

February 7, 2006

Senator Bill Frist
Senator Harry Reid
Senator Susan Collins
Senator Joseph Lieberman
Representative John Boehner
Representative Thomas Davis
Representative Dennis Hastert
Representative Nancy Pelosi
Representative Henry Waxman

Dear Senators and Representatives:

As members of the President's Commission on the United States Postal Service, we have been following with great interest the effort to bring much needed reform to the United States Postal Service. As we said in our Commission Report, the Postal Service faces very difficult challenges with the decline in first class mail, a growing number of delivery addresses and rising fuel and labor costs, especially in healthcare and retiree benefits. Positive legislative reform is needed to help the Postal Service meet these challenges and continue to provide universal mail service at a reasonable cost.

In our report, we made a number of recommendations for legislative reform that we believed would help insure the future of the Postal Service. We are pleased to see that the proposed legislation returns the CSRS payments for military service to the United States Treasury, consistent with the approach taken with other federal agencies. We recommended that the Postal Service to the extent feasible begin to accrue funds toward the retiree health care liability, and we called for increased financial transparency. Similar proposals are in both H.R. 22 and S.B. 662.

However, we have two major concerns with the bills as they are currently proposed. First, the bills call for a rate ceiling tied to the CPI, or a similar economic indicator, but do not give the Postal Service any additional flexibility or authority to reduce costs. The Commission recommended a rate ceiling that would give the Postal Service an incentive to reduce costs. However, we concluded that in order to enable a rate ceiling to be feasible, the Postal Service Board of Governors and management must have a greater ability to reduce costs.

Almost 80% of the total cost of the Postal Service is labor. The fastest growing elements of that cost are health care and retirement benefits, which are mandated or restricted by the federal government. Labor wages are also imposed by arbitration when the collective bargaining process between management and the unions is unsuccessful. As a result, the Postal Service has very little control over the majority of its costs, and those costs are rising significantly faster than the CPI. To implement a rate ceiling tied to the CPI or a similar economic indicator, but not give the Postal Service any additional ability to reduce costs will in our judgment in the not too distant future, lead to an inevitable reduction in universal service or simply transfer the excessive and unfunded costs to the tax payers.

We also recommended that the existing Postal Rate Commission be transformed into a stronger regulator that would oversee public policy issues and ensure accountability of the United States


Postal Service. At the same time we strongly recommended that the Postal Service Board of Governors and management be given more flexibility and authority to operate like a business. The Postal Service must reduce costs, restructure its outdated transportation and distribution network, and improve efficiency in order to ensure its long term viability.

Our concern is that the proposed legislation goes too far in transforming the regulator by giving it powers that will limit even further, rather than increase, the ability of the postal service to operate like a business. Giving the regulator the ability to receive, adjudicate and order remedies on virtually any complaint on any action the Postal Service takes essentially transfers oversight and operational authority from the Board of Governors and management to the regulator. Such an approach is likely to tie the Postal Service up in endless administrative proceedings and effectively preclude them from making the significant changes they must make to meet the daunting challenges that lie ahead.

This is a governance model that simply won't work.

We know that you and your colleagues have worked long and hard to bring reform to the U.S. Postal Service, and we appreciate the beneficial provisions in the proposed reform bills. However, it is absolutely essential to evaluate the impact of the bills as a whole to insure that the Postal Service is well equipped to address the serious structural and operational issues it faces. The Postal Service faces enormous challenges and, like any public corporation, must have the structure and management tools to respond to those challenges. Without the appropriate governance structure and empowerment of management, the Postal Service will not be able to address these challenges and will be at very high risk financially in the short term, and simply not sustainable in the long term.

Sincerely,



Co-Chairman
President's Commission, U.S. Postal Service

Dionel Aviles /s/
Don Cogman /s/
Carolyn Gallagher /s/
Richard Levin /s/
Norm Seabrook /s/
Joe Wright /s/