

March 13, 2019

To: GrayRobinson
From: Ellen Lamb
Re: Senate Homeland Security hearing on sustainability recommendations for the US Postal Service

The Senate Committee on Homeland Security and Governmental Affairs held a hearing on Tuesday, March 12 to address "[A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service.](#)"

Chairman Ron Johnson (R-WI) called the hearing to order and said it was good to see so much interest in this hearing. He greeted **Senator Tom Carper** (D-DE), who would be serving as ranking member for most of the hearing.

[Chairman Johnson said](#) he had a four-column income statement and capital statement showing the Postal Service's performance ten years ago, last year, cumulative over the last ten years and projected performance in the next ten years. The third column, ten-year actual, reported \$682 billion of operating revenue and \$2.7 billion in operating income, or 0.4%. That's not acceptable, Johnson said. When you throw in the USPS's pension and health care funding obligations, the USPS is left with a deficit of \$61.1 billion over ten years. Those aren't all cash expenses, so it's about -\$39.3 billion, but the default on funding the retirement and health benefits left the USPS with more than \$9 billion in cash flow. That's still not even close to sustainable.

Looking to the future, Johnson said, the USPS projects a net operating loss of \$40 billion. "Something has to be done." He acknowledged that Senator Carper had been working on this for a long time. "Since birth," Carper said.

Johnson congratulated the Task Force on producing its report, with recommendations that don't include a taxpayer bailout.

Johnson said he also wanted to address the dysfunction and lack of a quorum on the Board of Governor. Only two governors were confirmed during the Obama Administration, and only two have been confirmed in the Trump Administration. The Board had no governors in 2017, and currently has two. The full complement is nine. The Administration needs to make nominations and get them confirmed without obstruction. "The US Postal Service deserves a Board of Governors."

Senator Carper said he cared a lot about this issue, as did all the people in the room. He asked people to imagine a Fortune 500 company operating without a board for even a month. The Obama administration had nominated six members, which were sent to the floor, but a single objection derailed that vote. He said he's glad to have two governors now, but they're doing the work of many.

Carper welcomed the Chairman of the PRC, and noted that a couple of those terms are about to expire, but the administration has identified a possible nominee to one of the vacancies.

These balance sheets are not acceptable, Carper said, and they need to give the Postal Services some breathing room while they work on bigger reforms. He thanked the Task Force for their service. In adversity lies opportunity, he said.

For the last few years, the headlines have announced financial distress at the Postal Service, due in large part to Congress's failure to act on legislative reforms and the Senate's failure to confirm nominees in a timely fashion. The Postal Service operates at the center of a \$1.4 trillion mailing industry, accounting for 6% of the nation's jobs. Everyone, everywhere depends on the Postal Service.

Carper said he has significant concerns with this report, especially since Treasury representatives told his staff last week that the task force had done no quantitative analysis — so they haven't done the data-driven analysis necessary to make meaningful recommendations. Carper noted that this first public office had been as Delaware State Treasurer.

On a positive note, the report states that the USPS continues to be an essential part of the American economy, and it must evolve. The question is how. The USPS finished 2018 with cash on hand, but its debt exceeds its revenue and it's maxed out its line of credit with Treasury. It's more than \$60 billion in the hole.

It's irresponsible of Congress not to act, he said. This report has some sound points:

1. The Postal Service should be self-sustaining
2. The Postal Service should not be privatized
3. The USPS is still necessary, especially in rural areas
4. The Postal Service's business model needs to be reformed.

Unfortunately, the report doesn't propose a new business mode. Carper said that time is running out to prevent the loss of essential services.

Although the USPS is the size of America's largest businesses, it's not a business, Carper said. It's a federal agency with requirements on pay, services, and other things. This is both a challenge and an opportunity.

Chairman Johnson swore in the witnesses and introduced the first panel:

Panel I

- [The Honorable David C. Williams](#), Vice Chairman, Board of Governors, US Postal Service
- [The Honorable Robert G. Taub](#), Chairman, Postal Regulatory Commission
- [Gary Grippio](#), Deputy Assistant Secretary for Public Finance, US Department of the Treasury

Mr. Williams described the work of the Task Force as “very fast, but well done.” The recommendations “represent an aggressive attempt to provide viable options” and incorporate the opinions of both stakeholders and competitors. Competitors urged a major increase in shipping prices, but Williams said that the role of the Postal Service was not to maximize profit but deliver value, especially in rural areas. “High shipping prices steal value,” he said.

The report calls for the USPS to use a 100% cost attribution model, but Williams said that economic theory had been discredited. Private shipping companies use cost attribution models to weed out unprofitable customers. This is not an option for the Postal Service, and moving to this model would force the USPS to use a dissimilar industry’s playbook.

Williams said the report did include some fresh ideas worth considering, including the creation of an “essential” mail category that would be priced differently from market-priced mail used in commerce. The report also recommended that the USPS explore new business lines. It called for a recalculation of the USPS’s “historically overstated” retiree health benefit fund liability, to go with the recent adjustment of postal-specific assumptions that reduced the USPS’s pension liability by \$15 billion.

Williams said they need to review OPM’s assumptions, which include abnormally low interest rates. If interest rates were even 1.5% higher, the pension funds would be fully funded. He also recommended that they look at their current fund investment vehicle. Treasury took over management of the USPS’s retirement funds and immediately borrowed the whole sum “at rates that are killing the fund.” If the funds had been invested conservatively in blue chip securities, the pension obligation would be fully funded.

Williams said the Task Force did a good job in a short time that didn’t allow for more thorough review of opportunities for cost savings. He said they need to review a number of programs including pricing simplification, next generation neighborhood delivery vehicles, intelligent mailboxes and postage, delivery tower alternatives, and services that expand access to government. All of these must align with the Postal Service’s mission of binding the nation through universal services.

Mr. Robert Taub said that not much had changed from his testimony 28 months ago. The Postal Service still faces significant financial obstacles. Its growing liability for retiree

health benefits, inability to borrow, and continuing loss of high-price mail add up to a grim future. The major problem is that the USPS cannot generate sufficient revenue to meet its mandated expenses and invest in long-deferred, critically important capital improvements such as new vehicles and package sorting equipment.

Taub said he was not a member of the Task Force, though they were required to consult with him. Any actions taken as a result of the Task Force's recommendations would require a majority vote of the Commission. Almost all of the recommendations would require public notice and comment. They intend to further explore these recommendations.

Among these recommendations, the one that stands out to Taub is the need to clearly define the USPS's universal service obligation (USO). The Commission has significant experience in this area, and estimates the total cost of the USO is \$4.5 billion. The USO is undefined in law, however, and comprises a few different policy statements. In the absence of a clear definition, everyone has a different understanding of what this means and all views have different price tags. The USPS must consider how to fund this obligation. The Commission is ready to help Congress do this.

Mr. Grippo said that for the last eight years he's been responsible for oversight of the Federal Financing Bank, which is the Postal Service's lender and the sole holder of Postal Service debt. Treasury's role in the Task Force is rooted in this financial relationship.

The problem is that the Postal Service has lost \$69 billion in the last 12 years. Liabilities on its balance sheet exceed assets by \$63 billion. Unfunded liabilities have reached \$140 billion. Over the last seven years, the USPS has been able to preserve enough cash to keep going only by defaulting on statutorily required payments to OPM.

The causes of the decline are straightforward: use of mail has declined because of email; under current rules, caps on postal rates have prevented the USPS to raise rates in response to the decline in volume; the USPS has suffered from a severe lack of internal governance.

As things stand, Grippo said, the Postal Service is not viable. It will eventually run out of operating cash. If it pays what it owes to the OPM, it will run out of cash next year. If it doesn't make those payments, it might be able to function another 2-3 years. Without a major change in its business model, it will not be able to pay its employees.

The Task Force made several recommendations to change the USPS's business model, including strengthening governance, reforming the USO, implementing new pricing, controlling labor costs, and implementing new sources of revenue. The Task Force's work was guided by four principles:

1. The Post Office should remain a government entity and continue to pursue self-sustainability
2. Saving the Postal Service requires a fundamentally new business model
3. Reforming the Postal Service should not shift risks to the taxpayer or the Treasury.

4. The Postal Service must distinguish between “essential” mail and packages and commercial mail and packages.
5. The Postal Service must price commercial mail at a level that funds its operations, capital expenses, and long-term liabilities.

The Task Force is not recommending the closure of post offices, the abandonment of the USO, or that small, rural areas pay more than urban areas. The Task Force believes that the Post Office’s delivery network is a national asset and a critical part of the nation’s infrastructure.

Q&A

Senator Mike Enzi (D-WY) said he was glad to hear they hadn’t recommended any additional post office closures. Mail delivery is very important in Wyoming, and the closure of post offices and the Wyoming sorting facility have hurt its citizens. The result is a noticeable delay in delivery times, which is frustrating especially for periodicals. Enzi said he gets the most calls about how little it costs nonprofit organizations to send mail compared to other types of mail. Enzi asked whether this could or should be changed.

Mr. Taub said it would fall at least partly under the Postal Regulatory Commission, but reduced-rate mailings are embodied in statute, going back in some cases to Ben Franklin. Reduced-rate mail is locked in at 60% of commercial rates, and the PRC considers this part of the USO. Since the enactment of the 2006 law, the total cost to the Postal Service of providing these preferential rates has been about \$13 billion.

Enzi asked Mr. Grippo about defining “essential” vs. “non-essential.” How would those be defined? Grippo said the Task Force report lays out some principles. “Essential” mail and packages might include pharmaceuticals, consumer notices, person-to-person correspondence, package delivery, and most payments and billing. Non-essential mail would be marketing material, circulars, internet purchase packages. This is an attempt to protect users who are “captive” to the USPS.

Enzi said he appreciated the baseline information sheet and would have more questions for the record.

Senator James Lankford (R-OK) said he was very grateful for the work of the US Postal Service. The first item of business should be a quorum for the Board of Governors. What’s the importance of getting a quorum?

Williams said that the Board of Governors’ mission is to construct a strategy for the Postal Service and oversee its execution, and provide guidance to senior leadership. That can’t happen when there aren’t any Governors, though Williams said he believed they’d cleared the backlog. The huge job before them is to create a business plan for the future. “It’s been very difficult” with seven missing governors. Three nominations are pending. Lankford said that a quorum is too low a threshold; they need a whole slate of governors.

Lankford asked about lines of business that wouldn't affect the USPS's risk profile — what could those be? Taub said the 2006 law drew a bright line and said the Postal Service could only offer postal products. The USPS has tried to explore this, but it's hard to do that without oversight/leadership.

Grippe said the recommendation is based on the USPS's large retail footprint and big workforce of federal employees. The Postal Service should explore ways to use these in ways consistent with its mission. The USPS already provides services to the US State Department in processing passports, so it might be able to offer similar services to state and local governments. The Task Force cautioned against doing anything that might pose a risk to its main operations. These activities would fall into two categories: doing things outside the USPS's core competencies and doing things that would entail balance sheet risk (e.g., postal banking).

Lankford asked about the recommendation to consider changing the frequency of mail delivery. Grippe said that the Universal Service Obligation covers the geographic scope, frequency, and mode of delivery. The Task Force said that the Postal Service need to serve all addresses in the country, but can look at how often it does this. They made no specific recommendation to cut the frequency of service. The trend in package delivery is toward seven-day delivery, which would be an increase. This is another area where it might be useful to distinguish between “essential” mail and commercial mail.

Senator Gary Peters (D-MI) gave a [short opening statement](#) before his questions. He said that the Postal Service plays a vital role in our society and economy, and has a public service mission to serve all Americans. He noted that about one in six postal workers are veterans. He introduced a resolution with Senator Moran last week to recognize the Postal Service's unique role and oppose privatization.

That said, no one disputes the USPS is on an unsustainable course, exacerbated by the requirement to prefund retiree health benefits, the great recession, and changes in technology.

Peters said that Congress has been working on bipartisan solutions that are evidence-based and supported by stakeholders throughout the community. He can't say that about the Task Force's proposals. The Postal Service is a public entity with a public mission, and this has to be the priority.

Peters said that people everywhere in Michigan rely on the Postal Service. Some of the Task Force's recommendations seem to cut at the heart of rural service. Peters asked Grippe whether the Task Force had done any economic analysis of how its recommendations would affect rural areas. Grippe said the Task Force did analyses on the economic effects of the Postal Service on different areas of the country. Several economists were part of the Task Force staff, and did perform analyses that went into the basic research supporting the report. They also looked at studies by academics and information from the Postal Service to determine the economic value of the USPS in specific areas.

Peters asked whether they'd specifically looked at urban vs. rural service. Grippio said they'd done general economic analysis. Peters asked what that meant — differentiating rural vs. urban? Grippio said yes, and there'd been considerable discussion about how to define rural areas. Ultimately, the Task Force recommended that some services need to be deemed “essential” because rural areas rely on them. Access and pricing in rural areas should remain consistent with the rest of the country. Grippio said he could show them the analysis they used in developing the recommendations.

Peters said he was concerned about the recommendation to end collective bargaining for postal employees. He doesn't see how removing collective bargaining would improve the USPS. He asked Mr. Williams whether this change would help the USPS fund its pension and benefits obligations. Williams said no, not at all.

Peters said that issues with service are undeniably connected to the USPS's financial pressures. A sorting facility was closed in Kalamazoo, MI in 2015, and he's heard from Michiganders who have experienced service delays ever since. He asked Williams how the prefunding burden has affected service.

Williams said that it's been devastating. It wiped out the USPS's ability to make capital investments, and it has forced cutbacks at “a nearly reckless rate.” He agreed that it's the number-one problem for Postal Service operations.

Senator Rick Scott (R-FL) asked whether a consumer could decide to stop receiving mail. Williams said no, but a consumer can make it impossible to deliver mail. In that case the mail gets held at the post office, and is eventually returned to sender.

Scott asked whether the Post Office has ever asked people how often they want their mail. Can they ask for mail to be delivered only once a week? Williams said no, but they're working on a “smart mailbox” that would allow for deliveries to different addresses at different times. Scott asked whether limiting deliveries would save money. Williams said no, because that's not where the biggest costs are incurred. People can arrange to have their mail held at the post office. He agreed they should survey the public on how often they want mail and how often they want parcels.

Scott asked whether the USPS competes with FedEx and UPS on package delivery. Williams said yes, USPS is the public option. Scott asked whether they negotiate with Amazon on how they price for packages. Williams said yes, as do UPS and FedEx. Scott asked whether package delivery is unprofitable. Williams said they go to every single address and actually do make a profit on parcels, since those addresses are already on carrier routes.

Scott asked whether Amazon is getting a taxpayer subsidy for package shipments. Williams said that Amazon's payments cover the USPS's costs with enough left over to contribute to the USO. City mail also contributes to the USO. They don't levy extra charges based on where a package is going. Scott asked whether the USPS could charge Amazon more for rural deliveries than urban deliveries. Williams said he didn't know whether they could, but he didn't think they would because Amazon would just charge those rural customers

more. Scott said they could pass a law to prevent that. Williams said the USPS is the only carrier that doesn't have a rural surcharge, because of their mission.

Senator Johnson said this was an interesting line of questioning. The USPS doesn't have a good cost allocation model, so how can you say this doesn't cost you money? Williams said that the PRC instructs them on how to submit the data to make sure the products cover their costs. Taub said that under the law since 1970, the Postal Service has to attribute its costs based on reliably identifiable causal relationships. Under that framework, parcels are the one bright spot in the Postal Service. The PRC establishes a floor for these costs. Parcels are 3.9% of the volume of the mail and 30% of revenue.

Grippe said that the Task Force looked at this with the question of what would be business best practices. On that basis, the cost allocation system is out-of-date. Management at the Postal Service probably isn't getting the right information to make decisions about resource allocation.

Senator Carper (D-DE) said he'd been told repeatedly that the USPS earned \$7 billion in profit on parcels last year. Is that right? Taub said yes, roughly. It's about 30% of the USPS revenue. Delivery costs are higher, so per-piece profit is smaller.

Carper asked about Grippe's comment to the staff that the Task Force report did no quantitative analysis on the recommendations' impact on the financial condition of the USPS. This seems to contradict what he just told Senator Peters. He asked Grippe to submit full documentation for the record. Grippe said consistent with approvals from the USPS, yes.

Carper said they all agreed that the USPS needs to change its business model, but its hands are tied in a number of ways. They're constrained in how they can raise their rates, and they've cut their network to the bone. They've maxed out their line of credit and they can't borrow from the private sector. They're delivering less mail to more homes every year. They're saddled with huge liabilities no private company would ever agree to pre-fund. To what extent do the Task Force recommendations address these concerns?

Grippe said the recommendations are designed to help the USPS become financially sustainable.

Carper said he's concerned that the Task Force may have ignored the elephant in the room, which is the pre-funding obligation. He proposed resolving this through Medicare integration. They looked for other situations where companies or government agencies were required to do this and found nothing. Where companies do pre-fund, it's about 30% of the total liability. The USPS is also prohibited from requiring retirees to take Medicare as part of their retirement medical benefits. Why does the Task Force oppose Medicare integration?

Grippe said the Task Force considered two elements to the question of Medicare integration. Practically speaking, the Task Force felt that Medicare integration didn't solve

the underlying business problems. In policy terms, the Task Force felt that the directive to keep the USPS self-funded meant that costs shouldn't be shifted to another part of the government.

Carper said that the USPS pays Medicare as much as any private employer, but does not get fair value. They're subsidizing Medicare for their competitors. This by itself won't resolve the USPS's financial difficulties, but it might do so when combined with other changes.

Chairman Johnson said he'd been asking for years about how much USPS employees pay into Medicare, and he hasn't been able to get that information.

Senator Josh Hawley (R-MO) asked about the effects of reform on rural areas. Missouri has 15,000 postal employees. He asked Grippio to explain more about his comment that certain services need to be identified as essential, and the universal service obligation needs to be defined accordingly.

Grippio said that right now, all mail operates under the same system. The Task Force suggested drawing a distinction between essential mail — bills, payments, tax notices, pharmaceuticals — and non-essential commercial mail. The Postal Service should price this commercial mail according to what the market will bear so they can keep the price of essential mail down.

Hawley asked whether commercial mail would include internet purchases by rural customers. Grippio said it could. In general, if the user is "captive" without a realistic alternative to the USPS, that mail is essential. If the user has choices and the use is purely commercial, it's not.

Taub said that this would have to go through the PRC and would be subject to notice and comment. They're talking to Treasury and the Task Force about it. "We're a long way from anything being finalized." Given the financial problems of the USPS, all ideas need to be on the table.

Hawley said he's keenly interested to see that rural customers are not disadvantaged.

Chairman Johnson noted that the Task Force report gave the USPS's per-employee cost as \$85,800, compared to UPS's, which is \$76,200. UPS is unionized. FedEx, which is non-union, is \$53,900. Grippio said these numbers were for delivery staff for each organization, not management or pilots. Johnson said this answers the question about why they might want to look at collective bargaining. Williams said that they don't agree with this; the nature of the analysis omitted all the FedEx drivers, because they're contract employees. He questioned the methodology of computing these figures. USPS pays its entry-level employees less than either UPS or FedEx, and it takes much longer for USPS employees to catch up to their counterparts.

Johnson asked whether Congress would have to write the definition of Universal Service. Taub suggested they look at the 1996 Telecommunications Act, which required the FCC to

define universal service according to a variety of criteria and guidelines that Congress put in place. That structure allows it to be modified and updated. Congress could do something similar by empowering the PRC to come up with this definition.

Johnson asked for Grippo's thoughts. He said that with one exception, all of the Task Force's recommendations could be accomplished administratively. The one exception is that current law requires six-day mail delivery. Nothing in the Task Force report recommends they move away from six-day delivery, but if the USPS wants to reconsider delivery frequency, that would require a statutory change.

Johnson asked for the annual cost of the USO. Taub said that the PRC calculates it annually, as required by law, and last year it was \$4.53 billion, of which \$2.2 billion was the cost of providing six-day delivery and \$1.7 billion is the cost of providing reduced and preferential rates. The number also includes the cost of maintaining small post offices.

Johnson asked whether anyone had broken down the costs of urban vs. rural service. Taub said they hadn't looked at this since 2008, when it was required by the 2006 law. The subsidy is not so much urban to rural as about the volume of mail people get, which is tied to income. Higher-income people tend to get more mail. Mail carriers have to visit every door every day no matter what. Some subsidy is inherent in the system. Grippo said that the uniform pricing of postal services always involves a subsidy from denser areas to sparser areas, but Grippo said this was appropriate.

Senator Carper said that Delaware had the worst credit rating in the country when he became Treasurer, and within 24 years had a AAA rating. Moody cautioned, though, that Delaware had not funded the cost of health care for its retirees. Delaware started to do that, but has funded it at only 10%. He said they hold the USPS to a different standard. If they treated it like a real business, they would require this kind of funding and they'd allow the USPS to invest its own money. He asked the panel for reactions.

Williams said that the USPS has the biggest pre-funding account in the world, though it has not matched 100% of its obligations. It greatly exceeds those of the federal government or anything in the private sector. They're glad to have it, but it needs to be invested in a retirement fund. Williams is also unsure the liability has ever been accurately assessed. The \$5 billion target was a mistake. The USPS had been structured carefully to break even up to that point. The USPS has had operational losses, but they were relatively small.

Carper said the USPS needs a full Board of Governors, and that the Task Force had done good work. "We need to address this. We need to get it done."

Senator Johnson asked Mr. Williams whether the USPS gets no credit for the money it's set aside to fund these pension and health benefits. Williams said it's invested in Treasury bonds, and the USPS earns interest on those, a little over 2%. That's dictated by law.

Johnson asked what effect recalculating the liability might have. Grippo said that the Task Force recommended that this liability, which includes the \$43 billion in defaulted payments

and the actuarial unfunded liability be recalculated, refinanced, and re-amortized over a 40-year period. This would save the USPS about \$20 billion in long-term liability, but would increase annual contributions.

Johnson asked whether anyone has suggested the USPS invest its funds in something other than Treasury bonds. Williams said that as they have new investments, they should be put with one of the Government retirement funds, which are doing very well (7-8% compared to 2%).

Johnson asked what the most restrictive Congressional mandate is. Taub said the most serious obligation is the universal service obligation, and they need some Congressional guidance on this. It's too serious for the PRC to do on its own.

Grippe said that among the Task Force's recommendations, the ones that require some Congressional attention relate to employee compensation and benefits. The other recommendations are administrative in nature. Labor costs are 96% of the USPS's operating costs, and the statute guides this.

Williams said it's the post office network — everybody wants it, and there are enormous reactions any time they try to trim it down. They're not allowed to pay for themselves, which is different from any other country.

Johnson asked about alternate products and revenue sources; they don't want the USPS competing with the private sector, but he asked Grippe to describe what these other activities might be. Grippe said the Task Force recommends that the USPS stay within its core competencies. Taub concurred, and said the PRC could determine what these are. Williams said there are services the USPS could offer, such as front office services for local government offices or broadband coverage, that fall within the USPS's purview. They could help banks fill banking deserts. They already provide electronic money orders to Mexico, and could expand this to other parts of the globe.

Carper said that if the USPS had a full Board of Governors, they would have a wide range of ideas.

Chairman Johnson thanked the panel and called the next witness.

Panel II

- [**The Honorable Margaret Weichert**](#), Deputy Director of Management, OMB and Acting Director, Office of Personnel Management

Chairman Johnson swore in the witness and introduced her.

Ms. Weichert noted the history of the Postal Service, which is enshrined in the Constitution. She said her own grandmother had been a postal employee.

Unfortunately, Weichert said, the USPS is currently on an unsustainable path. This is why last year's government-wide Reform and Reorganization recommendations included restructuring the Post Office to meet three objectives:

1. Better fulfill its universal service obligations
2. Establish a financially sustainable model that doesn't burden American taxpayers
3. Create a realistic path forward for postal employees

The plan deferred final recommendations to the Presidential Task Force, which delivered its report in December. The Task Force identified structural reform opportunities, including operational changes, cost allocation issues, and pricing flexibility. It paid specific attention to the idea of differentiating critical and essential services from market-driven offerings.

Weichert said that in her role at OMB she is leading a range of efforts to modernize government capabilities through technology. Government institutions must evolve, and the Post Office is no exception. It's urgent that USPS resolve its \$50 billion in pension and benefit liabilities owed to OPM before this interferes with OPM's ability to provide benefits to other government workers.

The USPS must change and adapt, she said. It's unacceptable that the federal government still uses processes set up in the mid-20th century despite dramatic changes in technology. The USPS must pursue "foundational, structural reform"

Weichert thanked the Committee for confirming two members of the Board of Governors last year, and said the Administration would continue to nominate new members. They hope a fully constituted Board will craft a new strategic direction for the USPS.

Chairman Johnson apologized for this being so late. He asked how much of the first panel she'd listened to, and she said she'd heard most of it. Johnson asked for her reactions. She said it was a good coverage of a number of core issues. The most fundamental issue was to agree on the requirements of the universal service obligation. That's the piece that drives costs without clarity. The other critical piece is the USPS's need to be self-sustaining. She heard some hints that this might not be necessary, but it is necessary.

Johnson said he assumed she was referring to Medicare integration, which would take about \$50 billion of retirement health benefits off the USPS's balance sheet and transfers that to the US taxpayers. Because it extends over so many years, though, the cost to taxpayers would be only about \$7 billion. Weichert said there's an annual cost, but the population is living longer and is sicker than expected, so these costs continue to grow. She said this is a meaningful number and a real cost.

Johnson said he had heard that the obligation could be restated because postal workers don't live as long, but Weichert is saying the opposite. She said that assumptions had been made that have been proven wrong, not only in the government but all programs for long-term health care delivery. DOD pre-funds TriCare, for example.

Johnson asked who should define the universal service obligation — is this a job for Congress? He agreed that this is necessary. Weichert said she deferred on this; the PRC would have to weigh in. The legislative and executive branches need to agree on this. Johnson asked about the recommendation to eliminate collective bargaining. How is this practice different in the USPS than in other parts of the government? Can you compare the cost of USPS employees with other federal employees?

Weichert said that the Administration “emphatically supports” the right to collective bargaining, most government unions are not collectively bargaining over salaries. The annual raises at the USPS have risen faster than other areas of the government. Johnson asked for a dollar number. Weichert said she’d have to get back to him with this.

Johnson said cost allocation methods are crucial, and asked her to comment on what this means for the USPS. Weichert said the two areas where they have a pretty good understanding of costs are “the first mile” (pickup) and “the middle mile.” The challenge comes in measuring costs involved in “the last mile” (delivery). Physical delivery of documents has fallen way down, but the obligation to visit every address every day persists. There are opportunities to change the pricing model for those who want to leverage the USPS’s last-mile obligations, but they don’t have the flexibility to do that.

Johnson asked whether the USPS isn’t allocating costs correctly to first-class mail and parcel delivery. Weichert said, “Absolutely.” Johnson asked for numbers and Weichert said she’d have to defer to people who were more expert. Johnson said that both Williams and Taub seemed confident that they’re making money on parcels. Weichert said that making money and making enough money were two different things. If you don’t factor in a cross-subsidy, you aren’t allocating costs correctly.

Johnson said the USPS had a 0.4% return, which no business would accept. Weichert produced a letter from the USPS last year that said if they paid OPM what they owed, they’d have only 23 days of operating expenses in reserves. They don’t even have a prudent reserve.

Johnson noted that Williams had said the USPS had done a pretty good job of funding its pension liability over all. Weichert said she couldn’t comment on that, but the USPS has an obligation to be self-sustaining the rest of government doesn’t have. A number of private sector companies have wound up in real trouble for not funding their pension liabilities, and wind up in bankruptcy. Johnson noted that this option is not available for the USPS.

Johnson asked what reforms will be necessary to fund this liability. Weichert said they need to look at “structural reforms in all dimensions” and the cost drivers, including days of service and how they structure the last mile. Johnson said they can’t continue to operate on a break-even footing. Weichert said she’d call it “prudent reserves,” so they’re not using OPM as a line of credit, which is what they’re doing today.

Johnson said that from the point of view of the private sector, you'd look at the balance sheet and say, "I need to make 10% on this," and figure out how to do it. Weichert agreed with this and said they needed to ask how to free up capital in order to invest in technology that will make the USPS sustainable.

Weichert said they have to look at pricing flexibility and at new revenue models. These should be possible without venturing into completely new activities. A revenue per square foot model would lead to more revenues even if the USPS is not providing the service themselves.

Johnson said he's concerned about the USPS getting into other businesses, or about them finding new revenue sources that postpone fundamental reforms. The reforms have to happen. Weichert agreed.

Johnson asked Ms. Weichert whether she had any other comments. She thanked him for the opportunity and said it was a good start to the conversation. This is precisely the kind of thing the Administration was hoping to catalyze, she said.

Johnson thanked Ms. Weichert for her patience and her service. The hearing record will remain open for 15 days for additional questions and extraneous materials. The hearing was adjourned.