Mailers Hub News

March Summary *From the March 13 and 27 issues*

***S&DC Implementations Increasing***

Although it’s shared little information with commercial mail producers or their ratepaying clients about plans for the Sorting and Delivery Centers, the Postal Service has been much more forthcoming with the American Postal Workers Union, providing it with regular updates about progress in establishing the new S&DCs. As reported March 4 by *Save the Post Office*, the agency sent its most recent update on February 28, detailing five conversions planned for implementation on June 3, and sixteen more “under consideration” for September implementation.

As part of the Postmaster General’s 10-year Plan, the agency is making wholesale changes to its processing, transportation, and delivery networks, supposedly to reduce cost and improve efficiency. As envisioned by the USPS, the S&DCs would be consolidations of delivery operations from a number of individual post offices into a single facility, which would also have package processing equipment to sort incoming shipments from upstream facilities directly to the co-located carriers.

The first facility to be identified as an S&DC was the former Athens (GA) P&DC. Activated last November, it ingested routes from Athens and about twelve other post offices, but the additional driving time involved (from the S&DC to the routes’ delivery points) will require establishing between ten and nineteen *new* delivery routes.

In an in-house presentation last July, the agency reported identifying 928 facilities with sufficient space to house an S&DC, but subsequent evaluation trimmed that list to about 770 potential S&DC sites. Since then, as the USPS has honed its modeling, a list of facilities to be converted to S&DCs began to develop. In an August letter to the APWU, the agency stated that Athens would be activated in September and added Brooklyn (NY)’s Alabama Station for conversion in November, followed by nineteen more sites in February 2023.

Subsequent correspondence with the union, with updated lists, showed some planned activations have slipped (as Athens did) while others are being revised, added, or removed from the list, and “spoke” facilities are added or deleted.

Though the USPS – likely to meet contractual obligations – keeps the APWU informed about its S&DC plans, it’s another matter for commercial mail producers. For example, searching the Postal Service’s *PostalPro* website for “sorting and delivery centers” returns eight unrelated results. Filling this vacuum, the *Save the Post Office* website monitors the S&DC project and maintains a dashboard replete with data, tables, and maps based on information gleaned from internal USPS presentations, what’s been shared with the APWU, and other sources. The table on the following pages, based on lists from the USPS through March 2, is from the *Save the Post Office* site and reproduced with permission; because the S&DC process is so fluid, it’s clearly subject to change.

PMG Louis DeJoy has often railed contemptuously about unofficial non-USPS sources providing information about his agency, but given how little the Postal Service itself has provided to its customers, commercial mailers are happy that someone stepped up to fill the void.

USPS Buying More Electric Vehicles

Continuing steps to move to a more battery-powered delivery fleet, the Postal Service announced on February 28 that, “after a competitive search,” it had awarded a contract to Ford Motor Company for 9,250 Ford E-Transit Battery Electric Vehicles.

However, the agency conditioned starting delivery of the trucks, planned for December, on the “successful completion of the Supplemental Environmental Impact Statement that we announced we would undertake in August 2022, and the related issuance of our Record of Decision pursuant to the National Environmental Policy Act.”

The USPS also announced it will buy another 9,250 left-hand drive internal combustion engine vehicles “to fill the urgent need for vehicles.” The award for those trucks went to Fiat Chrysler, and deliveries should begin in November. The total cost for the 18,500 trucks is just over $1 billion.

The USPS announcement also included an award to three suppliers for 14,000 charging stations and “an initial and ongoing Electric Vehicle Supply Equipment (EVSE) inventory. This EVSE inventory is the charging station hardware and software needed to support EV charging at the facilities from which the delivery vehicles will operate.”

The awarded contracts, valued at $260 million, went to Blink Charging Co., Siemens Industry Inc., and Rexel USA Energy Solutions, the Postal Service stated. According to *Federal News Network*, “USPS expects to order, at a maximum, 41,500 charging stations under its Indefinite Delivery Indefinite Quantity (IDIQ) contracts with three vendors.” However, the agency was not specific about where the electric vehicles will be assigned or where the charging infrastructure would be installed.

According to the Postal Service, its total investment in vehicles is expected to reach $9.6 billion, paid in part by $3 billion from Inflation Reduction Act funds.

COA flaw

A March 1 article by *TechCrunch* focused on a little-publicized but apparently significant flaw in the Postal Service’s change-of-address process that can be exploited for fraudulent purposes. According to the article, a fraudster can complete a paper change-of-address form and submit at a post office, or drop it in a collection box, and redirect someone’s mail without that individual’s knowledge or consent. The report added that “while USPS acknowledges there is a problem, it wouldn’t say how it plans to close the loophole.”

Not only is this flaw not new, it’s widely documented. In a particularly comical case from 2017, an Atlanta resident was arrested for cashing checks that he had rerouted from the corporate headquarters of United Parcel Service, resulting in literal bathtubs of mail piling up outside the hapless fraudster’s apartment. Yet, it still took nearly three months for UPS to notice that its mail wasn’t showing up.

*TechCrunch* asked for USPS comment but was referred to the Postal Inspection Service that itself responded “with a boilerplate statement [that] did not say how the US Postal Service planned to prevent change-of-address fraud.” The USPIS also declined to provide the name of the department’s media spokesperson to provide further information.

As *TechCrunch* noted, “... the USPS Office of Inspector General (or USPS OIG), has raised concerns about change of address fraud for years. USPS OIG said in its 2018 audit report, which it initiated based on concerns from lawmakers, news outlets and customer complaints, that the Postal Service did not require customers to present a government form of identification, such as a passport or a driver’s license, for review when submitting a paper change of address form. The watchdog noted that several overseas postal services, notably Australia, Canada and the United Kingdom, all require some form of identity check when manually submitting a change of address form, but that they also accept a range of documents for those who do not have a government-issued form of identification.”

A spokesperson for the OIG said that the “USPS agreed with the inspector general’s findings of its 2018 audit report and the recommendations were closed in August 2019, indicating that the matter is resolved. The spokesperson said that USPS ‘provided documentation demonstrating sales associates require identification to process change of address requests in person.’”

*TechCrunch* could not determine whether the USPS is actually enforcing its own policy on identity checks when someone files a paper change-of-address form. “USPS has yet to comment or identify any efforts where it is trying to reduce this kind of fraud. ... It shouldn’t be the responsibility of the consumer, when the USPS could enforce the solution it allegedly fixed four years ago.”

CPI Release Clarifies USPS Rate Authority for April Filing

The Bureau of Labor Statistics’ March 14 release of the Consumer Price Index for February supplied the final figure needed to calculate the CPI-based portion of the pricing authority that will be available to the Postal Service for its anticipated April filing: 3.406%.

The agency’s CPI-based rate authority resets to zero after every price filing, so the size of that authority for a subsequent filing is directly driven by how fast inflation pushes up the monthly CPI. Calculation of the Postal Service’s CPI-based rate authority uses one of three different formulae: for an increase filed twelve months after a previous filing, or for an increase filed at a longer or shorter interval.

However, the CPI-based authority is supplemented by “adders” provided by the Postal Regulatory Commission in November 2020, as well as any “banked” authority that was left over after the preceding price increase.

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| --- | --- | --- | --- | --- | --- | --- |
| **Class** | **CPI** | **Density** | **Retirement** | **Non-comp** | **Bank** | **Total** |
| **First-Class** | 3.406% | 0.936% | 1.036% |  | 0.001% | 5.379% |
| **Marketing** | 3.406% | 0.936% | 1.036% |  | 0.003% | 5.381% |
| **Periodicals** | 3.406% | 0.936% | 1.036% | 2.0% | 0.744% | 8.122% |
| **Pkg Svcs** | 3.406% | 0.936% | 1.036% |  | 0.003% | 5.381% |
| **Spec Svcs** | 3.406% | 0.936% | 1.036% |  | 0.064% | 5.442% |

The “density” adder is related to the loss of volume per delivery stop. The “retirement” adder funds the Postal Service’s amortization of its remaining retirement system (CSRS and FERS) liabilities. The “non-compensatory” adder is for a mail *class* that’s not covering its costs, and *must* be used either completely or partially in the first rate filing after the PRC’s *Annual Compliance Determination* is issued (which it must be by the end of March). It does *not* have to be used in other price filings that year and can be “banked.”

The “density” and “retirement” adders, calculated by the USPS after the end of each fiscal year and validated by the PRC, can only be used once annually. For 2023, the “density” adder is 0.936% and the “retirement” adder is 1.036%. The “non-compensatory” adder is a fixed 2%. (It currently would apply only to the Periodicals class.)

The Postal Service’s “banked” authority is the difference between the authority it had for a preceding filing and what it actually used. The USPS typically leaves a small percentage of rate authority in its “bank.”

What the USPS actually will seek will be revealed in its upcoming filing, expected by no later than April 10, with the higher prices likely to be implemented in mid-July.

***PRC Endorses USPS Accounting for PSRA Windfall***

After weeks of legal wrangling between the Postal Service and a group of mailing associations, the Postal Regulatory Commission decided in favor of the USPS regarding how forgiveness of the 2006 “prefunding” obligation should be treated for accounting purposes. After accepting the reality that the accumulated debt would likely remain unpaid, given ongoing mail volume declines, Congress agreed to eliminating the obligation as part of the *Postal Reform Act of 2022*, enacted last April 6. As calculated by the Postal Service, the legislation resulted “in a one-time reversal of $59.6 billion for retiree health benefits that had been accrued but unpaid as of March 2022.”

The agency announced how it planned to treat the reversal in an August 15 letter to the Postal Regulatory Commission. Asthe letter explained, the “one-time reversal” would be treated one way “for accounting purposes” but another way in reports underlying its *Annual Compliance Review* because that document “primarily fulfills regulatory functions, not accounting functions.”

Apparently satisfied with this explanation, the PRC seemed agreeable to the Postal Service’s approach. In an October 7 response, the commission, stating “The Postal Service’s proposed accounting treatment of the reversal of the RHB missed payments on the FY 2022 Form 10-K appears consistent with generally accepted accounting principles (GAAP). ...”

Persons with an understanding of postal accounting quickly raised objections to the agreement, saying it enabled a “having its cake and eating it too” approach that let the USPS justify different calculations to favorably optimize each result. Aside from asking that the PRC handle the USPS proposal in a more official manner, the mailer groups also exposed the likely major motivation for the Postal Service’s approach:

“... We expect that the plan will subject market-dominant mailers to more than $400 million in density-based rate authority to which the Postal Service would not be entitled if it accounted for the cancellation properly, an amount that will remain in the rate base in perpetuity. ...”

Apparently sensing itself in a legally tenuous position for how it handled the Postal Service’s request, the PRC issued another letter on December 9, rescinding its October 7 reply to the USPS. In turn, the PRC invited anyone wishing to propose new “analytical principles” to do so by December 21.

Postal lawyers made the necessary filing just three days later, on December 12. In posting notice of the filing in the December 19 *Federal Register*, the PRC stated, perhaps tellingly,

“... The Commission further noted that without a change in analytical principle, the Commission could not endorse the Postal Service’s proposed accounting treatment. ...

As observed by *Mailers Hub News* in its December 19 issue:

“The key phrase seems to be ‘without a change in analytical principle,’ suggesting that resolution of the entire matter rests not on the logic or equity of such a resolution, or on a dispassionate adjudication of accounting standards, but rather upon whether there is an established provision to sanction it in PRC regulations.

“If so, that in turn implies that the commission’s original inclination to support the Postal Service’s position may remain its preference, and that the commission’s original endorsement of the USPS proposal could be restored once the procedural steps of legitimizing it are in place – which would not be a desirable outcome for ratepayers.”

That now seems to have been a prescient observation.

As the PRC explained in its March 17 decision,

“Proposal Seven proposes a change in methodology to make a one-time adjustment in the Postal Service’s ACR to exclude from FY 2022 institutional costs $57.0 billion of unpaid RHB prefunding liabilities for the period between September 2012 and September 2021 that were reversed by the PSRA. ... Proposal Seven, in other words, would exclude forgiven unpaid RHB prefunding payments from institutional costs for FY 2022. ...

“Overall, the Postal Service identifies that the impact of Proposal Seven ‘is to exclude the one-time massive negative RHB expense accrual triggered by the PSRA from overwhelming routine FY 2022 institutional costs…[and to] avoid the inappropriate detrimental regulatory consequences of the “nonsensical” result of negative institutional costs previously and correctly recognized by the Commission.’”

After thirteen pages of legal analysis justifying its conclusion, the PRC stated

“... The removal of the RHB liability is most accurately characterized as a nonrecurring, noncash, nonexchange gain, which has no effect upon institutional costs, as opposed to an expense or expense adjustment. Therefore, including the removal of the RHB liability in ‘Miscellaneous Items’ in the ‘Revenue’ column of the CRA will improve the quality and accuracy of the CRA, avoid the distortive effect of treating it as a negative cost, and preserve the consistency of the Net Income reported in the CRA with Net Income reported in the Postal Service FY 2022 *Form 10-K*.

“The Commission notes that the PSRA’s removal of the RHB liability is a one-time event that occurred in FY 2022 and therefore the analytical principle adopted for its reporting is only applicable to FY 2022.”

As a result of this decision, the Postal Service will have density-based rate authority for its anticipated April price filing which should generate additional revenue estimated to exceed $400 million.

As noted earlier, the whole episode suggests that there had been significant informal agreement already between the USPS and the PRC about how the PSRA windfall should be treated for accounting and regulatory purposes. The just-concluded rulemaking and the new “analytical principle” would not exist had industry groups not objected, and the October exchange of letters would be all there is to document the *ad hoc* treatment of the “one-time” event. In turn, this creates a disturbing appearance that all the legal proceedings of the past few months were, to some, just an annoying formality that had to be endured to provide the necessary legal basis for doing what was intended all along.

February Financials: Sharp Decreases in Volume Warrant Concern

For the third consecutive month, total mail volume, and the volume of the classes that are its majority, have dropped significantly. That this worrisome pattern of weak volume and anemic revenue are the consequences of repeated sharp price increases on market-dominant products is becoming clear to everyone except top postal executives.

Volume for the market-dominant classes was sharply lower, with only two having miniscule revenue increases; competitive product volume and revenue also fell year-over-year. Transportation costs eased, and the workers’ comp liability swung favorably by $466 million. February revenue was $5.984 billion, yielding a net loss of $182 million.

Total market-dominant mail volume for the month was down 10.8% from February 2022, with a 9.4% loss of First-Class Mail and an 11.5% decrease in Marketing Mail. Competitive products volume was off 7.0%. Total USPS volume was 8.953 billion pieces, down 10.6% from last February.

* First-Class Mail: 3.696 bln pcs, -9.4%; 20.667 bln pcs, -6.0% YTD
* Marketing Mail: 4.487 bln pcs, -11.5%; 26.930 bln pcs, -6.8% YTD
* Periodicals: 212.3 mln pcs, -17.6%; 1.263 bln pcs, -12.5%
* Total Mkt Dom: 8.449 bln pcs, -10.8%; 49.275 bln pcs, -6.7% YTD
* Total Competitive: 480.1 mln pcs, -7.0% 2.819 bln pcs, -3.9% YTD
* Total USPS: 8.953 bln pcs, -10.6%; 52.251 bln pcs, -6.5% YTD

Though market-dominant revenue should be higher because of price increases totaling over 10.7% since last February, revenue from the market-dominant classes, compared to SPLY, actually was down 4.9% for the month, again suggesting the sharp price increases are having the negative effect that top USPS executives still refuse to acknowledge.

Total USPS revenue for the month was $5.983 billion, with its components mostly lower:

* First-Class Mail: $1.987 bln, +0.1%; $10.781 bln, +1.0% YTD
* Marketing Mail: $1.146 bln, -4.5%; $6.665 bln, -3.1% YTD
* Periodicals: $66.38 mln, -8.5%; $378.1 mln, -5.9% YTD
* Total Mkt Dominant: $3.481 bln, -4.9%; $19.458 bln, -0.8% YTD
* Total Competitive: $2.377 bln, -7.4%; $13.944 bln, +0.4% YTD
* Total USPS: $5.983 bln, -6.0%; $34.123 bln, -0.5% YTD

Total “controllable” compensation and benefit costs for February were $4.501 billion, and total expenses were $6.193 billion; both benefitted from the absence of a prefunding payment, thanks to last April’s legislation, and from a favorable swing in the workers’ comp liability.

Workhours were 0.1% under plan for the month, and down 4.3% compared to last February, but were 0.2% over plan while down 2.3% from SPLY YTD.

* Month’s end complement: 639,217 employees (517,987 career, 121,230 non-career) **-2.07%** compared to last February (652,766 employees: 507,292 career, 145,474 non-career), but **2.11% more** *career* workers than a year ago.

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