



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
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Chairman Carper, Ranking Member McCain, Members of the Subcommittee, thank you for the opportunity to testify on the Future of the United States Postal Service.

The Commission is engaged on several fronts to address the vulnerability of the Postal Service and fulfill our legislative mandate for a modern and transparent system for regulating rates and assuring high quality service performance. Our previously issued report on the Postal Service's Retiree Health Benefits Fund (RHBF) liability and our recent Annual Compliance Determination (ACD) as well as action on the cases before us may clarify major issues now before the Congress. We are pleased to share this work with you as you deliberate on solutions for the Postal Service that will best serve the long-term interest of the Nation.

Five-Day Delivery

On March 30, 2010, we initiated Docket N2010-1 to conduct a thorough public review of a Postal Service proposal to eliminate Saturday mail service nationwide. Based on press reports and comments we have received, it appears that there is confusion about the process. I must reiterate to the public that no decision has yet been made to reduce service to five days. This important matter requires the consideration of both the Commission and the Congress.

The Commission's Docket provides for public, on-the-record hearings to analyze the Postal Service's proposal and supporting evidence, as well as related alternatives that may be raised by participants. The Commission's process allows mailers, stakeholders and members of the public to offer their perspective and insights. The Commission has received nearly 2000 public comments thus far by letter, email and fax. We are also scheduling seven field hearings to ensure that the views of local communities are well represented in the public record.

Our process will ask the following questions, among others: How much will the Postal Service really save? Will mail volumes decline more or less than the Postal Service anticipates? To what extent will adverse impacts on citizens, businesses or public institutions be ameliorated by Postal Service operational adjustments? What will be the economic impact on communities, mailers and the Nation?

The Postal Accountability and Enhancement Act (PAEA) requires the Commission to monitor service levels to prevent deterioration in service and assure that the Postal Service meets its Universal Service Obligation (USO). Five-day service may meet the USO. It does so in other nations. However, it could well be that six-day service remains a strategic marketing advantage for the Postal Service even if it is not part of the USO. Perhaps a pilot project in a limited geographic area or for one month of the year would be instructive. The implications of reducing service are unknown and must be carefully considered.

We expect to resolve these and many more questions posed by participants and present our Advisory Opinion to the Postal Service within six to nine months. The Commission will, of course, make the proceedings readily available and present our Opinion to Congress.

The Postal Service may prefer an abbreviated review and immediate action by Congress to approve their plan. However, considering the requirement of the law to hold hearings, the complex matters involved, and based on prior experience – such as our Advisory Opinions on Postal Service plans to close retail facilities nationwide and to reconfigure its mail processing network – it is not practical or desirable for the Commission to act more quickly. Due diligence should not be sacrificed nor American citizens and stakeholders denied their opportunity to participate. It is a government monopoly providing a vital service and we believe the Congress should have the full benefit of the regulatory agency's oversight function as Congress makes its decision.

PENSION LIABILITY

The Commission released its Annual Compliance Determination on March 29th. The report's substance may have been overshadowed by the Postal Service's release of its five-day delivery on March 30th. The Commission gave careful consideration to the Postal Service's overall financial problems. The potential near-term savings in cutting delivery days has significantly less impact than addressing issues of retiree liabilities. And could add to the rate of mail decline at a time when mailers and the economy are just beginning to recover from a severe recession.

The Postal Service fiscal year ends in just five months on September 30th. At that time, the Postal Service must make a \$5.5 billion payment to the Treasury to fund future health benefits. Shortly thereafter, it will need to make sizeable payments for workers compensation obligations and to meet payroll. These large debts, falling so close together, could cause the Postal Service to run out of cash. This is similar to the situation it faced last year when Congress provided \$4 billion in relief.

There are two unresolved issues that could have major immediate impact on the Postal Service's financial crisis, as well as a material effect on the five-day delivery issue.

First is the question of whether the Postal Service has overfunded its employee pensions by \$75 billion as contended by the Postal Service Office of Inspector General (OIG). If this finding is accurate and the funds were used to address other postal liabilities, Postmaster

General Potter has said that the five-day proposal would not be needed, at least not for five years.

The Postal Service has appealed the Office of Personnel Management's (OPM) treatment to the Commission, in a process established by the PAEA. The Commission will retain an actuary to review OPM's calculation of the Postal Service's pension liability in light of the OIG's findings.

We have issued a solicitation for competitive bids and made a tentative selection of an actuary. At present, we are in the process of finalizing the contract. Under the scope of work, the actuary will review the pension calculations performed by OPM, by the Postal Service's OIG, and as by any alternative methods that represent industry best practices. The review will also examine the relevant laws underlying the issue. We hope to have the actuary's report by July 1st and will report its expert findings to Congress, OPM and the Postal Service with our comments shortly thereafter.

RETIREE HEALTH BENEFIT FUNDING

The second issue involves the calculation and financing of the future costs for postal retiree health benefits. Last May, 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 the Retiree Health Benefits Fund (RHBF) created by PAEA. 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 total 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.

It must be noted that in any case the payment schedule has proven too ambitious for the Postal Service to meet, given the devastating effects of the recession on mail volume and revenue. My colleagues and I support readjusting the payments to an affordable level, perhaps over a longer period of time and/or tied to the Postal Service's ability to pay. We see this as an essential part of any plan to help the Postal Service survive and prosper in the coming decades.

POSTAL SERVICE PLAN FOR THE FUTURE

On March 2 of this year, the Postal Service issued a report entitled "Envisioning America's Future Postal Service." In a litany of problems and worst case scenarios, the Postal Service estimates that there will be cumulative financial losses of \$238 billion by the year 2020 if no changes are made, including no adjustments to pension or RHBF payments and no other cost savings or improvements in productivity.

The Postal Service's response to these potential losses is to cut costs and reduce service. Its plan promises fewer employees to serve the public, fewer processing plants and postal operated retail facilities, and reduced mail collections and fewer collection boxes – more than 24 thousand collection boxes were removed from American neighborhoods just in the past year

– as well as eliminating Saturday mail delivery service, which heretofore has been considered a competitive advantage for the Postal Service.

The basic outcome of all these ideas is that there may well be less mail and less Postal Service and that those who rely exclusively on the mail, the elderly, the poor, rural America and those who cannot or will not connect to the internet may suffer the most.

Even more troubling, its plan stops at the year 2020. There is nothing in the plan to indicate how forecasted mail declines will be arrested in the following decade. On the contrary, the plan's proposals seem likely to spur further declines, a downward trajectory that suggests further shrinkage of the system, with mail and this fundamental communication infrastructure disappearing in tandem.

POWER OF THE MAIL

I do not believe that this vision is the inevitable future of the Postal Service. I believe in the Constitution of the United States and Title 39's mandate to provide a postal system that binds the Nation together. Even in the Internet Age, mail has a unique power to touch readers and deliver results for senders. It can drive sales, touch emotions, deliver votes, and shape important personal decisions that affect life and country.

The Postal Service plan, regrettably offers only dire forecasts regarding volume decline and growing debt, projections that have been questioned by both the Commission's expert staff and the Congressional Research Service.

Until recently, despite economic volatility, terrorism and digital diversion, mail has been relatively resilient. Between 2000 and 2008, First-Class Mail declined an average of 1.2 percent a year, while Standard Mail increased by an average of 1.6 percent. This gradual shift toward a lower-margin mail mix was addressed in the PAEA, by the creation of a new competitive business model so the Postal Service could earn offsetting revenue and income in its shipping services. This model appears to have ameliorated the problem for which it was designed. As discussed in the ACD, competitive products contributed more than 5.5 percent to institutional costs and generated \$37 million in profits. But the swamping effects of the recession make it difficult to assess its long-term potential.

It also is difficult to know, if or by how much the recession may have accelerated the existing trend of electronic diversion, since all mail segments declined significantly. The Postal Service's consultants' research indicates that increased diversion is likely. Nevertheless, long-term forecasts of mail declines based on theoretical diversion are problematic. Other studies point to the persisting inelasticity of demand for many mail products. In other words, some products are pretty stable and may even accommodate rate increases.

If the last few years have taught us anything, they have shown how unpredictable the future can be. In my 12 years on the Commission, I can recall times when the Postal Service predicted billion dollar losses and ended the year with billion dollar gains.

Even in this difficult year, it appears likely the Postal Service will far exceed its own expectations. The latest financial report received by the Commission reveals that through the

end of February it is nearly \$1.2 billion dollars ahead of its forecast. Although mail volume is down by 8 percent, Standard Mail volume grew slightly for the month and Shipping Services are up 1.3 percent for the year. Both of these products are sensitive to changes in economic conditions. It may be that the economy is starting to have a positive effect on the mail.

Seeing this kind of variability in only six months, it may be prudent to view projections that lie six years or more down the road with some caution.

A BETTER APPROACH TO THE FUTURE

The Commission commends the Postal Service for its sustained effort over many years to increase productivity, improve processes and lower its costs. We appreciate that this effort must continue and evolve for the future. Today's discussions, however, must not simply focus on costs and deficits. The Postal Service should reposition its goals to meet the needs of an evolving society.

These are questions that the Postal Accountability and Enhancement Act requires the Commission to ask. What does the Constitution and the law require? What is best for the Nation? How can the Postal Service maintain and improve its universal service to citizens and the business community who rely on the mail? The PAEA requires the Postal Service to continue to provide universal service at fair and efficient rates. The PAEA requires the Commission to carefully monitor both the rates the Postal Service charges its customers and the quality of service provided. Under a rate cap regime such as that imposed by the law, any reduction in service that affects the value of the service to the customer could be considered the equivalent of a rate hike.

The PAEA directed the Postal Service and the Commission to establish modern service standards to "preserve regular and effective access to postal services in all communities, including those in rural areas or where post offices are not self-sustaining." This suggests that social concerns must be balanced against economic concerns when changes are proposed.

Congress also clearly intended that the Commission have a role in both considering and improving visibility into customer satisfaction, as evidenced by the inclusion of the statutory provisions concerning customer satisfaction in the PAEA.

It would have been helpful if the consultants hired by the Postal Service had been tasked to look at what it will take to keep open as many post offices, and station and branches as possible; what new products the public needs that the Postal Service is uniquely positioned to provide; how to keep delivery at 6 days, the level required by Congress; and then how to determine the service levels that are the most advantageous to its future success.

It also would have been informative if the consultants and analysts reviewed the Postal Service's recent attempts at innovation. In this decade, the Postal Service embarked on two projects that it described as transformative: the Intelligent Mail Barcode (IMb) and the Flat Sequencing System (FSS).

The Postal Service promised that the IMb would revolutionize the transparency and efficiency of letter mail for the Postal Service and its customers, creating new value in the mail

and opportunities for growth. The Commission believed the Postal Service and agreed to use the IMb as the basis for a measurement system to track service quality. Yet, we and the mailing community continue to wait for that promise to be realized.

Similarly, FSS promised to transform the processing of flats and catalogs so that they could be sorted automatically into walk sequence, at lower cost and with higher quality. Both the IMb and the FSS are behind schedule in their implementation. It would be helpful at this juncture to know if the Postal Service thinks these projects are not as promising as originally envisioned. What can be done to speed up their introduction and acceptance system-wide? Perhaps the Commission should be doing more with regard to measuring service and insisting on reducing the cost of flats handling. An objective analysis of these questions would better inform future plans.

As a former Mayor and an advocate for community based economic development, I would have hoped a detailed, innovative new retail strategy had been explored that would, at a minimum, improve the revenues of post offices to the point that their continuance is economically as well as socially justified. I commend Postal Service efforts to build its website and expand customer access through internet use, and increase sales of stamps at supermarkets. But ask the small towns of America if they think government business should be conducted in Walmarts. The functions of a Post Office cannot be easily transferred to Walmart as the Postal Service proposes. Envisioning the future calls for a transformative process, not a capitulation to big box retailing.

IDEAS FOR POSITIVE CHANGE

The Postal Service is capable of new ideas. It expanded its competitive flat-rate Priority Mail program, began an innovative partnership to sell Hallmark cards in its retail stores, and launched volume incentivizing sales and advertising initiatives. The Commission has also approved the Postal Service's first experimental product under the PAEA. More ideas for expanding in these areas or other innovations should be developed by the Postal Service as soon as possible and, where appropriate, submitted to the Commission for review. The Commission's record of positive approval Postal Service innovations speaks for itself.

The work of the Commission exposes my colleagues and me to ideas from mailers, stakeholders, the Postal Service and the public. Here are some of the more transformative ideas proposed for inclusion in the Postal Service's target plans for 2020:

1. Develop mail products based on value to the customer not necessarily on volume. This is the fundamental tenet needed to fix the Postal Service's broken business model. Our Annual Compliance Determination pointed to 14 market dominant products that failed to cover attributable costs amounting to \$1.7 billion. Thirty workshare discounts exceed avoided costs. The underlying idea is this: for years the Postal Service has been relying on volume and it can no longer do that. Instead of

continuing to focus on pushing as much volume as possible through its channels, the Postal Service needs to instead come up with new, higher-value products that people are demanding.

2. Convert the bulk of its vehicle fleet to run on electricity reducing annual fuel and maintenance expenses by more than \$400 million per year and increasing America's independence from foreign oil.
3. Have a range of products that are fully trackable and traceable and comparable with those of private package companies.
4. Provide a one-stop shop for government services. Not just passports but national park passes, regional EZ passes, identity cards, and credentialing, etc.
5. Plan to participate as a full partner in the nation's 2020 census, thereby saving the country hundreds of millions of dollars.
6. Building on the money order services now offered, introduce and implement a system to provide assistance to the unbanked, replacing many usurious "pay day" operations with reliable fair service.
7. Commit to having a network of post offices in key locations that are open more hours than in 2010 and even on Sundays, and maintain at least one 24/7 post office in every big city.
8. Implement a comprehensive Vote-by-Mail system that suits the needs of all the states in the union for federal, state and local elections held at any and all times of the year.
9. Reinvent the letter carrier and tap the value of the relationship between the carrier and the customer: empower him/her to measure real-time service; to be accessible to the community by email; to be the eyes and ears of the community; and to be the sales and service point for small businesses.
10. Reorganize the workforce - not to make them part time employees - but to enhance their skills thereby adding flexibility in the processing centers and motivated outgoing sales people at retail counters.
11. Commit to having ten other ideas in place and operating within the decade.

There is no dearth of ideas for modernizing the Postal Service. Members of our own Commission staff are independently exploring ideas such as auctioning potential discounts for postage rates to get a real measure of market demand; adjusting pricing in First-Class and Standard Mail to improve Postal Service margins and encourage mailer efficiencies; and offering postal vehicles as platforms for sensors that generate revenue from other government

agencies to automatically measure pollution, collect weather data, identify chemical spills, identify cell phone/wireless dead spots, spot natural gas leaks and map potholes.

Ideas like these will preserve the importance of the Postal Service to the Nation, even though they may not be sufficient to completely offset long-term societal shifts in communications.

Just as limiting access and declines in service create a self-fulfilling prophecy, improvements which may seem small can create an incremental reinvigoration that begets real growth.

Timing Changes

The Commission appreciates the pressures that the Postal Service is under and the hard work and dedication both management and employees have shown in making changes that reduce costs without too much sacrifice in service. They should and are continuing to do so. However, an axiom in the business community is that a company cannot cut its way to success. It has to have a real plan. The consensus among the mailers I have spoken with is that there is very little that is new in these Postal service reports.

The ten-year plan and the newly issued GAO report are not effective plans for the future. Rather, by concentrating on cuts at the expense of service and innovation, the Postal Service offers the path to obsolescence.

2010 is not the time to implement wholesale cuts to the Postal Service. Before the Congress decides on the Postal Service's request to cut days of delivery and resulting service levels we hope it will address the pension and retiree health benefit issues and develop manageable payment schedules for the Postal Service. The Commission is collecting evidence to provide a complete analysis of the five-day delivery proposal and our findings should provide Congress and the Postal Service valuable information on the costs and benefits involved.

Time will also provide breathing room for hard-pressed Postal customers and the economy. If history is a guide, as the economy rises it will carry the mail with it. I believe that with a positive approach it is possible to create a realistic plan that envisions the future, a future with a vibrant communications network providing universal service and meeting changing citizen and customer needs and demands.

Thank you, that concludes my testimony.

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