

Postal Reform

The Administration supports comprehensive postal reform in keeping with the principles outlined by the President. These include: (1) best practices of corporate governance, (2) transparency, (3) flexibility, (4) accountability, and (5) self-financing.

House and Senate Bills Fail the Administration's "Self-Financing" Test

CBO estimates that the current House bill would have a net deficit impact of \$9 billion over 10 years and that the current Senate bill would have a net deficit impact of \$16 billion over 10 years.

Treatment of Military Service Obligations - The Administration believes that the Postal Service, not ratepayers, must continue to be responsible for its pension costs connected with military service credit for postal employees under the Civil Service Retirement System (CSRS). Last year, significant pension relief was provided to USPS totaling \$78 billion. The House and Senate bills would grant an additional \$27 billion in relief by transferring the military service obligation to the Treasury.

Elimination of the Escrow Requirement - The House and Senate provisions making funds available to the Postal Service by abolishing the existing statutory escrow requirement in 2006 must be altered so there is no adverse budget impact. The Administration supports the underlying policy of abolishing the escrow, and has proposed a solution to eliminate the requirement in a budget neutral manner by requiring the Postal Service to use these resources to fully pre-fund current substantial unfunded liabilities for retiree health benefits.

The Administration is deeply concerned about proposals to delay collection of the escrow funds for two years, effectively allowing the USPS to delay a rate case by using those funds for operations. Each year of delay would cost the taxpayer more than \$3 billion and this short-term rate stabilization will ensure that true, long-term postal reform is not enacted.

House and Senate Bills Lack Substantial Reform

Both the House and Senate bills fail to meet the President's reform principles. In addition to the concerns raised above, the bills lack meaningful reforms in the areas of transparency - to prevent cross-subsidization of competitive products with monopoly product revenue; and flexibility - especially with respect to cutting back the high cost of labor (76% of revenue)

To date, the Administration has asked that the following reform provisions be included in a postal reform bill:

1. Require SEC-like financial disclosure by USPS. *(Language provided)*
2. Require USPS to produce product-by-product financial statements. *(Language provided)*
3. Require USPS to include all on-and-off balance sheet liabilities in rates, including retiree health and workers' compensation.
4. Require the Postal Service Competitive Fund to bank, borrow, and invest with Treasury (at market rates), rather than in the private market.
5. Allow the Postal Regulatory Board to determine whether materials submitted by the Postal Service are to be deemed confidential and exempt from public disclosure.
6. Eliminate provisions that would reduce flexibility to negotiate work sharing agreements.
7. Provide flexibility for USPS to optimize its processing and distribution network.

The Administration also believes that further reforms, consistent with the recommendations of the President's Commission, could help increase the Postal Service's management flexibility to bring in new revenue and cut costs. These additional reforms could include:

1. Repeal the salary cap on executive compensation while requiring performance to be considered as a key component of senior executive pay. (Not in House or Senate bills)
2. Allow the Postal Service to raise rates without prior review within a CPI rate cap, provided that the cap includes a productivity adjustment. (Productivity adjustment not in House or Senate bills) The Postal Service should be improving its productivity over time, and rates should reflect that. Rates should increase by the CPI reduced by an adjustment factor that accounts for improvements in delivery productivity, as measured by an industry-wide average.
3. Require the Postal Service to reduce its network costs to meet annual targets. If the Postal Service fails to meet these targets, an independent Postal Network Optimization Commission (P-NOC) should be established to make recommendations relating to the consolidation and rationalization of the Postal Service mail processing and distribution infrastructure. (House and Senate bills require USPS to submit a report to Congress and the regulator for facilities consolidation)
4. Amend the workshare limitation to ensure that the calculation of discount versus cost avoidance covers the life of the contract, not one year at a time.
5. Allow the Postal Service to enter into negotiated service agreements for noncompetitive products without going through a formal rate-setting process. Contracts would be reviewed after-the-fact if contested. (Not explicitly in House or Senate bills. Regulator has authority to establish.)
6. Require the arbitrator to take into account the viability of the business during contract negotiations. (Not in either bill)
7. Adopt Senate bill's changes to workers compensation laws that require a three-day waiting period before benefits begin, and changes that move workers from workers' comp to retirement at retirement age. Also add Commission change that limits benefits to 2/3 of the maximum weekly rate. If the Administration submits a subsequent government-wide FECA reform proposal that is stronger than the USPS reforms, the government-wide reforms should supercede once enacted.
8. Make clear that the regulator has the sole authority to clarify and periodically change the scope of the Postal monopoly (not the universal service definition).

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