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BEFORE THE

HOUSE SUBCOMMITTEE ON

GOVERNMENT OPERATIONS

WASHINGTON, DC

NOVEMBER 16 2022

Good afternoon Chairman Connolly and members of the committee, thank you for the opportunity to speak with you today about preparations for the upcoming holiday season, and how changes to the Postal Service will affect its ability to deliver efficiently during future holiday seasons.

In 2020 I appeared before this Committee to discuss the viability of the Postal Service as it faced ongoing financial challenges and an uncertain future amid the COVID pandemic. Soon thereafter, unprecedented e-commerce shipping volumes overwhelmed the capacity of US delivery networks, including that of the United States Postal Service, resulting in significant delivery delays and service failures.

Two years later I am pleased to comment on a remarkable turnaround. The abatement of the pandemic has resulted in a partial return to normal consumer behavior, and the Postal Service has made tremendous strides in handling peak period shipping demands. In fact, last year's peak, apart from localized employee availability challenges and some equipment shortages, was a success.

With shipping demand having stabilized –in the case of the Postal Service volume has declined slightly – and the Postal Service continuing to add network capacity while prudently pausing structural changes to its network, the Postal Service is poised for success, albeit with some possible exceptions.

Despite recent improvements, the Postal Service continues to struggle processing flat-shaped mail, which experiences scanning rates and service performance well below overall averages. Remittance mail processing is another area of concern with some facilities exhibiting significant lags in delivery. In its package business, inconsistent application of peak charges may impede the Postal Service's efforts to retain shipping volumes.

Apart from those limited problem areas, our members anticipate another successful peak performance by the Postal Service. Given the sheer scope of postal operations, there will undoubtedly be unforeseen difficulties, but the systemic problems impacting the 2020 holiday season appear to be a thing of the past.

However, beyond the current season the picture is less clear. As is widely known, the Postal Service is preparing for an unprecedented reconfiguration of its network over the next five years as part of its Delivering for America (DFA) plan. PostCom's members agree that modernization and redesign of the postal system is overdue and necessary for the Postal Service to remain an efficient and affordable provider of delivery services for the entire nation.

PostCom's members are equally certain that the best way to ensure that a revamped postal network can meet the needs of its customers is by communicating and collaborating with the customers and business partners who rely on, and just as importantly, provide the overwhelming share of funding for, universal delivery service.

We have asked for, and will continue to urge, the Postal Service to be more forthcoming with its modernization and deployment plans, lest its network become hardened in ways that do not optimize the capabilities of the Postal Service and its business partners.

The Postal Service Reform Act of 2022 (PSRA), which erased $57 billion in Postal Service liabilities, called for the Postal Service to maintain an "integrated network" as a precondition for providing efficient universal service. In fact, the Postal Service, PostCom's members, and other service providers, comprise an even larger integrated network, the preservation and improvement of which is essential to preserving affordable postage rates. That can best be achieved by the Postal Service maintaining open, transparent, and ongoing communication with its customers, service partners, and other stakeholders as it builds out its revised network.

Over the same time span since my previous appearance before this Committee, the change in the Postal Service's financial condition has been equally remarkable. Thanks to continued demand for shipping, the Inflation Reduction Act (IRA), the CARES Act, and most importantly, the PSRA, the Postal Service's balance sheet has improved dramatically.

Yet as these exogenous factors have improved its financial condition, the Postal Service has implemented rate increases on its market dominant products at an unprecedented rate. Postage rates are set to increase in January 2023 for the fourth time in two years. When that increase takes effect, some products will have experienced cumulative rate increases nearing fifty percent since early 2021.

The most recent increase in rates was approved by the Governors before the Postal Service had completed a single fiscal quarter since the previous increase. In effect, the Governors have approved aggressive compounding of rate increases without the benefit of any empirical analysis of the effect that unprecedented rate increases are having on customers.

Further, at the most recent Board of Governors (BOG) meeting, it was made clear that the Postal Service will continue "taking price" even as market dominant volumes are driven from the system. At the November BOG meeting, the Postal Service revealed that it would not meet its projected break-even target in

FY2023, despite record revenues and a projected volume loss of 6.4 billion pieces relative to FY2022.

In his opening remarks, BOG Chairman Martinez acknowledged that the Postal Service would have to make good on the “self-help” component of the DFA plan, He did not provide any specifics, but with network changes expected to take at least five years according to postal management, mailers may rightly assume seven or more years of excessive rate increases before any meaningful cost savings.

The Postal Service has called for the Biden administration to revisit the Postal Service’s Civil Service Retirement System (CSRS) obligations to relieve some financial pressure. In addition, the Postal Service’s recently filed 10-K report shows that it maintains cash holdings exceeding 20 billion dollars, while the Office of Personnel Management (OPM) holds $261.8 billion in assets in the Postal Service’s retirement funds. Current regulations require that these assets – all of which were funded by ratepayers – be invested in Treasury securities that provide negative real yields as inflation outpaces nominal yields.

PostCom agrees that the Administration should consider all possible remedies to reduce these inequities to protect ratepayers. That will not be sufficient. PostCom has petitioned the Postal Regulatory Commission (PRC), which enabled the unprecedented rate increases cited above, revisit its regulations in light of the Postal Service’s recent good fortune.

PostCom notes that Chairman Connolly has proposed legislation that would require the PRC to do the same and endorses that effort . Without some check on these anomalous and excessive rate increases, our members are concerned that mail volume declines will accelerate to unsustainable levels.

The Postal Service is a beloved public institution, and a critical component of the nation's economic infrastructure. It is also the center of a mailing industry that employs more than seven million Americans, providing jobs in every state, and accounting for more than a trillion dollars in annual revenue.

The companies that I represent rely on the Postal Service to deliver magazines, prescription medication, bills and statements, packages, catalogs and essential business communications. Our members, to a great extent, fund the provision of universal postal service in the United States through the rates that they pay for commercial mail and shipping services. We depend on reliable, economical mail delivery and are invested in, and committed to, the long-term preservation and success of the US Postal Service.

As this Committee considers the Postal Service's readiness to meet peak season service commitments, we caution that, despite significant recent improvements, sustained punitive rate increases present an existential threat to the continued viability of the Postal Service. Mailers are prepared to pay their fair share, but should not be required to shoulder the entire burden of sustaining universal service during these challenging times.