



April 28, 2014

The Honorable Darrell Issa
Chairman
House Committee on Oversight
and Government Reform
U.S. House of Representatives
Washington, DC 20515-6143

The Honorable Elijah Cummings
Ranking Member
House Committee on Oversight
and Government Reform
U.S. House of Representatives
Washington, DC 20515-6143

Dear Chairman Issa and Ranking Member Cummings:

Today I am writing to urge the U.S. Congress to enact comprehensive postal reform legislation as soon as possible. As you are aware, the U.S. Postal Service faces an uncertain future as it struggles to cope with a total mail-volume decline of more than 25 percent since 2007. The resulting financial challenges cannot be overcome without immediate legislative action.

The Postal Service's liabilities currently exceed assets by approximately \$40 billion, and volume and revenue for First-Class Mail, our most profitable product, continues to decline—driven primarily by losses in correspondence and bill payment volumes. In fiscal year (FY) 2013 alone, First-Class Mail volume decreased by an additional 4.1 percent, and we expect further annual volume and revenue declines going forward.

We continue to aggressively execute cost-savings initiatives to reduce operating expenses. Since 2006 these actions have included reducing our career employee complement by over 200,000, without resorting to layoffs, and consolidating nearly 24,000 delivery routes, despite adding nearly 7 million new delivery points. We gained greater workforce flexibility through provisions included in our most recent labor contracts allowing for the increased use of up to 20 percent noncareer employees, resulting in lower labor costs. Since announcing our Network Rationalization initiative in 2011, we consolidated 350 mail processing plants—reducing our processing footprint by one-third. In addition, since 2012 we consolidated more than 2,400 delivery units, and are adjusting the hours, and corresponding staffing, of 13,000 Post Offices to two, four, or six hours per day—with more than 8,700 Post Offices completed thus far, and the remaining adjustments scheduled for completion by the end of FY2014. Even while making these significant labor and infrastructure changes, we have maintained high levels of efficiency and customer service. Further, despite these aggressive cost-cutting actions, we will still incur annual inflationary cost increases of approximately \$1.2 billion each year, which will offset some of the benefits of our efforts.

The Postal Service's current financial challenges are compounded by the urgent need to invest in our vehicle and package infrastructure. Replacing our aging delivery fleet and enhancing our ability to remain competitive in the growing package business are critical to the organization's future business plan. We have developed a balanced approach to growing our business. This includes expanding our relationships with business partners, such as Amazon and eBay, to capture more of the e-commerce market. We're also leveraging our network of more than 65,000 local and national retail partners to provide customers more access and added convenience.

The Postal Service's proposal for five-day mail and six-day package delivery is another example of an important and necessary response to changing demand for our products and services.

As mentioned previously, one of the central problems facing the Postal Service is the combination of declining First-Class letter mail volumes and increasing delivery points. There is simply not sufficient revenue from mail per delivery point to sustain six-day mail delivery. Eliminating Saturday delivery of letters, flats, and other non-package items addresses this problem and will enable the Postal Service to better cover the cost of its ever-expanding delivery network. At the same time, the Postal Service will continue to deliver shipping services and packages on Saturday, (and in some cases Sunday), consistent with the growth in the volume of those products. This will enable us to continue to leverage our strengths in the package delivery market, and to continue positioning ourselves as a strong partner for e-retailers.

The unions' criticism of five-day mail delivery does not take into account the fact that package delivery would continue six (and sometimes seven) days per week. It is also simply inaccurate to claim, as the unions do, that affordable package delivery on Saturday is dependent in any way on the delivery of other mail. Delivering only packages on Saturday and/or Sunday, allows the Postal Service to take advantage of dynamic routing in the same way as our private sector competitors do, thereby reducing costs. If the Postal Service was required to deliver other types of mail on Saturday, delivery employees would have to continue stopping at each address on a route, thereby negating the projected costs savings.

Further, the claim that five-day mail delivery would eliminate 81,000 jobs is erroneous. In fact, the current plan for five-day mail and six-day package delivery is expected to result in the reduction of approximately 25,000 full-time equivalent positions, which will be accomplished through attrition, as has been the case for past complement reductions.

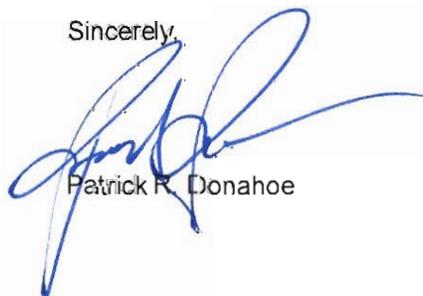
Despite the business imperative to implement five-day mail and six-day package delivery, the Postal Service has been open to compromise, such as a volume-based trigger to determine the timing for implementing such a change. We believe this to be a reasonable approach, since it takes into consideration the possibility that mail volume will stabilize.

We appreciate the Administration's FY2015 budget proposal on the Postal Service. The proposal addresses key factors that would result in needed financial relief and revenue generation opportunities, including refunding the Federal Employees Retirement System (FERS) overpayment, authorizing a shift to five-day mail/six-day package delivery, making the January 2014 exigent price change permanent, restructuring the retiree health benefits (RHB) prefunding obligation, and allowing increased collaboration with state and local governments.

While the President's proposal does not include needed health care reform, the Postal Service has worked extensively with all stakeholders to develop a health care proposal that would ensure proper integration with Medicare and would reduce our RHB unfunded liability by \$43 billion. Implementing this plan—which would almost completely eliminate the RHB liability and would make future amortization payments manageable—requires legislative change.

The American people need and deserve a financially sound, stable, and secure Postal Service. The initiatives we've taken in the last few years to mitigate our business risks and liabilities, as well as efforts to leverage our growth opportunities, have proven successful. However, Postal Service efforts alone will not return our business to financial self-sufficiency. We need Congress to act now. I encourage you to enact comprehensive postal reform legislation now to ensure the long-term stability and viability of the nation's mail service.

Sincerely,



Patrick R. Donahoe