

COALITION FOR A 21ST CENTURY POSTAL SERVICE

Serving America's Postal Customers

THE FINANCIAL SERVICES ROUNDTABLE

The Hon. Tom Davis
Chair
House Committee on Government Reform
2157 Rayburn House Office Building
Washington, DC 20515

The Hon. Henry Waxman
Ranking Member
House Committee on Government Reform
2157 Rayburn House Office Building
Washington, DC 20515

The Hon. John McHugh
Chair
House Special Panel on Postal Reform
2157 Rayburn House Office Building
Washington, DC 20515

The Hon. Danny Davis
Ranking Member
House Special Panel on Postal Reform
2157 Rayburn House Office Building
Washington, DC 20515

July 15, 2004

Dear Chairman Davis:

The Coalition for a 21st Century Postal Service, a coalition composed of the largest users of the Postal Service and their suppliers, and The Financial Services Roundtable, which represents 100 of the largest integrated financial services companies, applaud you on your efforts to pass landmark postal reform legislation in 2004 – the first comprehensive postal reform bill in 34 years. Because of your leadership, the postal reform bill has come a long way – but there are still significant changes to be made to ensure the best reform legislation for the Postal Service and all those who depend on its continued viability.

The following issues in the House bill are still areas of major concern for the Coalition for a 21st Century Postal Service and The Financial Services Roundtable:

CSRS – Retiree Health Funding: We would support changes to the House bill that would employ a level “mortgage payments” approach toward funding the long-term liability over 20 years, while maintaining the low initial contribution currently contained in the House language. These changes would moderate rate hikes for postal customers in 2006, while also moderating future payments for the Postal Service.

Rate Index: The House bill appears to tie the index of rates to inflation, and it applies its index at the subclass level, but the “escape” clause would allow postal regulators to easily raise rates above the index. We urge the House to amend its escape clause to make it more difficult for regulators to circumvent the rate index.

Competitive Products: The USPS needs pricing flexibility in order to compete with the private sector. The House provision undermines that flexibility. We support changes to the legislation that would: return single piece parcels to the “market dominant” category; remove the authority of the Postal Rate Commission to suspend competitive prices set by the Postal Service; allow the USPS to negotiate rates with individual competitive products customers by limiting Section 403(c) to market dominant products; and, create a method of markup for competitive products with regular review by the Postal Rate Commission.

Worksharing: The House bill enumerates instances where discounts given by the Postal Service to its private sector mailing partners can exceed the total cost avoided by the USPS. However, the House bill fails to include language that would allow for an exception due to unforeseen circumstances in the future. We urge you to incorporate more regulatory flexibility that would allow the regulator to make exceptions in response to unforeseen circumstances in the future.

Service Standards: The mailing public needs and transparency of operations requires service standards to ensure that service won’t be sacrificed to cost cutting. The House bill incorporates current law, which leaves the issue of standards entirely to the discretion of the Postal Service. The House bill should be amended to require the Postal Service to establish service standards for each service and class of mail offered. The Postal Service itself should be authorized, after input from postal consumers, to establish standards for the service it offers. The Postal Service is most intimately familiar with the details of its operations and the relationship of service to costs. However, interested parties, including affected mailers, should be entitled to seek review of any standards established by the Postal Service before the Postal Regulatory Commission upon a showing that the standards established by the Postal Service for any particular subclass or service is inadequate to meet the purposes and requirements of the Act. Interested parties should also be able to complain to the Postal Regulatory Commission and obtain relief in the event the Postal Service persistently or chronically fails to meet established standards.

We urge you to make the above changes to the House bill, and act now to ensure that the USPS remains viable, healthy and affordable well into the 21st Century. The United States Postal Service has been a cornerstone of the U.S. economy for over

200 years. Failure to pass postal reform legislation this year will put countless American manufacturing and mailing industry jobs at risk, and expose the American consumer to unnecessarily large and unpredictable future postal rate hikes.

The Coalition for a 21st Century Postal Service and The Financial Services Roundtable look forward to assisting you in any way we can to resolve these outstanding issues prior to consideration of H.R. 4341 by the full House and make postal reform a reality in 2004.

Sincerely,

Coalition for a 21st Century Postal Service

The Financial Services Roundtable

**ATTACHED PLEASE FIND A LIST OF ORGANIZATIONS SUPPORTING
POSTAL REFORM, AND POSTAL REFORM FACT SHEETS ON
OUTSTANDING ISSUES.**

The positions contained within this letter regarding reform of the U.S. Postal Service are supported by the following organizations:

Alliance of Non-Profit Mailers	National Federation of Independent Businesses
American Express	National Postal Policy Council
American Forest & Paper Association	National Retail Federation
Arandell	National Rural Letter Carriers Association
Association of Priority Mail Users	NPES- The Association for Suppliers of Printing, Publishing and Converting Technologies
Banta	Parcel Shippers Association
Capital One	Pitney Bowes
CC3	Printing Industries of America
Citigroup	Property Casualty Insurers Association of America
CUNA Mutual Group	Quad Graphics
Direct Marketing Association	Quebecor World
Document Management Industries Association	R. R. Donnelley
Dynacolor Graphics	Small Business Legislative Council
Envelope Manufacturers Association	Solar Communications
FedEx	Stora Enso
Financial Services Roundtable	Time Inc.
Idealliance	Time Warner
International Paper	Vertis Direct Marketing Services
Magazine Publishers of America	Weyerhaeuser
Mailing and Fulfillment Service Association	Wisconsin Paper Council
MeadWestvaco	
Multi-Plastics, Inc	
NAPL	

FACT SHEET: CSRS – HEALTH FUNDING

What is the issue?

There are two significant retiree issues addressed by both the House and Senate bill. The first issue is the transfer of military pension costs from the Postal Service to the Treasury Department. The second issue deals with the excess postal retirement funds being inappropriately held in escrow.

Military Pensions: Under current law, the postal service is required to pay the total retiree benefits for employees who have also served in the military. This is different from any other government entity, whose military portion of the retiree benefits are paid by the U.S. Treasury. Both the Senate (S. 2468) and House (H.R. 4341) legislation transfer the military pension costs from the Postal Service to the U.S. Treasury, leaving the Postal Service to pay only those benefits accrued while the employee worked at the Postal Service.

Excess Funds in Escrow: Beginning in 1970, a formula was used to determine the contribution of the Postal Service into the employee retirement fund that resulted in too much money being placed in the fund. The formula was eventually fixed, but the excess money was still to be collected and held in an escrow fund that couldn't be used by the Postal Service without Congressional approval. Both bills repeal this escrow provision.

Both bills also establish the Postal Service Retiree Health Benefits Fund, from which the agency's share of the retiree health benefits are to be paid. However, both bills differ in what portion of the newly-freed up funds (those resulting from the shift of the military costs to Treasury, and the repeal of the escrow provision) can be used for keeping down postal rates and what portion must be applied to the new retiree health benefits fund.

The House Provision: The House provision requires an escalated payment system under which the Postal Service would pay half of its retiree health care obligation over 10 years. The initial payments would be low, but the payments would escalate sharply over a short period of time. This would make it difficult for the Postal Service to make payments without raising rates or cutting service.

The Senate Provision: Under the Senate provision, the Postal Service would pay down the full amount of the retiree health care obligation over 40 years with a level "mortgage payments" approach. The initial payments would be higher and would likely lead to a substantial rate increase for mailers in 2006.

Finally, there is a "glitch" in both bills which has the USPS making payments toward retiree health benefits during a 9-month period before the Fund is established, but receiving no credit for those payments.

FACT SHEET: CSRS – HEALTH FUNDING (CONT'D)

Who is affected by this issue?

Everyone. Mail volume and rates will be significantly affected by the way this issue is resolved, so it impacts all mailers and postal employees.

What is the best solution?

A compromise combining the best elements of the House and Senate provisions is the ideal solution. The level “mortgage payments” approach of the Senate toward funding the long-term liability should be combined with the low initial contribution level of the House, and stretched over 20 years. This compromise would moderate rate hikes for Postal customers in 2006, while also moderating future payments for the Postal Service.

To resolve the “glitch” in the payment plan, the first payment made by the Postal Service toward the Retiree Health Benefits Fund should be lowered to reflect the payments made in the 9 months before the fund was created.

FACT SHEET: RATE INDEX

What is the issue?

Under the current rate-setting system – a “cost of service” system – the operational costs of the postal service determine rate increases. The cost of service system often makes changes in postal rates unpredictable and creates no incentive for the Postal Service to contain costs (because costs can just be passed on to the consumer in the form of greater rate increases). Moreover, the current rate setting system is an extremely lengthy and costly procedure. A “rate index” system – where rate increases are tied to some measure of inflation - would protect mailers by giving predictability and affordability to future rate increases.

House and Senate rate index provisions differ, each with desirable elements.

The Senate version of the bill requires the use of an index for rate setting in the future, and mandates that rates not go above the index except in the case of “unexpected and extraordinary” circumstances. However, the Senate bill leaves the choice of the index (i.e., which variable sets rate increases) to the Postal Rate Commission (PRC). The bill also does not specifically apply the index to the subclass mail level (groupings of mail that have like costs and characteristics - for example, First Class letters) – an important provision for giving the Postal Service pricing flexibility.

The House version of the bill appears to tie the index of rates to inflation, but it has a much easier “escape” clause that would allow postal regulators to more easily raise rates above the index. The House bill, however, does apply its index at the subclass level.

Who is affected by the issue?

By indexing postal rates in the future and moving away from a “cost of service” system, increases will be affordable and predictable for all mailers.

What is the best solution?

The best solution is to adopt the Senate version, but to insert language requiring that the index be applied at the subclass level. The Senate version mandates the use of an index while making it more difficult (than the House bill) for the regulator to increase rates above the index.

FACT SHEET: COMPETITIVE PRODUCTS

What is the issue?

If the Postal Service is to succeed, it must be given a reasonable opportunity to compete with the private sector in competitive markets (Priority Mail, Express Mail, Parcel Post, International Mail). However, amendments were added to the House bill which tilt the playing field against the Postal Service relative to these competitive products.

Among the problems created by the last minute amendments are: restricting the Postal Service's ability to negotiate rate agreements in the competitive arena; treating single piece parcels as a competitive product; and, creating circumstances for its cost contribution that would result in the Postal Service being priced out of the competitive market.

Competitive products contribute \$2.5+ billion in revenue to the overhead costs of the Postal Service, substantially defraying the costs of the Postal Service's other vital functions. The last minute changes in the House legislation, however, virtually ensure that the Postal Service will not be a competitor in the package delivery market.

Who is affected by the issue?

The House language tilts the playing field against the Postal Service and is potentially crippling to consumers. All mailers would have to make up for the \$2.5 billion which competitive products contribute to the overhead by paying increased rates. It is extremely important to parcel shippers that the USPS be able to remain a competitor in package delivery – shippers, small businesses and rural consumers in particular need more than one choice.

What is the best solution?

The USPS needs pricing flexibility in order to compete with the private sector. The House provision undermines that flexibility. **The best solution includes changes to the legislation that would: return single piece parcels to the “market dominant” category as in S.2468; remove the authority of the Postal Rate Commission to suspend competitive prices set by the Postal Service; allow the USPS to negotiate rates with individual competitive products customers by limiting Section 403(c) to market dominant products; and, create a method of markup for competitive products with regular review by the Postal Rate Commission.**

FACT SHEET: WORKSHARING

What is the issue?

Worksharing is the public/private sector partnership between the USPS and industry. In 1999, worksharing saved the USPS an estimated \$15-17 billion.

The Postal Service sometimes offers discounts to its private sector partners in return for private investment that makes mailing less costly and more efficient for the Postal Service. In some cases, the discounts given may initially exceed the total cost avoided by the Postal Service. This is still ultimately worthwhile to the Postal Service due to the long-term gains in cost and efficiency.

The worksharing language in the House and Senate bills is identical - both bills enumerate instances where the discount given may exceed the cost avoided by the Postal Service. However, both bills fail to include language that would allow for an exception due to unforeseen circumstances in the future. While those exceptions enumerated by the bills appear to adequately cover all existing scenarios, there is no way to anticipate what the Postal Service will need or what may make sense in the future.

Who is affected by this issue?

Worksharing portends cost savings for the Postal Service, lowers postal rates for all mailers, and helps avoid large future rate hikes. Further restrictions on worksharing could drive mail volume out of the system or increase costs for the postal service, thereby jeopardizing postal rates in the future.

What is the best solution?

The regulator (PRC) should have the ability to identify additional situations in the future where exceptions to the rule make sense. The original Senate language allowed for this possibility, but it has since been amended to mirror the House provisions. **The best solution is to incorporate more regulatory flexibility and return to the original Senate language allowing the regulator to make exceptions in response to unforeseen circumstances in the future.**

FACT SHEET: SERVICE STANDARDS

What is the issue?

Set standards for the USPS would establish the level of service that it is required to provide its customers. Such assurances are necessary to safeguard against the Postal Service cutting service in response to increasing costs. The House and Senate provisions differ in regard to service standards.

The Senate bill would require the establishment of service standards by the Postal Regulatory Commission, a task which is traditionally left in the first instance to regulated businesses subject to independent regulatory review. Essentially, the Senate provision leaves the Postal Service without direct control over the services it will ultimately be required to provide. The House bill does not require the establishment of standards at all, leaving the public at the mercy of whatever the Postal Service chooses to offer.

Who is affected by this issue?

Service standards protect postal consumers – they guarantee that the USPS maintains certain levels of service. However, allowing the PRC to set the service standards puts the USPS in the untenable position of being forced to offer levels of service which it had no say in creating.

What is the best solution?

The USPS needs to have service standards to ensure that service will not be sacrificed to cost cutting and so that mailers have consistent, reliable and independently verifiable service at acceptable levels. The Postal Service itself should be the body to decide, in the first instance, what the standards are because it is most familiar with its operations and the relationship of quality service to cost. In order to adequately protect the interests of postal customers, the Postal Regulatory Commission should, upon complaint, be entitled to review standards once established by the Postal Service. Consumers should also be able to seek redress before the Regulatory Commission if the Postal Service chronically or persistently fails to meet service standards.