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ONE HUNDRED EIGHTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6143

MAJORITY (202) 225-5074
FACSIMILE (202) 225-3974
MINORITY (202) 225-5051
TTY (202) 225-6852

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December 19, 2003

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The Honorable John E. Potter
Postmaster General and CEO
United States Postal Service
475 L'Enfant Plaza, SW
Washington, DC 20260

Dear Mr. Postmaster General:

We are writing to you about the disposition of the Postal Service escrow fund. We have received and closely reviewed the Postal Service's September 30 proposal, GAO's November 26 evaluation of the proposal, and your December 8 letter responding to GAO's evaluation. As GAO recommended, we believe the Postal Service should provide Congress with "a comprehensive, integrated infrastructure and workforce rationalization plan" before Congress acts on the escrow fund.¹

The concept of the escrow fund originated in our Committee as part of the Postal Civil Service Retirement System Pension Reform Act of 2003. This law relieved the Postal Service of its obligation to pay \$39 billion over 10 years, and \$154 billion over 25 years, into the Civil Service Retirement System (CSRS). The escrow account was added to the legislation as a mechanism for ensuring that the savings created by the Pension Reform Act would be used wisely to meet major challenges confronting the Postal Service. As GAO recognized in its report, the reduction in pension costs "has provided an opportunity for the Service to address some of its long-standing challenges" and the escrow requirement "provides Congress an opportunity to review how the Service will address a number of long-term challenges."²

The two proposals submitted by the Postal Service on September 30 contain valuable ideas. In particular, we commend you for addressing unfunded retiree health benefits. This is one of the major issues facing the Postal Service. We agree that there is merit in using savings

¹U.S. General Accounting Office, *Postal Pension Funding Reform: Issues Related to the Postal Service's Proposed Use of Pension Savings*, Highlights (Nov. 2003) (GAO-04-238).

²*Id.* at 1, 5.

generated by the Pension Reform Act — as well as possible new savings related to military service obligations — to address this issue.

Under both of the Postal Service's proposals, however, a large portion of the savings generated by the Pension Reform Act will go to pay current operating expenses. Indeed, for the second proposal, almost all of the savings would be used for current operating expenses. Two reasons are provided for this allocation: (1) using the savings to pay operating expenses will help keep rates low and (2) the Postal Service will be able to fund needed cost-saving and productivity initiatives without drawing on the savings under the legislation. We agree that it is important that the Postal Service keep rates low, but we do not believe the Postal Service has explained what cost-saving and productivity investments it needs to make.

In your December 8 letter, you state: "it should be emphasized that current and future postal operations are being driven by a comprehensive *Transformation Plan* which addresses these network and workforce issues."³ The problem as identified by GAO is that the Postal Service has not provided enough information regarding its progress on the transformation plan or its ability to finance these changes. For example, in response to the Postal Service's belief that it can finance necessary capital investments through inflation-based rate increases alone, GAO expressed concern that the Postal Service's "financing plan may not be adequate to provide for its capital investment needs, because historically, the Service has found it problematic to finance its capital needs with operating revenues."⁴ Furthermore, GAO pointed out that the Postal Service provided little detail on its capital investments for productivity gains and cost-saving initiatives in its proposals, the Five-Year Strategic Plan, or the Five-Year Strategic Capital Investment Plan.⁵ Even where the Postal Service provided some detail, it failed to give GAO sufficient backup data or description.⁶

Our goal is to repeal the escrow account. However, it would not be prudent for Congress to take this step until the Postal Service has demonstrated that it has a workable plan to fund the key capital investments needed to ensure the long-term viability of the Postal Service. That is why GAO recommended that Congress consider repealing the escrow requirement only after it receives "an acceptable plan from the Service describing how it intends to rationalize its infrastructure and workforce and is confident that the Service is making satisfactory progress on transforming itself into a more efficient organization and implementing its transformation goals."⁷

³Letter from Postmaster General John E. Potter to Rep. Henry A. Waxman (Dec. 8, 2003).

⁴U.S. General Accounting Office, *supra* note 1, at 23.

⁵*Id.*

⁶*Id.* at 23–24.

⁷*Id.* at 30–31.

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We will be considering postal reform legislation early next year and would like to address the escrow requirement as part of that legislation. But we will not be in a position to do this without additional information from the Postal Service. For that reason, we ask that you submit to Congress by January 31, 2004, the further planning recommended by GAO.

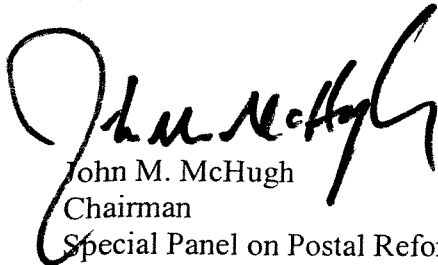
Sincerely,



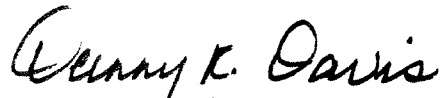
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