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Fredric V. Rolando, President

January 7, 2014

The Honorable Hal Rogers
Chairman
House Committee on Appropriations
U.S. Capitol, H-307
Washington, D.C. 20515

The Honorable Nita Lowey
Ranking Member
House Committee on Appropriations
U.S. Capitol, H-307
Washington, D.C. 20515

Dear Representatives:

In December, Rep. Darrell Issa wrote to you concerning the decades-long Congressional policy enacted through the appropriations process to require six-day delivery by the United States Postal Service. He urged you to abandon this policy in response to an alleged financial crisis at the Postal Service. I write to clarify the situation at the Postal Service and to urge you to decline Rep. Issa's request.

The Issa letter inaccurately states that the USPS "has now defaulted on $16.7 billion in payments due to the U.S. Treasury and has posted multi-billion dollar operating losses in each of the last seven years." There are two problems with this statement.

First, the Postal Service has not "defaulted" on obligations to the U.S. Treasury – rather it has failed to make ridiculously onerous pre-funding payments to a trust fund held by OPM. These payments, which will cover decades of future postal retiree health benefits, are required by the Postal Accountability and Enhancement Act (PAEA) of 2006. The word "default" suggests the inability to pay ordinary debt obligations. But there is nothing ordinary about the PAEA's pre-funding burden. No other agency or private company in America is required to pre-fund at all – and the Postal Service has already set aside $50 billion for retiree health benefits, while the vast majority of private companies and other federal agencies have not prefunded at all. The USPS has not failed to pay its Treasury debt. Congress has failed to repeal a totally unrealistic and unreasonable pre-funding policy that has caused a financial crisis at the Service.

Second, as the attached chart indicates, the statement is misleading about the Postal Service financial results over the past seven years. In fact, the Postal Service recorded "multi-billion dollar" *operating losses* in just two of the last seven years (2011 and 2012). It recorded operating profits in three years (2007, 2008, and 2013) and small operating deficits in two others. The Postal Service's overall deficits were largely caused by the pre-funding burden.

Indeed, this burden has created a financial crisis at the Postal Service, not declining mail volume. Yes, as the Issa letter notes, mail volume has declined by 25% over the past seven years -- due to the Great Recession and increasing use of electronic payment systems. But the pre-funding burden has accounted for 81.4% of the Postal Service's reported net losses (100% in 2013) over this period and the Postal Service has adapted. Moreover, the decline in mail volume has slowed dramatically as the economy has recovered. In 2013 the decline in total mail volume was less than one percent as surging package volumes and growth in advertising mail offset a smaller loss in First Class Mail.

The Postmaster General's misguided drive to cut Saturday service will not save $2 billion a year, as he claims and Rep. Issa's letter states. It will help drive even more business away and wipe out the savings – by reducing mail revenue by $5.2 billion per year, as the Postal Service's market consultant (Opinion Research Corporation) concluded in a 2012 analysis of the combined impact of eliminating Saturday delivery, closing rural post offices and reducing mail service standards. Although public opinion polls may suggest the public does not oppose the elimination of Saturday delivery when compared to other negative options (raising rates, closing post offices, etc.), a large percentage (34%) of the paying customers of the Postal Service (business mailers) have told the Postal Service that they need Saturday delivery. No business can succeed by ignoring a third of its customers.

The Postal Service's unique last mile delivery network is helping businesses of all sizes (from small, home-based e-Bay merchants to online giants) emerge from the recession. The Postal Service itself is recovering -- after downsizing for seven years, it is hiring thousands of new workers (many of whom are veterans) to satisfy booming 24/7-demand for e-commerce delivery. Degrading our last-mile network will undermine the national recovery by weakening the entire mailing industry that supports 7.5 million private sector jobs. It would also needlessly destroy 25,000 full-time city carrier jobs and 45,000 part-time rural carrier jobs in the USPS.

Finally, Rep. Issa's letter stressed the need to protect the interests of taxpayers. I agree. The Postal Service has not received any taxpayer support in decades. But the best way to protect future taxpayers is to strengthen the Postal Service, not dismantle it.

The policy change we need is reform of the pre-funding burden, not an end to the 6-day delivery mandate (and rural post office protections) that has been included in the financial services and general government appropriations legislation since 1983. We urge you to retain it.

Sincerely,

Fredric V. Rolando
President

Cc: The Honorable Elijah Cummings
The Honorable Ander Crenshaw
The Honorable Jose E. Serrano

USPS FINANCES: 2007-2013

USPS Net Losses Have Been Driven by Non-Operating Expenses
(Figures in $Billions)

Year	Reported Net Income	Non-Operating Expenses: Retiree Health Care Pre-funding payments	Non-Operating Expenses: Impact of Workers comp adjustments [1]	Net Operating Income (excl. non-operating expenses)	USPS Added Debt
2007	$(5.1)	$8.4	$(0.1)	$3.2	$2.1
2008	$(2.8)	$5.6	$0.2	$3.0	$3.0
2009	$(3.8)	$1.4	$1.1	$(1.3)	$3.0
2010	$(8.5)	$5.5	$2.4	$(0.6)	$1.8
2011	$(5.1)	$0	$2.4	$(2.7)	$1.0
2012	$(15.9)	$11.1	$2.4	$(2.4)	$2.0
2013	**$(5.0)**	**$5.6**	**$(0.3)**	**$0.3**	**$0**
TOTALS	**$(46.2)**	**$37.6**	**$8.1**	**$(0.5)**	**$15.0**

[1] Workers comp adjustments are non-cash adjustments made each year due to changes in discount rates and actuarial revaluation of USPS workers compensation liabilities.