

**HEARING TESTIMONY  
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BEFORE THE  
COMMITTEE ON GOVERNMENT REFORM'S SPECIAL PANEL ON  
POSTAL REFORM AND OVERSIGHT  
UNITED STATES HOUSE OF REPRESENTATIVES  
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Mr. Chairman and distinguished members of the Committee, I welcome the opportunity to testify today on the need for comprehensive postal reform.

The Postal Service plays a vital role in the commercial life of our nation. Business to business, consumer to business, and business to consumer mail comprise approximately 93% of total first class single piece mail. The postal service also plays a major communication role, connecting families and friends, making personal communication easier, and making the huge land mass of the United States a bit smaller. As one of the largest employers in America, with around 800,000 employees, many of our citizens look to the postal service for their economic and professional livelihood as well. Finally, the service provides the most common connection between citizens and their national government.

However, the current business model is not sustainable going into the 21<sup>st</sup> century. It is widely known that electronic diversion of mail volumes has caused a substantial and likely irreplaceable decline in first class mail. This trend is expected to continue. The Postal Service ended the latest fiscal year with large on and off balance sheet liabilities. These liabilities include \$7.3 billion of debt owed to Treasury, \$7.1 billion for future workers' compensation costs, \$8.7 billion for operating leases and approximately \$60 billion for unfunded post-retirement healthcare liabilities

Recognizing this increasing financial vulnerability, President Bush took decisive action. In December 2002, the President established a bipartisan, non-stakeholder Commission and tasked it with completing a comprehensive review of key postal issues. The Commission was to articulate an integrated set of recommendations that would put the Postal Service on the path toward long-term financial viability and operational excellence. To their credit, the nine commissioners completed the report on time and under budget. The process of receiving input from stakeholders through public meetings and written correspondence was given high marks for being fair and transparent.

The Commission's report is the most important document on postal reform in the last 30 years. The Administration was pleased with the comprehensive array of recommendations that the Commission submitted. As outlined in the President's Executive Order framing his commission, it was charged to consider each component of the business, including revenues and costs. With its 35 recommendations, the report takes us a great distance toward reaching a common goal: to implement changes that best

prepare the Postal Service to be a sound and efficient provider of services, a quality employer, and a fair competitor long into the 21<sup>st</sup> century.

While the Administration may not agree with every aspect of each of the 35 recommendations, we encourage Congressional leaders to carefully consider how the full range of recommendations for legislative consideration might be incorporated in meaningful, comprehensive postal reform.

According to the Commission, 16 of the 35 recommendations do not require any legislative action. The Commission concluded that the Postal Service could implement each of these without any undue delay connected with legislative changes. I also note that the Postal Service's Transformation Plan of April 2002 and the Commission's recommendations are not incongruous; in fact, they are remarkably similar. While I understand that the Postal Service's management is prudent to take time to carefully analyze proposed changes and implement reform actions in a sound manner, I take this opportunity to underscore the Administration's strong support for the Postal Service's efforts to implement reforms as expeditiously as possible. As Postmaster General Potter has frequently stated, the Transformation Plan is a blueprint for positive change and should remain a guideline for future changes. We agree, and would add the Commission's recommendations to this action list.

In outlining the circumstances that led to where we are today, we must add the Civil Service Retirement System (CSRS) Postal Funding Reform Act, signed into law by the President in April 2003. As you well know, this Act contributed significantly to financial recovery of the Postal Service, and is a tribute to the hard work and dedication of the members of this panel in particular. Thanks to this legislation, which allowed a transformation of the Postal Service's CSRS regime into a calculation mechanism that matches the Federal Employee Retirement System (FERS), the Postal Service immediately yielded an estimated \$78 billion financial gain. We believe that this has established the appropriate funding provisions for CSRS. Despite this enormous one-time gain, the Postal Service is not yet "out of the woods." Even with the strong leadership of Postmaster General Potter and the Postal Service's Board of Governors to drive an ever more competitive organization, more needs to be done. That is why we are here today.

Last month the Administration announced its support for comprehensive postal reform and articulated five principles to guide congressional debate. The Administration deliberately chose not to be overly prescriptive. We feel strongly that the following five guiding principles can frame a long-term, comprehensive, solution for the challenges that loom on the short and long-term horizon.

Implement best practices The Administration supports comprehensive reform that ensures that the Postal Service's governing body is equipped to meet the responsibilities and objectives of a business of this size and scope. We recognize the hard work of the present and past Board of Governors, as well as postal management and its workforce. However, we believe that it is time to reflect on whether improvements in corporate

governance can be incorporated that will add further value for ratepayers, taxpayers, and the Postal Service's workforce and management. As was stated in the President's Commission Report: "The Postal Service should meet the highest standard of corporate leadership...applying the best business practices of the private sector to delivering the nation's mail."

Enhance transparency In keeping with our desire to implement best practices, we seek postal reform legislation that takes steps to ensure that important factual information on the Postal Service's operations and performance is accurately measured and made available to the public. The Postal Service should provide more detailed financial information, including product-by-product financial statements and expanded financial reporting, e.g., voluntary SEC reporting. We also believe there is merit to recognizing the aggregate unfunded post-retirement health liabilities and the annual current cost of such liabilities, either directly on the balance sheet or, at least, in notes to the financial statements. Given the important service this organization provides to the American people, I believe that efforts to facilitate greater access to information can contribute to better decision-making, further enhance trust among stakeholders, and improve oversight.

Provide for greater operating flexibility In return for increased transparency and accountability, and given its self-financing obligation, the Administration believes that the Postal Service's governing body and management should have greater authority to reduce costs, set rates, and adjust key aspects of its business in order to meet its obligations to customers in a dynamic marketplace. In doing so, we urge caution and care to avoid unintended disruption of market forces.

Foster greater accountability Given its existing monopoly, potentially greater flexibility for operations, and its competitive position in some important segments in the delivery marketplace, we urge Congress to enact legislation that ensures that there is appropriate independent oversight to protect consumer welfare and universal mail service. We would like to see reform legislation that provides the corporate governing body with necessary tools to properly motivate postal management to achieve key objectives such as increasing productivity, enhancing service, and improving labor relations. An independent regulatory body must have sufficient authority to fulfill its oversight responsibilities.

Ensure self-financing The Administration is committed in its desire to see a Postal Service that is financially self-sufficient, covering all of its obligations. We believe that ratepayers should be responsible for covering liabilities, including the off-balance sheet, unfunded liabilities. By so doing, the Postal Service remains motivated to operate in a manner that strengthens the financial and operational health of the Postal Service.

Postal reform is not the only pressing matter involving the Postal Service that is currently before the Congress. The matter of enacting a comprehensive postal reform bill comes at virtually the same time as a related matter currently under consideration by Congress - modification of the CSRS Postal Funding Reform Act. There are two issues under consideration. First, whether Treasury or the Postal Service should be responsible for a

share of the costs paid to retired employees of the Postal Service that arise from increasing Civil Service pension benefits because of military service. In this regard, as mentioned earlier, the Administration continues to believe that the Postal Service should remain responsible for these costs and would oppose a modification to the Act. Second, whether the Postal Service should be required to maintain an escrow account that will be disbursed at the discretion of the Congress. The Administration believes that it is optimal for Congress to act expeditiously on both postal reform and the disposition of the escrow as a bundled whole.

The Administration sees postal reform as an integrated whole. It is crucial to address all major aspects of the Postal Service's cost and revenue lines, its balance sheet and off-balance sheet components, its corporate governance, its competitors, as well as the taxpayers and ratepayers. Reform should be characterized by the five principles that, when implemented, will ask each stakeholder to accept shared sacrifice in order to achieve a better, stronger, more accountable and transparent, Postal Service.

Issues surrounding postal reform are, indeed, complex. We are in the presence today of Congressional leaders, such as Congressman McHugh and others, who have spent a tremendous amount of time dedicated to making the Postal Service better. Postmaster General Potter's sustained dedication to achieve this objective must also be recognized. The issues that are involved with postal reform are complex; however, the Administration stands ready to work with you to take this critical issue forward.

Thank you. I will be pleased to answer any questions that you may have.