



POSTAL NEWS

FOR IMMEDIATE RELEASE
April 17, 2013

Contact: David Partenheimer
david.a.partenheimer@usps.gov

202.268.2599

usps.com/news

Release No. 13-041



Postmaster General Urges Congress to Provide Delivery Schedule Flexibility to Address Broken Business Model

WASHINGTON — Postmaster General Patrick R. Donahoe told a House committee today that the Postal Service is currently operating with a broken business model and the gap between revenues and costs will only get worse in the coming years unless the laws that govern the Postal Service are changed.

"Our financial problems are due to the restrictive laws that prevent us from fully responding to changes in consumer behavior," Donahoe testified before the House Oversight and Government Reform Committee. "Any private sector company could quickly adapt to the market changes we have experienced, and remain profitable. However, we do not have all of the flexibility we need to adapt to a changing marketplace."

Donahoe said the Postal Service continues to be very aggressive in cost-cutting actions it can take within the law, reducing its cost base by \$15 billion since 2006. "No other organization, public or private, that I am aware of, can claim a similar cost reduction while continuing to function at a high level. And yet, we have to go much further and much faster and we are prepared to do so."

The Postal Service would have reduced costs an additional \$2 billion annually by implementing the new delivery schedule announced in February. However, according to Postal Service legal opinions, House Resolution 933 to fund government operations for the remainder of the fiscal year included language specifically designed to prevent the Postal Service from changing to the new delivery schedule.

"The Postal Service is a responsible, law-abiding arm of the executive branch. Congress passed a law, we reviewed it carefully, we complied with it and we informed our customers – which is what we did last week," Donahoe told the Committee. "Our customers require certainty, especially about something as fundamental as our delivery schedule. And so, we announced that we would delay implementation of our new schedule until we gained legislation giving us the ability to move forward."

The Postmaster General urged Congress to include delivery flexibility as part of comprehensive postal reform legislation to help return the Postal Service to long-term financial stability and avoid the risk of becoming a significant burden to the American taxpayer. He also urged passage of other legislative provisions that would provide for the following:

- The ability to develop and price products quickly.
- The ability to control healthcare and retirement costs.
- The ability to switch to a defined contribution retirement system for new employees.
- The ability to quickly realign mail processing, delivery and retail networks.
- A more streamlined governance model.
- More flexibility in the way the Postal Service leverages its workforce.

Below is the Postmaster General's oral testimony before the committee. Please note that the remarks as delivered may vary from the prepared text. The full written testimony is available at: <http://about.usps.com/news/testimony-speeches/welcome.htm>.

"The Postal Service is currently operating with a broken business model. Since the economic recession of 2008, we have been experiencing a significant imbalance between revenues and costs. This imbalance will only get worse in the coming decade unless the laws that govern the Postal Service are changed.

In the past two years, the Postal Service recorded \$21 billion dollars in losses, including the default of \$11.1 billion dollars in payments to the United States Treasury. The Postal Service has exhausted its borrowing authority. It also continues to contend with a dangerous liquidity crisis. We are losing \$25 million dollars every day and we are on an unsustainable path.

Primarily due to the rise in on-line bill payment, the use of First-Class Mail has dropped by 28 percent since 2007. This equates to roughly \$8 billion in annual revenue that we would otherwise have today. That is a steep decline in our most profitable product category – but – it is not the cause of our financial problems.

Our financial problems are due to the restrictive laws that prevent us from fully responding to these changes in consumer behavior. Any private sector company could quickly adapt to the market changes we have experienced, and remain profitable. However, we do not have all of the flexibility we need to grow revenue, reduce costs and adapt to a changing marketplace.

There are areas where we can act within the law, and we have been very aggressive in these areas. Since 2006, we have reduced the size of our workforce by nearly 200,000 career employees – that's a 28 percent reduction without layoffs. We have consolidated more than 300 mail-processing facilities. We are in the process of modifying hours of operation at 13,000 Post Offices. We have eliminated 21,000 delivery routes. These actions have bent the cost curve and reduced our annual cost base by \$15 billion dollars.

We have examined and acted on every reasonable and responsible action to match volume loss with cost reductions. No other organization, public or private, that I am aware of, can claim a similar cost reduction while continuing to function at a high level. And yet, we have to go much further and much faster – and we are prepared to do so.

In February of this year, the Postal Service announced that it would introduce a new national delivery schedule designed reduce our costs by approximately \$2 billion dollars annually. We did so after receiving the advice of our legal counsel.

We did so because the continuing resolution in existence at that time did not prevent us from taking this fiscally responsible action. That law was set to expire on March 27, and we urged Congress not to act to block our new delivery schedule when it enacted the next continuing resolution to fund the government for the rest the fiscal year.

However, according to our legal opinions, House Resolution 933 to fund government operations for the remainder of the fiscal year included language specifically designed to prevent the Postal Service from changing its delivery schedule. According to this law, we are now required to deliver mail as if it were the year 1983.

The Postal Service is a responsible, law-abiding arm of the executive branch. Congress passed a law, we reviewed it carefully, we complied with it and we informed our customers – which is what we did last week.

Our customers require certainty – especially about something as fundamental as our delivery schedule. And so, we announced that we would delay implementation of our new schedule until we gained legislation giving us the ability to move forward.

Mr. Chairman, we need the flexibility under the law to implement our new delivery schedule.

- We need....the ability to develop and price products quickly.
- The ability to control our healthcare and retirement costs.
- The ability to switch to a defined contribution retirement system for new employees.
- The ability to quickly realign our mail processing, delivery and retail networks.
- We need a more streamlined governance model.
- And, we need more flexibility in the way we leverage our workforce.

Contrary to the arguments we hear from some parties, it is not enough merely to resolve the prefunding of retiree health benefits. We can implement our five-year business plan, close a \$20 billion dollar budget gap by the year 2017, and return the Postal Service to long-term profitability – but only if we gain flexibility in each of these areas.

If we don't gain this flexibility, our losses will continue and we risk becoming a significant burden to the taxpayer. It's just that simple.

Mr. Chairman, we need Congress to affirmatively grant us the authority to operate the Postal Service in a financially responsible manner. We need full authority to carry out our responsibility to provide universal service to our nation.

Every day we record a loss of \$25 million dollars, every day our financial hole gets that much deeper. We cannot stay on our current path.

Let me conclude by thanking this committee for its willingness to address these tough issues and to pass comprehensive reform legislation this year. The Postal Service is a tremendous organization, and it needs your help.”

#