Mailers Hub News

March 2024 Summary *From the March 11 and 25 issues*

"Local Transportation Optimization" Impacts Service

Under Postmaster General Louis DeJoy, and in conformance with his 10-Year Plan, the Postal Service has obsessively pursued measures to fill trucks and reduce transportation, all in the name of "efficiency."

Initially called "Optimized Collections," but since renamed the "Local Transportation Optimization," the initiative's objective is the same: run only one trip from the processing facility to local post offices in the morning to drop off the day's deliveries, and eliminate the afternoon trip that would have returned the day's retail and collection mail to the plant for outbound processing.

(Under a "hybrid" version, rather than a truck stopping at post office along a loop path, the truck turns around at the end of a run and stops at the same facilities on its way back to the plant, though that still may be too early to get most of a day's retail and collection volume.)

Unfortunately for postal customers, not only is this campaign being prosecuted regardless of the consequences on service, but the agency is presenting it as a positive benefit to customers because it is "aligning our dispatches to our current service standards."

It's an almost perverse approach: first, reduce service standards; then implement cost reduction measures to take advantage of the lower service performance requirement; and, finally, spin the result as a creditable effort to become more "efficient." Reference to the impact on service is avoided.

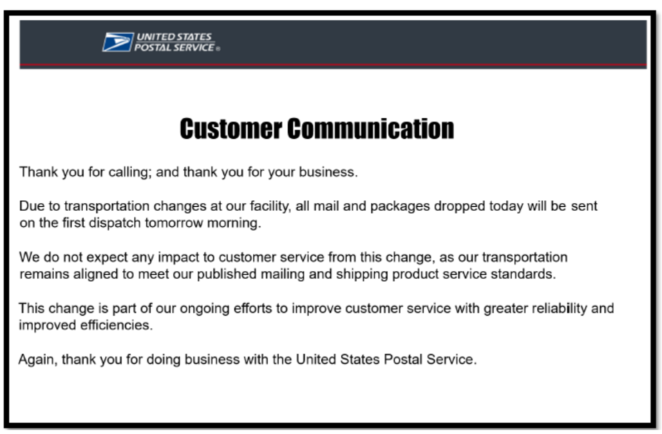
"Communication"

In an internal presentation to managers in Oregon, where the program was recently implemented, the USPS stated the "business impact" included "reduction in cost," "earlier processing times," and "increase cube," i.e., fuller trucks. The impact on service was not mentioned.

As would be expected given DeJoy's desire to control the message, attendees were told "Do NOT respond to any media inquiries" and "Do NOT talk to the drivers about the project." The service talk to be given to employees also reflected a disingenuous spin on the situation:

> "Now in the third year of the [10-Year] plan, the Postal Service is continuously transforming and strengthening our business model. Part of the transformation involves improving our transportation network efficiency – including a change at this office to optimize our process for outbound mail. ... Customer service will not be impacted with this change and remains aligned to meet product service standards."

The previously decreased service standards again were used to enable real reductions in service. Similarly, the message to be given customers reflects the Postal Service's self-centered focus on efficiency and the assertion that the reduced collection schedule will "improve customer service with greater reliability and improved efficiencies."



UNITED STATES POSTAL SERVICE

Customer Communication

Thank you for calling; and thank you for your business.

Due to transportation changes at our facility, all mail and packages dropped today will be sent on the first dispatch tomorrow morning.

We do not expect any impact to customer service from this change, as our transportation remains aligned to meet our published mailing and shipping product service standards.

This change is part of our ongoing efforts to improve customer service with greater reliability and improved efficiencies.

Again, thank you for doing business with the United States Postal Service.

Election mail

Many postal observers recall the kerfuffle preceding the 2020 elections when the PMG was accused of trying to subvert voting by mail. His 2020 directives to eliminate extra trips and get scheduled transportation running on time quickly led to complaints about mail delays and, in turn, suspicions that DeJoy's political connections were behind what he was doing.

As the 2024 election season approaches, the impact of "Local Transportation Optimization" is fueling renewed concerns about potential delays in balloting by mail.

Though there's a canned response (above) to customers *who ask*, it's unlikely that customers (e.g., voters) are being proactively informed of the potential for delays because of the Local Transportation Optimization program – meaning they're unaware that their ballots might not be collected or processed in time to be counted.

External review

Fortunately for DeJoy et al, the two authorities that could limit or derail the optimization plan aren't up to the job.

Though politicians in impacted areas have raised dust over the Postal Service's actions, whatever they've said in letters to the PMG, at public meetings, or in the media was designed for constituents' consumption. The likelihood is zero that anything substantive will be done through Congressional action – and DeJoy knows that.

Similarly, though the Postal Regulatory Commission can drag information out of the USPS about its optimization efforts, it's powerless to halt or deflect them. Even if – as some argue it should – the commission were to conclude that the Local Transportation Optimization process constitutes a "nationwide change in service" that, in turn, requires the Postal Service to seek and advisory opinion from the PRC prior to its implementation, the commission's findings would be advisory and would not inhibit the USPS in any way. DeJoy's Postal Service has been made to seek such opinions in the past and has implemented whatever it had planned anyway, totally ignoring the PRC's advice.

Though the 1970 Postal Reorganization Act expected the USPS to be supported by ratepayers, it did not set financial self-sufficiency above the fundamental provision of service; assuring full trucks or a self-serving emphasis on "efficiency" weren't included. The then-new agency was established to provide service, but that's apparently not the perspective from which the PMG chooses to interpret the law.

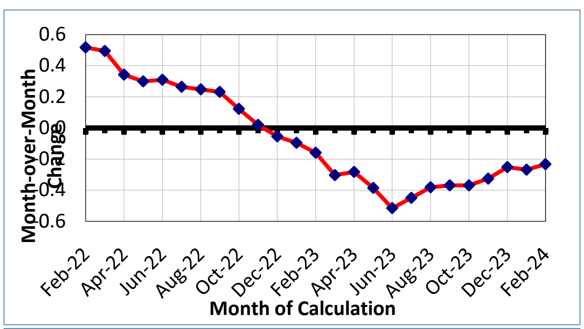
USPS Ends Weekly Press Releases

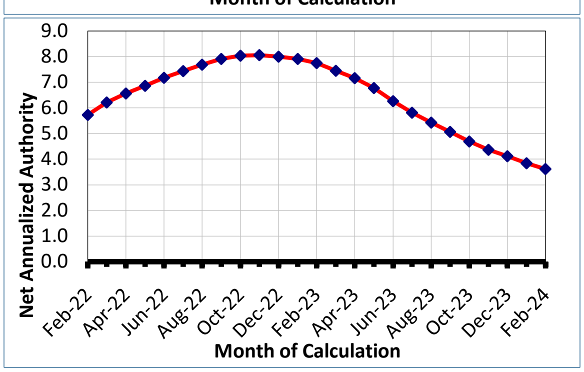
For obvious reasons, the Postal Service has stopped sending out weekly press releases about "sustained" or "stable delivery performance." The practice had begun in mid-2021 to publicize alleged service improvements that the agency regularly ascribed to the Postmaster General's 10-Year Plan.

The first release reporting all three classes (on June 10, 2021) cited service scores of 89.95, 90.67, and 80.70 for First-Class Mail, Marketing Mail, and Periodicals, respectively. The scores reported in the final release, on February 5, 2024, after the 2021 reduction in service standards, were 82.70, 92.20, and 80.20, respectively. The weekly scores had moved up and down over the period, but since mid-2023 had been dropping more often than climbing; the scores for First-Class Mail, Marketing Mail, and Periodicals fell by 9.8 points, 3.4 points, and 7.7 points, respectively, over the period.

The Postal Service's official FY 2024 service performance targets for First-Class Mail are 95% for overnight and 2-day commitments, and 93% for 3-, 4-, and 5-day commitments, and 94.62% for Marketing Mail and 87.29% for Periodicals, so the agency's PR spinmeisters apparently concluded that their purposes were not being served by weekly reminders of how badly the USPS was falling short of its goals.

Customarily, the agency draws on its supply of excuses – a facility problem, weather, or other local disruption – that somehow causes nationwide service to falter. The currently ongoing revisions to the USPS processing and distribution networks will likely serve that purpose for months. Ratepayers and recipients may not be mollified by the excuses; all they know is that service is bad and getting worse.





February CPI Defines Elements of Next Price Increase

Following release of the February CPI on March 12, the Postal Service's annualized CPI-based pricing authority was 3.613%. However, because Postmaster General Louis DeJoy has been seeking semi-annual rate hikes, the effective CPI-based authority after six months was only 1.622%. The USPS had earlier projected a figure of about 2%.

Though the Postal Service's *annualized* CPI-based rate authority fell again – for the fifteenth straight month – the month-over-month change has improved upward since June.

Though individual months' changes are mitigated by the period of the calculations, it's notable that the month-over-month change in the CPI was 1.909% in February, the biggest jump since January 2023. As growth in the CPI itself continues (as it has since November) it will be reflected in the twelve-month rolling average that defines USPS annualized rate authority. This will be evident when another price change is sought in October (to be implemented in January).

For a semi-annual increase, a different formula is used but still based on the monthly CPI data. Regardless, the Postal Service's actual CPI-based authority is the same (except for minor rounding differences) over a year as over two six-month periods. The benefits of the semi-annual pace (for the USPS) are that the prices on which percentage increases are based are marginally higher and that the resulting increased revenue can be captured sooner rather than later.

Despite the mild impact of the CPI, the majority of the next price increase will be the result of the "adders," the additional sources of rate authority established by the Postal Regulatory Commission is November 2020. Of the three, "density," "retirement," and "non-compensatory," the most hurtful will be "density," calculated by the Postal Service to be 4.312% – over two and a half times what the CPI will provide. The "retirement" adder was calculated to be 1.82%. Only classes not currently covering their costs (e.g., Periodicals) are subject to the fixed 2% "non-compensatory" adder.

The actual size of the "density" and "retirement" adders will be confirmed by the PRC in its Annual Compliance Determination, due by the end of March, but the Postal Service's figures should hold, barring any as yet undiscovered errors. The Postal Service also has a "bank" of leftover rate authority that was unused in previous filings. At present, that's virtually nil: 0.001% for all classes except Periodicals (0.000%).

Class	CPI	Bank	Density	Retire-ment	Noncom-pensatory	Total Auth
First-Class	1.622%	0.001%	4.312%	1.820%	n/a	7.755%
Marketing	1.622%	0.001%	4.312%	1.820%	n/a	7.755%
Periodicals	1.622%	0.000%	4.312%	1.820%	2.000%	9.754%
Package Svcs	1.622%	0.001%	4.312%	1.820%	n/a	7.755%
Special Svcs	1.622%	0.001%	4.312%	1.820%	n/a	7.755%

To implement the next price increase in July, the procedural schedule means the USPS must file for it with the PRC in early April, before the March CPI is published on April 10.

It's all but guaranteed that DeJoy will ask the governors to approve the maximum possible increase, and equally certain they'll accede to his request. So, with the component factors now known, the April filing likely will seek an increase of nearly 7¾% for most classes, with Periodicals 2% more.

PRC Opens Inquiry into USPS Zone 10 Price Structure

As stated in its March 22 order approving Zone 10 prices for some competitive products, the Postal Regulatory Commission concurrently opened a Public Inquiry docket (PI2024-2) "to explore the appropriate classification of Zone 10 packages pursuant to 39 USC 3642 and whether the implementation of Zone 10 prices raises a material issue of fact concerning whether a violation of 39 USC 403(c) has occurred if the Postal Service elects to implement the Zone 10 prices."

(The cited statutes state:

> 39 USC 403(c): "In providing services and in establishing classifications, rates, and fees under this title, the Postal Service shall not, except as specifically authorized in this title, make any undue or unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preferences to any such user."
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> 39 USC 3642(b)(1): "The market-dominant category of products shall consist of each product in the sale of which the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products. The competitive category of products shall consist of all other products.
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> 39 USC 3642(b)(3): "In making any decision under this section, due regard shall be given to-
> (A) the availability and nature of enterprises in the private sector engaged in the delivery of the product involved;
> (B) the views of those who use the product involved on the appropriateness of the proposed action; and
> (C) the likely impact of the proposed action on small business concerns (within the meaning of section 3641(h)).")

As noted in its March 22 decision, the statutory authority of the PRC is limited only to assessing the legality of the proposed prices. Accordingly, though it approved the Zone 10 proposal as legal, the PRC could not act on its significant concerns that the Postal Service had filed its proposal with insufficient understanding of the marketplace, the costs on which it partially based its proposal, and the impact of the prices on specific customers, and without adequately supporting its proposal accordingly. The commission also faulted the USPS for minimally addressing the statements and concerns of commenters.

As stated in its order establishing the inquiry docket:

> "In Order No. 7016, the Commission acknowledged that its role in reviewing proposed Competitive product rate and classification changes was limited by law. ... However, the Commission also identified numerous concerns with the Postal Service's proposal and approach and urged the Postal Service to reconsider whether it is prudent or necessary to implement its proposal. The Commission also identified two areas that were particularly suited to further exploration in a separate public inquiry proceeding: (1) the question of whether Zone 10 packages are appropriately classified as Competitive products pursuant to 39 USC 3642 and (2) the question of whether the implementation of Zone 10 prices raises a material issue of fact concerning whether a violation of 39 USC 403(c) has occurred if the Postal Service elects to implement the Zone 10 prices."

The PRC added that

> "… the Commission appoints John Avila to serve as presiding officer in this docket. The presiding officer shall serve in an investigatory role and make filings in this docket as described in the body of this Order."

The PRC order further directed that "once the presiding officer serving as investigator has sufficient information" to make a determination on either matter, "the presiding officer shall file a public, written report to the Commission in this proceeding detailing his analysis and recommendations to the Commission on that issue." In turn, "Upon receipt of these reports, the Commission will consider if further action in this docket or separate proceedings is appropriate."

The PRC neither established a procedural schedule for the docket nor set a deadline by which the aforementioned reports were due. However, the commission clearly expects that its "investigator" will gather a wide range of information, noting that

> "In addition to consideration of 39 USC 403(c) and 3642, the underlying regulations, Commission precedent, the record of Docket No. CP2024-72, and the disaggregated costs the Postal Service has been directed to file within 90 days, the Commission anticipates that the presiding officer may need additional information from the Postal Service prior to conducting analysis and reaching any conclusions and expects him to issue presiding officer information requests as he deems appropriate to gather such information."

The mandate to dig as deep as needed is obvious.

Given the breadth of activity related to the Postal Service's Zone 10 proposal, it's yet to be seen whether it will deter the agency's leadership from implementing it as planned.

USPS Files Annual Appropriation Request

On March 11, the Postal Service filed its *Fiscal Year 2025 Budget Congressional Submission* detailing the purposes and amounts for which it was seeking direct funding from the US Treasury. At the opening of the 31-page document, the USPS listed the areas for which is was (or could be) seeking appropriations from Congress:

- **"Revenue Forgone.** The Postal Service requests funding in Fiscal Year 2025 for revenue forgone on free mail for the blind and overseas voting, plus reconciliation amounts for past years, consistent with 39 USC §2401(c).
- **"Revenue Forgone Reform Reimbursement.** The Postal Service requests funding authorized under 39 USC §2401(d) as reimbursement for losses incurred as a result of insufficient appropriations in Fiscal Years 1991 through 1993, and to compensate for revenues not received as a result of the rate phasing provisions of 39 USC §3626(a)(3)(B), as last in effect before enactment of the Postal Accountability and Enhancement Act.
- **"Public Service Costs.** For public service costs, 39 USC §2401(b)(1)(G) authorizes, for years after Fiscal Year 1984, an amount equal to 5 percent of the Post Office Department's Fiscal Year 1971 appropriation. This amounts to $460,000,000, however section 2401(b)(2) authorizes the Postal Service to reduce such percentage, including a reduction to zero."

If Postmaster General Louis DeJoy's aggressive pursuit of postage revenue is any reflection of the Postal Service's financial condition, the agency's note regarding the third basis for seeking an appropriation is more than ironic:

> "The Postal Service has operated without this appropriation since Fiscal Year 1982, therefore, no appropriation for public service costs is requested during Fiscal Year 2025."

The common supposition has been that the USPS wants both to avoid the strings that Congress might attach to a public service appropriation, and to continue being able to accurately claim that it "generally receives no tax dollars for operating expenses." However, this policy has caused it to forego $19.78 *billion* over the 43 years it has been invoked. Allowing for inflation over that period, the actual total would be much greater. (The $460 million in 1982 is equal to over $1.5 billion today.)

A 1993 act provided $29 million annually from 1994-2035 to repay the "revenue forgone" not paid from 1991 through 1993, but those payments weren't made, either. The total "in arrears," i.e., that Congress owes the USPS, is now over $336 million; it's unlikely they'll pay up this year, either.

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