
**Hearing before the Subcommittee on Federal Financial Management,
Government Information, Federal Services, and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate**



**Oral Statement
On
“Addressing the U.S. Postal Service’s Financial Crisis”**

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Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to discuss the serious financial condition of the Postal Service, whose leadership anticipates being unable to meet its financial obligations in the fall.

The Postal Accountability and Enhancement Act (PAEA) was crafted to incentivize the Postal Service to adopt a volume-driven infrastructure. PAEA also required prefunding of benefit plans, but the framers were unaware that the benefit funds had been subject to wrongful overcharges. Consequently, the resulting payments have caused almost 90 percent of the \$20 billion loss in the past 4 years. This causes inflated infrastructure costs and burdensome debt.

In the near term, cost containment and infrastructure optimization are underway. It will take time, unless numerous large scale actions are undertaken simultaneously; which could outstrip management's ability to control optimization and to avoid unintended consequences including service disruptions.

So what is needed?

In addition to benefit reform, Postal Service optimization of plants, post offices, and the administrative infrastructure; my office has recommended:

- Conversion to evaluated letter carrier routes for effective management;
- Flexible work rules matching the ebb and flow of mail;
- A comprehensive delivery point strategy maximizing curb side delivery and cluster boxes;

- Evaluating the number of area and district offices;
- Simplification of mail acceptance and pricing;
- Growing the value of mail; and
- Finding the Postal Service's role in the digital age.

The digital age is continuing to disrupt many communication industries. The technologies provide Americans low cost instant communications, sophisticated data organization, search engines, hyper links, and impressive mobility. However, Americans need stronger infrastructures to cope with serious collateral issues. I believe citizens would benefit if the Postal Service could:

- Support Americans in addressing the emerging confidentiality, security, dependability, and privacy problems of digital communications;
- Partner with federal, state, and local government agencies to provide e-government services and Post Office window services for more complex business; and
- Provide a safety net for those being left behind by the digital revolution.

Senator Carper's bill proposes allowing the Postal Service to provide nonpostal services utilizing postal physical and digital infrastructure in a manner consistent with public interest. This bill would provide the Postal Service an opportunity to find its digital role in America.

The Postal Service has set aside more than \$300 billion in cash to meet its future benefit fund obligations. Additional contributions of \$55 billion will result in a 100 percent prefunding level. The \$300 billion does not include the overcharges of \$82 billion documented by my office and others. If overcharges are returned, the prefunding levels will exceed 100 percent.

While benefit funds are reexamined and awaiting action, Congress and the Postal Service could explore the option of clarifying prefunding requirements to be inclusive of Postal Service assets. The purchase price of Postal Service real estate is \$27 billion, but the fair market value is far greater. The Postal Service owns real estate in premium locations. For example, the nearby National Postal Museum has a purchase price of \$47 million, but a tax assessed value of \$304 million. If this example is any indication of fair market value, taxpayers are well protected and a surplus of assets would likely be given over to the Treasury, if the Postal Service were suddenly shut down - a very unlikely event.

Alternatively, there are statutory provisions that may allow the Postal Service to work with OPM to fashion an appropriate arrangement to recognize the assets and meet the obligation.

Against this backdrop of over funding, the Postal Service continues to be billed \$11 billion every year for retiree obligations, instead of taking the annual costs out of the funds created for that purpose. As I have testified before, I agree with Senator Susan

Collins' call in September 2010 for OPM to change its calculation of Postal Service pension fund payments. Failing action by OPM, Senator Carper's bill to require an OPM recalculation to correct the mistakes and balance the accounts is desperately needed to stop the crippling payments.

As I outlined, there is an overwhelming need for a substantial and objective review of the benefit plans and payments. This will allow construction of a clear, fair, and accurate financial map for the Postal Service's future course. Otherwise, the Postal Service will be billed into insolvency while overfunding its benefit plans.