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United States Senate

COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

WASHINGTON, DC 20510-6250

May 14, 2018

The Honorable Steven T. Mnuchin
Secretary
Department of the Treasury
1500 Pennsylvania Ave., N.W.
Washington, D.C. 20220

Dear Mr. Secretary:

As Chairman of the President's Postal Task Force, you have been tasked with evaluating the finances and operations of the U.S. Postal Service (USPS) and developing recommendations for administrative and legislative reforms to be presented to the President in 120 days.¹ I write to share with you my priorities and concerns as the Task Force begins its evaluation and Congress continues to move forward with reforms that can put the Postal Service on a path to solvency and long-term success.

The U.S. Postal Service is a unique and extremely valuable national asset. It is a key component of America's mailing industry, which directly employs over 500,000 people – including over 100,000 veterans – and supports millions of private sector U.S. jobs while generating trillions of dollars in revenue and wealth for the U.S. economy.²

It is critical that the Postal Service is able to operate efficiently under a business model that fully supports its national policy goals. First, mail service is a fundamental universal service provided by the Government of the United States. Second, mail services should connect *all* cities, towns, rural communities, businesses, and individuals, within our nation, and the rest of world. Finally, this mission must be accomplished promptly, reliably, and efficiently.³

In Missouri, many people receive life-supporting medicines through the mail, and small businesses depend on the Postal Service to ship their products to customers. The Postal Service is particularly important to Missouri's rural communities, where the closest pharmacies could be miles away, express shippers rely on the Postal Service for last mile delivery, and internet connectivity can be slow or nonexistent. It is no exaggeration to say that, to some of our nation's rural communities, the Postal Service is vital to their connection with the rest of the country and beyond.

¹ Exec. Order No. 13829, 83 Fed. Reg. 17281 (Apr. 12, 2018).

² United States Postal Service, *Number of Postal Employees since 1926* (March 2018) (about.usps.com/who-we-are/postal-history/employees-since-1926.pdf); United States Postal Service, *Transitioning Military* (about.usps.com/careers/career-opportunities/transitioning-military.htm) (accessed May 14, 2018).

³ 39 U.S.C. § 101; 39 U.S.C. § 407 (a).

Nevertheless, the Postal Service, Congress, and the Task Force must also acknowledge the hard reality that letter volume – the Postal Service’s most profitable line of business – has greatly declined. Total mail volume peaked at 213 billion pieces in Fiscal 2006, declining to only 155 billion pieces in 2014, a decrease of over 25 percent.⁴ The Postal Service Office of Inspector General (OIG) stated that the major factors contributing to this decline include electronic substitution and the 2008 Great Recession. The Postal Service reported a total volume of 149 billion pieces for fiscal 2017, an overall decline of 30 %t, since 2006.⁵

The Postal Service has taken some difficult steps to realign its network and workforce to adapt to this reality. It has greatly reduced its number of career employees from 798,000 in 1999, to 503,000 in 2017 – a 40 % reduction.⁶ It has also closed over 3,500 post offices since it became a quasi-independent institution in 1983. It has made these cuts despite continuing, annual increases in the number of delivery points. In other words, it has to deliver less mail to more addresses every year.

Although the Postal Service has experienced rapid growth in its package volume recently, those increases have not been sufficient to make up for the severe losses in mail volume. E-commerce is currently increasing demands home package delivery across the country. However, package delivery is far more costly than letter mail delivery, and the Postal Service does not have the capital to invest in the significant restructuring it requires to meet the changing mail mix demands.

Compounding the issues resulting from the changes in demand for its service, the Postal Accountability and Enhancement Act of 2006 (PAEA) further destabilized the Postal Service’s finances by requiring it to prefund 100% of its retiree health benefit liability. This requirement, which no other private or public entity must meet, is not a financially prudent way to run any business, and has hamstrung the Postal Service’s ability to recapitalize.

Any postal reform effort must balance these competing demands on the Postal Service. The Postal Service is a vital government service, particularly for rural Americans, bound to provide universal service made reasonably available to every community in the country. Yet it must also maintain profitable operations without any appropriations from Congress, requiring the Postal Service to realign its business to adapt to the 21st century mail mix.

Given all of the above, I urge the Task Force to carefully consider the following:

⁴ United States Postal Service, Office of Inspector General, *Declines in U.S. Postal Service Mail Volume Vary Widely across the United States* (April 27, 2015) (www.uspsaig.gov/sites/default/files/document-library-files/2017/RARC-WP-15-010_0.pdf).

⁵ United States Postal Service, *FY 2017 Annual Report to Congress* (2017) (about.usps.com/who-we-are/financials/annual-reports/fy2017.pdf).

⁶ United States Postal Service, *Number of Postal Employees since 1926* (March 2018) (about.usps.com/who-we-are/postal-history/employees-since-1926.pdf)

Rural Post Offices and the Postal Service's Universal Service Obligation – It is imperative that any reform efforts maintain the Postal Service as an affordable universal mail and package delivery network. America's rural post offices are often the least profitable to maintain, but the most important to those communities. While the Postal Service needs the flexibility to right-size, any decision to close rural post offices cannot be made solely on the basis of cost and must consider the effect closures will have on the Postal Service's universal service obligations and the effects those closures would have on those communities, including proximity to the next closest postal service and communities' access to other modes of communication such as broadband and wireless networks.

Delivery Days – In the past, the Postal Service has considered moving to five-day delivery. This would be a mistake. The Postal Service has a monopoly on six-day delivery, and is now making deliveries seven days per week in some areas. There is little evidence that cutting delivery days would significantly reduce costs. For example, mail items continue to be deposited into the Postal Service collection boxes. Yet if Saturday delivery is cut, a mail peak occurs on Monday, perhaps resulting in needs for additional workhours and possible overtime costs. And, fixed costs, such as building leases, remain the about same as before. In short, cutting a delivery day likely does little to save costs.

On the other hand, seven delivery days per week could actually help the Postal Service keep its costs low and its prices affordable to its users as its costs can spread over more days of operations and over high number of mail pieces. Generally speaking, the Postal Service's cost and prices, per mail piece, would tend to decline.

I would also remind the Task Force that there is a Resolution in the House of Representatives with 246 cosponsors expressing the sense of the House that the Postal Service should take all appropriate measures to ensure continuation of six-day delivery.

Delivery and Performance Standards – For far too many Missourians delayed mail means missing doses of medication or losing business contracts due to late delivery. Our nation unequivocally requires reliable postal services. To accomplish this, the Postal Service must be able to set and meet high service standards. Recent reductions in service standards that were done solely to enable closures of processing facilities degraded the Postal Service's product and reduced confidence in the Postal Service's reliability. Continued understaffing and cutting hours of operation at Post Offices and its processing facilities would prevent the Postal Service from succeeding in today's convenience-driven and efficiency-focused economy.

Negotiated Service Agreements – The Postal Service's most valuable asset is its nationwide, door-to-door network, but the last mile of its network is also its most expensive. When the Postal Service reaches work-sharing negotiated service agreements (NSAs) with large-scale mailers, it must recognize that, without the Postal Service, shippers, particularly those that are in direct competition with the

Postal Service, would incur enormous costs to deliver these packages themselves. Given the Postal Service's current financial condition, it needs to maximize profits on these deals. I encourage the Task Force to closely review these deals to ensure that the Postal Service is maximizing its opportunities.

Pricing – Postal Service customers currently enjoy some of the lowest rates in the industrialized world. Moreover, PAEA provided needed stability in postal pricing, allowing private businesses to conduct better long-term planning and continue to use the Postal Service. The Postal Regulatory Commission recently proposed a new rate system that is still under review. Given the precipitous recent decline in mail volume, there is concern that any rate shocks will accelerate the decline resulting in a death spiral for the Postal Service before it is able to adapt to the 21st century mail mix.

As the Task Force moves forward, it is critical that key stakeholders are meaningfully engaged in the process. This is a complex issue affecting hundreds of companies, thousands of employees, and hundreds of millions of customers. Any reform effort must carefully balance the needs of postal employees, mass mailers, and customers, particularly those in rural America. As such, there must be ample opportunity for the Task Force to hear directly from the public to carefully consider their views. I encourage the Task Force to establish a public forum to receive comments and to publicly respond to those comments.

I am also concerned that the Executive Order requires the Task Force to develop “administrative and legislative reforms.”⁷ The Task Force must ensure that any administrative reforms do not overstep democratic processes.

Missourians, and the rest of our nation, need their federal government to make well-informed and balanced recommendations for the common good of their families, their businesses, *and* their Postal Service. I urge the Task Force to develop recommendations that balance the competing needs of its diverse customers and allow the Postal Service to synchronize its delivery operations with the globally driven e-commerce economy. If so, the Postal Service can better achieve America's universal mail service policy goals.

I look forward to reviewing your proposals to reform the United States Postal Service. If you have any questions please contact Charlie Moskowitz of my staff at (202) 224-2627. Please send any official correspondence related to this request to Rina_Patel@hsgac.senate.gov. Thank you for your prompt attention to this matter.

Sincerely,



Claire McCaskill
Ranking Member

⁷ Exec. Order No. 13829, 83 Fed. Reg. 17281 (Apr. 12, 2018).

The Honorable Steven Mnuchin
May 14, 2018
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cc: Ron Johnson
Chairman