Mailers Hub News

October Summary *From the October 9 and 23 issues*

USPS Files Price Increase for Market Dominant Products

Late on Friday, October 6, the Postal Service submitted a filing with the Postal Regulatory Commission proposing a price increase on market dominant products. The filing was previously approved by the Governors of the USPS. Postmaster General Louis DeJoy has kept the promise of aggressive price increases that he made when he came aboard in mid-2020; if approved by the PRC, he will have imposed increases approaching 25% since then. Fortunately for ratepayers, the "density" and "retirement" adders implemented by the PRC in 2020 were already used earlier in 2023.

In its filing, the Postal Service detailed the factors contributing to the proposed increase:

- Accumulated 6-month CPI-Based Authority: 1.959%
- Unused Authority from Previous Filings:

Class	Unused Authority
First-Class	0.011%
Marketing	0.003%
Periodicals	0.000%
Package Services	0.002%
Special Services	0.210%

- Density Rate Authority: n/a
- Retirement-Based Rate Authority: n/a%
- Rate Authority for Non-Compensatory Classes: n/a

These factors established the total USPS rate authority:

Class	CPI	Bank	Density	Retire-ment	Noncom-pensatory	Total
First-Class	1.959%	0.011%	0.000%	0.000%	n/a	1.970%
Marketing	1.959%	0.003%	0.000%	0.000%	n/a	1.962%
Periodicals	1.959%	0.000%	0.000%	0.000%	0.000	1.959%
Package Svcs	1.959%	0.002%	0.000%	0.000%	n/a	1.961%
Special Svcs	1.959%	0.210%	0.000%	0.000%	n/a	2.169%

Of that total, the Postal Service chose to use all but a tiny percentage, which it will "bank":

Class	Average Increase (%)	Unused Authority (%)
First-Class	1.969	0.001
Marketing	1.961	0.001
Periodicals	1.959	0.000
Package Services	1.960	0.001
Special Services	2.168	0.001

The total price increases recently imposed on ratepayers is far from encouraging the increased use of mail:

Class	Aug '21	Jul '22	Jan '23	Apr '23	Oct '23	Total
First-Class	6.814	6.506	4.200	5.378	1.970	**24.868**
Marketing	6.815	6.500	4.203	5.381	1.962	**24.861**
Periodicals	8.806	8.540	4.200	8.122	1.959	**31.627**
Pkge Svcs	8.806	8.511	4.197	5.379	1.961	**31.854**
Spec Svcs	6.808	6.442	4.198	5.429	2.169	**25.046**

If the PRC approves the USPS proposal as filed, i.e., if it finds no technical or procedural issues with the Postal Service's filing or underlying documentation and calculations, the higher rates will be effective January 21, 2024.

Interestingly, the second sentence of the "overview" section of the filing stated "The adjusted rates will take effect at 12:01 am on January 21, 2024," clearly indicating that Postal Service expects PRC approval will be forthcoming. Even if the USPS filing is flawless, such an overt presumption suggests a dismissive and demeaning attitude on the part of the Postal Service (and likely Louis DeJoy) toward the PRC and the responsibility it has under statute. Of course, as commercial mail producers, their ratepaying clients, and the PRC have learned, indifference to customers and disrespect for the regulator are typical DeJoy behavior.

PRC Approves Growth Incentives

In an order issued September 27, the Postal Regulatory Commission approved as filed the "growth incentives" proposed by the Postal Service on August 11. As the USPS stated in its filing:

> "... The two incentives are substantially identical. A mailer is eligible for the First-Class Mail Growth Incentive when its combined volume of qualifying pieces in the incentive period, calendar year 2024, exceed the incentive threshold. Qualifying

pieces are pieces mailed as First-Class Mail Presort Letters, First-Class Mail Presort Cards, or First-Class Mail Presort Flats.

"Similarly, a mailer is eligible for the Marketing Mail Growth Incentive when its combined volume of qualifying pieces in calendar year 2024 exceed the incentive threshold. Qualifying pieces are pieces mailed as Marketing Mail Letters and High Density/Saturation Letters, Marketing Mail Flats and High Density/Saturation Flats & Parcels, Marketing Mail Carrier Route, or Marketing Mail Parcels.

"Under both incentives, for every qualifying piece mailed in calendar year 2024 after the first million pieces, mailers receive a credit equal to 30 percent of the average per-piece price paid for mailing all qualifying pieces, unless the volume of qualifying pieces the mailer sent in the preceding fiscal year exceeded 1,000,000 pieces. In that case, credits accrue only after the mailer surpasses its fiscal year 2023 volume of qualifying pieces.

In its August filing, the USPS estimated that "approximately 17% of Marketing Mail volume will earn credits during the incentive period," generating between $804 million and $1.34 billion in additional revenue, and returning between $241 million and $421 million in credits to eligible participating mailers. The agency would also generate unused rate authority because of the incentives, but would not have sufficient data to finalize or use that authority until 2025.

Examining a filing in which the USPS asked to lower prices was untrodden territory for the commission. Looking at the variety of statutory and regulatory requirements involved, the PRC found no issues with the incentive for First-Class Mail, but the Marketing Mail incentive drew attention because the class includes three categories (Marketing Mail Flats, Carrier Route, and Parcels) that are non-compensatory (i.e., their rates are "underwater"). In the end, the commission said the applicable rule were "ambiguous" regarding filings to lower prices, but concluding that

"The total package of incentives proposed in this proceeding appears to be envisioned to mutually benefit the Postal Service and mailers as the incentives seek to encourage new and increased volume, improve the Postal Service's financial position, and provide benefits to mailers. ... Thus, the Commission concludes that it is neither appropriate nor productive to read [its regulations] in a way that would prevent the Postal Service from innovating through the creation of incentives and that would otherwise disincentivize or prohibit such incentives. ... ."

In its order, the PRC mandated data reporting requirements by next May 15 and by sixty days after both the close of each quarter and the end of the incentive period. The effective date for the incentives, as requested by the Postal Service, is January 1, 2024.

Questions Mailers May Ask

Commercial mail producers and their clients may be aware of a price increase but not really understand why or how it happens. As we did last April, below are answers to some of the questions they may have.

When will the new rates be effective? Barring any delays should the PRC find calculation errors in the USPS filing, the Postal Service will implement the new prices on January 21, 2024. If competitive product prices are increased, that will occur separately.

How is the amount of needed revenue determined? The Postal Service's costs drive the amount of revenue needed. Few costs are fully within its control: salaries and benefits are specified by contract or federal programs, the marketplace determines transportation and fuel cost, and retail and delivery costs are part of its universal service mandate. By law, rates must be set to cover a product's attributable costs and a share of USPS institutional costs.

How are the size and timing of rate increases determined? The 2006 postal reform law specified that the size of a price increase for USPS "market-dominant" products, like First-Class Mail, Marketing Mail, and Periodicals, is capped at an amount linked to the Consumer Price Index. The cap is determined by using separate formulae for an annual rate increase and for increases at shorter or longer intervals. The Governors of the USPS decide when to raise prices.

Why have increase been so big? The 2006 reform law that changed the ratesetting process also mandated a 2016 review by the Postal Regulatory Commission to be sure it was working as designed. The PRC found the USPS' financial condition (caused largely by the prefunding mandate) was poor, causing it to conclude the ratesetting process was yielding too little revenue. In turn, the PRC revised the ratemaking process in November 2020 to give the USPS more rate authority, allowing over-CPI rate increases. The USPS is using all available rate authority because the Postmaster General wants to offset what he projects to be $160 billion in losses over ten years. Though many disagree with the projection and the size of the price increase, the Governors of the Postal Service supported the PMG and have authorized the filings.

What are the "adders"? The "adders" are the additional price authorities granted the Postal Service by the PRC in November 2020. There are three "adders," commonly referred to as density, prefunding, and non-compensatory. The density adder provides the USPS a way to offset lost revenue from declining mail volume yet increasing points of delivery. (It's been criticized as inadvertently rewarding the USPS for pricing policies that accelerate whatever volume loss would be occurring for other reasons.) The prefunding adder was originally intended to generate additional revenue to make the annual payments toward future retiree health costs. The *Postal Service Reform Act of 2022* abolished the past and future prefunding obligations, so the adder now is used to pay remaining obligations for the employee retirement funds. The non-compensatory adder is to improve the cost coverage of "underwater" mail classes; that currently only applies to Periodicals. The size of the density and retirement adders is calculated by the USPS and reviewed by the PRC. The non-compensatory adder is a fixed 2%. All the adders can be used only once per year.

Why are some prices changing more or less than others? The CPI cap is applied at the class level, and different rate cells can be adjusted to influence mailer practices or ensure logical rate relationships. The volume in each rate cell is multiplied by the amount of the corresponding proposed increase to calculate the total revenue derived for the class, and compliance with the cap. Also, some rates are adjusted because it's required, such as if a worksharing discount is too large or too small, or if a price isn't enough to cover the costs for the corresponding type of mail.

How long will semi-annual price increases continue? The Postmaster General had indicated that they will continue until the USPS is financially stable. Given the lack of improvement in that are in recent years, it's uncertain when the semi-annual pace would end, if ever.

Who can influence the pace of price increases? The decision to increase prices for market-dominant products is made by the Governors of the Postal Service, but they act on the recommendations of USPS leadership. Currently, the governors have been very supportive of the PMG's recommendations for maximized semi-annual price increases. The sole other source for influence on prices would be Congressional, but legislators have shown little interest in action in that regard.

August Financials: Moving Toward the End of a Bad Year

The trend of earlier months continued in August, with volume dropping and revenue lower than it was planned to be. Volume for the four market-dominant classes was sharply lower – again – while competitive product volume, which, according to the PMG's 10-Year Plan, is expected to grow as a source of volume and revenue, was essentially flat. Personnel costs again exceeded plan, and the change in the workers' comp liability was no help. Monthly revenue for August totaled $6.447 billion but yielded a net losses of $860 million – bringing the total loss for the year to $6.654 billion.

Total market-dominant mail volume was down 7.6% compared to the same month in 2022. First-Class Mail volume fell by 4.5% but Marketing Mail sank more alarmingly, down 10.7%, compared to August 2022. Meanwhile, competitive products volume was up slightly – 0.2%. Total USPS volume was 9.166 billion pieces, down 7.6% from August 2022.

First-Class Mail: 3.610 bln pcs, -4.5%; 42.540 bln pcs, -6.1% YTD
Marketing Mail: 4.682 bln pcs, -10.7%; 54.452 bln pcs, -10.7% YTD
Periodicals: 241.90 mln pcs, -9.6%; 2.763 bln pcs, -11.4% YTD
Total Mkt Dom: 8.594 bln pcs, -8.1%; 100.513 bln pcs, -8.8% YTD
Total Competitive: 550.68 mln pcs, +0.2%; 6.073 bln pcs, -2.3% YTD
Total USPS: 9.166 bln pcs, -7.6%; 100.886 bln pcs, -8.5% YTD

Though market-dominant revenue should be higher because of price increases totaling over 10.7% since March 2022, revenue from the market-dominant classes, compared to SPLY, was up only 0.5% compared to the same month in 2022. SPS operating revenue for the month was $6.447 billion, with the components mostly lower:

First-Class Mail: $2.008 bln, +4.0%; $22.582 bln, +2.0% YTD
Marketing Mail: $1.253 bln, -3.6%; $13.775 bln, -5.2% YTD
Periodicals: $79.84 mln, -3.0%; $840.4 mln, -3.3% YTD
Total Mkt Dominant: $3.650 bln, +0.5%; $40.803 bln, -0.9% YTD
Total Competitive: $2.682 bln, +3.1%; $29.681 bln, +0.6% YTD
Total USPS: $6.447 bln, +1.5%; $71.936 bln, -0.5% YTD

Total "controllable" compensation and benefit costs in August were $5.010 billion; total expenses were $7.397 billion. Decreasing mail volume was finally being reflected in the need for fewer workhours; workhour usage was 0.6% under plan and 3.0% below August 2022. Total workhours for the year were 0.2% over plan but 2.4% below SPLY YTD. However, despite less work, the Postal Service is still expanding its workforce, and committing to more career employees.

Month's end complement: 637,938 employees (523,791 career, 114,147 non-career) **+0.69%** compared to last June (633,585 employees: 512,328 career, 121,257 non-career), but **2.24% more** *career* workers.

Compared to pre-pandemic August 2019, total USPS volume was down 19.70% (market dominant 21.26% lower; competitive up 25.69%), while revenue, after many price increases, was up only 12.7%. Despite significantly lower volume, total workhours were down only 1.39% from three years earlier.

Ready for the Numbers – Analysis

Typically, after the end of a month, the Postal Service's financial results aren't published until about three weeks later but, at the end of a fiscal quarter, the delay is longer, and longer still after the close of a fiscal year. The Postal Service's 2023 fiscal year ended on September 30 so, following the pattern, we may not see the results for September, the fourth fiscal quarter, or the fiscal year until some time in early November – after the information has been reviewed and approved by the USPS Board of Governors.

Even so, based on trends over the preceding eleven months, some results can be anticipated.

One certainty is that, no matter what the results are, there will be copious affirming references to Postmaster General Louis DeJoy's 10-Year Plan. Whatever positive may be reported will be attributed to The Plan, and whatever not-so-positive may be reported The Plan will be credited as the reason it wasn't worse. The agency's spin machine will repeat predictable assurances of progress and success regardless of what the numbers might suggest, and any contrary indicators will be attributed to uncontrollable external factors such as inflation, the weather, or unforeseeable implementation challenges.

Another certainty is that the financial numbers won't be pretty, or anywhere near what The Plan had promised in 2020. After two years of anticipated losses, The Plan asserted that fiscal 2023 would be a break-even year, to be followed by positive net income in FY 2024 and after. However, at the end of August, the USPS reported a net loss of $6.654 billion, $2.6 billion worse than forecast – which, notably, had already abandoned any expectation of breaking even. Unless September income soared, the annual loss should be sizeable and an omen of more annual losses ahead.

A third certainty is that volume will be significantly lower. At the end of August 2022, reported total mail volume was 116.8 billion pieces, but a year later that number was 106.9 billion, nearly 8.5% lower, clearly worse than the forecast decline of 4.9%. The USPS can't hide that decrease, but will divert any attribution for it to the economy, inflation, paper costs – everything and anything *except* the PMG's aggressive semi-annual price increases. At the end of August, revenue was 2.7% below plan and 0.3% below a year earlier, despite price increases of 9.5% (or more for some classes) in FY 2023. Arguably, volume is dropping faster than higher prices can offset the related revenue loss, but that circumstance likely won't be noted in the end-of-year report – or the postal publicists will contort themselves to explain why it wasn't worse, thanks to The Plan.

A fourth certainty will be more claims of improved service. Every week the USPS sends releases that it "continues to make service delivery improvements" yet, despite weekly ups-and-downs of the data it provides, by the end of FY 2023 service was not better. For the final week of FY 22, achievement of service goals for First-Class Mail, Marketing Mail, and Periodicals was claimed to be 93.2%, 94.7%, and 86.8%, respectively. For the final week of FY 23, the corresponding numbers were 90.4%, 94.3%, and 86.0%, below the average for the fiscal year; the trend lines for all three classes are downward. Likely again, however, the end-of-year publicity will blame seasonal aberrations, weather, transportation challenges, and whatever else is remotely useful to the purpose of persuading ratepayers to believe the publicity and not the numbers – or their own experience.

Beyond that, the end-of-year comments will extol the ongoing reworking of the processing and delivery networks and how the resulting matrix of RPDCs, LPCs, and S&DCs will result in a more efficient infrastructure and better service. The USPS will predict another smooth peak season. It will praise having a more "stable" workforce, without noting either that the agency's August 2023 complement was up 0.6% from August 2022, including 2.24% more career, fixed-schedule, and fixed cost employees, or how this trend is warranted given the concurrent loss of volume. It will mention earnest efforts at cost reduction, but it won't admit that its chronic pattern of generous labor agreements has built a cost burden it can't overcome. Without major complement reductions the bulk of USPS costs remain unmitigated, but the PMG and his minions avoid mentioning reducing the workforce lest they upset postal labor unions.

The end-of-year numbers and reports should appear soon; we'll see how close this analysis is to being right.

PRC nominees confirmed

By a September 28 voice vote, the US Senate confirmed two nominees for seats on the Postal Regulatory Commission.

Robert Taub was confirmed for a six-year third term ending October 15, 2028. Taub had been nominated on September 12, 2022, but the Senate took no action before the end of the 117th Congress; the president resubmitted his nomination January 3. Taub has more than 40 years of public service experience at local, state, and federal levels, and has served on the commission since September 2011; he was its chairman from December 2014 until January 2021. Before joining the PRC, he was a Principal Civilian Advisor to Secretary of the Army John McHugh and was his Chief of Staff during McHugh's years in the House of Representatives. Previously, Taub worked at the Government Accountability Office and as a staff member for three different Members of Congress, a Member of the British Parliament, and state and county officials in upstate New York.

Also confirmed was **Thomas Day** for a six-year term through October 15, 2028. Compared to Taub, Day's nomination flew through the process. Nominated by the president September 11 to succeed Mark Action (who himself was concluding a third term), Day was confirmed in just over a month. Day has a BS in Engineering from the US Military Academy, an MA in Management from Central Michigan University, and an MS in Management from Stanford University. He has 45 years' federal service, including 35 with the USPS, beginning as a management associate in the Northeast Region. He later served as Southeast New England District manager; VP Engineering, SVP Government Relations, SVP Intelligent Mail and Address Quality, and Chief Sustainability Officer. From 2007 to 2011,

he also served as the Chair of the Standards Board at the Universal Postal Union. After retiring from the Postal Service in 2019, he joined the International Post Corporation in Brussels, Belgium, where he served as the Chief Commercial and Chief Financial Officer, and as Secretary to the Board of Directors.