COALITION FOR A
21st CENTURY
POSTAL SERVICE

Before the
Committee on Oversight and Government Reform
U.S. House of Representatives
Washington, DC

Testimony of
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On Behalf of the
Coalition for a 21st Century Postal Service

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Mr. Chairman, Mr. Ranking Member and Distinguished Members of the Committee on Oversight and Government Reform, my name is Art Sackler, and I appear before you today as the Manager of the Coalition for a 21st Century Postal Service, or C21 as we call it. C21 is grateful for the opportunity to present to you our views on HR 756, The Postal Reform Act of 2017. For reasons this statement will set forth below, C21 supports this bill, and urges Committee markup and approval on the Floor of the House as quickly as possible. In the absence of this legislation, both postal-driven businesses and the Postal Service itself will be in grave financial peril soon.

C21 is a coalition of trade associations and companies from across the face of the mailing industry and its vital supply chain. Together, we broadly represent an industry with $1.4 trillion in annual sales, and employing 7.5 million workers.[1] Neither figure includes the Postal Service itself. Among our members are mailers of every kind making use of all rate classes and categories, the printing industry, the paper industry, manufacturers of equipment and software used by mailers and suppliers, mail service providers, and companies whose base is ecommerce. They range from small businesses through some of the largest corporations in the country. They are located throughout the fifty states. Accompanying this statement is a copy of a recent in-depth study of mailing industry jobs and revenues that we respectfully request be made part of the record. It includes a breakdown of the industry by state and by congressional district for both sales and jobs.[2]

Before we go further, C21 would like to express its great appreciation to Chairman Chaffetz, Ranking Member Cummings, Chairman Meadows, Ranking Member Connolly and Mr. Lynch, and their respective staffs, for the long and difficult effort that has culminated in HR 756. This bill, in C21's judgment, constructively addresses the problems at the core of the USPS financial predicament. Financially stabilizing USPS, as this bill would do, has become a most urgent matter.

The Unfortunate USPS Financial Position and Outlook

Mr. Chairman, as you and the Members of this Committee know well, the Postal Service has been, and continues to be, in a deep financial hole. This is not caused by operations. On the contrary, because of factors such as the extensive cost cutting accomplished by the Service over the past decade largely driven by the price cap in the Postal Accountability and Enhancement Act of 2006, the rapid growth in package deliveries from the boom in ecommerce, and at least some leveling off in the loss of traditional mail, postal operational finances are in relatively good shape.[3]

It is on its balance sheet that USPS is in financial extremis. Because of obligations imposed by Congress in PAEA, primarily the requirement to pre-fund retirees' health benefits,[4] and otherwise (e.g., workers compensation), the Service has confronted a payment load it has been unable to meet in at

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[1] Chapman and Johnson, *EMA Foundation's US Mailing Industry Jobs and Revenue Study 2015*, October 6, 2015, attached, and http://www.envelope.org/ipsdocuments?ecp_v=dd&ecp_dp=Postal+Transformation%2FJob+Studies%2F2015+Jobs+Study .

[2] Id. at 25 – 35. The EMA Foundation's study's sales and jobs breakout for all 435 Congressional Districts includes, for example, Utah's Third District, where there are about 13,800 postal-related jobs, and nearly $1.5 billion in postal-driven commerce. In the Maryland 7th, the corresponding numbers are approximately 13,500 and $560 million.

[3] The Postal Service reported an operational surplus of some $615 million for FY 2016. We do note, however, that with the inexorable expansion of addresses to serve, and some new initiatives, postal expenses are up, primarily for adding to the workforce. Given that there is no corresponding increase in Market Dominant mail volume and the great majority of postal revenues it contributes, this equation presents a gathering problem for USPS' operational financial stability, as well.

[4] 5 USC ʃ8909a.

least four years. It has defaulted on its obligation for pre-funding in each of those years, with another one coming up in FY 2017.

There have been no penalties or otherwise adverse actions to the institution or its staff for these defaults, as there should not be for having to choose to keep the postal system running instead of meeting the prefunding and other obligations. That has not meant, however, that the obligations are escaped. The defaulted amounts are simply tacked on to the total to be amortized over forty years as also required by PAEA.[5]

According to the Postal Service, the balance sheet shows the institution in the red by some $81.2 billion overall. Of that, approximately $68 billion is due to the obligations, or "noncontrollable" expenses, imposed by statute. Counting these obligations in an annualized fashion, USPS estimates a net loss of $4.2 billion in FY 2017, continuing a string of that scale of net losses, and a very slight operations surplus. It is, in the view of C21, extremely clear that these obligations must be mitigated for USPS to regain its financial balance.

Placing the USPS Balance Sheet Desolation in its Full and Threatening Context

It is important to put this bleak financial picture in the context of the overall postal ecosphere. Mailers and their suppliers are facing a review and potential reworking of the "modern rate setting system" mandated ten years after enactment by PAEA.[6] Initiated on schedule by the Postal Regulatory Commission on the 10-year anniversary of PAEA's signing into law by President George W. Bush, that process is well under way.

The great fear of the postal-reliant businesses that comprise our coalition and the balance of the industry is that, in the absence of legislation such as HR 756, the Commission may believe itself compelled to make up the gap in USPS finances via the only tool it has in its toolbox: raising postal rates. The industry does not subscribe to the view that the statute authorizes the Commission to abrogate the rate cap,[7] but if the Commission were to proceed to raise rates beyond the cap, it would take years to sort out in the courts.

Were the foregoing to happen, rates would rise dramatically. Our best estimate of how rates would have to rise to fully rectify the postal balance sheet is 17.6%, with CPI-U increases, at least, on top of that. If those increases were stretched out to moderate sticker (or "rate") shock, and balance other rate setting objectives and factors in 39 USC ʃ3622(b) and (c), we estimate the likely course of increase would be 6-7%/yr for three years, followed by at least CPI increases. In either case, the results for mailers and their suppliers would be devastating. For an industry that has never fully recovered from the Great Recession, increases of this magnitude will kill off businesses, cost great numbers of jobs and, most of all, spur flight from the postal system.

In 2017, the state of communications technology combined with demographics pose an unprecedented challenge to USPS. The full-scale acceptance and sufficient trust of email, online banking and a spectrum of other transactions, online promotions and marketing of various kinds and, most of all, mobile technology and its commercial apps, and social media makes diversion from the mail easier,

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[5] 5 USC ʃ8909a(d)(2)(B)(2)
[6] 39 USC ʃ3622(d)(3).
[7] 39 USC ʃ3622(d)(1)(A)

dramatically less expensive and more impactful than ever. The millennial generation and large and growing numbers of its elders have become very reliant on this panoply of technology for a great range of communications, distribution, and transactional purposes.[8]

For mailers then, the choice of paper versus electronics becomes one of return on investment. A big component of determining ROI is price. With prices of postage rising in a major way, the ROI becomes eroded, biasing companies against using paper. Pre-Internet, the price of a piece of mail was reliably about one-third for paper, one-third for printing and one-third for postage. Today, postage costs range from 55-70%, depending on the type of mail. This is a reflection of the relentless increases in postage, even if only at CPI-U, over the last ten years while the prices of paper and printing stagnated or even declined.

So, with the increases contemplated above, we believe the probability is high that vast additional volume will be reviewed for removal and diversion to electronic communications. Companies overwhelmingly report that that will be the case.

In this regard, it is of no comfort that the recent "exigent" surcharge imposed on the system did not result in an apparent decline of mail. First, by definition, it was a temporary surcharge so mailers could plan for and absorb it in ways they will not be able to do if faced with the prospect of significant, permanent increases. Second, mailers report that the re-expansion of the economy from the depths of the recession masked the impact of diversion from those increases. That is, companies generally were seeing gains in customers and accounts. With those added accounts, a number remained in paper, although an increasing percentage of new accounts were all-electronic. The net effect was some stasis in mail volumes. With respect, we urge you not to expect a similar result from increases in postage if they are even in the same ballpark as those projected above.

Integrating Postal Annuitants into Medicare is an Essential Part of the Solution

In light of the above, we believe it is imperative that your bill be enacted into law.[9] We start from the premise that the postal system has worked well and should continue to work under a system supported entirely by user fees. We believe that a solution must be found within the four corners of that construct if at all feasible.

That is why we strongly support the Medicare Integration provisions in Title I of your bill. By moving postal annuitants to Medicare at age 65, USPS will realize a savings of some $2.9 billion annually. And by continuing to provide an insurance program under the Federal Employees Health Benefits Program as an employee group wraparound program, or essentially supplemental health insurance, the bill ensures full coverage for all postal annuitants.

These provisions conform to the best practices of the private sector. Companies that maintain health insurance for their employees and retirees routinely require a transition into Medicare at age 65.

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[8] See, e.g., https://www.marketingsherpa.com/article/chart/channels-preferred-by-age-groups; https://www.miteksystems.com/blog/83-millennials-expect-mobile-capture-all-mobile-transactions; and http://npf.org/pdfs/presentations/2016/Winning%20with%20Millenials%20and%20Securing%20the%20Future%20of%20the%20USPS.pdf

[9] Accompanying this statement is a letter from more than 1330 companies and trade associations expressing support for the direct antecedent to this bill in the 114th Congress, HR 5714, which we respectfully request be made part of the record. That level of support persists.

The companies may then offer supplemental insurance programs, or at least a contribution to each employee or retiree toward obtaining his or her own supplemental.

There is, however, one other private sector best practice we would urge the Committee to follow: investments of some funds into conservative vehicles. Conservatively investing a minor percentage of the funds in the RHBF will result in returns on those invested funds that are multiples of the current rules constraining these funds to invest in Treasuries at the current 1.7% more or less. This is not only a private sector best practice, but would also follow the successful approach used in the federal Thrift Savings Plan life-cycle funds, and adopted by Amtrak, TVA, the Railroad Retirement Board, and others. The bill introduced by Mr. Lynch, HR 760, The Postal Service Financial Improvement Act of 2017, would accomplish just that. We urge approval by the Committee and a favorable Floor vote on this bill, as well.

In any event, not to integrate all postal annuitants into Medicare would foreclose the only affordable and budget-wise path to stave off a high risk of financial chaos for the postal system and its users and suppliers. Ultimately such a problematic situation would fall to Congress, the guarantor of all postal obligations, which would have to respond with taxpayer funds or radically change the system. No one wants a bailout or the disruption severe change would cause throughout the country, and especially in rural areas.

<u>C21 Members Accept the 2.15% Market Dominant Increase in HR 756 as a Unique Necessity</u>

Sec. 207 of your bill would impose a one-time 2.15% market dominant-wide rate increase. To put it bluntly, mailers do not welcome rate increases generally, including this one; they are bad for business, although acknowledged that within limits a cost of doing that business.

C21's members also are concerned about the precedent of returning some rate setting to and by Congress. Congress wisely delegated its rate setting authority to the two postal agencies it created in 1970's Postal Reorganization Act, and reaffirmed in 2006's PAEA. By taking politics out of the Postal Service, Congress assured that rate setting according to standards it set would be handled in a dispassionate manner by professionals at the Service and at the regulator. It also assured that its Members would not have to spend precious time and staff resources in a bid to address complex and numerous postal rates in an equitable manner. While hardly a perfect system, rate setting both under PRA and after PAEA has generally been balanced and objective; something that is considerably harder to achieve in a political environment.

Nonetheless, we accept the necessity *in this unique set of circumstances* for the one-time across-the-board 2.15% increase (so long as it is not raised above 2.15% and Medicare Integration is achieved throughout the legislative process[10]) as, from our perspective, a necessary evil to assure longer-term postal financial stability. Our support for the bill overall will remain notwithstanding this increase. And it will certainly not hurt the Postal Service to receive an additional $1.1 billion annually from this increase.

C21 does wish to add, however, for the record that it will strenuously oppose any attempt to view this increase in this unique situation as a precedent for any other legislated increase. Postal rates

[10] Were either of these two conditions no longer to be met, our coalition would be compelled to withdraw our support for this bill, and oppose it.

are user fees, not taxes. They should, therefore, never be viewed as the source for an offset of any other budgetary or non-budgetary government expenditure that does not impact the postal system directly and exclusively. It is worth reiterating what Members of this Committee well understand: mailers must pay taxes, but they can choose not to mail.

Service Performance Execution to Standards Should be Addressed

Medicare Integration and the rate increase are the two core provisions in HR 756, in our judgment, essential to maintaining the financial viability of USPS. However, there is one other area that we believe needs to be addressed in any finished legislative product: execution to service standards.

Many of our members have reported service problems, notably failures to meet the revised, slowed service standards of recent vintage. This has been particularly visible in rural areas, but the reports cover all Market Dominant mail categories. C21 believes it is important to compile and examine these failures with a view toward meeting service standards universally and reliably. C21 members understand that the Postal Service “gets it” on service and has been making major efforts and investments to enable meeting its standards in a very high percentage of its mail, while continuing its necessary emphases on efficiency and cost effectiveness. Nevertheless, reports of problems persist.

Therefore, C21 believes that the best way to approach resolving these problems would be to charge the Postal Regulatory Commission with studying within specified time limits affordable options, in conjunction with the Postal Service and postal stakeholders, to ensure current service standards are being met universally and reliably.

We urge you to consider an approach that would address this issue.

Nonpostal Services

The physical delivery of mail and packages is the core function of the Postal Service. C21 supports the USPS’s efforts to develop innovative mailing and shipping services. Continued innovation around the delivery function is necessary to enhance the value of mail, facilitate e-commerce and grow mail and package volumes. C21 also supports a small amount of additional flexibility for USPS to assist in providing limited governmental services on behalf of other federal agencies, or state, local and tribal governments, as provided in sec. 204 of your bill.

We do not, however, endorse expansion into unrelated fields, such as banking, insurance, telecommunications, printing or the provision of mail services. This is for three reasons: 1) it would be huge distraction of executives’ time and existing, precious postal resources to develop such additional businesses; 2) it could easily create unfair competition with the government in the field; and 3) based on past history, it would generate fierce opposition from industries affected, and bog down or even stop any progress on urgently needed legislation. Nor should USPS be permitted to expand into private markets by licensing the USPS brand or other intellectual property. Businesses generally believe that USPS should stick to its core competencies in collecting, handling and delivering mail.

We believe HR 756 has struck the right balance on these services.

Once again, Mr. Chairman, the Coalition for a 21st Century Postal Service appreciates this opportunity to present our views to your Committee. The time to act is now and your bill presents an intelligent, workable and bipartisan approach to fixing the problem. We commend the bill and I would be happy to respond to any questions you or your colleagues may have.

Committee on Oversight and Government Reform
Witness Disclosure Requirement — "Truth in Testimony"

Pursuant to House Rule XI, clause 2(g)(5) and Committee Rule 16(a), non-governmental witnesses are required to provide the Committee with the information requested below in advance of testifying before the Committee. You may attach additional sheets if you need more space.

Name: Arthur B. Sackler

1. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.	
Name of Entity	**Your relationship with the entity**
Coalition for a 21st Century Postal Service	Manager

2. Please list any federal grants or contracts (including subgrants or subcontracts) you or the entity or entities listed above have received since January 1, 2015, that are related to the subject of the hearing.

Recipient of the grant or contact (you or entity above)	Grant or Contract Name	Agency	Program	Source	Amount
N/A					

2. Please list any payments or contracts (including subcontracts) you or the entity or entities listed above have received since January 1, 2015 from a foreign government, that are related to the subject of the hearing.

Recipient of the grant or contact (you or entity above)	Grant or Contract Name	Agency	Program	Source	Amount
N/A					

I certify that the information above and attached is true and correct to the best of my knowledge.

Signature Arthur B. Sackler Date: 2/3/17 Page ____ of ____

Art Sackler

Art Sackler of Sackler Brinkmann & Hughes LLC (SBH), and the PRIMAPACT Group LLC, has had a long career in public policy and law. Previously, he was a Principal in Ford & Huff LC, Vice President/Law and Public Policy for Time Warner Inc. (TW), General Counsel to the National Newspaper Association and had run his own firm. He has run trade associations and coalitions, among them the National Postal Policy Council, the Coalition for a 21st Century Postal Service, the Interactive Travel Services Association, Open Allies for Airfare Transparency, the Mailers Council, and the Coalition to Preserve the American Copyright Tradition, as well as having been a representative to many others. He has served on US Delegations and Advisory Committees about intellectual property, services, trade, privacy, and postal affairs. Focusing on media/entertainment, postal affairs and travel, he has a BA and JD from Syracuse, and an LL.M. from Georgetown.