STATEMENT OF SENATOR JOHN MCCAIN, RANKING MEMBER

SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES AND INTERNATIONAL SECURITY

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

"Finding Solutions to the Challenges Facing the U.S. Postal Service"

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Senator Carper, thank you for holding this hearing today to examine the fiscal challenges the Postal Service continues to face. I share your concerns over the Postal Service's failing financial health and believe that we all must begin to make hard choices in order to rectify the current unsustainable situation.

The Postal Service recently released its fiscal year 2010 financial statements showing a loss of over $8.5 billion. That is unacceptable. Unfortunately, fiscal year 2011 looks equally as bleak with projected losses totaling another $6.4 billion. Just as it did for fiscal years 2009 and 2010, the Postal Service predicts it will be so strapped for cash by the end of 2011that it will be forced to choose between making payroll or default on its retiree health trust fund payment.

Until now, the Postal Service has relied on short-term fixes to address its long-term problems. Over the years, the Postal Service has cumulatively borrowed $12 billion from the Treasury, and will likely exhaust its $15 billion borrowing limit this fiscal year. Last year, Congress provided temporary financial relief by granting the Postal Service a waiver from making a majority of its retiree health trust fund payment. More recently, the Postal Service sought to increase mailing rates. The Postal Regulatory Commission, however, denied its exigency request, ruling that that it would not solve the Postal Service's enduring cash flow problem.

The Postal Service cannot continue to push for short-term fixes such as increasing its debt cap or its service rates. It must do more to reduce the workforce and streamline operations, since labor costs continue to account for a staggering 80percent of operating expenses. As one example, the Postal Service and its employees might follow the

President's recent embrace of a two-year pay freeze for federal employees. This should, of course, cover senior executives. Taxpayers were justifiably outraged by recent reports of incentive bonuses and multi-million dollar "golden parachutes" for the outgoing postmaster general, when the Postal Service has not turned a profit since 2006.

Currently, the Postal Service is statutorily required to pay wages and benefits comparable to the private sector, yet it does not have the workforce flexibility of the private sector. It cannot lay-off employees during business downturns, and it is restricted in its outsourcing capabilities. The Postal Service also cannot assign idle workers to perform tasks outside their designated craft. And, finally, it must pay for health and life insurance benefits greater than those offered by other federal agencies.

The Postal Service faces huge obstacles in reducing excess capacity and labor costs, some of which result from restrictive collective bargaining agreements. The failure of recent contract renegotiations with one of the major postal unions is cause for concern. In current and future negotiations and related arbitrations, the economic health of the Postal Service must figure prominently into compensation and benefit determinations. It makes absolutely no fiscal sense to maintain or increase current compensation and benefit levels while the Postal Service continues to hemorrhage money.

Congress must also do its part by removing regulatory and statutory roadblocks, provided universal service can be guaranteed and communities are not adversely affected. The Postal Service must be given the flexibility to manage its operations effectively and close unneeded facilities. Now that the Postal Regulatory Commission has published its opinion on the Postal Service's pension overpayment, the Postal Service, the Office of Personnel Management, and Congress must also address the most responsible way to resolve this issue.

It is up to everyone -- postal management, the employees, their unions, and Congress -- to make some tough, but necessary, choices. The lingering recession and declining mail volumes will require the Postal Service to exercise even greater fiscal discipline into the future. We cannot allow the taxpayers to pick up the tab any longer.

Thank you again Mr. Chairman. I thank the witnesses and look forward to the discussion.