June 22, 2011

The Honorable Sanford D. Bishop, Jr.
Committee on Appropriations
House of Representatives
Washington DC 20515-6015

Dear Congressman Bishop:

The United States Postal Service provides the nation with a vital delivery platform that sustains and propels American commerce, serves every American business and residential address, and binds the nation together, as it has for more than 236 years.

Even in an increasingly digital world, the Postal Service remains critical to the economy, supporting 8 million jobs in the mailing industry and more than $1 trillion in commercial activity annually. The physical delivery of content to America's homes and businesses is the core function of the Postal Service, and this fundamental need of the American people will always exist.

We currently deliver to more than 150 million addresses six days a week. The 170 billion pieces of mail we deliver annually account for more than 40 percent of the world's mail, which we deliver more efficiently and at a lower cost than any comparable post. And we do so without the financial support of the American taxpayer.

Over the last few years the Postal Service has recorded significant financial losses due primarily to legislatively imposed constraints, economic factors, and diversion of mail toward electronic media. The Postal Service has paid $21 billion in the past four fiscal years (FYs) to fund health benefits for future retirees. Were it not for this provision of law, the Postal Service would have recorded a cumulative profit of $1 billion from 2007 to 2010, a period during which the recession contributed to a 20 percent decline in mail volume. Federal retirement law has also required the Postal Service to overpay $6.9 billion into the Federal Employees Retirement System (FERS). These funds should be restored to the Postal Service to help us avoid insolvency in the coming months.

The Postal Service responded to these recent financial challenges by aggressively reducing annual operating costs by more than $12 billion during the past four years—and we have done so while achieving record-high service levels. We have consolidated operations, closed mail-processing facilities, and reduced our workforce by more than 110,000 career employees in an orderly and responsible manner—and without disruptive layoffs. The Postal Service has highly productive employees, and we strive constantly to be a responsible employer.

We have recently gained important new flexibility in the use of our workforce as a result of the recent agreement with the American Postal Workers Union, which provides both immediate cost savings and long-term structural changes. We are seeking similar agreements with our other postal unions as well.

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We continue to compete aggressively for customers by offering innovative products and services, such as our highly successful Flat Rate Shipping offerings. We have seen recent growth in standard mail and packages, although not nearly enough to offset the decline in First-Class Mail.

**Financial Crisis**

Despite these efforts, the Postal Service is currently in a dire financial predicament. As a self-funded entity, the Postal Service is contending with declining revenues and significant financial obligations, not the least of which include sustaining operations, and paying employees and suppliers. The cash position of the Postal Service has reached a critical level, and we will exhaust our borrowing authority by the end of the FY. Our liquidity issues may create a loss of confidence in the Postal Service, leading to a downward spiral in mail volume as package senders may go to competitors and direct advertising mail may decline significantly.

Absent the enactment of legislation this FY, the Postal Service will be unable to make a mandated $5.5 billion pre-payment to the U.S. Treasury due September 30, 2011. This pre-payment for future retiree health benefits is no longer tenable given present-day financial challenges.

Furthermore, even if this payment is not made, our FY2012 outlook remains dire: our current forecasts (which assume the $5.5 billion payment is not made on September 30, 2011) show a risk of insolvency (cash shortfall) in October 2011, and again beginning in July 2012. Additionally, prior to July our forecasts show dangerously low cash levels, less than $1billion, for all but three months of FY2012, compared to biweekly payroll costs of $1.8 billion. Therefore, the Postal Service is facing the real prospect that it will not be able to meet payroll next year, thus disrupting mail delivery.

The Board of Governors of the Postal Service has therefore decided to implement an emergency cash conservation measure. Effective June 24, 2011, the Postal Service will suspend employer contributions for the defined benefit portion of FERS, in which the Office of Personnel Management (OPM) has stated we have a surplus of $6.9 billion. We will continue to withhold the employees' contributions to FERS and will transmit those amounts. We will also continue to transmit employer automatic and matching contributions and employee contributions to the Thrift Savings Plan.

While the Postal Service and OPM have a difference of opinion as to whether the suspension of annuity contributions by the Postal Service must impact accrual of service credit for Postal Service employees, we have agreed with OPM to submit this matter to the Office of Legal Counsel (OLC) at the Department of Justice for a resolution of our differing conclusions. We have also agreed that, until the OLC renders an opinion, no action will be taken to suspend accrual of service credit for postal employees.

**Legislative Request**

Restoring the financial health of the Postal Service will require continued efficiency gains and right-sizing of our processing, delivery, and retail network and continued downsizing of our career workforce. It also will require Congressional action to address the retiree health benefits pre-funding requirement, the Postal Service's overfunding of both its Civil Service Retirement System (CSRS) and FERS obligations, and provide the Postal Service with delivery schedule flexibility. Taken together, these actions will avoid the possibility of service disruptions due to a cash shortfall—which is currently projected to occur as early as this October and as late as the spring/summer of 2012. The need for legislative change is immediate.

The Postal Service has been communicating regularly with Congress and the Administration about these important issues. We urge your support of this vital postal legislation and ask that you work for immediate enactment this FY to avoid the possibility of mail and package delivery disruptions in 2012.

We will continue to apprise you of additional developments. Thank you for your continued engagement in postal matters and for your support of the United States Postal Service.

Sincerely,

Louis J. Giuliano
Chairman, Board of Governors
United States Postal Service

Patrick R. Donahoe
Postmaster General and
Chief Executive Officer
United States Postal Service