**WILLIAMS & JENSEN, PLLC**

**CONGRESSIONAL HEARING REPORT**

**DATE OF HEARING:** February 7, 2017

**SUBJECT:** “Accomplishing Postal Reform in the 115th Congress- H.R. 756, the Postal Service Reform Act of 2017”

**COMMITTEE:** House Oversight and Government Reform

**STAFF MEMBERS COVERING HEARING:** Rebecca Konst

**Members Present**

**Republicans:** Chairman Jason Chaffetz (UT); Representative Darrell Issa (CA); Representative Blake Farenthold (TX); Representative Mark Meadows (NC); Representative Dennis Ross (FL); Representative Jody Hice (GA); Representative Glenn Grothman (WI)

**Democrats:**  Ranking Member Elijah Cummings (MD); Representative Eleanor Holmes Norton (DC); Representative William Lacy Clay (MO); Representative Stephen Lynch 9MA); Representative Gerald Connolly (VA); Representative Robin Kelly (IL); Representative Brenda Lawrence (MI)

**Witnesses**

[**Megan J. Brennan**](https://oversight.house.gov/wp-content/uploads/2017/02/Megan-J.-Brennan.pdf), Postmaster General, USPS

[**Robert G. Taub**](https://oversight.house.gov/wp-content/uploads/2017/02/Taub.pdf), Chairman, Postal Regulatory Commission

[**Lori Rectanus**](https://oversight.house.gov/wp-content/uploads/2017/02/Rectanus.pdf), Director, Physical Infrastructure Issues, GAO

[**Arthur Sackler**](https://oversight.house.gov/wp-content/uploads/2017/02/Sackler.pdf), Manager, Coalition for a 21st Century Postal Service

[**Fredric V. Rolando**](https://oversight.house.gov/wp-content/uploads/2017/02/Rolando-NALC-Statement-Postal-Reform-2-7.pdf), President, National Association of Letter Carriers

**Overview**

On February 7, the House Oversight and Government Reform Committee held a [hearing](https://oversight.house.gov/hearing/accomplishing-postal-reform-115th-congress-h-r-756-postal-service-reform-act-2017/) entitled “Accomplishing Postal Reform in the 115th Congress- [H.R. 756](https://www.congress.gov/bill/115th-congress/house-bill/756/text), the Postal Service Reform Act of 2017.”

Topics discussed included, but were not limited to: (1) Impacts of Inaction; (20 USPS Fleet; (3) Medicare Integration; (4) prefunded Liability; (5) Delivery Decline; (6) Six Day Delivery; (7) Capital Expenses; (8) Unfunded Liabilities; (9) Cluster Delivery; (10) Mail Rates; (11) Innovations; (12) Collective Bargaining; and (13) Service Standards.

**Member Statements**

**Chairman Jason Chaffetz (R-UT)** stated Former Chairman Issa (R-CA) laid the ground work for this issue and the Committee has continued to build on that. He noted there have been ten years of net losses at the United States Postal Service (USPS). He explained it is up to this Congress to fix these issues. He stated there are no appropriations for the USPS but there are things that Congress can do to put the USPS on more sound footing. **Chaffetz** stated it is vital to have a strong postal service. He explained since 2006 the annual volume of mail delivered has declined by 30 percent. He stated the new revenues from packages are not enough to offset those losses. He noted the large liabilities for health care and retiree benefits. **Chaffetz** stated the USPS has embarked on cost cutting measures and reduced career employees by over 2,000 people. However, he noted these actions without legislation are not enough. He noted the efforts by the Committee to achieve bipartisan agreement on a reform proposal. He explained last July a bill was reported by voice vote form the Committee though it did not make it through Congress. **Chaffetz** stated last week [H.R. 756](https://www.congress.gov/bill/115th-congress/house-bill/756/text), the Postal Reform Act of 2017 was introduced which builds on the legislation from the last Congress. He explained the bill allows the USPS to integrate its health care with Medicare which will address the unfunded liability and allows conversion to centralized delivery. He stated the bill allows for input from stakeholders.

**Ranking Member Elijah Cummings (D-MD)** stated after years of work the Committee came very close to enacting legislation in the last Congress but simply ran out of time. He noted the commitment of the Chairman to complete this task this Congress and **Cummings** thanked the Chairman for following through on that promise. **Cummings** noted the Chairman picked up where they left off and made this bill a better bill. He expressed pleasure over the progress which was made in the last Congress and the fact that a bipartisan reform bill was introduced. **Cummings** explained there are a lot of stakeholders in this industry and they were all willing to compromise and work together. He stated the bill was passed out of Committee in the last Congress but was held up waiting for cost estimates. He explained H.R. 756 is substantially similar to the bill considered last Congress and he reiterated the urgency to enact postal reform. He noted the USPS will run out of cash without legislative relief. He noted the 25 percent decrease in mail handling and he stated more declines are expected. **Cummings** stated the costs of delivery have also increased because of the universal delivery requirements. He stated the USPS must expand to deliver to all the new addresses created each year. He noted the requirement to fully prefund all retirement and health care costs. He stated no other agency has that requirement and the USPS has $120 billion in unfunded liabilities. He noted the exigency, which allowed the USPS to raise more capital, expired last year. **Cummings** noted the movement to allow the USPS to attempt new ways to raise capital. He stated he did not get everything he desired but he was willing to compromise. He noted the USPS faced $5.3 billion net losses for 2015 which is the tenth consecutive year with net losses. **Cummings** noted the delays in confirming members to the Postal Regulatory Commission (PRC). He stated the Committee must continue to “press ahead” for reform.

**Representative Mark Meadows (R-NC)** stated the Committee worked into the “eleventh hour”  
in the last Congress and they are picking up where they left off. He stated there is something for “everyone to complain about and everyone to brag about” in this bill. He reiterated that if Congress does not act jobs will be impacted. **Meadows** stated failure to act would mean the taxpayer would have to bail out the USPS.

**Representative Gerald Connolly (D-VA)** stated it has not been easy holding together the bipartisan coalition writing this bill. He stated the Committee has worked together and they have built on the bill from the prior Congress. He explained this bill is intended to put the USPS back on the road to solvency and to remove mistakes which were made in the past. **Connolly** stated the bill incorporates a number of principles which have been debated for years. He explained there may be opportunities to perfect the bill as it moves on. He noted there are a lot of moving pieces on this issue.

**Witness Testimony**

***Megan J. Brennan****,* ***Postmaster General, United States Postal Services (USPS)*** stated the USPS provides the nation with a vital delivery platform which serves the economy and binds the nation together. She noted the USPS is self-funded and does not receive any taxes. She noted the 36 percent decline in deliveries. She stated the USPS has streamlined and reduced their employee base. She stated they have stabilized marketing revenues and have increased package deliveries. **Brennan** stated those reforms will not cover the decline in first class deliveries. She stated the costs of the network continue to grow because of the universal delivery requirements. **Brennan** stated since 2012 the USPS has been forced to default on mandatory pension payments. She stated the USPS cannot overcome the requirements for prefunding and constraints related to revenue raising. **Brennan** expressed support for the proposed legislation. She stated an estimated $26 billion could be achieved in cost reductions and increase revenues. **Brennan** noted Medicare integration is the cornerstone of the bill. She stated no other agency is required to prefund their retirement and full integration with Medicare is an accepted practice in the public sector. She endorsed the provision which would restore half the exigency as a permanent part of the revenue base. She stated these fiscal challenges are serious but solvable. She stated H.R. 756 is fiscally responsible and allows the USPS to invest in the future.

***Robert G. Taub****,* ***Chairman, Postal Regulatory Commission (PRC)*** stated the USPS still faces significant financial obstacles, growing retirements liabilities, loss of revenues, and growing costs. He stated total liabilities exceed assets by $56 billion. He explained the USPS cannot raise enough funds to cover unfunded liabilities as well as make investments in aging equipment. **Taub** noted the report released by the PRC and suggested H.R. 756 is specifically designed to put the USPS on sound financial footing. He noted the PRC review of the current rate system. **Taub** explained there are nine objectives which must be achieved and fourteen factors which must be considered in this review. He stated on September 1, the PRC announced plans to start the review in December and an order will be issued in early autumn. **Taub** explained the PRC is following the timeline set out. He stated they will work hard to meet the goal of implementing changes by early 2018 as required under the bill.

***Lori Rectanus****,* ***Director, Physical Infrastructure Issues, GAO*** stated while the USPS is a critical part of the economy, the financial condition of the USPS puts that role at risk. She noted revenues are not keeping up with expenses. She stated there has been a net loss of over $60 billion. **Rectanus** noted the prefunding requirements. She stated the USPS has made significant efforts to raise additional revenues but costs continue to increase. **Rectanus** stated USPS revenues did increase recently but their costs have increased at a greater rate. She stated without reforms the USPS is not on a sustainable path. She stated unfunded liabilities account for over 70 percent of the costs of the USPS. She noted the high costs of retiree benefits. She stated $10 billion in retiree heaths and pension benefits will be due this year. She stated non-payments are likely to continue. **Rectanus** stated the taxpayer could ultimately be asked to step in. She stated comprehensive legislation is needed to better align revenues with expenses. **Rectanus** noted Congress needs to consider what type of postal service is needed and consider the sustainability of universal service. She reiterated the status quo is not sustainable.

***Arthur Sackler****,* ***Manager, Coalition for a 21st Century Postal Service*** stated the Coalition for a 21st Century Postal Service (C21) supports H.R. 756 and urge its approval. He stated C21 is broadly representative of the postal industry. He thanked the sponsors of this legislation for the efforts and persistence in developing this bipartisan bill. He noted the deep financial trouble of the USPS. He explained the industry appreciates the steps which have been taken but **Sackler** noted those steps have not been enough. **Sackler** explained the mobile revolution has impacted mail delivery which cannot be changed but he suggested the obligations, especially the prefunded liabilities, can be addressed. He noted the PRC review of the funding mechanisms. He stated rate increases would damage the industry and the USPS. He stated to reduce the liabilities an increase of 18 percent in rates would be needed which is not sustainable. **Sackler** stated H.R. 756 is an appropriate solution. He stated integration into Medicare is central to C21’s support of this bill. He expressed support for H.R. 756 and stated they accept the rate increase in this limited situation. He stated the industry would oppose any other rate increases. **Sackler** stated retaining USPS financial stability based on postage is essential.

***Fredric V. Rolando****,* ***President, National Association of Letter Carriers*** (NALC) stated NALC supports H.R. 756 as well as the Lynch-McKinley bill. He stated this bill sets the standard for bipartisan efforts. He stated the bill is based on best practices in the private sector. **Rolando** stated the USPS is vital to the national economic infrastructure. He explained at 84 percent few agencies have as high public ratings as the USPS and garner as much public trust. He noted the agreement among stakeholders that legislation is needed. **Rolando** stated over the past decade postal employees have worked diligently to reduce costs and improve efficiency. He explained Congress needs to address the pre-funded liability. He stated the expense of this mandate has accounted for over 90 percent of the USPS’s losses since 1997. He stated H.R. 756 will maximize Medicare integration. He stated it will also provide USPS employees access to low cost prescription drugs and other savings. **Rolando** explained this bill will increase Medicare spending by one-tenth of one percent. He noted this bill also addresses the expiration of the exigency and he stated restoring half the exigency is a reasonable compromise. He stated all four postal unions urge the Committee to adopt this legislation.

**Question and Answer**

***Impacts of Inaction***

**Chairman Jason Chaffetz (R-UT)** stated one choice is to do nothing. He asked what happens if Congress does not act. **Rectanus** stated the USPS will run out of money. She noted the fund will run out of money and a tax payer bailout would be necessary. She stated benefits would also end up being cut. **Taub** concurred that the USPS will run out of money. He stated the USPS is “past the point” of being salvageable. He stated half the problem goes beyond the pre-funding. He noted the inability to invest in innovations and equipment. **Brennan** stated the financial condition will continue to worsen and the USPS will continue to default on legally obligated payments. She stated there could be an inability to deliver the mail.

**Chairman Jason Chaffetz (R-UT)** asked what would happen to postal rates if not action is taken. **Taub** stated under current law the majority of the products are capped at the Consumer Price Index (CPI). He stated PRC is reviewing those rates currently. He noted there is an objective for financial stability in retained earnings.

**Chairman Jason Chaffetz (R-UT)** asked how much cash is currently on hand and why is that not being used for payments. **Brennan** stated they have $8.2 billion on hand and a decision was made to default on payments to ensure they have sufficient cash to ensure if a contingency occurs there is a cushion. **Chaffetz** asked where the proper balance is. **Brennan** stated their costs are over $72 billion a year so $8.2 billion is not enough. She stated they have deferred $8.92 billion in capital investments.

**Ranking Member Elijah Cummings (D-MD)** stated in May 2016 Rectanus testified that the USPS financial situation continues to decline. He asked what trends have been observed over the last eight months and has deterioration continued. **Rectanus** stated the same decline and losses have been seen as well as the same non-payments of the prefunding.

**Ranking Member Elijah Cummings (D-MD)** noted USPS has reported $610 million in controllable income in 2016 compared to $1.2 billion in 2015. **Brennan** agreed with these numbers. **Cummings** stated as a result of the exigency expiration revenue was a billion less and USPS reported going forward without the surcharge revenue will decline by almost $2 billion a year. He asked whether the USPS can afford that loss to which **Brennan** stated they cannot. **Cummings** asked whether exigency needs to be restored. **Brennan** stated it does. She stated they agree with the half restoration included in the bill.

**Ranking Member Elijah Cummings (D-MD)** noted based on PRC analysis there is a high probability that the USPS will go into financial stress. He asked whether that is still valid. **Taub** stated there are real concerns that the USPS will go into financial distress. **Cummings** asked when USPS will go into financial distress. **Taub** suggested in the short term five year window absent change the USPS will be in financial distress. He noted USPS has ensured delivery remains a top priority.

**Representative Gerald Connolly (D-VA)** asked whether absent this bill there is a risk of collapse. **Rolando** stated this legislation is important. He stated in terms of fairness the USPS has an unsustainable requirement for pre-funding. **Sackler** expressed support for the bill. He stated this is a solution which is absolutely necessary and without relief there would be disaster for the USPS. He noted the PRC rate setting review and suggested if the rate cap is removed and the liabilities are addressed through increases in rates the decline in volume will “skyrocket.” He explained the industry has never recovered from the Great Recession and if there is a rate increase the commercial first class mail will move to other options.

**Representative Mark Meadows (R-NC)** asked whether all four unions support the bill. **Rolando** stated they support the bill but suggest two “tweaks.” He noted if those are not made they still support passage out of Committee.

**Representative Mark Meadows (R-NC)** asked whether there has been a problem after the 2006 bill. **Rectanus** stated the bill seemed like a good idea but no one anticipated the recession. She noted 2007 was when the USPS first started recording losses.

**Representative Mark Meadows (R-NC)** asked whether this bill will fix the USPS. He asked what is needed from the PRC review. **Brennan** stated the strict price caps with the universal service requirement makes sustainability difficult. **Meadows** stated competition is limited in the market dominant products. **Brennan** stated market dominant are pressured by the Internet. She encouraged PRC to eliminate the cap and allow the USPS to set prices.

**Representative Mark Meadows (R-NC)** asked the USPS to be transparent in terms of their financials. He expressed concerns that Congress cannot make an informed decision without transparency. **Brennan** stated they will provide any details needed. **Meadows** expressed concerns over mandated institutional costs.

***USPS Fleet***

**Chairman Jason Chaffetz (R-UT)** asked about the USPS fleet. **Brennan** stated the USPS has one of the largest civilian fleet in the country but it is at the end of its life. She noted annual maintenance costs of over a billion. She explained they are looking at testing new delivery vehicles. She stated this week they put in a request for proposal for “off the shelf” right hand drive vehicles.

**Ranking Member Elijah Cummings (D-MD)** asked about USPS’ attempts to ensure the fleet is made in America. **Brennan** stated no decision has been made for production. She stated they will provide preference for domestically provided parts and they will require manufacturing in the U.S.

**Ranking Member Elijah Cummings (D-MD)** asked how decisions on the fleet are determined. **Brennan** stated they have a competitive procurement process. She noted there was an open competition and a request for bids. She stated six were chosen for the trial on alternative vehicles. **Ranking Member Elijah Cummings (D-MD)** stated millions of people and jobs rely on the USPS and Congress must act right now. He urged the Committee to quickly consider the bipartisan bill.

**Representative Jody Hice (R-GA)** noted the millions of miles the USPS fleet travels. He asked how many proposals were received for commercial off the shelf vehicles. **Brennan** stated those are due this week. **Hice** asked when they will choose a contract. **Brennan** stated they will make a decision in six months or less. **Hice** asked about next generation vehicle testing. **Brennan** stated that testing will be complete by the fall of 2017. She stated they would like to test those vehicles for 12 to 18 months. **Hice** asked how they determine cost efficiency. **Brennan** stated they would look at fuel efficiency, safety, maintenance costs and maneuverability.

**Representative Jody Hice (R-GA)** asked how they will fund the acquisition. **Brennan** stated that is the challenge. She noted they have deferred this maintenance and the sooner they get this bill passed and the price review completed they can invest. **Hice** asked how many vehicles they would like to purchase. **Brennan** stated no commitments have been made but it could be as many as 140,000 vehicles. **Hice** asked about purchasing 10,000 at a time. **Brennan** stated it will depend on available capital. She stated they want to be flexible and they would like to ensure they can benefit from new technology. **Hice** asked when they would retire existing vehicles. **Brennan** stated they have a bridge strategy where they replace 1200 vehicles at a time.

***Medicare Integration***

**Representative Stephen Lynch (D-MA)** thanked all those who have worked and been willing to compromise on this proposal. He stated the key to the proposal is the establishment of postal specific plans within the federal government health plans. He stated this will save “a ton of money.” **Lynch** stated there are some concerns over the funding of Medicare integration. He asked how much money the postal workers have contributed to Medicare yet they have not participated in the program. **Brennan** stated this provision is asking for the USPS to be treated like any other self-funded entity. She stated this is common practice in the private sector. She stated USPS employees have paid $30 billion into the Medicare trust fund since the 1980’s.

**Representative Darrell Issa (R-CA)** stated there is no net equity in the USPS. He stated even with the transfer to Medicare costs will continue to go up. **Rectanus** stated there are other things with the business model where revenues are having a difficult time keeping up with expenses.

***Prefunded Liability***

**Representative Stephen Lynch (D-MA)** asked about the prefunded liability. He asked whether any other agency is required to accelerate this funding. **Rolando** stated no other agency or private company is required to prefund. He stated absent the legislation the USPS would either just pay premiums and remain 50 percent prefunded or they would have to increase rates.

***Delivery Decline***

**Representative Blake Farenthold (R-TX)** noted the decline in first class mail. He asked whether there is a “bottom” to this decline. **Brennan** stated in single piece first class mail they have projected a 4 percent decline each year for the next five years. She stated the largest portion of first class mail is commercial. She noted many still want those mailings. **Brennan** stated they have worked on marketing which has stabilized that component. She stated they will continue to scale to demand.

**Representative Blake Farenthold (R-TX)** stated Amazon has provided a boost to the USPS but their ultimate goal is to cut out the USPS. **Brennan** stated Amazon is a valued customer. She noted there is competition in that last mile delivery. She stated the ability to scale to demand is essential.

**Representative Dennis Ross (R-FL)** noted in 2016 package delivery doubled yet only 5 percent delivery costs are attributed to packages. He asked whether the cost of package delivery is being paid for by mail delivery. **Taub** stated the USPS is receiving revenues on the competitive side. He noted market dominant is where the cost problems are. He explained under the law package delivery is covering its costs. **Taub** noted before 2006 there was not the transparency which exists. He noted today PRC tells the USPS how to report their costs. He noted every five years they set what competitive products contribute to the overhead and that has to be a representative share.

**Representative William Lacy Clay (D-MO)** stated the USPS has a complex and critical mission. He stated currently the USPS delivers to nearly 154 million addresses. He stated the USPS needs a big network to serve these addresses to which **Brennan** agreed. He stated this contributes to a substantial fixed cost. **Brennan** agreed. **Clay** asked whether the increase in new addresses every year increases USPS’ fixed costs to which **Brennan** agreed.

**Representative William Lacy Clay (D-MO)** asked about the decreases in first class mail. **Brennan** stated first class mail “pays the bills.” She stated they have worked to scale to demand as it has declined.

**Representative William Lacy Clay (D-MO)** stated the volume of package delivery has not offset the losses in first class. **Brennan** stated that is correct. **Clay** asked how many more packages would need to be delivered to offset the decline in first class. **Brennan** stated there would need to be a 250 percent increase.

***Six Day Delivery***

**Representative Blake Farenthold (R-TX)** asked about six day delivery. He asked about reconsidering the universal service requirement and six day delivery. **Brennan** stated they are delivering packages seven days in major metropolitan areas and they are expanding that. She stated the USPS has spent time building a coalition around a bill which could receive bipartisan support. She stated there is no consensus in moving to five day delivery.

***Capital Expenses***

**Representative Blake Farenthold (R-TX)** asked about capital expenses beyond vehicles. **Brennan** stated their other capital expenses include IT infrastructure, facility modifications, and additional capacity for sorting.

**Ranking Member Elijah Cummings (D-MD)** noted the USPS has exhausted their borrowing. He asked how many days of cash USPS has on hand. **Brennan** stated they have 30 days of cash. **Cummings** asked about capital investments. **Brennan** stated they will prioritize capital spending. She stated to compete they need to invest.

***Unfunded Liabilities***

**Representative Darrell Issa (R-CA)** stated the USPS is in record deficits. He noted ten years ago the postal reform bill did not solve the problems. He noted the USPS has deferred maintenance of about $9 billion, $15 billion in credit was used up, and there are net losses of $5.3 billion. He asked about the unfunded liabilities. **Rectanus** stated the unfunded liabilities are $120 billion but there are other expenses.

**Representative Gerald Connolly (D-VA)** stated the fixed payments in Title V of the Code for prefunding expired in 2016 but the payments are required to continue. He asked what the payments are expected to be. **Brennan** stated they have the pension obligations so the retirement obligations exceed $10 billion. He asked whether that is the large source of the insolvency concerns to which **Brennan** agreed. **Connolly** asked whether this bill would fix that. **Brennan** stated $26 billion saving could be achieved under the bill and USPS will have to continue to find efficiencies.

**Representative Gerald Connolly (D-VA)** stated total payments of $8 billion will be due in September. **Brennan** stated $6.7 billion will be due but $10 billion is the annual costs. She stated that is unsustainable. **Connolly** asked if the USPS will fail without reform. **Brennan** stated without reform the financial situation continues. She stated retiree benefits are at risk and universal service is at risk.

**Representative Eleanor Holmes Norton (D-DC)** asked about the pension issue. She noted in the last bill the USPS was required to use demographic assumptions to calculate pension liabilities. She asked what there is about the demographics of the USPS workforce which lowers the costs. **Brennan** stated the age, turnover rate, and economic assumptions impact the cost. She explained the age of the work force is younger and there is a lower turnover rate for career employees.

**Representative Eleanor Holmes Norton (D-DC)** asked whether the assumptions that these specific demographic of the USPS should be used. **Rectanus** stated they do support using postal specific assumptions. **Norton** stated CBO has estimated using postal demographics would amount in $6 billion increase in contributions of all other federal agencies. She asked why this is. Brennan stated OPM has been asked to re-determine that value.

***Cluster Delivery***

**Representative Darrell Issa (R-CA)** asked if there were a move towards cluster delivery how much would be saved. **Rectanus** stated there would be significant savings to that approach. **Issa** stated if there is a move to cluster boxes the USPS would be offering a better service that Amazon. **Brennan** stated USPS approach is to consider all new possible delivery approaches. She noted last year over 750,000 new deliveries were centralized. **Issa** stated the USPS has an obligation to finding efficiencies. He asked about costs for rural deliveries. **Brennan** stated they attempt to strike a balance.

**Representative Darrell Issa (R-CA)** asked if cluster were implemented to the greatest extent possible would the USPS then be in the black. **Brennan** stated in addition to this bill a favorable outcome of the PRC price review could help the USPS be solvent a “decade beyond.”

***Mail Rates***

**Representative Brenda Lawrence (D-MI)** stated the USPS is dependent on the mail rates. She stated under the Postal Accountability and Enhancement Act the PRC is required to review the rate system. She asked if the PRC finds the system meets its objectives does the review end. **Taub** stated if there is a needed modification they would undertake that. He stated if no change is needed then there would be no rulemaking.

**Representative Brenda Lawrence (D-MI)** asked whether PRC will consider service standards. **Taub** stated there are nine objectives and one of those is service standards.

**Representative Brenda Lawrence (D-MI)** asked about customer service and how rates impact that. **Brennan** stated the favorable outcome of the price review is very important. She noted they will not price themselves out of this sector and she suggested there is competition in every product line. She noted USPS is looking for flexibility. She noted customer experience is essential and they are investing in additional training to ensure the best customer experience.

**Representative Brenda Lawrence (D-MI)** noted a coalition of mailers asked PRC to alter their review to allow for reply comments but the PRC declined. She asked what opportunities will exist to ensure industry gets to weight in. **Taub** stated they are in the Advance Notice of Proposed Rulemaking (ANPR) stage and have opened up a 90 day comment period. He noted in early autumn they would like to issue their findings and then issue a Notice of Proposed (NPR) rulemaking. He explained a final rule would be subject to notice and comment.

**Representative William Lacy Clay (D-MO)** asked about a flaw in the USPS business model which limits the ability to raise rates above the CPI cap and the limitations on new products and services. **Rectanus** stated these are current legal requirements. **Clay** stated the USPS is limited to cut costs because a significant portion are fixed. **Rectanus** stated there are legal requirements that they make these payments and there are limitations to their “right sizing.”

**Representative William Lacy Clay (D-MO)** asked whether there will most likely be a price increase. **Brennan** stated they have increased within the price cap. She noted there is a review ongoing at the PRC. **Clay** asked how much that would help. **Brennan** stated the legislation is needed as well as the PRC review.

**Representative Glenn Grothman (R-WI)** asked whether upping rates will further decrease mail volumes. **Brennan** stated they do not support movement that would impact volumes. She stated in the past they have filed modest increases.

**Representative Glenn Grothman (R-WI)** asked what impact a rate increase would have on volume. **Sackler** stated it would have a major impact. He stated not just in direct mail but would a rate increase would result in further diversion in first class mail. He stated outflow would reaccelerate.

**Representative Glenn Grothman (R-WI)** asked whether the 2.15 percent increase in H.R. 756 will have an impact. **Sackler** stated some oppose any increase as unaffordable. He stated a large majority are accepting that increase to get this bill passed.

**Representative Glenn Grothman (R-WI)** asked whether it will impact mail volume. **Sackler** stated with the establishment of so much trust and reliance on electronic media there is little which can be done to reverse some of the out flow of mail but a huge increase will accelerate that. He stated it is an increase but industry is willing to take that in order to get this done.

**Representative Glenn Grothman (R-WI)** asked whether the out flow can be halted. **Brennan** stated all they can do is slow it. She stated they will face upward pressures and they will continue to scale to demand.

**Representative Glenn Grothman (R-WI)** asked what Brennan would have liked in the bill. **Brennan** stated they supported reestablishing the full exigency but recognize this was a compromise.

***Innovations***

**Representative Jody Hice (R-GA)** noted Amazon is a competitor of the USPS. He asked whether USPS is considering drone delivery. **Brennan** stated they are looking into it but they would need capital to invest. She stated they are not an early adopter but are aware of what is happening in that space. **Hice** stated they will continue to deliver by vehicle to which **Brennan** agreed.

**Representative Dennis Ross (R-FL)** expressed support for maintaining the USPS. He noted concerns and asked whether USPS is looking to invest in competitive products or market dominant products. **Brennan** stated they are looking at both. She stated electronic sorting would help both.

**Representative Robin Kelly (D-IL)** noted the legislation suggests creation of a Chief Innovation Office. She asked about partnering with Tribal entities. **Brennan** stated they have worked on this.

**Representative Robin Kelly (D-IL)** noted the steps to reduce costs. She noted an option to expand the products and services offered. She asked whether the USPS needs to be able to develop innovative services. **Rectanus** stated they would not support actions in areas where they have a monopoly or which it would be inherently risky. **Taub** stated the USPS under current law is encouraged to undertake as many dynamic and innovative products as they see fit. He noted they are barred from non-postal products. **Kelly** asked about recommendations. **Taub** stated there are recommendations in his testimony. He noted one is flexibility in services.

**Representative Robin Kelly (D-IL)** asked about efforts the USPS has undertaken for innovation. **Brennan** stated they are testing informed delivery products.

**Representative Robin Kelly (D-IL)** asked how the financial situation is impacting innovation. **Brennan** stated they have to prioritize and remain focused on core businesses.

***Collective Bargaining***

**Representative Dennis Ross (R-FL)** noted 80 percent of costs of the USPS is labor. He asked whether it will be necessary to look at collective bargaining again. **Rolando** stated they have been doing this for the past ten years. **Ross** stated the letter carriers cannot be removed from the equation. **Ranking Member Cummings** stated he has not seen unions work so hard to come up with solutions.

***Service Standards***

**Representative Mark Meadows (R-NC)** asked about service standards. He asked how long it takes a two day package to be delivered before a refund is provided. **Brennan** stated there would be no refund. She stated it is a service standard not a guarantee. **Meadows** asked whether people expect two day delivery to which **Brennan** agreed they do expect that. **Meadows** asked how to address those issues. **Brennan** stated they have taken steps to address service standards. She stated service is foundational and key to growth. She explained they measure service standards for every class of mail.

**Representative Mark Meadows (R-NC)** asked whether they are meeting service standards across the board. **Brennan** stated they met their composite service target last year. She stated they did not meet the standard in first class and priority. **Meadows** asked how many buckets they have for standards. **Brennan** stated they met three out of six standards.