributed over 5.5 percent to cover the Postal Service's institutional costs. On January 3, 2019, the Commission issued Order No. 4963, concluding its review of the institutional cost contribution for competitive products (RM2017-1) and implementing a formula-based approach to calculate the appropriate share.

    d. In each year, has the PRC found any evidence that the Postal Service is engaged in unfair competition? Please explain.

    The Postal Service's history of compliance with 39 U.S.C. § 3633(a)(1) (the prohibition against cross-subsidization of the Postal Service's Competitive products by its Market Dominant products), indicates that the Postal Service is not using its Market Dominant products to subsidize its competitive product business.

    In addition, as part of Docket No. RM2017-1, the Commission did an extensive analysis of the prevailing competitive conditions in the market, including whether there was evidence indicating the Postal Service was competing unfairly.[1] The Commission found that there was no evidence the Postal Service was competing unfairly after examining whether the Postal Service had ever engaged in predatory pricing[2] and analyzing average prices increases for competitive products and those of UPS and FedEx over the last decade.

3. The Task Force recommends the Postal Service and the PRC "develop a new cost allocation model with fully distributed costs to all products, services, and activities." In recent decisions, the PRC has found that fully distributed costing proposals do not represent an improvement over the current methodology. Please briefly describe these decisions.

Fully distributed costing is neither consistent with applicable law nor represents an improvement over the current costing methodology from an economic perspective.

In decisions over the past several decades, as well as its recent decision in Docket No RM2016-2, the Commission has consistently rejected recommendations related to fully distributed costing. The PAEA requires that cost attribution be based on "reliably identified causal relationships." 39 U.S.C. §§ 3622(c)(2) and 3631(b). In furtherance of this requirement all Postal Service costs are classified as either attributable or institutional. Attributable costs are assigned to products on the basis of reliably identified causal relationships. Most attributable costs vary with volume (volume-variable costs) but some are fixed costs that are uniquely associated with an individual product or group of products (product-specific costs). A third type of costs, inframarginal, are variable costs that do not vary directly with volume. Until recently, inframarginal costs were treated as institutional costs. Order No. 3506 at 10, 35. All other costs (those that lack a reliably identified causal relationship to a product, group of products, or mail class) are considered residual and classified as institutional.[3]

In Docket No. RM2016-2, the United Parcel Service (UPS) proposed that all the inframarginal costs of a particular activity should be apportioned among products based on the Postal Service's distribution keys, i.e., its estimates of the proportion of the number of units of each activity's cost driver (such as cubic-foot-miles for highway transportation) that are used to calculate volume-variable costs. The Commission rejected UPS's proposal as it attempted to attribute to products costs that did not bear a reliably identified causal relationship to those products. Id. at 56. However, the Commission did expand its definition of attributable costs based on its analysis in that docket. The Commission explained that although all inframarginal costs are variable, only a portion of inframarginal costs have the

[1] Docket No. RM2017-1, Order Adopting Final Rules Relating to the Institutional Cost Contribution Requirement for Competitive Products, January 3, 2019, Order No. 4963, at 4-13, 114-132.

[2] Predatory pricing is pricing a product below its marginal cost in order to gain market share. Docket No. RM2017-1, Notice of Proposed Rulemaking to Evaluate the Institutional Cost Contribution Requirement for Competitive Products, February, 8, 2018, Order No. 4402, at 8, n.18.

[3] Docket No. RM2016-2, Order Concerning United Parcel Service, Inc.'s Proposed Changes to Postal Service Costing Methodologies (UPS Proposals One, Two, and Three), September 9, 2016, at 10 (Order No. 3506).

necessary reliably identified causal relationship with products required by the PAEA. Id. at 61-62. The Commission expanded its attributable costing methodology to include those inframarginal costs calculated as part of incremental costs. Id. The Commission adopted final rules codified at 39 C.F.R. § 3015.7(a) and (b) formalizing this requirement in a separate rulemaking proceeding.[4]

From an economic perspective, fully distributed costing does not represent an improvement over the current costing methodology. The PAEA allows the Postal Service to earn profits. 39 U.S.C. §§ 3622(b)(5); 3633. The Postal Service's ability to earn profits depends on efficiently pricing its products. The current costing methodology allows the Postal Service to price products efficiently by requiring products to only cover the costs they incur. This is done through the use of reliably identified causal relationships. In contrast, a fully distributed costing approach may produce inefficient prices, because such costing does not reflect marginal cost. The Commission has previously explained that the allocation of costs based on arbitrary criteria, unrelated to causation, "does not yield prices reflecting market demand."[5] Under fully distributed costing, costs are allocated in a manner that does not reasonably reflect cost causation and can lead to widely different results depending on the specific metric used (i.e. proportions of volume, attributable costs, revenue, cubic feet, weight, etc.).[6] This result makes fully distributed costing inherently arbitrary. In addition, fully distributed costing may inhibit the Postal Service from earning profits because it may preclude the production of profitable products to which unrelated costs have been arbitrarily allocated.

In order to achieve financial stability, prices need to be set such that they collectively generate sufficient revenue to recover all costs, including institutional costs that cannot be assigned to products based on causation. In this sense, profitable companies (including the Postal Service's competitors) could be characterized as "fully allocating" all of their costs to products. However, the economic principles underlying "costing" (measuring the cost of each product) are not applicable to "pricing" (determining the appropriate markup over each product's cost in order to set prices to recover institutional costs and ideally generate a profit). For example, under the PRA the Postal Service's institutional costs were assigned to products by balancing the policy goals embodied in statutory pricing factors. PAEA replaced this system with a price cap which has the effect of constraining the pricing of Market Dominant products such that markups cannot be set at a level that would cause prices to increase by more than the rate of inflation.

Despite the Postal Service's success in increasing the contribution from competitive products (as shown in Table 2 above), total revenue has not been sufficient to recover all costs. Increasing the attribution of costs to products, regardless of the method of distribution used,

[4] Docket No. RM2016-13, Order Adopting Final Rules on Changes Concerning Attributable Costing, December 1, 2016, Order No. 3641.
[5] Docket No. R84-1, Opinion and Recommended Decision, Volume 1 of 2, September 7, 1984, at 143; Docket No. R94-1, Opinion and Recommended Decision, November 30, 1994 at Appendix F.
[6] Docket No. R2017-1, Notice of Proposed Rulemaking to Evaluate the Institutional Cost Contribution Requirement for Competitive Products, February 8, 2018, Order No. 4402, at 81-82.

would not address this basic problem. It could, however, lead to results that suggest that some profitable products are unprofitable, leading to inefficient pricing and other inefficient decisions.

Post-Hearing Questions for the Record
Submitted to the Honorable Robert G. Taub
From Senator Tom Carper

"A Path to Sustainability: Recommendations from the President's Task Force of the United States Postal Service"
March 12, 2019

1. Chairman Taub, do private companies price their products to make a profit?

   Yes, in general, private companies are in business to make a profit and price their products accordingly.

2. Has the Commission found that the Postal Service sets prices to make a profit or instead to cover costs due to the service mandate to deliver mail to every home in America. Does the pricing strategy differ for competitive and market dominant products?

   The Postal Service is responsible for developing and implementing its pricing strategy. The Commission reviews the prices of Market Dominant and Competitive products for compliance with the applicable statutory requirements.

   By statute, price increases for Market Dominant products are subject to a price cap, which limits how much the Postal Service can increase prices for each class of mail. While the Postal Service has considerable pricing flexibility for individual products, the overall increase for each Market Dominant class cannot be higher than the price cap. In Order No. 4257, the Commission determined that the Postal Service's Market Dominant price adjustment during the first 10 years of the PAEA was limited to 17.622 percent.

Average Class-Level Price Adjustments

Docket No.	R2008-1	R2009-2	R2011-2	R2012-3	R2013-1	R2013-10	R2015-4	R2017-1	Total Adjustment under PAEA
First-Class Mail	2.886%	3.770%	1.741%	2.133%	2.570%	1.587%	1.956%	0.778%	17.421%
Standard Mail	2.875%	3.759%	1.739%	2.041%	2.569%	1.642%	1.926%	0.900%	17.451%
Periodicals	2.724%	3.961%	1.741%	2.133%	2.549%	1.664%	1.966%	0.832%	17.570%
Package Services	2.875%	3.800%	1.740%	2.115%	2.567%	1.453%	1.787%	0.973%	17.310%
Special Services	2.848%	3.825%	1.739%	-0.699%	2.850%	2.500%	0.255%	2.514%	15.832%
Annual CPI-U Limitation at Filing	**2.900%**	**3.800%**	**1.741%**	**2.426%**	**2.570%**	**1.696%**	**1.685%**	**0.804%**	**17.622%**

Source: Library Reference PRC-LR-RM2017-3/1.

The PAEA set forth separate provisions applicable to rates for Competitive products. These provisions prohibit the subsidization of competitive products by Market Dominant products; ensure that each competitive product covers its attributable costs, and require that "all

Competitive products collectively cover what the Commission determines to be an appropriate share of the institutional costs of the Postal Service." 39 U.S.C. § 3633(a)(3). Please see the attached spreadsheet for the magnitude of price increases for Competitive products during the PAEA era. On average, price increases for competitive products were 3 times as large as the price increase for Market Dominant products.

3. Chairman Taub, can you please explain the Postal Regulatory Commission decisions and the recent court cases when it comes to package pricing, cost allocations between market dominant and competitive products, and the federal standard of a "causational relationship" between cost and product? Please provide copies of those decision and the court cases along with any other relevant documents.

Related to the federal standard of "causational relationship" the definition of attributable costing (or cost allocation) was most recently considered in Docket No. RM2016-2, wherein the Commission examined the concept of reliably identifiable causally related costs and expanded the scope of Postal Service cost attribution.[1] Postal Service costs are classified as either attributable or institutional. Attributable costs are assigned to products on the basis of reliably identified causal relationships. Most attributable costs vary with volume (volume-variable costs) but some are fixed costs that are uniquely associated with an individual product or group of products (product-specific costs). A third type of costs, inframarginal, are variable costs that do not vary directly with volume. Prior to Docket No. RM2016-2, the Commission had long maintained that only marginal costs—*i.e.*, the cost of producing one additional unit of a product—bear a sufficiently reliable causal relationship to a product to be attributable to that product and classified only volume-variable costs and product-specific fixed costs as attributable. United Parcel Service (UPS) initiated Docket No. RM2016-2 by proposing that the Commission expand its definition of attributable costs to include all inframarginal costs (that portion of variable costs treated as institutional). The Commission rejected UPS's proposal, as it determined that not all inframarginal costs can be attributed to products through reliably identified causal relationships. Order No. 3506 at 56. The Commission explained that, although all inframarginal costs are variable—in the sense that they change with volume—only a portion of inframarginal costs have a causal relationship with products under the Commission's longstanding view of causation. *Id.* at 61-62. Based on its findings, the Commission expanded the scope of Postal Service cost attribution to include (along with volume-variable costs and product-specific fixed costs) those inframarginal costs calculated as part of incremental costs. *Id.* The Commission adopted final rules codified at 39 C.F.R. § 3015.7(a) and (b) formalizing this requirement in a separate rulemaking proceeding.[2]

UPS challenged the Commission's costing methodologies approved in that docket in the United States Court of Appeals for the District of Columbia Circuit. The D.C. Circuit Court denied UPS's Petition for Review and found that the Commission exercised reasonable judgment in settling on a cost-attribution methodology that implements its statutory mandate

[1] Docket No. RM2016-2, Order Concerning United Parcel Service, Inc.'s Proposed Changes to Postal Service Costing Methodologies (UPS Proposals One, Two, and Three), September 9, 2016 (Order No. 3506).
[2] Docket No. RM2016-13, Order Adopting Final Rules on Changes Concerning Attributable Costing, December 1, 2016, Order No. 3641.

and falls well within the scope of its considerable discretion.[3] UPS's petition for rehearing *en banc* was denied by the D.C. Circuit Court in July 2018. UPS filed a petition for a *writ of certiorari* with the Supreme Court in December 2018. The petition remains pending before the Supreme Court and the most recent appellate filing (the brief in opposition requesting that this petition be denied filed April 5, 2019) is attached.

Related to institutional costs and the allocation of those costs to Postal Service Competitive products, in Docket No. RM2017-1, the Commission completed its second review of the minimum amount that competitive products, collectively, must contribute to the Postal Service's total institutional costs. In that docket and after consideration of the prevailing competitive conditions in the market, the degree to which any costs are uniquely or disproportionately associated with any competitive products, and all other relevant circumstances, the Commission adopted a new formula for calculating the appropriate share of institutional costs that must be recovered from competitive products collectively. The formula's two components measure the Postal Service's absolute market power in the competitive market as well as the Postal Service's market position relative to competitors. Changes in both components will be calculated annually and used to update the appropriate share for the following year. The Commission explained that taking these components together and applying them through the operation of the formula allows it to determine the year-over-year change in the capacity of competitive products to collectively generate profit based on the Postal Service's market power and market position. The formula is designed to adjust the appropriate share upwards or downwards based on changes in the capacity of Competitive products to contribute to institutional costs since 2007 (when the Commission initially set the appropriate share at 5.5 percent). UPS appealed the Commission's decision and that appeal is pending before the United States Court of Appeals for the District of Columbia Circuit (Case No. 19-1026). UPS's initial brief is due May 21, 2019.

Both of these dockets relate to package pricing, in that Competitive products, are required to cover their costs attributable pursuant to 39 U.S.C. § 3633(a)(2) and a Commission-determined appropriate share of institutional costs pursuant to § 3633(a)(3). The Postal Service must set its competitive product prices high enough to cover both types of costs (attributable costs and institutional costs).

4. Under current law should first class mail bear the costs of maintaining the network and what costs if any should be attributed to packages?

   Under current law, no one product or class is required to bear the costs of maintaining the entire postal network. Each class or product is required to bear the costs that it causes. Collectively, competitive products must cover a Commission-determined appropriate share of the Postal Service's institutional costs.

[3] United Parcel Serv., Inc. v. Postal Regulatory Comm'n, 890 F.3d 1053, 1069 (D.C. Cir. 2018).

Specifically, First-Class Mail, like each class of Market Dominant mail, must cover its attributable costs, *i.e.* the costs that can be tied to each class through reliably identified causal relationships, pursuant to 39 U.S.C. § 3622(c)(2).

Correspondingly, each Competitive product must cover its attributable costs, *i.e.* the costs that can be tied to each competitive product through reliably identified causal relationships, pursuant to section 3633(a)(2). In addition, competitive products must annually cover a Commission-determined appropriate share of the Postal Service's institutional costs, pursuant to section 3633(a)(3).

5. Has the PRC determined that packages are not covering costs?

   The Commission reviews Market Dominant and Competitive products for compliance with statutory requirements each year in its *Annual Compliance Determination.*

   For Market Dominant package products, achieving revenues in excess of attributable cost is one of the factors of the ratemaking system, not a direct statutory requirement. Several market dominant package products have struggled to cover cost during the PAEA era. The following table, developed using information provided in Library Reference RM2017-3/1, shows that Market Dominant products with package components had costs that exceeded revenue throughout the PAEA era.

Product	2008	2009	2010	2011	2012	2013	2014	2015	2016	2008-2016 Total
First Class Parcels					($10)	($3)				($13)
First Class Inbound Single Piece Int'l *	($102)	($105)	($53)	($33)	($93)	($95)	($54)	($75)	($28)	($638)
Standard Parcels & NFM	($166)	($205)	($172)	($112)	($49)	($35)	($31)	($24)	($29)	($823)
BPM Parcels		($7)	($27)	($4)						($38)
Parcel Post	($66)	($61)	($134)	($88)	($66)	($23)				($438)
Total Negative Contribution	($334)	($379)	($386)	($237)	($217)	($156)	($84)	($99)	($58)	($1,949)

   However, the volume of Market Dominant packages is much smaller than the volume of competitive products. The Commission reviews each competitive product with the statutory requirement that competitive products cover cost. While there have been several competitive products that have not met this statutory standard, all were products with low volume products. The following table shows the contribution of Competitive products throughout the first 10 years of the PAEA era.

Competitive	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Total
Total	$1,516,173	$1,783,891	$1,960,646	$2,420,224	$2,309,918	$3,042,776	$3,859,668	$4,309,953	$4,523,214	$6,004,969	$31,279,392

6. At what point, both in terms of a date and dollar figure, does USPS hit a financial crisis point where they will no longer be able to afford to pay Postal Employees? Please try to be as specific to a date and dollar figure as possible. If this happened, what will happen to social security checks and other forms of communication that must legislatively be delivered?

The Postal Service is a service entity with a historically low accounts receivable balance. During a fiscal year, revenue from the sale of postage and services covers operational expenses. The Postal Service's largest payables consists of debt and missed retirement related payments. Defaulted payments, outstanding debt, and restricted capital expenditures have allowed their cash balances to increase. Available borrowing capacity was maximized from FY 2012 until FY 2018 when the Postal Service made a partial principal repayment of debt of $1.8 billion.

A rough approximation of when the Postal Service would lack sufficient resources to meet payroll may be estimated using expense coverage days with operating revenue substituted for cash. Depreciation is included in expenses – because of the limited capital investment in recent years; depreciation essentially represents replacement of existing assets rather than investments in new assets. Expenses accrued but not paid such as defaulted retirement related payments and the non-cash adjustment to workers' compensation is not included in expenses. Projected amounts are from the Postal Service's FY 2019 Integrated Financial Plan.

The Postal Service generates sufficient revenue to cover expenses excluding annual amortization of unfunded retirement obligations and RHB normal costs.

Table 1 shows the number of expense coverage days shown below based on revenue and expenses projected in the FY 2019 IFP.

Table 1
Expense Coverage Days Based on 251 Operating Days

$ in billions	FY 2019
Operating Revenue	**72.1**
Salaries and Benefits	52.5
Transportation	8.3
Other Operating Expenses Including Depreciation	10.4
Total Operating Expenses	**71.2**
Expense Disbursement Days Per Year	251
Estimated Average Expense Disbursements Per Day	0.284
Expense Coverage Days	**254**

In the event all future revenue generation were to cease, the Postal Service estimates that it would have 54 days of cash to cover its expenses (including capital expenditures) based on 365 operating days.

Notwithstanding the fact that it is currently generating sufficient revenue to cover its operating expenses, to be financially viable the Postal Service will have to eventually pay all of its expenses including the defaulted payments for retirement related amortization and RHB normal costs in addition to increasing its capital investments and repaying its debt. Table 2 shows that the Postal Service is projected to generate revenue to pay all expenses for only 230 business days assuming 251 operating days in the year.

Table 2
Total Expense Coverage Days Based on 251 Operating Days

$ in billions	FY 2019
Operating Revenue	**72.1**
Salaries and Benefits	52.5
Transportation	8.3
Other Operating Expenses Including Depreciation	10.4
RHB Normal cost and CSRS/FERS/RHB Amortization	7.5
Total Operating Expenses	**78.7**
Expense Disbursement Days Per Year	251
Estimated Average Expense Disbursements Per Day	0.314
Expense Coverage Days	**230**

7. Mr. Taub, does the Postal Regulatory Commission annually examines whether each class of mail covers its costs and makes a contribution to overhead costs?

   The Commission examines the cost coverage for each class of mail in its *Annual Compliance Determination* Report as required by Title 39, section 3653, of the United States Code. Revenue and cost information is filed by the Postal Service in its Annual Compliance Report (ACR) 90 days after the end of each fiscal year. The Commission uses data to provide a written determination as to whether any rates or fees were in compliance with applicable provisions of chapter 36 of Title 39. The Commission's cost coverage analysis is expanded further in a separate Financial Analysis Report.

Competitive Products and Market Dominant Classes Price Increases 2008-2018

Calendar Year	Average Competitive Products Price Increase	Averge Market Dominant Price Cap Authority (CPI-U Limitation)
2008	5.79%	2.90%
2009	5.00%	3.80%
2010	3.30%	1.74%
2011	3.60%	0.00%
2012	4.60%	2.43%
2013	8.10%	2.57%
2014	2.40%	1.70%
2015	3.50%	0.00%
2016	9.50%	1.69%
2017	3.90%	0.00%
2018	4.10%	0.80%
	4.89%	1.60%

Average Competitive Price Increase divided by the Average Market Dominant Price Cap Authority
3.05

Source: CY 2008: Geometric Average of increases reported in Governor's Decision 08-3; CY2009-2019: USPS 10-Ks, section on "Pricing and Classification Activity"
Docket No. R2008-1:
PRC-R2008-1-LR1
Docket No. R2009-2:
PRC-R2009-2-LR1
Docket No. R2011-2:
PRC-R2011-2-LR1
Docket No. R2012-3:
PRC-R2012-3-LR-1
Docket No. R2013-1:
PRC-LR-R2013-1/3
Docket No. R2013-10;
PRC-LR-R2013-10/1
Docket No. R2015-4:
PRC-LR-R2015-4/1
Docket No. R2017-1:
PRC-LR-R2017-1/1
Docket No. R2018-1:
PRC-LR-R2018-1/1

Post-Hearing Questions for the Record
Submitted to Hon. Robert Taub
From Senator Kyrsten Sinema

"A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service"

Tuesday, March 12th

1) The city of Tucson and other communities in southern Arizona face significant uncertainty and diminished postal service due to ongoing efforts by the U.S. Postal Service (USPS) to close the Cherrybell mail processing plant. In 2012, the Postal Service announced it would close the Cherrybell plant in Tucson and merge all its operations into the Phoenix plant. USPS began reducing operations at Cherrybell in 2013 but paused further consolidation later that year. That pause continues today, but the plant has never formally been taken off the consolidation list. When an individual mails a letter across town in Tucson, it is first trucked up to Phoenix for processing. Then, the letter has to be driven back to Tucson for delivery. City officials and business leaders report it can take up to a week for a letter mailed across town to arrive. This situation has a negative impact on families and seniors in Arizona and on the economic growth of my state.

    - As someone who oversees USPS on a daily basis, what solutions does the Task Force Report provide to meet the type of postal service problem that I just described?

The Task Force Report provided a broad approach toward USPS sustainability. Each general recommendation discussed within the Report would likely have at least an indirect impact on the USPS's ability to process mail in an efficient and timely manner. The Task Force Report's recommendations concerning the Universal Service Obligation (USO), specifically regarding the USO's definition, geographic scope, number and density of post offices and collection boxes, delivery frequency, mode of delivery, processing standards, and funding should more directly address the types of processing challenges described in this question.

- How should USPS work to solve the type of service challenges that are occurring in Tucson and southern Arizona today?

The Postal Accountability and Enhancement Act (PAEA) charges the Commission with prescribing the form and content of the Postal Service's service performance reporting. 39 U.S.C. § 3652(e). The PAEA also requires the Commission to determine whether any service standards in effect during the fiscal year under review were not met. *Id.* § 3653. The Commission fulfills this mandate in its Annual Compliance Determination (ACD), most recently issued on April 12, 2019. The Commission does not provide processing or operational expertise to USPS.

In general, the Commission views the USPS efforts to increase efficiency and lower costs as imperative to its sustainability; however, the Commission has taken note when service performance has been adversely impacted. For example, in its FY 2015 Annual Compliance Determination (ACD), the Commission highlighted and discussed several postal Districts with recurring poor service performance results.[1] The Commission directed the Postal Service to provide a detailed plan to improve these results, and robust data used to monitor, track, and evaluate the causes of increases/decreases in service performance results.[2] These data have since provided critical insight into the efficiency of mail movement throughout the postal network.[3] In subsequent annual compliance reviews, including its most recent ACD, the Commission has maintained this course of action and has directed the Postal Service to provide more transparency regarding the progress and effects of its existing multi-year national service performance improvement strategies.

The Commission has repeatedly encouraged the Postal Service to develop methods to resolve service issues in a timely and efficient manner.

- USPS has specific service standards that dictate how long it should take for mail to reach its destination. Another factor to consider when judging USPS operations is its service performance, which generally refers to how often USPS delivers mail within the designated service standards for a region.

- Over the past 10 years, when USPS has closed or partially-closed processing plants, what has the general impact been on service standards and service performance in the regions served by those plants?

As discussed above, the PAEA tasks the Postal Regulatory Commission with annually reviewing the Postal Service's service performance on a nationwide basis. Discrete changes to operations, such as the consolidation of processing operations at a specific facility, are not reviewed by the Commission. However, the PAEA also tasks the Postal Regulatory Commission with providing the Postal Service with an Advisory Opinion when the Postal Service "determines that there should be a change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis." 39 U.S.C. § 3661(b). Commission recommendations in advisory opinions are non-binding on the Postal Service.

In 2012, the Postal Service initiated Docket No N2012-1, wherein the Commission analyzed the Postal Service's plan to consolidate significant portions of its mail processing network, including the Tucson SCF. The Postal Service termed this operational change "Network Rationalization."

The implementation of Network Rationalization was the primary driver of service standard changes. The following tables highlight service standard changes due to Phase II of Network Rationalization in the August 1, 2014 federal registration publication:

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[1] See FY 2015 ACD at 108, 112, 120, and 136.
[2] See FY 2015 ACD at 137-138, and 141-142
[3] See FY 2016 ACD at 100-129

Table 1

First-Class Mail	1. Phase II approach begins on **January 5, 2015** 2. Until January 5, 2015, a 1-day (overnight) service standard is applied to intra-Sectional Center Facility (SCF) domestic First-Class Mail® pieces properly accepted before the day-zero Critical Entry Time (CET), except for mail between Puerto Rico and the U.S. Virgin Islands, mail between American Samoa and Hawaii, and mail destined to the following 3-digit ZIP Code areas in Alaska (or designated portions thereof): 995 (5-digit ZIP Codes 99540 through 99599), 996, 997, 998, and 999. 3. On and after January 5, 2015, a 1-day (overnight) service standard is applied to intra-SCF domestic Presort First-Class Mail pieces properly accepted at the SCF before the day-zero CET, except for mail between Puerto Rico and the U.S. Virgin Islands, and mail destined to American Samoa and the following 3-digit ZIP Code areas in Alaska (or designated portions thereof): 995 (5-digit ZIP Codes 99540 through 99599), 996, 997, 998, and 999. 4. Until January 5, 2015, a 2-day service standard is applied to inter-SCF domestic First-Class Mail pieces properly accepted before the day-zero CET if the drive time between the origin Processing & Distribution Center or Facility (P&DC/F) and destination Area Distribution Center (ADC) is 6 hours or less; or if the origin and destination are separately in Puerto Rico and the U.S. Virgin Islands; or if the origin or destination is in American Samoa or one of the following 3-digit ZIP Code areas in Alaska (or designated portions thereof): 995 (5-digit ZIP Codes 99540 through 99599), 996, 997, 998, and 999. 5. On and after January 5, 2015, a 2-day service standard is applied to intra-SCF single piece domestic First-Class Mail properly accepted before the day-zero CET, inter-SCF domestic First-Class Mail pieces properly accepted before the day-zero CET if the drive time between the origin P&DC/F and destination SCF is 6 hours or less, Presort First-Class Mail properly accepted before the day-zero CET with an origin and destination that are separately in Puerto Rico and the U.S. Virgin Islands, and intra-SCF Presort First-Class Mail properly accepted before the day-zero CET with an origin or destination that is in American Samoa or one of the following 3-digit ZIP Code areas in Alaska (or designated portions thereof): 995 (5-digit ZIP Codes 99540 through 99599), 996, 997, 998, and 999.
Periodicals	On and after January 5, 2015, a 3- to 4-day service standard is applied to Periodicals pieces properly accepted before the day-zero CET and merged with First-Class Mail pieces for surface transportation (as per the DMM), with the standard specifically equaling the sum of 1 day plus the applicable First-Class Mail service standard.

Source: 79 Fed. Reg. 44,700, 44,701 (Aug. 1, 2014) (codified at 39 C.F.R. §§ 121.1 and 121.2).

Prior to January 5, 2015, end-to end service standard day ranges for mail originating and destinating within the contiguous 48 states and the District of Columbia.

Table 2

Contiguous United States	
Mail Class	**End-to-End Range (days)**
First-Class Mail	1-3
Periodicals	2-9
Standard Mail	3-10
Package Services	2-8

Source: App'x A to 39 C.F.R. part 121, Table 1.

On and after January 5, 2015, end-to-end service standard day ranges for mail originating and destinating within the contiguous 48 states and the District of Columbia.

Table 3

Contiguous United States	
Mail Class	**End-to-End Range (days)**
First-Class Mail	1-3
Periodicals	3-9
Standard Mail	3-10
Package Services	2-8

Source: App'x A to 39 C.F.R. part 121, Table 2.

Prior to January 5, 2015, end-to end service standard day ranges for mail originating and/or destinating in noncontiguous states and territories.

Table 4

Mail Class	**End-to-End**								
	Intra state/territory			**To/from contiguous 48 states**			**To/from states of Alaska and Hawaii, and the territories of Guam, Puerto Rico and the U.S. Virgin Islands**		
	Alaska	Hawaii, Guam & American Samoa	Puerto Rico & USVI	Alaska	Hawaii, Guam & American Samoa	Puerto Rico & USVI	Alaska	Hawaii, Guam & American Samoa	Puerto Rico & USVI
First-Class Mail	1-3	1-3	1-2	3-4	3-5	3-4	4-5	4-5	4-5
Periodicals	2-4	2-4	2-3	13-19	12-22	11-16	21-25	21-26	23-26
Standard Mail	3-5	3-5	3-4	14-20	13-23	12-17	23-26	23-27	24-27
Package Services	*2-4	2-4	2-3	12-18	11-21	10-15	21-26	20-26	20-24
* Excluding bypass mail									

Source: App'x A to 39 C.F.R. part 121, Table 3.

On and after January 5, 2015, end-to-end service standard day ranges for mail originating and/or destinating in noncontiguous states and territories.

Table 5

Mail Class	End-to-End								
	Intra state/territory			**To/from contiguous 48 states**			**To/from states of Alaska and Hawaii, and the territories of Guam, Puerto Rico and the U.S. Virgin Islands**		
	Alaska	Hawaii, Guam & American Samoa	Puerto Rico & USVI	Alaska	Hawaii, Guam & American Samoa	Puerto Rico & USVI	Alaska	Hawaii, Guam & American Samoa	Puerto Rico & USVI
First-Class Mail	1-3	1-3	1-2	3-4	3-5	3-4	4-5	4-5	4-5
Periodicals	3-4	3-4	3	13-19	12-22	11-16	21-25	21-26	23-26
Standard Mail	3-5	3-5	3-4	14-20	13-23	12-17	23-26	23-27	24-27
Package Services	*2-4	2-4	2-3	12-18	11-21	10-15	21-26	20-26	20-24
* Excluding bypass mail									

Source: App'x A to 39 C.F.R. part 121, Table 4.

Destination-entry service standard day ranges for mail to the contiguous 48 states and the District of Columbia.

Table 6

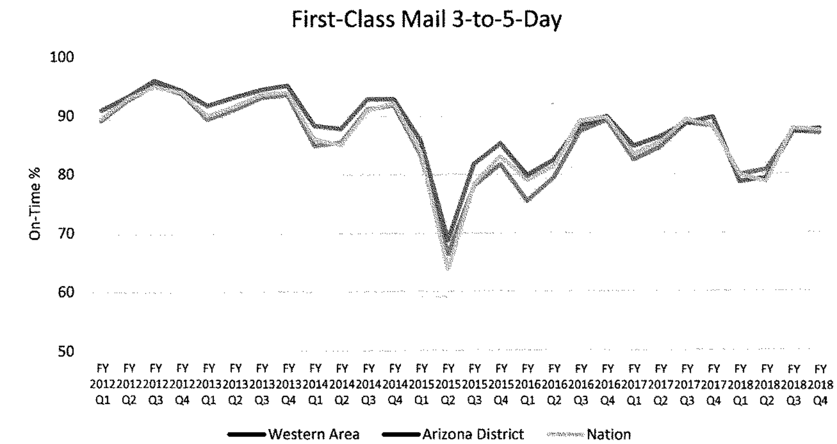
Mail Class	**Contiguous United States**			
	Destination Entry (at appropriate facility)			
	DDU (Days)	**SCF (Days)**	**ADC (Days)**	**NDC (Days)**
Periodicals	1	1	1-2	2-3
Standard Mail	2	3-4		5
Package Services	1	2		3

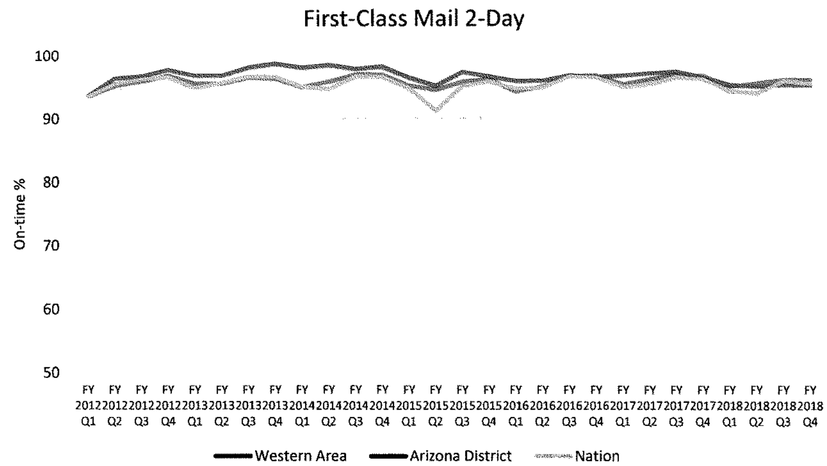
Source: App'x A to 39 C.F.R. part 121, Table 5.

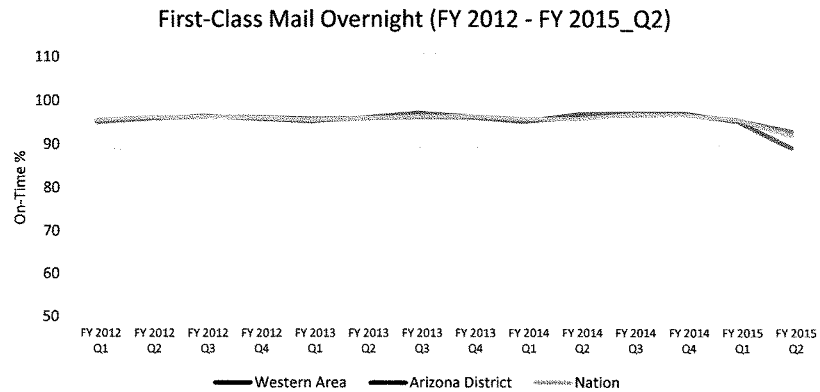
When the Postal Service consolidates mail processing operations, Handbook PO-408 requires that it perform a Post-Implementation Review (PIR). During the process of developing this review, the Postal Service analyzes the cost and service impact of the consolidation. The PIR contains service performance scores 4 quarters before and after the consolidation. The PAEA does not require the Postal Service to provide the PIRs to the Postal Regulatory Commission.

- How much more difficult is it to improve service standards or service performance in a region where a processing plant has been closed?

The Commission does not have the information necessary to quantify the level of difficulty in improving service standards or performance in specific regions where processing plants have been eliminated. The Commission has, however, analyzed trends in service performance results. The figures below show on-time percentage service performance results for First-Class Mail overnight, 2-day, and 3-5-day mail in the Arizona District, Western Area, and at the National level. The graphical representations also demonstrate the significant decline in service performance results during the second quarter of FY 2015, which occurred immediately following final implementation of Phase 2 of Network Rationalization.







As a result of these declines, the Commission, in its FY 2015 ACD, performed a comprehensive investigation of how Phase 2 of Network Rationalization caused significant declines in service performance. The Commission evaluated several recurring underperforming districts but found that the entire postal network had been impacted by the implementation of Phase 2. The Commission directed the USPS to provide more functional data thereby increasing transparency of the postal network. In its most recent ACD, the Commission has been able to evaluate specific processing phases of the postal network due to the better, more serviceable data.

2) This Administration and Congress needs to work together to pass bipartisan reform legislation to improve the Postal Service's financial situation – so it can better tackle the service challenges that I hear about from my constituents. Many of my constituents rely on the Postal Service every single day, and, even though overall mail volumes continue to fall, that reliance is not going to change any time soon. However, I am concerned that this Task Force Report does not provide a workable path forward or help advance the cause of postal reform. It has some interesting ideas, but is lacking in analysis regarding the feasibility of its recommendation and the long-term consequences these recommendations would have for consumers and businesses.

    - How can Congress properly evaluate this report when it contains no detailed economic analysis, no consideration of the most recent versions of bipartisan postal reform legislation, and no specific analysis of the long-term impact on rural America?
    - How should Congress use the Task Force findings and recommendations to advance the cause of postal reform?

The President's Task Force sought to address the critical question of what must be done to improve the financial condition of the Postal Service. While the Task Force was required to consult with me as Postal Regulatory Commission Chairman, I was not an actual member of the Task Force, and therefore not directly involved in the analysis or development of recommendations. However, I would note that the Task Force considers its recommendations to be "first steps" and options to consider "in whole or in part".

Among the many task force recommendations, one that stands out to me in particular is the recommendation to clearly define the Postal Service's Universal Service Obligation (USO). Only be defining the USO can we begin to design a system that will fund the postal services our nation requires.

The Commission has significant experience exploring the question of the USO. The Postal Accountability and Enhancement Act of 2006 directed the Commission to annually estimate the USO costs and also to prepare a comprehensive report in 2008 on the USO. The Commission estimates the total cost of the USO is more than $4.5 billion.

Unlike other countries, the USO within the United States is largely undefined and instead is comprised of a broad set of policy statements with only a few legislative prescriptions.

In the absence of a clear definition of the USO, particularly given the Postal Service's significant financial challenges, each of us may have different views of what services and operations the Postal Service must provide to fulfill the USO, and all of our views will have different price tags.

As part of the financial pressure of generating sufficient funds to remain solvent, make capital investments, and pay retiree costs, the Postal Service must consider how to fund this $4.5 billion annual cost. Given the Commission's substantial work on this issue, we would welcome a collaboration with Congress on designing a solution.

Post-Hearing Questions for the Record
Submitted to Mr. Gary Grippo
"A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service"

March 12, 2019

<u>Ranking Member Gary C. Peters</u>

Question:

Did the President's Task Force (Task Force) conduct quantitative economic analysis of the impact each of its recommendations would have, if implemented, on the financial condition of the U.S. Postal Service? If so, please describe the analysis conducted and provide a copy. If not, please explain why not.

Response:

The Task Force based its recommendations on a robust analysis of the United States Postal Service's (USPS) operations and finances that was informed by an extensive review of information provided by the USPS, academic literature, and industry studies; a review of legislative history and meetings with members of Congress and the Congressional committees of jurisdiction; and meetings with a wide range of stakeholders.

The Task Force also conducted a thorough review of data, research, and published material from public and private sources, including from the USPS, the U.S. Government Accountability Office (GAO), and the USPS Office of Inspector General (OIG). At your request, and that of the Chairman, the Treasury Department met with the committee and provided it with the financial data that the Task Force developed to inform its work, and demonstrated how the data could be used to model the financial effects of various proposed reforms.

As noted in the report, the recommendations of the Task Force promote commerce and communications throughout the United States without shifting additional costs to the taxpayers, and include proposed administrative and legislative reforms to create a sustainable business model for the USPS.

Question:

Did the Task Force conduct quantitative economic analysis of the impact each of its recommendations would have, if implemented, on the market for postal services (including but not limited to volume, revenue, and cost trends)? If so, please describe the analysis conducted and provide a copy. If not, please explain why not.

Response:

The Task Force conducted rigorous analysis of both the expansion and pricing of the package delivery market and the USPS's role in competitive markets as well as the decline in mail volume and its implications for USPS self-financing and the USPS monopoly over letter delivery and mailboxes. Moreover, the financial data developed to inform the Task Force's work, which was provided to the Committee, demonstrates how volume, revenue, and cost may change over time due to different reform options.

However, it is important to note that the Task Force did not recommend specific changes in the price of USPS products or services. The Task Force recommended that the USPS "develop a new model that can be used to both set rates and control costs to achieve sustainability" and that the USPS institute "price increases, reduce service costs, or exit the business for any mail products that are not deemed an essential service and do not cover their direct costs."

Question:

Did the Task Force conduct quantitative economic analysis of the impact each of its recommendations would have, if implemented, on rural, urban, and suburban communities in the United States, including (a) through (c) below? If so, please describe the analysis conducted and provide a copy. If not, please explain why not.

a. Quantitative economic analysis of the impact each of its recommendations would have, if implemented, on the local economies of rural, urban, and suburban communities, and any potential differences in impact between such communities?

b. Quantitative economic analysis of the impact each of its recommendations would have, if implemented, on the cost of providing postal services to rural, urban, and suburban communities, and any potential differences in impact between such communities?

c. Quantitative economic analysis of the impact each of its recommendations would have, if implemented, on the Postal Service's ability to provide a high standard of service in rural, urban, and suburban communities, including its ability to meet the current service standards and improve service performance?

Response:

As laid out in the report, the Task Force believes that the reformed USPS business model must embody a new public policy goal, recognizing that private products and competitive markets increasingly meet the country's communications and commerce needs. The new policy goal should have the more targeted function of correcting the failures and inefficiencies of these private markets. Future postal strategies for products, pricing, competing, and operating should be centered on meeting the needs of mail and package customers who are not reasonably served by commercially available products.

The Task Force's research highlighted the particular importance of the USPS to rural and remote locations within the United States. When defining the Universal Service Obligation (USO), the Task Force recommended that the USPS "keep [the] current practice, which designates that the USO includes all addresses in the country covering 'the United States, its territories and possessions,' irrespective of population density." Furthermore, in recognition of the USPS's role in rural communities, the Task Force did not recommend closing specific post offices and did not recommend a change to uniform national pricing for every community in the country. It also suggested that person-to-person mail and package services used by individuals and small businesses should be considered essential. Finally, the Task Force's financial data provided to the Committee includes sending and receiving postal volumes by zip code to show changes in volume, revenue, and costs in urban versus rural zip codes. The Task Force strongly believes that all its recommendations should be implemented in such a way that recognizes its importance to those living in rural or remote locations.

Question:

Did the Task Force specifically analyze how eliminating collective bargaining over compensation would affect the level of service the Postal Service provides? Please describe any such analysis or explain the reasons for not conducting such analysis in advance of recommending this significant policy change.

Response:

Returning the USPS to financial sustainability is in the interest of USPS employees. The current USPS dual-labor model — combining private sector collective bargaining law with government compensation law — has created unsustainable labor costs. As a result, the Task Force recommended that USPS employee compensation should be more closely aligned with that of other federal employees, drawing from like examples in the broader labor market. This recommendation will ensure the USPS remains competitive in the labor market while better controlling labor costs.

Question:

Did the Task Force analyze how this recommendation would affect the Postal Service's ability to retain qualified employees in a tight labor market? Please describe any such analysis or explain the reasons for not conducting such analysis in advance of recommending this significant policy change.

Response:

As discussed above, more closely aligning USPS employee compensation with that of other federal employees will ensure the USPS remains competitive in the labor market while better controlling labor costs.

Question:

The 2006 Postal Accountability and Enhancement Act (PAEA) required the USPS to fund its retiree health benefits 75 years into the future over a 10-year period, through contributions to the Postal Service Retiree Health Benefit Fund on an aggressive prefunding schedule at approximately $5.4 billion annually. The prefunding mandate is one of the Postal Service's largest liabilities and a key driver behind its current financial situation. Do you consider it urgent to address the prefunding burden?

Response:

Congress required the USPS to fund the retiree health benefits of its employees as a part of a mandate for postal self-sustainability. The Task Force does not believe that this general policy should change or that the liability for USPS retiree health benefits should be shifted to the taxpayers. However, the Task Force believes that this obligation, including the $43 billion in pre-funding payments that the USPS failed to pay into the Postal Service Retiree Health Benefits Fund and the unfunded actuarial liability for retiree health benefits, must be restructured with the payments re-amortized with a new actuarial calculation based on the population of employees at or near retirement age.

Question:

The Task Force's report recommended the Postal Service "Require price increases, reduce service costs, or exit the business for any mail products that are not deemed an essential service and do not cover their direct costs." The Task Force distinguishes between "mail and package transactions that are purely commercial, such as marketing mail and most forms of e-commerce package delivery" and "mail and package delivery for which there is an essential service need, and therefore a strong rationale for government support, such as for household delivery of pharmaceuticals." You testified that these examples were purely "notional" and do not represent final recommendations. Did the Task Force analyze the potential economic impacts of designating any subset of postal products as non-essential, including any notional subset for purposes of supporting its recommendations?

a. Did the Task Force analyze the potential impact on small businesses and rural consumers of designating any subset of postal products as non-essential, including the notional examples of "marketing mail and most forms of e-commerce package delivery"? Please explain.

b. You testified that the Postal Regulatory Commission (PRC) should ultimately decide which products and services are "essential" versus commercial in nature. Did the Task Force consider cases in which the end-user has an essential need for a delivery that might otherwise be considered commercial in nature, such as clothes for their children or a part for their car in order to get to work? How would the Task Force recommend the PRC approach such cases and take into account the end-user's needs? In such cases, would the Task Force consider price increases as consistent with the spirit of the Universal Service Obligation?

c. You testified "certain services need to be deemed essential in large part because rural areas are dependent on them." In response to questioning regarding whether this would include items that consumers living in rural areas purchase online, you responded "if the user is captive and is really reliant on the Postal Service and does not have a viable alternative, in general we would say that should be an essential product or service." Do you recommend the PRC define certain deliveries as "essential" in certain zip codes, such as rural areas without access to certain stores, but define the same deliveries as "commercial" in other areas? Did you consider how the PRC would implement this and the level of resources it would need to do so?

Response:

As noted in the report, the Task Force believes that the USPS must distinguish between the types of mail and packages that represent an essential service for which a strong social or macroeconomic rationale exists for government protection or subsidy—in the form of price caps and mandated delivery standards.

These would be distinguished from those types of mail and packages that are commercial in nature, and therefore would not have a basis for similar government protection. This will provide a targeted definition of minimum essential services that the government should require the USPS to provide. For example, items included as essential services could consist of all personal correspondence (person-to-person mail), transaction mail (bills, financial statements, product recall notices), government mail (election and tax-related mail), parcels containing pharmaceuticals, and parcels sent from consumer to consumer.

It is ultimately up to the USPS and the PRC to implement this recommendation, including determining whether it is practical and prudent to define certain deliveries as "essential" in certain zip codes and not others or for certain customers and not others. The Task Force itself did not recommend any change to uniform national pricing for every community in the country .

Senator Tom Carper

Question:

In an effort to further understand the analysis of the Task Force, please provide to the Committee all of the following:

a. Copies of all documents exchanged between the Task Force and the Postal Regulatory Commission, the USPS, the OIG, and any other federal agency.

b. Copies of all meeting logs and notes of those meetings related to the Task Force's work or the Task Force report in both draft and final form.

c. Copies of all quantitative analysis the task force conducted on the impacts of the recommendations contained in the final report on the Postal Service or any entity, including rural and urban communities or other relevant Postal stakeholders.

For purposes of this request, "documents" includes, but is not limited to, comments, notes, emails, legal and other memoranda, white papers, scientific references, letters, telephone logs, text messages, meeting minutes and calendars, photographs, and slides and presentations. In the case of meetings, calls, or other oral communications, please include the date, time, and location at which such communications took place, a list of the individuals who participated, as well as a description of the communication.

Response:

The Task Force report lays out the scope and methodology of the Task Force's work, its meetings with outside entities, as well as its findings and recommendations. As it was undertaking its analysis and preparing to make recommendations, the Task Force proactively sought a meeting with you given your longstanding interest in the USPS. At this meeting, which took place in July 2018, the Task Force laid out its approach and sought your perspective on the challenges facing the USPS. The Task Force also met with you and your staff at your request in December 2018 — immediately after the report was released — to discuss its conclusions.

The Treasury Department looks forward to continuing to work with you and other members of the committee to promote a sustainable business model for the USPS. If you have additional questions please do not hesitate to have your staff contact Treasury's Office of Legislative Affairs.

Question:

It is clear that the long-term business model of the Postal Service needs to be reformed. The Postal Service, however, continues to have its hands tied in a number of ways:

a. The Postal Service is constrained in how it raises rates.
b. The Postal Service has already cut its network to the bare bones – and further cuts would violate legislative service mandates.
c. The Postal Service is maxed out on its line of credit and is legally prohibited from accessing private capital markets.
d. The Postal Service has to deliver less mail to more homes every year.
e. The Postal Service is saddled with huge liabilities that no private company would ever agree to prefund.

To what extent do the recommendations address these concerns?

Response:

The Task Force's review of the U.S. Postal Service identified significant opportunities for reform that would enable the USPS to operate a sustainable business model and compete fairly in competitive markets. The Task Force considered both administrative and legislative reforms that take into account changes in the postal industry, the USPS's competitive advantages, and areas requiring improvement through either government or private sector-driven initiatives. The report provides options that should be considered, in whole or in part, as the USPS and other stakeholders work to evolve the USPS's business model and restore it to the long-term sustainability demanded of it by the American people.

Question:

Many of the Task Force recommendations push the Postal Service to act more like private business in how it prices and addresses its costs. If the Task Force is driving the Postal Service to operate more like a business, it stands to reason the Task Force would also support other business flexibilities enjoyed by the private sector, such as Medicare integration in retirement plans. Why does the Task Force oppose Medicare integration to Postal Service retiree health plans?

Response:

Congress required the USPS, rather than the general taxpayer, to fund its retiree health benefits, as a part of a mandate for postal self-sustainability under which the USPS functions as an off-budget entity. The Task Force does not believe that this general policy should change or that the liability for USPS retiree health benefits should be shifted to the general taxpayer, either directly or through future federal appropriations.

Question:

The Executive Order setting up the Task Force included the Postal Regulatory Commission and the Postal Service as having a seat at the table and to be "consulted". Did you request specific information from the Postal Service or the PRC on cost coverage for package delivery?

Response:

Per the Executive Order, the Task Force consulted with the USPS and the Postal Regulatory Commission. The Task Force requested and received extensive confidential public and business data from the USPS.

Question:

What analysis led you to believe that fully distributed costing or other substantial changes in cost allocations would benefit the Postal Service?

a. Did you analyze why regulators fairly across the board have rejected (FDC) for 50 years?
b. Did you consider that the expert agency, the Postal Regulatory Commission, has rejected FDC at least twice, and been sustained twice, by the DC Circuit Court of Appeals?

Response:

Under PAEA, market-dominant products (mainly mail) are not permitted to subsidize competitive products (mainly packages). To calculate whether market-dominant products provide a subsidy to competitive products, the USPS must separate costs for the two product lines. "Attributable costs" represent the costs which can be directly linked to a product line. "Institutional costs" are costs which cannot be directly linked to a product line, and which are shared between market-dominant and competitive products, such as shared post office space and shared delivery vehicles. Prices for competitive products must cover their attributable costs plus a portion of institutional costs in order to avoid classification as "subsidized."

The PRC set the minimum requirement for competitive products' institutional cost coverage at 5.5 percent in 2007, matching the share of institutional costs covered by competitive products at that time.[1] The requirement has remained at 5.5 percent since 2007, even as package growth has enabled institutional cost coverage at around 23 percent in FY 2017.[2] Appropriate institutional cost allocation is needed to ensure sufficient funding for investment in infrastructure and new technologies, as well as to ensure that there is no cross-subsidization between mail and packages. The PRC's 2016 cost allocation model[3] was upheld by the U.S. Court of Appeals in May 2018.[4] The PRC has proposed a rule on the share of competitive product institutional cost coverage under Docket No. RM2017-1.[5] The rulemaking proposes that the minimum share be calculated annually according to market conditions. Specifically, the share would be calculated from a formula that is based on the size of the competitive market and the USPS's share of that market. Nevertheless, the Task Force believes that USPS should develop a fully distributed cost model, even if it decides to retain some form of attributable-institutional model for purposes of the cross-subsidy determination under PAEA. A fully distributed cost model, would have numerous other benefits, including providing better transparency to the market and better decision-making information to USPS management.

Question:

What evidence led you to conclude that the package delivery service at the Postal Service was not covering its cost?

Response:

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[1] Postal Regulatory Commission, *Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products*, Docket No. RM2007-1, (October 29, 2007), *available at* https://www.prc.gov/docs/58/58026/FinalRuleswithTOC.pdf.

[2] Postal Regulatory Commission, *Order Concerning United Parcel Service, Inc.'s Proposed Changes to Postal Service Costing Methodologies (UPS Proposals One, Two, and Three)*, Docket No. RM2016-2, Order No. 3506, (September 9, 2016), *available at* https://www.prc.gov/docs/97/97114/Order3506.pdf.

[3] *Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products*, *supra* note 1.

[4] *United Parcel Service, Inc. v. Postal Regulatory Commission*, 890 F.3d 1053 (DC Cir. 2018).

[5] Postal Regulatory Commission, *Notice of Proposed Rulemaking to Evaluate the Institutional Cost Contribution Requirement for competitive Products*, Docket No. RM2017-1, (February 8, 2018), *available at* https://www.prc.gov/docs/103/103724/Order%20No.%204402.docx.

While there is no direct financial subsidy of competitive products, mail products and the mailbox monopoly allow for an indirect delivery subsidy. The letter monopoly permits the USPS to share delivery costs between the USPS's package and mail segments without full cost allocation, reducing package delivery costs. Additionally, the USPS's subsidization of unprofitable mail routes with profitable ones is widely known and supported. The USPS's competitors argue that the USPS leverages cross-subsidization to create unfair competition, inhibiting private sector innovation and therefore preventing lower prices for customers. The USPS's ability to price last mile delivery and the delivery of small packages below those of private sector competitors distorts package markets. The USPS can also distort markets through negotiated service agreements with individual shippers, providing lower-priced services to some shippers and not to others.

Question:

Did you look at the increases in rates for USPS package delivery? For example, since the 2006 Act gave USPS limited pricing freedom and the ability to negotiate prices, did you measure the cumulative increase in USPS Package service prices? Do you know how this would compare to the increases in rates for First-Class mail?

Response:

In the current declining mail volume environment, statutory price caps prevent the USPS from making needed adjustments that could alleviate the increasing gap between the USPS's costs and revenues. While the package market is a large and growing segment of the transportation and logistics sector, the USPS's revenue growth from less profitable packages has been insufficient to fully replace revenue lost due to the decline in mail. Revenue from packages grew from $7.9 billion in FY 2007 to $21.5 billion in FY 2018.[6] The total annual volume of domestic package deliveries grew from 1.6 billion to 6.2 billion over that same time-period. In 2018, package products accounted for 30 percent of total USPS revenue, up from 11 percent in 2007.[7]

Question:

How do you see your proposal working where the PRC would take over control from the Board?

Response:

The USPS suffers from a lack of institutional governance, both in authority and in practice. On August 1, 2019, the U.S. Senate approved three nominees appointed by the President to the Board, reinstating a quorum for the first time since 2014. The Board should move to create a new policy mandate that resets the USPS's organizational direction and develops financial targets that move the USPS toward the achievement of a sustainable business model. Governance should be strengthened with expanded Board controls and increased accountability. If the USPS, with expanded Board controls, is unable to achieve a sustainable business model

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[6] United States Postal Service, *Form 10-K Reports 2007-2018*, available at: *http://about.usps.com/who-we-are/financials/*

[7] *Id.*

and satisfy its financial commitments to other federal agencies, the PRC should be given stronger regulatory authority to take necessary revenue and expense measures.

Question:

The Task Force reports send mixed messages about whether the USPS should pursue new lines of business. How should the Board guide entry into new lines of business?

Response:

The Task Force believes that the USPS should explore new business opportunities that allow it to extract value from its existing assets and business lines. This could include franchising the mailbox or supplying services for federal, state, and local government entities. For example, the USPS could process certain licenses, such as those for hunting and fishing. The USPS could also capture additional value from its existing retail offices by converting post offices into contract post offices or by co-locating with or renting space to complementary retail establishments. However, given the USPS's narrow expertise and capital limitations, expanding into sectors where the USPS does not have a comparative advantage or where balance sheet risk might arise, such as postal banking, should not be pursued.

Question:

You propose that there should be expanded partnerships. Do you believe that these should be expanded through an expanded use of worksharing (i.e. price discounts) or through contracts with third parties or joint ventures? Please be specific in how these expanded partnerships would be used. If you are looking at expanded partnerships as a way of pointing to worksharing, please explain how the Task Force would expand worksharing?

Response:

With improvements in technology and supply chain logistics, the current mail value chain continues to evolve from one that was solely owned and operated by the USPS to one that is operated with partners and suppliers, often within discrete elements of the supply chain. For example, pick-up and delivery, while currently covered by the letter and mailbox monopoly and performed with internal USPS staff and equipment, has an ecosystem that is complementary to package companies. Given the opportunity, these companies could also pick-up and deliver mail products.

Third-party providers process and transport mail more efficiently than the USPS. The USPS's greatest comparative advantage is in the delivery of letters and flat products at lower costs than its competitors, given the obligation to stop by every mailbox, six days per week. The Task Force recommends that the USPS continue to expand its use of third-party relationships in order to provide services in a more cost-efficient manner. Partnerships could be expanded to improve mid-stream logistics and processing.

Question:

How would you recommend that the Postal Service choose the mail that is "essential"? What do you mean by a strong social or macroeconomic rationale? In practical terms? Is fundraising for a hospital "essential"? Is communications for a political candidate? Is advertising for a drug company?

Response:

The primary value proposition of the current business model is the provision of least-cost communication services to the nation. The USPS and its predecessors successfully delivered this value for decades through the most efficient mail infrastructure in the world. However, this value proposition is increasingly less relevant to citizens and businesses due to the emergence of virtually free digital alternatives that deliver information instantly and more directly to the recipient.

Consistent with the public policy goal of correcting market inefficiencies, the USPS's value proposition should be defined as providing a safety net of necessary postal services, including certain mail and package services for which there remains a strong social or macroeconomic rationale for government protection or subsidy, in the form of price caps and mandated delivery standards—what the Task Force has called "essential services." These would be distinguished from those types of mail and packages that are commercial in nature, and therefore would not have a basis for similar government protection. Marketing mail from a for-profit business may not be essential mail that deserves a government subsidy, whereas consumer protection notices, election and tax-related mail, bills and financial statements, or personal correspondence may deserve pricing protection. Similarly, delivery of pharmaceutical or medical packages may be considered essential, whereas delivery of household or business goods may not be worthy of a government subsidy.

Question:

Did you evaluate the elasticities used by the postal agencies to see how accurately they might reflect what would happen to volumes with substantial increases in prices? If you did evaluate this, please supply the Committee with such evaluation. If you did not evaluate this, why not?

Response:

The Task Force conducted a thorough review of data, research, and published material from public and private sources, including from the USPS. At the request of the Chairman and Ranking Member of the Committee, the Treasury Department met with the Committee and provided it with the financial data that the Task Force developed to inform its work. This data included baseline elasticities for each USPS product, which the Task Force stressed by incorporating into the data set minimum elasticities representing 75 percent of the baseline figures, and maximum elasticities of 125 percent of the baseline figures.

Question:

In licensing access to the mailbox, did you consider the impact on privacy? That is, with multiple hands reaching into the mailbox, how would you guarantee the security of personally identifiable information – financial, health, insurance, and other such information? What about credit cards or anything else of value sent by mail or package?

a. Would you require the Postal Inspection Service to police the security maintained by private sector deliverers to the mailbox? How would the necessary major increase in inspectors and supporting resources be funded?'

Response:

The USPS is governed by the Privacy Act, which provides privacy protections for personal information maintained by government agencies. With these protections in place, franchising the mailbox may provide a unique opportunity for the USPS to identify an alternative revenue stream while following all applicable laws and regulations. This could be done by retaining the mailbox monopoly and allowing regulated access — for a fee — to certified private companies that use uniformed, bonded delivery personnel.

Question:

In evaluating the need to maintain a universal service obligation, but redefine it, did you consider that not only do recipients in rural America need mail and package service daily, like all other Americans, but businesses of every size rely on the Postal Service to promote goods and services, and fulfill orders, to those rural recipients? In other words, how do you envision redefining the USO without imposing a hit on the economy?

Response:

The Task Force considered the USPS's importance to businesses as well as the USPS's particular importance to rural and remote locations within the United States, recognizing the USPS's role in the U.S. economy, as both a service provider and employer. The USPS provides postal services across all regions and is one of our nation's largest employers, with employees in nearly every community in the country. The Task Force strongly believes that any potential solutions considered should not disadvantage those living in rural or remote locations. In redefining the USO and determining what products and services should be deemed essential, the USPS must consider those that do not have a cost effective, nationwide, private sector substitute.

<u>Senator Maggie Hassan</u>

Question:

Last December, Congress passed and the President signed a comprehensive piece of legislation to strengthen the federal government's response to this crisis. That legislation included the "Synthetics Trafficking and Overdose Protection Act" (STOP Act). The Postal Service's obligations under the STOP Act are critically important to help mitigate the effects of the opioid crisis. How does your business model presented in the Task Force Report account for the important role that the Postal Service plays in combating the opioid epidemic?

Response:

The focus of the Task Force was to evaluate the operations and finances of the U.S. Postal Service and to develop recommendations to identify a path for the USPS to operate under a sustainable business model. As international mail and packages play a relatively small role in the overall economic performance of the USPS, representing 3.7 percent of total USPS revenue, the Task Force's report did not specifically address issues associated with the shipment and receipt of international mail and packages. However, the Task Force was pleased with the passage of the STOP Act, which will require the USPS to adopt advance electronic data for international mail shipments in order to help stop the flow of fentanyl, and other illegal shipments, into the United States via the USPS.

Senator Kyrsten Sinema

Question:

The Task Force report, and subsequent briefings on it, make it clear the Task Force believes prices on package shipping should be increased. The report says that rate caps are an obstacle to USPS financial sustainability and that market-based prices should be charged for non-essential mail services – which would include packages. Many businesses in Arizona, and across the nation, rely on affordable shipping to create jobs and drive our economy. For example, Arizona has approximately 9,000 commercial E-Bay sellers that generate $625 million in sales annually.

a. What would be the impact of increased shipping costs on these small businesses?

b. How did the Task Force take this type of impact into consideration when formulating its recommendations regarding raising prices on package shipping?

Response:

Without the implementation of reforms, maintaining the current USPS business model will cost the American people billions of dollars. Meaningful postal reform, as outlined in the recommendations, places the USPS on a path to financial sustainability and protects taxpayers from any undue costs. The recommendations in the report aim to return the USPS to financial health while maintaining protections, including price caps, on mail and packages deemed essential services, where there is a strong macroeconomic or social rational for these protections. For example, items included as essential services could consist of all personal correspondence (person-to-person mail), transaction mail (bills, financial statements, product recall notices), government mail (election and tax-related mail), parcels containing pharmaceuticals, and parcels sent from consumer to consumer.

Question:

I am concerned that there is not enough feedback from the Postal Service itself in your findings and recommendations.

a. Once the Task Force finished its report, did you have the Postal Service analyze the recommendations – both their feasibility and long-term impact?

    a. If so, why isn't that analysis in the report? Why isn't there a formal response from the Postal Service, as there would be in a GAO or OIG report that included recommendations?

    b. If not, why did the Task Force make that decision? Why did it make sense to not include a formal response from the Postal Service?

Response:

Per the Executive Order, the Task Force consulted with the USPS and the Postal Regulatory Commission. The Task Force looks forward to working with the USPS, its Board, the PRC, and Congress to help implement the recommendations outlined in the report.

Question:

This Administration and Congress needs to work together to pass bipartisan reform legislation to improve the Postal Service's financial situation – so it can better tackle the service challenges that I hear about from my constituents. Many of my constituents rely on the Postal Service every single day, and, even though overall mail volumes continue to fall, that reliance is not going to change any time soon. However, I am concerned that this Task Force Report does not provide a workable path forward or help advance the cause of postal reform. It has some interesting ideas, but is lacking in analysis regarding the feasibility of its recommendation and the long-term consequences these recommendations would have for consumers and businesses.

a. How can Congress properly evaluate this report when it contains no detailed economic analysis, no consideration of the most recent versions of bipartisan postal reform legislation, and no specific analysis of the long-term impact on rural America?

b. How should Congress use the Task Force findings and recommendations to advance the cause of postal reform?

Response:

The Task Force's review of the U.S. Postal Service identified significant opportunities for reform that would enable the USPS to operate a sustainable business model and compete fairly in competitive markets. The Task Force considered both administrative and legislative reforms that take into account changes in the postal industry, the USPS's competitive advantages, and areas requiring improvement through either government or private sector-driven initiatives. This report provides options that should be considered, in whole or in part, as the USPS and other stakeholders work to evolve the USPS's business model and restore it to the long-term sustainability demanded of it by the American people. The Task Force looks forward to working with the USPS, its Board, the PRC, and Congress to help implement the recommendations outlined in the report.

Post-Hearing Questions for the Record
Submitted to the Honorable Margaret Weichert
From Senator Tom Carper

"A Path to Sustainability: Recommendations from the President's Task Force of the United States Postal Service"
March 12, 2019

1. The Task Force report recommendations put forward an idea that would reform the liability for retiree health care by implementing a new actuarial calculation called vested liability. This would look at the health care liabilities only for retirement age and eligible employees. Is this correct?

   The Task Force believes that the U.S. Postal Service (USPS) should be self-sustaining and recommends that the obligation to fund the retiree health benefits of its employees, including the $43 billion in pre-funding payments that the USPS failed to pay into the Postal Service Retiree Health Benefits Fund (PSRHBF) and the unfunded actuarial liability, must be restructured with the payments re-amortized based on the population of employees at or near retirement age.

2. How do you expect vested liability to change the balance sheet for the Postal Service?

   The total liability for retiree health benefits would decrease under the restructuring because it is based on a subset of the population of employees at or near retirement age. However, the annual payment schedule would increase because the $43 billion in missed payments since 2011 would be re-amortized.

3. Many of the task force recommendations push the Postal Service to act more like private business in how it prices and addresses its costs. If the task force is driving the Postal Service to operate more like a business, it stands to reason, the task force would also support other business flexibilities enjoyed by the private sector, such as Medicare integration in retirement plans. Did the task force analyze the business disadvantage USPS currently has by not being able to integrate Medicare into retiree health plans, unlike USPS private competitors?

   The Task Force based its recommendations on a robust analysis of the USPS's operations and finances that was informed by an extensive review of information provided by the USPS, academic literature, and industry studies; a review of legislative history and meetings with members of Congress and the congressional committees of jurisdiction; and meetings with a wide range of stakeholders. These recommendations include proposed administrative and legislative reforms to create a sustainable business model for the USPS, without shifting additional costs to the taxpayers.

4. Why does the task force oppose Medicare integration to Postal Service retiree health plans?

   The Task Force does not believe that the liability for USPS retiree health benefits should be shifted to the general taxpayer, either directly or through future Federal appropriations. Congress required the USPS, rather than the general taxpayer, to fund its retiree health benefits, as part of a mandate for postal self-sustainability under which the USPS functions as an off-budget entity. The Task Force does not believe that this general policy should change.

5. You propose that salaries be aligned with other federal employees and you also suggest that they be aligned with the "labor market". If you were to learn that aligning with other federal employees meant that some salaries should go up what would you do? What should govern? The market or federal rules? Are you recommending this to help cut costs or to align with federal rules?

   The Task Force recommends that USPS align wages for both its career and non-career workers with those of other Federal employees consistent with the President's Management Agenda to modernize the Government workforce. This recommendation will ensure the USPS remains competitive in the labor market while better controlling labor costs.

Post-Hearing Questions for the Record
Submitted to the Honorable Margaret Weichert
From Ranking Member Gary C. Peters

"A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service"

March 12, 2019

1. Did the Task Force specifically analyze how eliminating collective bargaining over compensation would affect the level of service the Postal Service provides? Please describe any such analysis or explain the reasons for not conducting such analysis in advance of recommending this significant policy change.

   Returning the U.S. Postal Service (USPS) to financial sustainability is in the best interest of USPS employees. The current USPS labor model – combining private sector collective bargaining law with government employee status – has created unsustainable labor costs. As a result, the Task Force recommends that USPS employee rights should be more closely aligned with those of other federal employees. This recommendation will ensure the USPS remains competitive in the labor market while better controlling labor costs.

2. Did the Task Force analyze how this recommendation would affect the Postal Service's ability to retain qualified employees in a tight labor market? Please describe any such analysis or explain the reasons for not conducting such analysis in advance of recommending this significant policy change.

   As discussed above, the Task Force recommends that the USPS more closely align wages for both its career and non-career workers with those of other federal employees, drawing from like examples in the broader labor market.

3. The Postal Accountability and Enhancement Act of 2006 established a goal for the Postal Service to prefund 100 percent of its future retiree health benefits liability. Are you aware of any U.S. company that prefunds 100 percent of any retiree benefit liability? Do you believe this is a sound business practice? If so, why? If not, why not?

   While the USPS has a mandate to operate in a self-sustainable manner, it is still part of the Federal Government and participates in the Federal Employees Health Benefits (FEHB) Program, operated by the Office of Personnel Management (OPM). The Task Force recommends restructuring this liability with payments re-amortized with a new actuarial calculation based on the population of employees at or near retirement age.

Post-Hearing Questions for the Record
Submitted to Hon. Margaret Weichert
From Senator Kyrsten Sinema

"A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service"

Tuesday, March 12th

1) The Task Force report, and subsequent briefings on it, make it clear the Task Force believes prices on package shipping should be increased. The report says that rate caps are an obstacle to USPS financial sustainability and that market-based prices should be charged for non-essential mail services – which would include packages. Many businesses in Arizona, and across the nation, rely on affordable shipping to create jobs and drive our economy. For example, Arizona has approximately 9,000 commercial E-Bay sellers that generate $625 million in sales annually.
   - What would be the impact of increased shipping costs on these small businesses?
   - How did the Task Force take this type of impact into consideration when formulating its recommendations regarding raising prices on package shipping?

Meaningful postal reform, as outlined in the recommendations, places the USPS on a path to financial sustainability and protects taxpayers. The recommendations in this report aim to return the USPS to financial health while maintaining protections, including price caps on mail and packages deemed essential services, where there is a strong macroeconomic or social rational for these protections. For example, items included as essential services could consist of all personal correspondence (person-to-person mail), transaction mail (bills, financial statements, product recall notices), government mail (election and tax related mail), parcels containing pharmaceuticals, and single-piece parcels sent from consumer to consumer.

2) I am concerned that there is not enough feedback from the Postal Service itself in your findings and recommendations.
   - Once the Task Force finished its report, did you have the Postal Service analyze the recommendations – both their feasibility and long-term impact?
     - If so, why isn't that analysis in the report? Why isn't there a formal response from the Postal Service, as there would be in a GAO or IG report that included recommendations?
     - If not, why did the Task Force make that decision? Why did it make sense to not include a formal response from the Postal Service?

Per the Executive Order, the Task Force consulted with the USPS and the Postal Regulatory Commission (PRC). The Task Force looks forward to working with the USPS, its Board of Governors, the PRC, and Congress to help implement the recommendations outlined in the report.

3) This Administration and Congress needs to work together to pass bipartisan reform legislation to improve the Postal Service's financial situation – so it can better tackle the service challenges that I hear about from my constituents. Many of my constituents rely on the Postal Service every single day, and, even though overall mail volumes continue to fall, that reliance is not going to change any time soon. However, I am concerned that this Task Force Report does not provide a workable path forward or help advance the cause of postal reform. It has some interesting ideas, but is lacking in analysis regarding the feasibility of its recommendation and the long-term consequences these recommendations would have for consumers and businesses.
   - How can Congress properly evaluate this report when it contains no detailed economic analysis, no consideration of the most recent versions of bipartisan postal reform legislation, and no specific analysis of the long-term impact on rural America?
   - How should Congress use the Task Force findings and recommendations to advance the cause of postal reform?

The Task Force's review of the U.S. Postal System identified significant opportunities for reform that would enable the USPS to operate a sustainable business model and compete fairly in competitive markets. The Task Force considered both administrative and legislative reforms that take into account changes in the postal industry, the USPS's competitive advantages, and areas requiring improvement through either government or private sector-driven initiatives. This report provides options that should be considered, in whole or in part, as the USPS and other stakeholders work to evolve the USPS's business model and restore it to the long-term sustainability demanded of it by the American people. The Task Force looks forward to working with the USPS, its Board of Governors, the PRC, and Congress to help implement the recommendations outlined in the report.

Post-Hearing Questions for the Record
Submitted to Hon. Margaret Weichert
From Senator Kamala Harris

"A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service"

March 12, 2019

U.S. Postal Service Privatization

The last time you were in front of the HSGAC you presented the administration's Agency Reorganization Plan, which included a recommendation to privatize the Postal Service. The Task Force markedly did not recommend wholesale privatization. These two positions are in contradiction.

1. What is the Administration position on Postal Service privatization?

2. Will you continue to pursue Postal Service privatization through the agency reorganization process, even in light of the Task Force's marked opposition?

   (Responsive to both 1. and 2.) The focus of the Reorganization Plan was to drive transformational change in Government. Privatization was highlighted as one potential model for reform that has been successful internationally. The Reorganization Plan and the Task Force report both emphasize the need for near-term structural reform of the U.S. Postal Service. The Task Force report and the President's Budget reflect the Administration's policy on postal reform.