



Testimony of Margaret Cigno
Director, Office of Accountability and Compliance
Postal Regulatory Commission
Before the U.S. Senate Homeland Security and Governmental Affairs Committee's Subcommittee
on Federal Financial Management, Government Information, Federal Services, and International
Security
"Addressing the U.S. Postal Service's Financial Crisis"
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Good morning. Chairman Carper, Ranking Member Brown, Members of the Subcommittee, I thank you for the opportunity to present the views of the Postal Regulatory Commission on Addressing the U. S. Postal Service's Financial Crisis.

In four months, the United States Postal Service will conclude its fiscal year and it will not have sufficient cash or borrowing authority to pay all of its bills. The Postmaster General has stated that in this circumstance the Postal Service will continue to pay its employees and its suppliers, but that it would be unable to make its scheduled annual installment of \$5.5 billion to fund its retiree health benefit fund (RHBF).

As Chairman Ruth Goldway testified before this Subcommittee in December, Commission analysis during its review of the Postal Service's request for an exigent rate increase found that the Postal Service's cash flow problem and the primary cause of its liquidity crisis is related to an overly ambitious requirement for the Postal Service to prefund its future retiree health benefit premiums. Over the past four years, the Postal Service has paid \$21.9 billion to prefund these benefits. All other things being equal, the Postal Service would have achieved a small net profit over that time except for the prefunding requirement. Instead, over the last four years it has accumulated losses exceeding \$20 billion. This year it will exhaust its borrowing authority and anticipates an additional \$6.8 billion in losses.

The Postal Regulatory Commission supports the fundamental approach outlined in your bill to address the financial crisis and long-standing issues related to Postal Service funding of its employee pensions, as well as its future retiree health benefit fund.

The approach is consistent with current best practices as identified by the Commission and documented in the actuarial report of the Segal Company, which was provided last June to this Subcommittee, Members of Congress, the Postal Service and OPM. As outlined in your proposed legislation, funds derived from a current calculation of the pension liability could be applied to defray the Postal Service's RHBF liabilities and begin to restore its financial viability.

In May 2009, members of the House Oversight Committee asked the Commission to look at OPM's computation of Postal Service liability for future retiree health benefits and the annual payments that result to fund RHBF. Based on a dynamic calculation of long-term medical inflation rates and the declining postal workforce, we found that a recalculation could lower the Postal Service's liability by nearly \$35 billion.

Both of these studies were conducted in accordance with specific provisions of the Postal Accountability and Enhancement Act (PAEA). As such, these findings provide a sound, objective basis for a legislative remedy to the Postal Service's financial crisis.

Postal Service flexibility and performance

I also want to express the appreciation of the Commission for the collaborative and inclusive manner in which you are developing this legislation. The bill provides for essential oversight by the Commission of non-postal products and services that may be proposed by the Postal Service under enhanced commercial flexibility it is granted. This is consistent with proven and tested principles in the PAEA that promote innovation and growth in a manner that is aligned with the public interest and does not create unfair competition.

The Postal Service has a long history of product innovation and experimentation, though with mixed results. In recent years, it has successfully introduced "Forever" stamps, Priority Mail flat rate boxes and pricing, Internet sales and carrier pick-up. Experiments with various hybrid and electronic services have so far not been as successful.

Under the flexibilities provided to the Postal Service by the PAEA, the Commission has approved a variety of Postal Service pricing initiatives, including seasonal pricing, designed to spur increased First-Class and Standard Mail volume, several experimental product tests, and hundreds of Negotiated Service Agreements. None of these business ventures, however, appear likely to have a material effect on Postal Service finances in the near term. For example, the Postal Service has signaled its intention to request that its first "market-test" product – collaborative logistics – be made a permanent product. However, total revenue received from this product during the two-year test is less than \$3 million.

Service

While undertaking major cost reductions, the Postal Service has maintained high service quality for Single Piece First-Class Mail, which is measured independently. The PAEA requires that service performance be measured and reported for all market dominant products. This ensures that the discipline of the CPI price cap system is not offset by deterioration in service.

The Commission agreed in 2007 to a Postal Service request to mitigate the costs of measurement by allowing bulk mail to be measured using internal service measurement systems based on the Intelligent Mail barcode (IMb) in lieu of an external measurement system. However, persistent data errors, insufficient customer IMb usage, and a lack of product specific documentation have resulted in a lack of measurement for bulk First-Class Mail, Standard Mail, Packages and Periodicals. Only the external tracking system for Single-Piece First-Class Mail products meets the service performance tracking objectives of the PAEA. The Commission has encouraged the Postal Service to address

these problems to comply with all service performance reporting requirements and we will continue to monitor their progress.

The need for accurate service measurement will only increase as the Postal Service contemplates further budget tightening, reductions in staffing and facilities, significant changes to its network, and possible reductions in service levels.

Post office closings

The Commission understands the Postal Service's need to adjust its retail network to reflect changing customer needs and its own evolving capabilities. However, the PAEA requires that affected postal customers should be properly notified and involved when the Postal Service considers closing the retail office they depend on. The Postal Service has proposed revisions to its rules for closing and consolidating retail facilities. The Commission has provided its comments to the Postal Service, including recommendations to better ensure customers' ability to offer input, improve the evaluation of affected facilities, and coordinate discontinuances with the availability of replacement retail services. Our comments parallel the concerns and suggested changes the Commission provided in greater detail in its Advisory Opinion on Station and Branch Closings.

The Postal Service has advised the Commission that it plans to request an Advisory Opinion in the near future involving the closure of a large number of post offices nationally. The Commission is currently handling seven post office closing appeals. The Postal Service continues to close some post offices while it considers implementing new regulations.

Five-day delivery

In March, the Commission presented Congress and the Postal Service with its Advisory Opinion on the potential impact of the proposed elimination of Saturday mail delivery and related activities.

The Commission found that the Postal Service had overestimated potential savings and likely underestimated potential lost revenues. Although some of our analysis suggested that even lower estimates of savings and higher volume losses are possible, our final estimates reflect a more conservative, middle ground analysis of what could happen under a five-day scenario.

Overall, we estimate that net savings of \$1.7 billion annually will be achieved after about a three-year phase-in. If in the near term the Postal Service implements new system-wide network efficiencies, the savings attributable solely to eliminating Saturday delivery would be less. The Postal Service did not evaluate the impact of its proposals on customers who reside or conduct business in remote areas. The Commission did, however, receive significant input from rural Americans, met with customers and civic leaders in South Dakota and Wyoming and considered testimony from Senators Murkowski and Akaka. We found that rural America will be disproportionately affected by the Postal Service's proposal.

Various witnesses and field hearing participants suggested that the Postal Service would lose potential for growth by giving up the competitive advantage of Saturday delivery. Others commented that there was value in the presence of letter carriers on the Nation's streets.

The nature and level of demand for mail is shifting. The heavier burden that would be placed on remote and rural areas may be lessened as Internet broadband adoption increases over time. However, the Postal Service remains a vital and important institution facilitating economic growth, aiding small businesses, enhancing communications and unifying the nation. A decision to change the existing patterns of postal communications and delivery should be made with care.

Advisory Opinion process

In prior discussions with members of Congress on the Advisory Opinion process, two key issues have surfaced which are dealt with in your bill. First, the Commission is pleased by the addition of a requirement that the Postal Service provide the President and Congress with a formal response to the Advisory Opinion and recommendations it contains. If the Postal Service response is required to be submitted prior to implementation, we believe that this step will encourage timely action by the Postal Service and enhance the outcome of the process.

Second, the bill fundamentally alters the Advisory Opinion process to produce decisions within 90-days from the date of the Postal Service's request to the Commission. Under current law, the Commission evaluates national service changes in a formal hearing on the record that is subject to Administrative Procedure Act protections. This type of proceeding can be time consuming.

The proposed legislation would diminish the opportunity for concerned citizens, mailers, competitors and other interested parties to obtain information for the Postal Service and fully test Postal Service presumptions. The Commission would be able to alter its procedures and produce its Opinions more promptly. The detailed findings, painstaking analysis, and extensive input and outreach of the Commission's Five-Day Delivery Opinion, for example, would not be possible in a 90-day case. The Commission has not yet concluded whether it supports the 90 day limit.

Connecting a Nation

A sizeable portion of the U.S. population depends on the mail to manage their lives and stay connected with their government. A Commerce Department study reports that as of 2009, 31 percent of U.S. households did not have Internet access at home, and nearly one-fourth of households did not even use the Internet. The mail remains the one universal service connecting the American people to commerce, government, news, and the social institutions they depend upon.

The Commission commends the Postal Service for its sustained effort over many years to increase productivity, improve processes and lower its costs. The Commission plays its role in assuring vital postal services by providing transparency, accountability, adequate service levels and citizen participation.

The Commission believes timely Congressional action to address the pension and retiree health benefit issues remain the key element of any reform effort. Before a broader strategy for effectively managing its business and serving its customers can be realistically implemented, the Postal Service must have the capital to proceed. That concludes my testimony. Thank you.

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