U.S. POSTAL REGULATORY COMMISSION

Testimony of Ruth Y. Goldway, Chairman, Postal Regulatory Commission
Before the U.S. House of Representatives Committee on Oversight and Government Reform
Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy

March 2, 2011

Chairman Ross, Ranking Member Lynch and members of the Subcommittee, thank you for inviting me to testify. I appreciate the opportunity to provide the perspective of the Postal Regulatory Commission on the future of the Postal Service and ways to promote its long-term viability and health.

Mr. Chairman, I would also like to welcome you and other new members of the Subcommittee to the important and vital task of overseeing the United States Postal Service. I look forward to your views and leadership on postal issues.

On behalf of the Commission, I pledge our support and our commitment to work with each of you, your committee staff, the Postal Service, and the mailing community to address the current difficulties and to promote a sustainable, affordable universal mail system for the future.

PAEA implementation

The Commission is now in its fifth year of operation under the Postal Accountability and Enhancement Act of 2006 (PAEA). The signing of the PAEA capped more than a decade of hard work by Congress and the postal community.

The PAEA has ensured greater transparency and accountability for the Postal Service. On the whole, the Commission believes the law has been a positive force for change, keeping postage rates low, service at acceptable levels, and providing a broad cross section of stakeholders with information and the opportunity to participate in the process.

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.

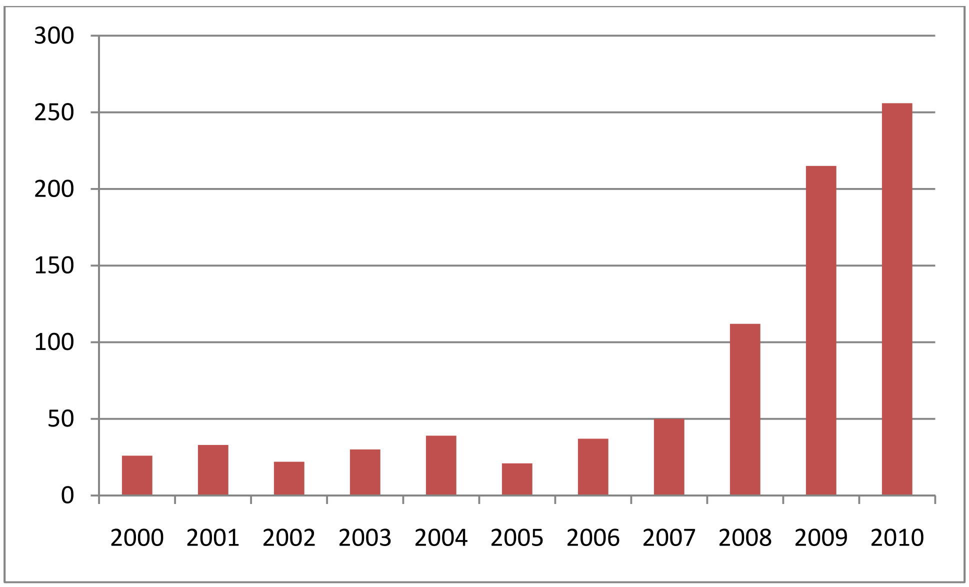
The streamlined rate-setting processes required by the PAEA have performed well, assuring postal customers small, predictable price increases not to exceed the rate of inflation. Since 2008, including the 1.7 percent increase approved this February, postage rates for market dominant products will have increased by a cumulative 8.4 percent, compared to a 16.8 percent increase in the published rates for Postal Service competitive products, which are not capped.

At the same time, the requirement to measure service and report the results publicly helped the Postal Service focus on and improve service quality despite the rapid downsizing of the postal workforce and the mail processing adjustments the Postal Service has undertaken to cut costs.

The Postal Service has recently become more active in developing initiatives to take advantage of the pricing flexibility provided by PAEA. The Commission has approved seasonal pricing incentives for Standard and First-Class Mail, and three experimental product market tests, with two more experimental products 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. The Commission now has approved a new streamlined contracting process which enables the Postal Service to enter into international NSAs without pre-implementation review by the Commission. The new process simplifies the Postal Service ability to enter into new NSAs and improves its ability to compete for such business. We have approved a similar program for domestic Priority mail NSAs. The PAEA has provided the Postal Service with faster decisions and more flexibilities, all within legislative time limits.

While the Postal Service has experienced large deficits in the last four years, the Retiree Health Benefit Fund (RHBF) established by the PAEA now totals more than $42 billion, which includes an initial payment by the Postal Service of $3 billion, the transfer of $17.1 Billion of Civil Service Retirement Fund surplus, four statutorily mandated RHBF payments, and accumulated interest. This is a substantial new postal asset.

The PAEA also expanded the Commission's responsibilities and its workload significantly. The Commission has had to process many more cases, conduct several important special studies and review proposed changes that affect the fundamental universal service charter. While these duties have strained Commission resources, we are well aware that our funding comes from the Postal Service fund, and that we must make every effort to restrain expenditures. A chart of our case workload for the last decade is attached.



Orders Issued by the Commission 2000-2010

I am personally concerned that there are some potentially irreconcilable legislative requirements such as all products must cover attributable costs but no class of mail can have rate increases greater than the CPI cap. To date, the Commission has been able to justify reasonable exceptions and encourage the Postal Service to address others. On the whole, the PAEA was an important step forward. It provides a solid foundation for the future and as I mention later, for developing further refinements to the postal model.

The solvency challenge

A majority of the Commission believes the Postal Service's current financial predicament is rooted in the PAEA mandate to rapidly prefund health benefit premiums for future retirees.

In the past four years, the Postal Service has paid nearly $21 billion into the RHBF. During that time, it incurred a cumulative net loss of $20.25 billion. Without the RHBF requirement, the Postal Service would have broken even financially despite the large mail volume declines that occurred during that time and without use of its borrowing authority.

When the PAEA was enacted in 2006, the economy was strong and the Postal Service was concluding one of the most prolific four-year periods in its history. Driven by the booming financial and housing sectors, overall mail volume increased by nearly 11 billion pieces from 2003-2006, reaching a record volume of 213 billion pieces in 2006. During that period, the Postal Service was exceedingly profitable, earning more than $9 billion in net income. At the close of FY 2006, the Postal Service appeared to be in good financial health.

It was in this climate that Congress mandated the Postal Service to make an ambitious ten-year series of payments averaging about $5.5 billion per year to address its growing unfunded liability for future postal retiree health benefits. At the time, the Postal Service viewed the payment schedule as demanding, but achievable. In the difficult economy that ensued, and with record mail volume declines, RHBF payments have brought the Postal Service deeper into debt and closer to insolvency.

Even with a brightening economy and continued cost cutting, the Postal Service cannot surmount its financial crisis without Congressional action.

Congressional options

There are a number of options available to Congress to address the immediate postal liquidity problem. Commission studies authorized by the PAEA suggest alternatives that would provide substantial leverage for Congressional action.

Last year, at the request of the Postal Service, the Commission initiated actuarial studies prescribed by the PAEA to review whether the Postal Service's pension obligation had been properly calculated in relation to service performed by employees of the Post Office Department who continued to serve after postal reorganization in 1971 and later retired from the Postal Service. It was determined, applying current generally accepted accounting principles and the best practices from the public and private sector, that the Postal Service had been overcharged. The amount due the Postal Service under a current calculation was estimated between $50-55 billion. These funds were paid into the fund from postal revenues. The surplus should be made available in some fashion for the benefit of postal ratepayers and customers.

In 2009, then-Chairman Lynch asked the Commission to look at OPM's computation of the RHBF liability. 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 allow the required annual payments to be lowered by more than $2 billion while meeting the original funding goals of the PAEA. Such an adjustment could ameliorate the Postal Service's ongoing financial shortfall.

Future cost control

The last decade demonstrates that the Postal Service is determined to cut costs. Relief from current financial solvency pressures will not deter it or slow it down. As noted earlier, the statutory cap on market-dominant price increases provides a strong and permanent incentive for continued cost control efforts. The Postal Service also has proven its ability and will to lower costs and reduce its workforce in both good times and bad. From 2002 to 2006 for example, when mail volume was rising to a record 213 billion pieces and the Postal Service had a cumulative $9.5 billion net income, it reduced its career employee rolls by over 56 thousand – or eight percent.

During the past three years, as mail volume declined significantly, the Postal Service reduced work hours to match the workload and eliminated $11 billion in costs. As it enters the second quarter of FY 2011, the Postal Service continues to make work hour and complement reductions, even as current figures reported to the Commission show that overall mail volume is increasing. This trend appears likely to continue under Postmaster General Donahoe, who has announced plans to cut 7,500 administrative positions and make other complement reductions.

Overall, postal career ranks have been reduced 27 percent from their peak of 798,000 in 1999 to 584,000 in 2010. Given this record, and recognizing the growth of competitive alternatives to the mail and the discipline imposed by the statutory price cap, the Postal Service has substantial incentive to control costs.

Universal service – post offices and delivery

While the Commission appreciates the Postal Service's difficult cost cutting measures, at the same time it is our responsibility to guard against the possibility that the Postal Service may implement ill-considered cuts that adversely affect postal customers. Any reduction in service could be viewed as the equivalent of a de facto rate increase.

Last year, the Commission deliberated on two Postal Service proposals for nationwide changes in service: one for potentially closing thousands of station and branch retail outlets, and the second to eliminate Saturday mail delivery service. In such circumstances, the law requires the Postal Service to submit their plans to the Commission for an Advisory Opinion.

The Advisory Opinion process is an important protection that mandates the Commission to hold a hearing on the record in which users of the mail, the Postal Service and an officer of the Commission representing the public interest may participate. Advisory Opinions embody the intent of Congress that users of the mail should have a voice in shaping major changes to the access, quality and value of the postal services they depend on to manage their lives and businesses. The law presumes that the substantial evidentiary record, public input and objective analysis contained in the Opinion will have a beneficial impact on Postal Service decision making and the outcome of proposed changes.

Early last 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 decreased 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 Postal Service decision-making will be improved if it established a notice and comment period that provides an adequate opportunity for public input before an initial decision to close a facility is made. Further, inconsistent financial and operational analyses impaired evaluations of facility closures and consolidations. The Commission 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.

Postal Service nomenclature – and procedure – differentiates among stations, branches and post offices. But to customers each of these postal retail facilities is a post office, a view that is consistent with the Commission's long-standing position.

Since 1976, the Postal Service has been required by statute to give 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 a post office.

Citizens expect and deserve the same public notice, opportunity for comment and right of appeal if and when the 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. These protections grant the public the right to participate in the process and to raise concerns that may have been neglected. These basic rights should be accorded to all postal customers.

The second Advisory Opinion involves a proposal to end Saturday mail delivery service. The Commission recently concluded an extensive review of this initiative that included seven regional public hearing and extensive testimony from the Postal Service, postal employees, mailers, public officials, and other stakeholders.

In my 13 years serving on the Commission, this has been the most difficult and multifaceted issue I have been asked to address. And this inquiry did not arise in a vacuum. Last summer, the Commission evaluated a Postal Service request for emergency rate relief. Ultimately, the Commission rejected the request for a 5.5 percent rate increase. The Commission recognized that the PAEA required the Postal Service to operate under the price cap and that the structural financial concerns of the Postal Service did not meet the statutory requirements for emergency rate relief. The Postal Service's proposal to reduce its expenses by cutting service in order to save what the Postal Service estimates to be three billion dollars must be carefully considered within the construct of its requirement to hold prices down and maintain service standards.

The Commission is working overtime to resolve both the complex technical and policy aspects of this case and we expect to produce our Opinion shortly.

The product of our proceeding will be an Advisory Opinion to Congress and the Postal Service, offering not only our expert opinion, but also reflecting the extensive participation of stakeholders and citizens. Ultimately, it will be up to Congress to decide whether to lift current legislative restrictions that require the Postal Service to provide six-day delivery, to declare whether five days is an acceptable standard or to leave that decision to the Postal Service and/or the Commission.

Looking to the future

This Congress has several options on how best to deal with the underlying circumstances of the Postal Service's present financial difficulty. The Commission hopes that you can address some of them this year. Thoughtful reform proposals have been put forward by Senator Carper, who introduced legislation last year, and by Senator Collins who introduced a bill in this Congress.

It can be said with great assurance that there is a sizeable part of the U.S. population that depends on the mail to manage their lives and stay connected with their government. A Commerce Department study issued last November reported that as of 2009, 31 percent of U.S. households did not have Internet access at home, and nearly one-fourth of households did not even use the Internet. Statistically, they are disproportionately poor, less educated, and under-employed. But in a universal mail service network, they are served. They are connected.

In the future, with greater broadband penetration the needs of the Nation may change. The Postal Service will need to find greater efficiencies and cost controls. Whether it will be possible to redefine universal service and to differentiate among users of the mail according to their willingness to pay is a question to be addressed several years from now. Certainly, the historic view that the postal system itself is of enduring value to the Nation still stands.

The Commission now is conducting its first five-year review of the PAEA. Section 701 of the Act requires the Commission, at least every five years, to submit a report to the President and Congress on the operation of the PAEA, and to provide any recommendations for legislation or other measures necessary to improve the effectiveness or efficiency of the postal laws of the United States. We will have our report to you before the end of the year.

The need for collaboration, innovation and enlightened management of this essential but challenged institution has never been greater. Although the Commission is small – just 70 people including the five Commissioners – it brings considerable expertise and more than 40 years of postal regulatory experience to the table. We look forward to working with Congress, the Postal Service and all who depend on the mail to chart a course that keeps the mail affordable, efficient and relevant for generations to come.

Thank you, that concludes my testimony.

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