



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.