



Testimony of Chairman Ruth Y. Goldway,
Postal Regulatory Commission
Before the
U.S. House of Representatives Committee on Oversight and Government Reform
and the
Subcommittee on Federal Workforce, Postal Service and the District of Columbia
April 15, 2010

Chairman Towns, Chairman Lynch, Ranking Members Issa and Chaffetz and members of the Committee and Subcommittee, thank you for the opportunity to testify to this joint hearing.

Before addressing the questions you put to the Commission, I must reiterate to the public that no decision has yet been made to reduce service to five days. I am afraid the public has been confused by the Postal Service's recent announcements. We need to reassure them that this important matter requires the consideration of both the Commission and the Congress.

POSTAL SERVICE PLAN FOR THE FUTURE

On March 2 of this year, the Postal Service presented to the Nation its vision for the future of our mail system that I find very troubling. In a litany of problems and worst case scenarios, it estimates that there will be cumulative financial losses of \$238 billion by the year 2020 if no changes are made.

What is the Postal Service's response to these potential losses? In two words, it is: 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. In addition, the Postal Service plan eliminates 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.

I also believe that able managers and visionary leaders can navigate the current troubled waters to create growth and find new revenue while also controlling costs. I believe that America's mail system can be reinvented, reengineered and reenergized for a new century of customers. In the Postal Service plan regrettably, there is no growth, no rejuvenation and little innovation.

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 this year, it looks like the Postal Service might significantly 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 tonic effect on the mail.

Seeing this kind of variability in only six months, suggests that 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.

Rather than beginning with the premise that the Postal Service needs to be cut in size and scope to solve the deficit projections, these fundamental questions must first be addressed. 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 obligation and deliver that to citizens and the business community who rely on the mail? These are questions that the Postal Accountability and Enhancement Act requires the Commission to ask.

Both GAO and the Postal Service offer recommendations without this context. 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 two reports.

The consultants hired by the Postal Service, and GAO analysts, should have begun by looking 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 how to determine the service levels that are the most advantageous to its future success.

The consultants and analysts should have 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 costs and with higher quality. Both the IMb and the FSS are well-behind scheduled implementation. Does the Postal Service think these projects are not as promising as originally envisioned? What can be done to speed up their introduction and acceptance system-wide? Perhaps, the regulator has been too lax. Answers to these questions would better inform future plans.

Why hasn't a detailed, innovative new retail strategy been explored that will, at a minimum, improve the revenues of post offices to the point that their continuance is economically as well as socially justified. I agree that Postal Service efforts to build its website and expand customer access through internet use and sales of stamps at supermarkets are commendable. But ask the small towns of America if they think government business should be conducted in Walmarts. Why would any rational person compare the functions of a Post Office to Walmart as the Postal Service consultants did? Envisioning the future calls for a transformative process not a capitulation to big box retailing.

IDEAS FOR POSITIVE CHANGE

If I had been tasked with developing the 10-year plan, here are some of the ideas I would have proposed for the Postal Service to accomplish by 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.
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, etc.
5. Participate as a full partner in the nation's 2020 census, thereby saving the country hundreds of millions.
6. Building on the money order services now offered, introduce and implement a system to provide assistance to the unbanked, replacing 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 guarantee 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: 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, new energy conservation technology to logistics and motivated outgoing sales people at retail counters.
11. Commit to having ten other ideas in place and operating within the decade.

Commission staff is also up for the challenge. They are 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 or businesses to automatically measure pollution, collect weather data, identify chemical spills, identify cell phone/wireless dead spots, spot natural gas leaks and map potholes.

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

CURRENT CRISIS

Nevertheless, I am not a Pollyanna. What seems beyond dispute at the moment is that the Postal Service is facing serious financial difficulties this year and next year.

The Postal Service ends its fiscal year on September 30. At that time, they must pay \$5.5 billion into a fund for future retiree health benefits. Shortly after that, it will need to make sizeable payments for workers compensation obligations and to meet payroll. These large obligations, 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.

My colleagues and I believe that the scheduled payments to fund future retiree health benefits should be readjusted, which would provide the Postal Service with further time to

recover from the recession. However I think that the relief should be part of a larger strategy that is both financially and operationally transformative.

RETIREE HEALTH BENEFIT FUNDING

Last May, Chairman Lynch asked the Commission to look at OPM's computation of the Retiree Health Benefits Fund (RHBF) liability. Based on changes in how to calculate long-term medical inflation rates and the declining postal workforce, we found that a recalculation could greatly reduce the Postal Service's liability and lower the required annual payments while meeting the original funding goals of the law.

The current payment schedule has proven to be too ambitious and should be adjusted in some fashion.

Over the past three years, the Postal Service has paid \$15.4 billion to Treasury to prefund future retiree health benefits. During that same time, the Postal Service borrowed more than \$8 billion from Treasury so that it could make those payments. This arrangement does not protect the Federal government in the event of a Postal Service default. And it burdens the Postal Service with increasing debt service costs, which could exceed \$150 million this year. Borrowing by the Postal Service to make the payments does not make sense. On the other hand, borrowing for investment in operational innovations is absolutely necessary.

The RHBF payment schedule must to be revised so the Postal Service can make smaller payments over a longer period of time and/or so that yearly payments are tied to the Postal Service's ability to pay in a given year.

PENSION LIABILITY

Currently, the Civil Service Retirement System pensions are considered fully funded, but a review by the Postal Service Inspector General determined that the Postal Service has been overcharged by \$75 billion, related to the service of Post Office Department employees who continued to be employed by the Postal Service after Postal Reorganization in 1971.

Under provisions of the Postal Accountability and Enhancement Act, the Commission is in the process of hiring an actuary, at the Postal Service's request, to review OPM's calculation of the Postal Service pension liability. If any pension surplus is identified through this process, it could be used to lower Postal Service liability and payments for future retiree health benefits. We expect to issue our report this summer.

FIVE-DAY DELIVERY DECISION

Until these overriding retiree funding issues are resolved by Congress, the advisability of enacting major reductions in mail service is questionable. The 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 in

other nations. However, is six-day service 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.

Last month, the Commission began a proceeding to evaluate the Postal Service plan for eliminating Saturday mail delivery service. In addition to on-the-record hearings at the Commission, we will hold a half-dozen regional hearings across the Nation and we are soliciting the input of the American people in other ways as well. Already we have received more than 1,500 comments via our web site and through the mail. This is a vital issue for all who depend on the universal mail system.

We will build a comprehensive record on the proposal that fully and accurately reflects the viewpoints of all stakeholders and citizens and carefully evaluates potential cost savings, volume declines and alternatives. We hope to issue our Advisory Opinion in six to nine months.

The Commission's findings and the public record we develop will be readily available to members and your staffs as you consider whether to alter current legislation requiring six day delivery.

TIMING CHANGES

I understand the pressures that the Postal Service is under. And I appreciate the hard work and dedication both management and employees have shown in making changes that reduce costs without too much sacrifice in service - so far. However, I am disappointed that the 10-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, they offer the path to obsolescence.

Now is not the time for sweeping changes to the Postal Service. Before the Congress agrees to major cuts in service, it should resolve the pension and retiree health benefit issues to determine manageable payment schedules for the Postal Service, and the Commission should be allowed to complete its analysis of the five-day delivery proposal and present it to you.

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 it is possible to create a positive plan that really does envision 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.

#