Mailers Hub News

March Summary *From the March 14 and 28 issues*

Senate Passes "Postal Reform" Bill

On the afternoon of March 8, after weeks of delay, the Senate passed HR 3076, the *Postal Service Reform Act of 2022*, by a bipartisan 79-19 vote. The House had approved the bill on February 8 on a 342-92 vote. The measure now goes to the president, whose signature is expected.

Like all such measures, the text of the bill is written in legislative language that adds to, deletes from, or revises existing statute, often making it difficult for readers to discern the result. Based on a plain language summary produced by the Congressional Research Service, HR 3076:

- ... requires the Office of Personnel Management to establish the Postal Service Health Benefits Program within the Federal Employees Health Benefits Program under which OPM may contract with carriers to offer health benefits plans for USPS employees and retirees.
- ... provides for coordinated enrollment of retirees under this program and Medicare.
- ... repeals the requirement that the USPS annually prepay future retirement health benefits, and voiding defaulted past payments.
- ... allows the USPS to establish a program to enter into agreements with an agency of any state, local, or tribal government, and with other government agencies, to provide certain non-postal products and services that reasonably contribute to the costs of the USPS and meet other specified criteria.
- ... requires the USPS to develop and maintain a publicly available dashboard to track service performance, and to report regularly on its operations and financial condition.
- ... requires the Postal Regulatory Commission to submit an annual budget to the USPS, and to conduct a study to identify the causes and effects of postal inefficiencies related to flats.
- ... merges the functions of the PRC's Office of Inspector General into the USPS Office of Inspector General.

The bill's provision removing the prefunding obligation is estimated to eliminate $107 billion in USPS debt and future obligations. Though the PMG has praised the bill's passage, he's been silent about whether that financial relief will blunt his zeal to optimize opportunities for higher postage rates.

CPI Cap Points to Another Crushing Price Increase

When the January CPI data was released last month by the Bureau of Labor Statistics, it pushed the annualized cap on Postal Service rate authority to an all-time high of 5.206% (the previous high was 4.5% in November 2008). Unfortunately, that was bested by the February CPI, released March 10, which yielded an annualized CPI cap of 5.724%.

However, because the USPS will be filing for its planned July 10 rate increase in early April, less than twelve months after its prior filing on May 28, 2021 (for the price increase effective last August), and before issuance of the March CPI on April 12, a different formula will be used to calculate the applicable cap, based on the February CPI. As of the release of the February CPI, that less-than-12-month cap figure rose to 5.135%, up 0.661% from last month. To that, the USPS can add any unused ("banked") rate authority leftover from earlier price change filings.

Adding all the sources of rate authority together, the total price increase facing the clients of commercial mail producers would be 6.789% (or 8.789% for "underwater" classes and products), *plus* any "banked" authority:

Class	CPI	Bank	Density	Retire-ment	Non-compen-satory	Total
First-Class	5.135	0.004	0.583	1.071	n/a	6.793
Marketing	5.135	0.002	0.583	1.071	n/a	6.791
Periodicals	5.135	0.037	0.583	1.071	2.000	8.826
Pkg Svcs	5.135	0.008	0.583	1.071	2.000	8.797
Special Svcs	5.135	0.005	0.583	1.071	n/a	6.794

The cap is applied at the class level, spread to individual rate cells by applying volumes in that cell to a proposed change in price. As the push-and-pull is managed by postal rate-makers, logical rate relationships, intended price signals, and other criteria are considered, all of which must be summed to yield an overall increase for the class that's under the cap. As a result, individual rate categories can and likely will vary, some perhaps widely, resulting in some experiencing increases that are well below or above the class average.

OIG Finds Misrouting of Mail to Air Carriers

In an audit report released March 2, the Postal Service' Office of Inspector General found that USPS errors resulted in a significant volume of mail being tendered to the wrong carrier or sent to the wrong destination. The OIG reported two findings:

- **Mail Transported Incorrectly.** "From FYs 2018 through 2021, the Postal Service transported about 51.3 million pounds of mail originally assigned to lower cost air carriers on the more costly network [instead]. During the same period, the Postal Service transported about 5 million pounds of mail to the wrong [carrier facility]. While these amounts represent less than 1% of total air mail, they have increased in the last four years. Air mail did not move as assigned because employees were not properly trained on how to identify and move the mail. We interviewed 24 management personnel at 12 mail processing facilities to determine whether staff were trained on how to process air mail. During our observations, we found mislabeled containers of mail at mail processing facilities and mail that was not always correctly separated by air carrier. ...
- **Operational Meetings.** "We found management did not conduct operational meetings as intended to resolve issues, such as incorrectly routing mail to the wrong network and employees not following the [Volume Arrival profile] requirements. ... We interviewed ... site managers and local Postal Service management and reviewed the monthly DAGGER meeting minutes and found that local Postal Service management at all 12 mail processing facilities we visited were either not familiar with the [meetings] and did not attend or did not have clear direction on the purpose of these meetings. ..."

USPS Orders New Delivery Vehicles, Including Electric Version

In a March 24 press release, the Postal Service announced that it had placed an order for 50,000 Next Generation Delivery Vehicles with Oshkosh Defense, the contractor it had selected last year. The total cost of the order was stated to be $2.98 billion, or about $60,000 per vehicle, although that average may include costs other then the "sticker price" of each truck.

Of the number ordered, the agency stated that "a minimum" 10,019 vehicles would be electric-powered, with the remainder conventionally-powered. The release didn't comment on whether this apportionment was in reaction to recent criticism of the Postal Service's initial position that the total potential order would be only 10% electric.

At a Congressional hearing early in his tenure, the PMG had argued that the cost of the infrastructure necessary to support electric delivery trucks would add a significant amount to the cost of the vehicles themselves. In turn, he stated that if Congress wanted the USPS to buy electric trucks that additional financial assistance would be needed. Though politicians have been grousing recently about the Postal Service's original plan for only 10% electric vehicles, and though there's been discussion of appropriations to help electrify the postal fleet, nothing has been done to provide the funds.

February Financials: Higher Costs Surpass Higher Revenues

Many of the Postal Service's February revenue and volume figures were in welcome *black* ink, but sharply higher employee costs overwhelmed the bottom line with *red* ink. Market-dominant mail beat last February for both volume and revenue, with revenue helped by higher prices. Meanwhile, competitive product volume was stagnant, with revenue likely helped by the shipments of COVID test kits. Transportation costs were modestly higher, but the favorable workers' comp liability shrank by about 90%. Overall, the agency lost $306 million in February, $529 million less than planned, but $349 million more than February 2021. For FY 2022 to date, the net loss is $1.972 billion, $999 million less than planned, but $2.024 billion more than at the end of February 2021.

Total market-dominant mail volume for the month was up 7.5% from February 2021. First-Class mail was 3.0% higher, while Marketing Mail was 11.8% better, and Periodicals was up 4.0%; only Marketing Mail was higher for the year-to-date. Meanwhile, competitive products volume barely grew, up only

0.1% for the month (likely helped by test kit shipments) but still down 7.2% for the YTD. Total USPS volume was 10.018 billion pieces, up 7.0% from last February, while YTD volume, 55.743 billion pieces, remained 1.1% lower.

As noted, market-dominant revenue was helped last August's price increase. Compared to SPLY, revenue from the market-dominant classes was up 14.7% for the month and 7.4% YTD, while revenue from the competitive products was up 9.0% for February (again, helped by test kit shipments) but down 2.8% for the YTD, all compared to SPLY. Total USPS revenue for the month ($6.363 billion) was 11.1% higher than SPLY and up 2.2% for SPLY YTD.

Total "controllable" compensation and benefit costs ($4.712 billion) were 3.4% over plan for February and 5.0% higher than SPLY. Total expenses for the month ($6.673 billion) were 1.7% over plan and 17.3% higher than SPLY. Workhour usage was 3.0% higher than plan for the month and 2.3% higher than SPLY, led by mail processing workhours that were over plan and higher than SPLY for YTD. Total workhours YTD are 0.1% below plan by 1.2% below SPLY.

Compared to early-pandemic February 2020, USPS volume is down 9.7% (market dominant volume 10.7% lower; competitive product volume up 25.17%). Meanwhile, workhours are up 8.27% and "controllable" compensation and benefits are 6.92% higher. Those figures again repeat the worrisome trends of more employees and higher costs, but lower volume.