Testimony of Chairman Ruth Y. Goldway
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
December 2, 2010

Good morning. Chairman Carper, Ranking Member McCain, Members of the Subcommittee, I thank you for the invitation to testify and the opportunity to present the views of the Postal Regulatory Commission.

In the last year, the Commission has received over 20,000 public comments and inquiries on Postal issues, an 11 fold increase. This is indicative of how important the Postal Service is to our citizens, and how all of us share your concern regarding the future of the postal service. We appreciate your leadership in shaping the debate on what must be done to assist the Postal Service and to ensure its sustainable future.

PAEA Successes

In fewer than three weeks, we will observe the fourth anniversary of the signing of the Postal Accountability and Enhancement Act (PAEA). The signing of the PAEA capped more than a decade of hard work by Congress and the postal community.

The PAEA delivered greater transparency and accountability. This has been of vital importance to the Postal Service as it has worked to improve service and explain its precarious situation during recent years as mailing patterns have changed.

The Commission believes that the price cap, which is at the heart of the law, has proven to be a powerful incentive for the Postal Service to improve efficiency and reduce costs, including $11 billion in cost reductions in the past three years.

The streamlined rate-setting processes required by the PAEA performed well, providing postal customers with small, predictable price increases at the rate of inflation, although the law did not contemplate an extended period of very low inflation and even deflation.

Greatly enhanced service measurement has helped to improve service quality in some areas and maintain it overall despite the rapid downsizing of the postal workforce and the mail processing adjustments the Postal Service has undertaken to cut costs.

Although innovation has been a challenge for the Postal Service, the Commission has approved seasonal sales of Standard and First-Class Mail, and two experimental product market tests, with a third product currently under review. The use of Negotiated Service Agreements (NSAs) has flourished, with 21 NSAs approved by the Commission in 2008, 64 in 2009 and 127 this past year. Just last week, the Commission approved a new streamlined process for review of international NSAs that gives the Service wide discretion and promises to rapidly increase the number of such contracts in the next year.

And while the Postal Service has experienced large deficits in the last three years, the Retiree Health Benefit Fund (RHBF) established by the PAEA now totals more than $42 billion, and represents payments of nearly $21 billion over the past four years. This is a substantial new asset and a major accomplishment of the PAEA.

As a result of the PAEA, the Commission's workload expanded significantly. The Commission faces constant pressure to process more and more cases. Yet we all agree that the PAEA was an important step forward. It provides a solid foundation for the future and for developing further refinements to the postal model. In fact, it is a PAEA authorized study that provides the basis for the opening section of the Postal Operations Sustainment and Transformation Act (POST Act).

POST ACT

Let me begin my discussion of the POST Act by stating the Commission's support for the general principle embodied in the bill that the Postal Service cannot sustain its mandated scheduled payments for the RHBF. As the Commission noted in its decision on the Postal Service's request for an exigent rate increase, these substantial annual payments are the single biggest cause of the Postal Service's current dire financial position.

The Commission also appreciates the specific approach of the bill in directing the Office of Personnel Management (OPM) to recalculate the allocation of the costs of Civil Service Retirement System (CSRS) benefits paid to former Post Office Department (POD) employees. The recalculation methodology in the POST Act represents current best practices as identified by the Commission and documented in the actuarial report of the Segal Company, which was provided to this Subcommittee, Members of Congress, the Postal Service and OPM.

Applying best practices to a current calculation could benefit the Postal Service by as much as $50 to $55 billion according to Segal. These funds could then be applied to defray its RHBF liabilities as outlined in the POST Act. The bill provides that the Postal Service Board of Governors would have discretion in transferring any funds accruing from a recalculation to the RHBF fund.

I should also note that in May of 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 and reduce the required annual payments by more than $2 billion while meeting the original funding goals of the PAEA. An OIG report suggested that even greater reductions were possible. In consideration of the likely further declines in the postal workforce, it may be prudent to require in the bill possible adjustments of this liability.

Other Postal Service Provisions

The POST Act proposes a number of changes that come within the Commission's purview and can be grouped together under their effect on postal services and Universal Service.

POSTAL SERVICES

The POST Act lists proposals for the introduction of new postal services. One would allow the Postal Service to furnish property and services for compensation to all units of state and local governments. This is an extension of similar authority given to the Postal Service relative to the Federal government. The Commission does not regulate these types of agreements; however, we do provide transparency though our oversight. In general, Postal Service "federal" agreements have increased the availability of government services for citizens, added operational flexibility for government agencies and provided incremental revenue to the Postal Service. Appropriately applied, such arrangements promise to be similarly beneficial at the state and local level.

The Commission is concerned, however, by language in the bill that would allow unregulated use of Postal Service processing, transportation, delivery, retail network or technology to provide new nonpostal services, albeit consistent with the public interest. It is difficult to assess the effects of such an open-ended authority. For example, the Congress previously took issue with the Postal Service's use of its retail facilities to sell mugs, tee-shirts and other items. Would this be in the public interest now? And who would decide that issue? Posts around the world are trying to diversify their services but with uneven success. Diversification could be beneficial to the Postal Service; however, the Commission strongly believes that prior regulatory review of such proposals is needed to safeguard existing markets and to ensure a level playing field for participants in those markets.

The application of postal technology raises additional issues. The Postal Service has a substantial information technology infrastructure and data bases. Could these be used to provide postal customers with Internet access or marketing services? In reviewing nonpostal services for continuation under the PAEA, the Commission was directed to consider "(A) the public need for the service; and "(B) the ability of the private sector to meet the public need for the service." Would this standard be retained?

It is worthwhile to note that current law authorizes the Commission to approve and regulate Postal Service market tests, both to protect the public interest and to promote a

successful business outcome for the Postal Service. Currently, the Postal Service is operating a growing, less-than-truckload pallet service approved through these procedures. The Commission has approved a test marketing program to distribute product samples, and we are currently reviewing a request involving the use of prepaid postage on greeting cards sold at retail. Will these provisions in the Post Act affect this process?

UNIVERSAL SERVICE

Second, the POST Act would lift and limit restrictions to allow the Postal Service to reduce the frequency of mail delivery service and to more easily close post offices.

Earlier this year, the Postal Service requested an Advisory Opinion from the Commission on a proposal to end Saturday street delivery service nationwide. The Commission has now completed its review – including seven field hearings – and is now finalizing its opinion and findings. I will reserve further comment until the Commission issues its Advisory Opinion. But I will take this opportunity to ask whether the language in the proposed legislation would allow the Postal Service to reduce service to four days or three days without prior review. We expect to issue our opinion by the end of this month and we will provide copies to the Postal Service and to Congress.

The Commission appreciates the historic and continuing role that post offices play in the lives of American citizens and the communities where they live and do business. We also understand that American society is mobile and its needs ever changing. At the start of the 20th century, a rural American nation was served by more than 70,000 post offices. Today, an urbanized society four times larger is served by just over 36,000 offices.

Earlier this year, the Commission issued its Advisory Opinion on a Postal Service proposal to consider 3,200 station and branch retail facilities for possible closure. The list of potential outlet closings was reduced during our review, to just 162 offices at the time we issued the Opinion.

In the Opinion, the Commission affirmed the Postal Service's authority to adjust its retail network but recommended several improvements. For example, we found that ten-day advance customer notice was insufficient and limited opportunities for community consultation. Further, inconsistent financial and operational analyses impaired evaluations of facility closures and consolidations. The Commission also recommended that standardized review procedures should be developed and consistently applied nationwide to all post offices, stations and branches in order to ensure adequate and efficient service levels and comply with statutory guidelines.

The Postal Service's nomenclature differentiates among stations, branches and post offices. But customers do not recognize any difference, and the Commission's long-standing practice does not recognize the difference either. Citizens expect and deserve the same public notice, opportunity for comment and rights of appeal if and when postal facilities they depend on may be closed. During the station and branch review, the Postal Service made it clear that it did not believe that those same customer rights applied to stations and branches, and that it came before the Commission only because of the potential impact of its proposal on service

nationwide. A legislative clarification would assist the Commission and, more importantly, citizens in addressing their concerns.

Since 1976, the Commission has had jurisdiction to hear customer appeals of post office closings. The Postal Service is required to give post office customers at least a 60-day notice of its intention to close a post office so that customers have adequate opportunity to provide their views. Additionally, affected customers have 30 days in which to file an appeal with the Commission following a written determination by the Postal Service to close or consolidate the office.

The Commission believes these protections, which require the Postal Service to adhere to a closing and consolidation policy, provide due process and the minimum periods necessary to give meaningful notice to the public. They also protect the public's right to participate in the process and to raise concerns that may have been neglected.

STRONGER FUTURE

The Commission commends the Postal Service for its sustained effort over many years to increase productivity, improve processes and lower its costs. We also are heartened to see mail volume reviving and the expectations by the Postal Service of modest overall growth this year. Legislation that effectively supports these trends is important.

Nevertheless, we believe Congressional action to address the pension and retiree health benefit issues remains 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 be able to manage its mandated payments.

That concludes my testimony. Thank you.

#