**Written Statement for Roman Martinez IV,
Chairman, U.S. Postal Service Board of Governors,
to the Senate Homeland Security and Governmental Affairs Committee**

"Oversight of the United States Postal Service"

April 16, 2024

Chairman Peters, Ranking Member Paul, and members of the Committee, thank you for inviting me to appear before you today.

My name is Roman Martinez IV, and I am honored to serve as Chair of the Board of Governors of the United States Postal Service. I became a member of the Board in August 2019 and was first elected as Chair by my fellow governors in January 2022.

By statute, the Postal Service's Board of Governors consists of 11 members – nine governors nominated by the President and confirmed by the Senate, as well as the Postmaster General and the Deputy Postmaster General. The Board currently has two vacancies. We have registered Democrats, Republicans, and Independents, but we function strictly in a non-partisan fashion.

Each of our governors brings different experiences and expertise to the table. And while we don't always agree, we are always united in our commitment to ensuring that the United States Postal Service remains a critical part of our government's public infrastructure.

I joined the Board with almost fifty years of experience in business and financial markets, including almost thirty years serving on boards of private, public and not-for-profit organizations. These experiences have taught me how to assess complex business and financial challenges, and to appreciate best practices of board governance.

Under statute, the Postal Service operates similarly to a private corporation, though there are some important distinctions that I will discuss today. The Board of Governors is tasked with setting the long-term strategy for the organization, providing oversight, and approving certain key decisions, such as pricing. The Postmaster General and the management team are responsible for executing the strategy and managing the day-to-day operations of the Postal Service.

As an independent agency of the Executive Branch, the Postal Service is a unique organization. We are committed to honoring our universal service obligation and ensuring that all Americans have access to postal services at a reasonable price. At the same time, we are required under law to be self-sustaining – to cover operating costs and capital investments from our own revenues. Because of these distinct factors, it is important that any comprehensive assessment of the Postal Service be clear-eyed about the things that the Postal Service can control, and the things it cannot control.

Three years ago, Postal management and our Board of Governors developed a ten-year plan (the Delivering for America, or DFA, Plan) to modernize our networks, stabilize our workforce, make investments in Postal infrastructure, and set the Postal Service on a path to financial solvency. It is a balanced plan that envisions approximately 40% financial contribution from needed reforms, approximately 40% from cost savings and revenue initiatives, and the remainder from increased pricing. It also calls for investments of $40 billion to make up for approximately $20 billion of deferred investments.

The Board of Governors continues to support the DFA Plan and Postmaster General DeJoy's efforts to implement this incredibly complex and critical transformation of the Postal Service. We fully recognize that these changes will not be without impacts and temporary service disruptions. We also firmly believe that we must absorb such impacts and recover from them as quickly as possible. But these changes are critically necessary, and the DFA Plan is the only viable path for the Postal Service to become financially self-sufficient over the long term.

Because the Postal Service has no control over key expenses such as pensions and workers' compensation claims, it is important to assess its financial results by focusing on its "controllable income/loss" (like a business's operating results). These are the results that may be addressed by management. When uncontrollable factors are added to its financial statements, as required by Generally Accepted Accounting Principles ("GAAP"), sizable losses are reported. Those losses are not the correct way to judge the financial results of the Delivering for America Plan. I will elaborate briefly.

During the first quarter of fiscal 2024, the Postal Service recorded approximately $500 million of controllable income and a net loss of $2.1 billion under GAAP. This number includes the holiday season, which is our busiest. But it was still approximately $300 million more than the previous year's first quarter. And we expect our controllable income to continue improving relative to previous years.

What were the uncontrollable factors that resulted in the sizable GAAP loss? There are three main culprits.

First, in the first quarter, the amortization of unfunded pension liabilities of the Federal Employee Retirement System and the Civil Service Retirement System (CSRS) amounted to approximately $1.4 billion, which is recorded as an expense. But this is the consequence of the requirement by law that USPS pension contributions be handed over to the US Treasury to invest exclusively in US Treasury debt securities. This has resulted in an outsized mismatch of pension asset returns and pension liabilities that are adjusted by inflation. This has been particularly disastrous in periods of negative real rates of interest, as we have recently experienced.

Other independent federal agencies like Amtrak and the Tennessee Valley Authority are not constrained by these same limitations, and their retirement accounts fare significantly better than those of the Postal Service.

It is worth highlighting that a recent Inspector General report found that if Postal retirement funds had been invested in a diversified 60% stock/40% bond portfolio, our $96 billion retirement deficit in 2022 would have been a $797 billion surplus.

Second, the Postal Service remains saddled with paying a disproportionate share of CSRS costs for our employees who worked for our predecessor organization, the Post Office Department. A recent report by our Inspector General noted that the "Postal Service is expected to cover the full cost of CSRS benefits while other federal agencies are not."

If the Office of Personnel Management used more modern actuarial methods – as we, the Postal Regulatory Commission, and the Inspector General have concluded – the Postal Service would have roughly $100 billion more in the CSRS fund. This would then eliminate the CSRS unfunded liability amortization payment which totaled $800 million in the first quarter of 2024. There has been an ongoing dispute concerning whether a more fair allocation of these responsibilities can be effectuated by administrative action by the Executive Branch, but if it cannot be, then legislative action will be required to correct this injustice.

These two factors alone accounted for $5.1 billion of the Postal Service's expenses in Fiscal Year 2023, a year in which we recorded $6.5 billion in total losses. Put another way, these two issues alone accounted for nearly 80 percent of our recorded losses last year.

The good news is that these are fixable but might require legislative action. At some point in the future, we would like to work with Congress to get this done.

A third factor inflating the Postal Service's annual expenses is our workers' compensation obligations. An Inspector General report released last year concluded that the Postal Service's workers' compensation costs "remained significantly higher than private industry." It also noted that absent legislative changes to the Federal Employees Compensation Program, the organization is "limited in its ability to adopt cost-saving initiatives used in private industry" that could further reduce these costs.

The Postal Service's annual workers' compensation expenses total roughly $1.6 billion. These costs are determined by the Department of Labor but recorded as controllable expenses. If the Postal Service could adopt some of the best practices used by the private sector – such as reaching settlement agreements or using generic drugs – the OIG has found that we could have saved roughly $315 million on an annual basis.

Not only are these workers' compensation costs higher than they need to be, but the reported liabilities fluctuate wildly because GAAP requires that they be adjusted depending on changes in interest rates. At the end of 2023, the Postal Service's workers' compensation liability totaled $14.1 billion – and for every 1 percent movement in interest rates, that liability could move by as much $1.4 billion in either direction, which gets recorded on the agency's quarterly and annual financial reports. In the first quarter of 2024, it resulted in a negative non-cash adjustment of $1.2 billion.

These are complex issues, but they are critical to understanding the factors weighing down our financial numbers, even as we are hard at work transforming the Postal Service and putting it on a sustainable path for the future.

The Board of Governors is committed to doing everything in our power to help get the organization on solid financial ground.

To this end, my experience serving on the Board of Governors and with other boards has taught me that it is critical to have Board members who can be fully engaged with the organization and its challenges over the long term.

Governors of the U.S. Postal Service are to serve a seven-year term, but due to longstanding vacancies and staggered terms, the recent terms of governors have been closer to three years. I have been on the Board just four years and am now the second longest-serving governor, and my term expires in December. My predecessor as Chair served for just two-and-a-half years, including ten months as Chair.

We currently have two vacancies on the Board, and whoever fills them will have less than a full seven-year term. I urge the Administration and this body to move quickly to ensure the Board can benefit from having a fully constituted Board, with governors who can serve as close to a full seven-year term as possible. A full term is necessary to provide governors the time to learn the workings of the organization and its people, and to develop relationships with fellow board members and senior management, which foster trust and understanding.

Last month marked three years since the Postal Service began implementing the DFA Plan. The challenges facing the Postal Service did not materialize overnight and they cannot all be solved immediately. It will take all of us – policymakers, the Board, our regulators, and Postal management – working together to strengthen the Postal Service for generations to come.

While our finances have improved, as demonstrated by the $500 million of controllable income in the first quarter, our Integrated Financial Plan estimates a controllable loss of $800 million for the full year, but down from a $2.3 billion loss in 2023. Although we have limited control over pricing, postage rates are likely to continue climbing; nonetheless, these rates remain some of the most affordable in the world, as shown in a recent report published by the Inspector General. And inflation continues to be a major factor affecting our results.

As I noted earlier in my testimony, in implementing a restructuring of this magnitude, there are going to be times when service falls short of our standards. And the Postal Service will move quickly to address it. Our infrastructure is being modernized and our workforce is being stabilized.

Simply put, the Delivering for America Plan is working, but it needs time to achieve its goals. With your help and support, we can continue down this path.

Thank you for inviting me to join today's panel, and I look forward to your questions.