Board of Governors

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Contact: David Walton
david.walton@usps.gov
202-268-2599

Chairman Roman Martinez IV's Remarks During the Nov. 14, 2024, Postal Service Board of Governors Meeting

WASHINGTON – *The below opening remarks were delivered by Chairman Roman Martinez IV during the open session meeting of the Postal Service Board of Governors on Nov. 14, 2024.*

Good morning and welcome. We have a full agenda today.

First, I'd like to acknowledge the hard work and commitment of USPS employees across the country during the 2024 election cycle. Once again, the USPS rose to the occasion and served the American people with dedication & precision. Outstanding! I also want to call out the significant contributions of the Office of the Inspector General, which provided invaluable support to the Postal Service in this effort. Thank you all for a job well done!

Now, I'd like to recognize two individuals who are retiring.

Joe Corbett has been our Chief Financial Officer for over 15 years. As a seasoned financial executive, he provided top-notch financial management to the service and was always a steady hand. In addition, he has been an important counsellor to the board and to the Audit and Finance Committee. Joe, your many contributions are very much appreciated. We wish you all the best in your future endeavors.

At the same time, I'd like to congratulate our new CFO, Luke Grossmann, a real talent who I have no doubt will be an outstanding CFO.

The other retiring individual is our fellow governor, Anton Hajjar, whose term ends on December 12. Anton has served the Postal Service with distinction, faithfully fulfilling his fiduciary duties with care and loyalty. As a board member, Vice Chairman of the board and Chairman of the Compensation and Governance Committee, he has done a great job, always objective and candid. Personally, he has been a wise adviser and friend. He will be missed.

After remarks by the Postmaster General, we will have the annual election of Chairman and Vice Chairman, which becomes effective on December 1st.

Since my term expires on December 8, and my successor has been nominated and is awaiting confirmation, this will likely be my last board meeting. I would like to make a few personal remarks.

It has been an honor to serve on the board and as Chairman for the last three years. The Postal Service is a unique organization and one that has played a unique role serving our nation. It has been a privilege to serve with the people who work here — they are dedicated, capable and fully committed to the mission of the Postal Service.

As you all know, three years ago we embarked on the 10-year Delivering for America plan to achieve the Postal Service's dual legal mandate: to fulfill the universal service obligation and to become financially self-sustaining.

A few weeks ago, the board unanimously approved our strategic plan for the next five years. Updated for current conditions, it confirms the basic elements of the DFA plan — self-help initiatives, legislative reforms and pricing. The plan discusses key accomplishments, challenges and the path forward on plan initiatives. I will not go into details of the plan, but since this is likely my last opportunity to speak at an open board meeting, I will underscore some salient points.

I realize that I have remarked on some of these in the past. But because they are critical to understanding the situation at the Postal Service, I believe they are very much worth repeating.

Simply put, the key premise of the plan is that the Postal Service cannot achieve its dual mandate mission with its historical business model and operating structure.

To achieve its mission, the Postal Service needs to grow its package business to generate sufficient cash flow for it to cover operating costs, capital investments (both new and deferred) and other obligations. To meet that objective and to improve service overall, the Postal Service must restructure its nationwide network into a cost-effective, integrated mail and package logistics system and do so while handling almost 400 million pieces of mail and packages every day.

I'm not a logistics expert but during my over 50 years of experience, first as an investment banker and then serving on boards, I have reviewed or analyzed scores of business plans. In my view, the DFA is a logical strategic plan. It includes 10 key self-help initiatives to modernize the network and improve operations. It makes common sense, and it is well under way.

But the plan also includes needed reforms that are outside of the Postal Service's control. Any analysis of its financial results needs to be realistic about the things that the Postal Service can mostly control and those it cannot control. Thus, financial results or break-even targets should be evaluated based on controllable income or loss, which better reflect the results from operations.

As you will see in the CFO's presentation, over 80% of accounting losses in 2024 were the result of non-controllable factors.

I will now comment briefly on five areas over which the Postal Service has no control, but which are critical to achieving its mission. And these are areas where the Postal Service is not treated like – or is able to operate like – a private sector company, contrary to Congress's original intent.

- The Civil Service Retirement System obligations, which were established based on a flawed methodology, need to be reformed. The DFA plan envisioned it be done by administrative action, but the Justice Department concluded that legislation was required. The financial impact of CSRS reform would be substantial and it would be twofold: (a) it would remove the annual pension amortization payment requirement, which was $3.2 billion in 2024 and (b) it would provide for the current CSRS fund of $105 billion to be merged with the existing retiree health benefits fund, from where retirees' health benefits are paid. This would extend the life of that depleting fund from about seven years or so to about 25 years or longer.

- The legally mandated and unusual requirement that retirement assets be solely invested in treasury debt has resulted in a disastrous mismatch of assets and liabilities. As you may recall, a recent Inspector General report estimated that if the funds had been invested in a traditional portfolio, we would have an approximate $800 billion surplus instead of an approximate $100 billion deficit. Legislative action is required to fix this problem, which cost $2.3 billion in 2024. Further, Postal Service pension funds were 76% funded at the end of 2023, while those of the rest of the federal workforce were funded about 37%. At a minimum, the Postal Service should not be required to contribute additional funds so long as it is funded higher than the rest of the federal workforce.

- The Postal Service should be able to manage its workers compensation program like private sector companies do. The Inspector General estimates potential annual savings of about $300 million. The inability to manage this program has led to a $16 billion liability on the books, a liability that is adjusted regularly depending on interest rate fluctuations. This resulted in a non-cash expense of $2.2 billion in 2024. Legislative action would be needed for this reform as well. The previous three items amounted to non-controllable charges of $7.7 billion in 2024.

- The Postal Service will continue to seek optimal pricing for its services. At some point, however, I respectfully request that the Postal Regulatory Commission reconsider the factors that determine the market dominant pricing system because it is not achieving the intended objectives. To achieve financial stability, the system should provide for more pricing & workshare rules flexibility, and price caps should be eliminated. Also, the requirement that a portion of revenues derived from price increases be diverted to pay for the amortization of pension deficits makes no sense, as recurring and increasing pension deficits are virtually guaranteed by the mandated requirement that pension funds be invested solely in treasury debt. And it is real money — over $900 million this year and growing.

- The final point I will make is that the Postal Service urgently needs to enhance its financial flexibility. Having access to liquidity is critical, particularly during a restructuring of the nature, scope and time frame the Postal Service is undertaking. The Postal Service does not currently have access to capital or credit markets. Its debt is limited by law to $15 billion — and that amount has been exhausted. The debt limit was set in 1991, and it has not been adjusted for inflation or for current financial needs. In today's dollars that limit would be over $30 billion. Legislative action is needed to make this adjustment.

Finally, I remain confident that with the continuing engagement and hard work of the entire Postal Service family, and with the support of key stakeholders, the Delivering for America plan will succeed. It is not a slam dunk, but it is very doable. And time is of the essence.

In closing, I would like to thank my fellow Governors for our work together. While we are confirmed as a bi-partisan board, I'm proud to say that we have worked as a non-partisan board.

I would also like to thank members of management with whom I've worked closely — in particular, Tom Marshall, Joe Corbett, Luke Grossmann, Doug Tulino and of course, Louis — whose hiring I was involved in and has proved to be the right guy for the job, with his logistics expertise, drive and unselfish devotion to the Postal Service. Also, our Inspector General Tammy Hull, our secretary of the board Michael Elston, and to Lucy Trout and Elda Merho and our board staff, always there supporting us. Greatly appreciated.

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